CIC LIFE ASSURANCE LIMITED ANNUAL REPORT & FINANCIAL STATEMENTS 2021

CIC GROUP

OUR PHILOSOPHIES

WHO WE ARE

CIC Insurance Group is a leading Cooperative Insurer in Africa, providing insurance and related financial services in Kenya, Uganda, South Sudan and Malawi. The Group offers a wide range of products.

OUR MISSION STATEMENT

"To enable people achieve financial security."

We are first and foremost a co-operative. This is our identity and heritage which we are unashamedly proud of. Consequently, we shall consider ourselves successful only when all our stakeholders achieve financial security on account of association with us.

OUR VISION

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

Today's consumer has unlimited choices. Advances in technology have made it possible for consumers to enjoy products/services from all over the world. CIC acknowledges that to remain relevant our services must meet global standards

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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CORPORATE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2021

Directors	G. O. Owuor	- Chairman
	M. Miyogo	- Managing Director
	P. Nyaga	- Group Chief Executive Officer
	M. O. Wambia	
	Dr. R. Monyoncho	
	R. Kinoti	- Appointed on 29th July 2021
	D. N. Ngunjiri	- Retired on 28th May 2021
	Jyoti Patel	- Retired on 29th July 2021
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, Kenya	
Senior Management	M. Miyogo	- Managing Director
	M. Wanga	- Company Secretary
	S. Robi	- Group Risk and Compliance Manager
	M. Luvai	- Group Chief Internal Auditor
	R. Nyakenogo	- General Manager - Cooperatives
	T. Kanja	- Head of Life Operations
	C. Otieno	- Head - Group life Claims
	M. Magoma	- Human Resources Business Partner
	C. Lelei	- Ag. Finance Manager
	G.Cheruiyot	- Head - Retail Sales
	M. Mugo	- General Manager - Branch Distribution
	J.Waititu	- ICT Manager
	A.Gitonga	- Actuarial Manager
	J.Wamae	- Head Group life underwriting
	V. Ochoi	- Head - Retirement Benefits
Auditor	PricewaterhouseCoopers LLP Certified Public Accountants PwC Towers, Waiyaki way, Nairobi P.O. Box 43693-00100 Nairobi	
Principal Banker	The Co-operative Bank of Kenya Limited P.O. Box 67881 - 00100 Nairobi	
Consulting Actuary	The Actuarial Services Company Limited Victoria Towers Upper Hill P.O. Box 10472 - 00100 Nairobi	

CIC LIFE ASSURANCE LTD
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE 10TH ANNUAL GENERAL MEETING OF CIC LIFE ASSURANCE LIMITED WILL BE CONDUCTED VIRTUALLY VIA ELECTRONIC COMMUNICATION ON THURSDAY 12TH DAY OF MAY, 2022 AT 12:00 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 9th Annual General Meeting held on 18th May 2021.
4. To receive, consider and adopt the Company's Audited Financial Statements for the year ended 31st December 2021 together with the Chairman's and Auditor's Reports thereon.
5. To note that the Directors' do not recommend the payment of a dividend for the financial year ended 31st December 2021.
6. To consider and if thought fit, reappoint Messrs.PriceWaterhouseCoopers, Certified Public Accountants, as the Auditors of the Company for the year 2022, having expressed their willingness to continue in office in accordance with section 719 (2) 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. Rodgers Kinoti appointed by the Board on 29th July 2021, as an Independent/Non-Executive Director to fill a casual vacancy in accordance with Article 103 of the Company's Articles of Association, this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for appointment.
   b. To appoint Mr. Meshack Miyogo as an Executive Director of the Company with effect from 22nd June 2021.
   c. To note the retirement of Dr. Rachel Monyoncho as an Independent/ Non- Executive Director from the Board in accordance with Articles 106 and 107 of the Company's Articles of Association.

   Changes in the Board

   d. To note the retirement of Mr. David Ngunjiri as a Non-Executive Director from the Board w.e.f 28th May 2021.
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 8th day of April 2022
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.
2. 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.
3. 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 website *www.cic.co.ke*

CIC LIFE ASSURANCE LTD CHAIRMAN'S STATEMENT

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 2021.

Kenya's activity indicators point to a more upbeat pace of recovery in 2022 despite overhang risks. The emergence of a vicious cycle of new variants at the beginning of the year brought renewed fears globally amid politics taking center stage as we gear up for elections. Given the impressive degree of recovery across sectors and full reopening of the country effective 20th October 2021, we expect economic growth to exceed the 5.3% forecasted by the government for the 2021/22 fiscal year in the budget review outlook paper. IMF retains a forecast of 5% for full year 2021 GDP and 4.7% for 2022.
The Kenyan Shilling depreciated by 2.34% in Q4'2021 to the dollar closing at 113.14 largely attributable to servicing of euro bond debt obligations and a marginal rise in our import bill. Inflation averaged 6% in Q4'2021 largely due to regulatory intervention to tame local pump prices.
The economy averaged 6.9% growth by Q3 2021. The recovery was boosted largely by re-opening of learning institutions, manufacturing sector, hospitality sector and food services on eased restrictions after the third wave of covid-19. The agricultural sector recorded negative output for 3 consecutive quarters of 2021 impacted by uneven weather patterns during the long and short rain seasons. Despite the wide dispersion in output in various sectors, our balanced economy and resilience was evident in posting a positive GDP print for 2021.

Regulatory framework

The effective date of IFRS 17 is set for 1st January 2023.The Company is in the process of mobilizing the necessary resources and trainings of relevant employees in order to have a seamless transition.

The Insurance Regulatory Authority (IRA) revised the levies by introducing a 1% charge on group life business in the year.

Overall performance

The Company registered a Loss before Tax for the period ended 31st December 2021 of Kshs 79 million which is a reduction from a Profit before Tax of Kshs 86 million in 2020. The decline was attributed to an allowance for credit losses and introduction of premium levies on premium written. Gross claims incurred increased by 37% as a result of increased COVID -19 death claims and policy surrenders due to tough economic times during the period.

Gross written premium in 2021 increased by 24% to KShs 6.12 billion from KShs 4.93 billion in 2020. This was majorly contributed by the new business in Group life business. Contributions from deposit administration contracts reduced by 10% from KShs 980 million to KShs 880 million. Total assets increased by 12% from KShs 16.5 billion in 2020 to KShs 18.4 billion in 2021.

Dividend payout

In light of the drop in financial performance in the year, there was no recommendation to transfer any surplus from the statutory fund to retained earnings for payment as dividends. The Board of Directors therefore did not declare a dividend for the financial year 2021.

Future outlook

In 2022, the economy and the business environment continues to recover from the adverse effects of the Covid-19 pandemic after lifting up of restrictions by the government. We are focused on the progressive and sustained realization of the value to customers and shareholders as we align our business to take advantage of the improving operating environment across our markets.
There will be increased attention on sustainably growing the business by embedding customer-centricity and placing emphasis on aggressive marketing and retention strategies.

The focus is more so directed at improving the business processes to serve emerging digital economy to reduce the cost of operation as well as prudent management of claims towards achieving an overall profitability.

The Board will continue monitoring the company's delivery of the 2021- 2025 strategy.

Acknowledgement

On behalf of the board, I wish to appreciate all our clients, business associates, shareholders, staff, service providers and regulators for their unwavering support and trust as we strive to make the Company achieve a greater performance.

Gordon Ondiek Owuor
Chairman

CIC LIFE ASSURANCE LTD BOARD OF DIRECTORS

Gordon Ondiek Owuor
Chairman

Mr. Gordon Ondiek Owuor, aged 65, 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.

Patrick Nyaga
Director and GCEO

Mr. Patrick Nyaga, aged 54 is the Group Chief Executive Officer. He 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 30 years working experience mainly financial services 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 Co-operative 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 various disciplines among them Corporate Governance courses, Insurance, Banking, and Strategy among others.

Michael Ondinya Wambia
Director

Mr. Michael Ondinya Wambia, aged 54, 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).

Dr. Rachel Monyoncho
Director

Dr. Rachel Monyoncho, aged 58 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, IHRM and Board member of NHIF and Federation of Kenya employers. 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.

Rogers Kinoti
Director

Mr. Rogers Kinoti, aged 45, joined the Board as an Independent nonexecutive director on 29th July 2021. Mr. Kinoti has a wealth of experience in Investment Management and Finance having worked for over 19 years in various private and public financial institutions. Mr. Kinoti holds a Master of Arts in Economics and Bachelor of Arts (Economics) First Class Honors from the University of Nairobi. He is a Certified Public Accountant, CPA (K), a Certified Public Secretary, CPS (K) and a Financial Analyst, FA (K). He is a member of ICPAK, ICPSK and ICIFA. Mr. Kinoti is a lecturer at Riara University School of Business and also serves as the Independent Chairman of the Audit and Risk Committee of the Teachers Service Commission (TSC).

Meshack Miyogo
Managing Director

Mr. Meshack holds a bachelor's degree in Education Arts (Major in Economics and Business Studies) from Egerton University. In addition, he holds a Senior Leadership Development Programme Certificate from the University of Stellenbosch Business School South Africa, Post Graduate Degree (MBA) in Marketing from Daystar University. He also holds a Diploma in Insurance (AIIK) from the College of Insurance. He is an Associate Member of the Institute of Insurance Kenya (IIK) in good standing. His experiences cuts across Banking and Insurance on Matters of Sales Growth, Sales Management, business development, and Strategic Leadership.

Mary Noel A. Wanga
Company Secretary

Ms. Mary Wanga, aged 54, is the Company Secretary and an Advocate of the High Court of Kenya with over 19 years' experiences both as a practicing and corporate lawyer. She joined CIC Insurance Group Plc in 2008 Ms. Wanga is a Certified Public Secretary CPS (K) and holds a Bachelor of Law Degree, 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 Kenya, Associate Board Member at The Insurance Institute of Kenya, Law Society Kenya, ACIArb, and ICPSK. Prior to joining CIC, she worked at the Kenya Industrial Estates at senior management level.

CIC LIFE ASSURANCE LTD MANAGING DIRECTOR'S STATEMENT

Political Environment

The Political environment in 2021 was fairly stable despite major re-alignment within the political class in the run up to the 2022 elections.

The BBI (Building Bridges Initiative) took center stage during the year as government and handshake alignment pushed for a referendum to change the constitution. Notable in the current state where there is a weakened opposition after handshake.

In light of the Big Four Agenda, the borrowing ceiling was raised upwards to 9 Trillion to award funds to accomplish some of the projects.

Economic Environment

The impact of Covid 19 continued to be felt during the year even as government uplifted movement restrictions and reopening of learning institutions. Most of the sectors of the economy registered growth apart from Agricultural sector that shrunk by 1.8% due to unfavorable weather conditions.

The economy is expected to grow at 5.3% of GDP. The Central Bank of Kenya has maintained its benchmark rate at 7% to contain inflation which closed the year at 5.6%. The Kenya Shilling also depreciated heavily against international currencies as investors sought safe-haven assets outside the country.

Industry Analysis

In the insurance sector, the Insurance Regulatory Authority (IRA) sort to enforce the Insurance Act on debt management (cash and carry policy).

The IRA enforced payment of premium tax on Group life premiums. Any company undertaking Micro business will be required to register a fully-fledged company; a moratorium of 3 years was provided.

The Covid pandemic affected the Life insurance sector negatively due to high claim payouts on Covid deaths; non-remittance of premiums, cancellation and suspension of policies due to financial difficulties.

Business Performance

The business recorded a growth in Gross written premium of 24%. Only Group Credit business posted a year on year growth with a 27% growth, driven primarily by account retention and organic growth in the credit life from banking institutions.

Overall Gross Written Premium (GWP), including Pension Contributions, amounted to Kshs. 7 Billion. Claims ratio, including actuarial reserves, was at 79% against a budget of 73% amid a spike in claims, including heavy Covid related death claims. There was also a sharp increase in surrenders under individual life business as household disposable income reduced. Commission ratio was within budget at 10% while the expense ratio was at 30% above budget at 27%.

The Company registered a loss of Kshs 79 million against a profit of Kshs. 86 million in 2020. This decline was brought about by the depressed performance of Group Life business, which moved from a profit position of Kshs.246 million to a loss of Kshs. 295 million.

This loss was however diluted by Individual Life business that generated a profit of Kshs. 190 million.

Income from investing activities increased by Kshs. 216 million mainly due to equity gains of Kshs. 138 million. Over the period, our total assets grew by 12% from KShs 16.4 billion to KShs 18.4 billion.

Key Focus In 2022

In our revised Strategic Plan, profitable growth will continue be the main focus. The Company will enforce minimum rating for Group life schemes and experiential rating to drive underwriting profit as part of prudent underwriting practices.

We will continue to enhance client relationship management to deliver a world class customer experience through staff training, self-service portals, investment in new core systems and direct engagement at all levels. Performance analysis of all schemes will be done on monthly basis and schemes with projected loss ratios above 65%, to hold meetings with clients on quarterly basis.

The major focus on individual life business is to increase footprint through independent financial advisors. The Company will also use alternative distribution channels eg Sacco assurance and Bancassurance through our strategic partners to sell retail products and develop digital products that can be sold using aggregator model and/or mobile apps or web portals.

For Pension and Annuity business, the target will be small umbrella schemes, individual transfers and the conversion of medium-sized segregated funds to deposit administration contracts. Focus will also be on SMEs staff, NGOs, Welfare groups & individuals who are not in any pension scheme to grow CIC umbrella scheme.

Annuity business is a price sensitive venture. The pricing and investment strategies will be key in the reduction of reserving strain while at the same time remain competitive. Investments will be held in long term assets with attractive defined returns.

The process of acquiring a new core system is in progress which will increase efficiency, enhanced controls and customer experience. The system will factor in the requirements of IFRS 17 among other adds on.

The future looks bright after battling the effects of Covid 19 and unfavarable weather patterns in the year 2021. The rebound of the world economy can only spell good tidings for Kenyan economy unless affected adversely by the invasion of Ukraine by Russia and aftermath of upcoming General election in August 2022.

Acknowledgement

I wish to express my gratitude to the Board of Directors for their unwavering support and guidance, our customers and partners for their trust and patience; the management and staff for their hard work and dedication.

MESHACK MIYOGO
MANAGING DIRECTOR

CIC LIFE ASSURANCE LTD BOARD OF MANAGEMENT PROFILES

Meshack Miyogo
Managing Director

Mr. Meshack holds a bachelor's degree in Education Arts (Major in Economics and Business Studies) from Egerton University. In addition, he holds a Senior Leadership Development Programme Certificate from the University of Stellenbosch Business School South Africa, Post Graduate Degree (MBA) in Marketing from Daystar University. He also holds a Diploma in Insurance (AIIK) from the College of Insurance. He is an Associate Member of the Institute of Insurance Kenya (IIK) in good standing. His experiences cuts across Banking and Insurance on Matters of Sales Growth, Sales Management, business development, and Strategic Leadership.

Mary Noel A. Wanga
Company Secretary- Kenya

Ms. Mary Wanga aged 54, is the Company Secretary and an Advocate of the High Court of Kenya with over 19 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 of Degree in Law, Bachelor of Social Legislation and Post Graduate Diploma in Kenya Law and Diploma in Insurance (AIIK). She is a member of the Institute of Directors (K), An Associate and Board Member of Insurance Institute of Kenya (AIIK), Law Society of Kenya, ACIArb and ICS.

Muyesu Luvai
Group Chief Internal Auditor.

Muyesu, aged 43, joined CIC In 2008. He is a Certified Public Accountant ("CPA (K)"), and a member of the Institute of Certified Public Accountants of Kenya ("ICPAK"), the Chartered Institute of Internal Auditors UK, the Institute of Internal Auditors, Kenya Chapter, as well as the Institute of Directors, Kenya. He holds a Bachelor of Commerce Degree from the University of Nairobi and a Master of Business Administration (MBA) Degree with a concentration in Employee Relations /Organizational Behaviour from the University of Leicester (UK). Mr. Luvai acted as CIC's Group Chief Financial Officer between February 2020 and June 2021 during a period of change in executive management. Before joining CIC, Mr. Luvai worked for Deloitte in the Audit & Assurance Division auditing a range of multi-national and local institutions. Prior to joining Deloitte, Mr. Luvai had a stint in the oil and gas industry working in the Finance Department of Dalbit Petroleum Limited.

Richard Nyakenongo
General Manager - Co-operatives

Richard, aged 53, joined CIC in 1999.He holds a Bachelor 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. He also has LOMA-Associate & FLMI. 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 Cooperators(KSPC). He served as a member of the Taskforce on the implementation of the National Cooperative Policy. He was involved in the transformation of Sacco's form Back office to Front office (FOSA).

Susan Robi
General Manager Risk and Compliance

Ms. Susan, aged 43, joined CIC Insurance Group Plc in 2011. 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, Pensions and Risk Management.

Michael Mugo
General Manager Branch & Distribution

Michael, aged 50, joined the CIC Insurance Group in 2003 as an Agency Manager in Ordinary life. He has a total of 25 years' experience in the Insurance industry. He has served the organization in various senior capacities including Sales Management, Corporate Affairs and Communication, Marketing and Strategy. He has undergone extensive training in the areas of leadership, Governance, and strategic management. He is the immediate former MD, CIC Africa (South Sudan) and played a prime role in the establishment of the subsidiary in South Sudan. Michael is a graduate of the Advanced Management Program (AMP) from Strathmore Business School, Lagos Business School and IESE, Barcelona. He holds an MBA degree from JKUAT with special focus on Strategy and Marketing. He is a Bed (Econ & Geog) graduate of Moi University. He has extensive training and experience in institutions and business enterprises. He is a member of the Institute of Directors of Kenya, the institute of Customer Service of Kenya, MSK and LOMA.

CIC LIFE ASSURANCE LTD BOARD OF MANAGEMENT PROFILES

Tyrus Kanja
Head - Life Operations

Tyrus, aged 43 years, joined CIC Insurance Group in 2005 as an Accountant and is currently the Head, Life Operations 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). He was Senior Finance Manager until November 2021 before he took up the role. He has undergone through various leadership, governance, and high-performance culture trainings.

Maureen K. Magoma
Human Resource Business Partner

Maureen aged 42 is the Business Human Resource Business Partner representing CIC Life Assurance Subsidiary. She holds a Master of Science Degree in HR Management and Bachelor of Business Administration degree among other HR certifications. She has 20 years' work experience out of which 18 years have been in Financial Services and 15 years in Human Resources. She is a Full Member of the Institute of Human Resources Management (IHRM) with good standing.

Joseph K. Waititu
ICT Manager

Joseph aged 39, 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 from Maseno University and an MSC in Data Communication from KCA University. In addition, he is Oracle and Information Technology Infrastructure Library (ITIL) Certified. He has over 14 years work experience in ICT. He is a member of Institute of The Computer Society of Kenya (CSK)

James Wamae
Head -Group Life Underwriting

James aged 38 joined CIC Life in January 2016 as an Assistant Underwriting Manager - Group Life. He is currently the Head of Group Life Underwriting and has over 10 years' work experience within the Insurance Industry. He holds a Bachelors' Degree in Business Administration from Maseno University, IIK Diploma in Insurance (Dip IIK) and CPA 1 certification. He is a member of Insurance Institute of Kenya (IIK) and a member of the Association of Kenya Insurers (AKI) Group Life Committee.

Caroline A. Otieno
Head -Group Life Claims

Caroline aged 37, joined CIC Insurance Group in 2009 as a Management Trainee. She is currently the Head – Group Life Claims of CIC Life Assurance Company Limited and has been with the organization for the last 12 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.

Cosmas Lelei
Ag. Finance Manager

Cosmas aged 36, joined CIC Insurance Group Plc in 2011 as an Assistant Accountant. He is currently the Acting Finance Manager for CIC Life Assurance Company Limited. He has 10 years' work experience and holds a BCom – Finance from KCA University and a CPA (K). He is also a member of Institute of Certified Public Accountants of Kenya (ICPAK) with good standing.

CIC LIFE ASSURANCE LTD BOARD OF MANAGEMENT PROFILES

Anthony Gitonga
Actuarial Manager

Anthony aged 32, joined CIC Insurance Group in 2012. He is currently the Actuarial Manager-Life with over 8 years' experience within the insurance industry. He holds a BSc in Actuarial Science and currently pursuing an MSc in Finance. He has progressed in his actuarial professional examinations and holds several other certifications. He is a member of the Institute and Faculty of Actuaries (IFoA), and The Actuarial Society of Kenya (TASK).

Gerald Cheruiyot
Head- Retail Sales

Gerald aged 39 years joined CIC in 2021. He is an accomplished retail distribution manager with 15 years' experience in the Insurance and telecommunication industry. He holds a Bachelor of Science degree in Information Sciences (Moi University) and pursing Master of Business Management (University of Nairobi). He also holds Executive Leadership Development Education from Strathmore Business School and University of Stellenbosch Business School. Professionally he holds a Diploma in Insurance (AIIK) and is a certified Pensions Trustee having undergone the Trustee Development program (TDPK). He is a member of the Insurance institute of Kenya (IIK)

Vincent Ochoi
Head- Retirement Benefits

Vincent aged 33 joined CIC Life in 2022. He currently has over 10 years' work experience within the Insurance Industry. He holds a Bachelors' Degree in Actuarial Science from Jomo Kenyatta University of Agriculture and Technology, ACS, ALMI and FLMI Level 1 certifications from LOMA and a member of Insurance Institute of Kenya (IIK).

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 year ended 31st December 2021 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.

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CS. Jacqueline Oyuyo Githinji, ICPSK GA. No 00030

For Umsizi LLP

8th March, 2022

CORPORATE GOVERNANCE
FOR THE YEAR ENDED 31 DECEMBER 2021

1. Introduction

CIC Life Assurance Limited ("The Company") was incorporated on 29th July 2009 under Certificate No. CPR/2009/7927 under Chapter 486 Laws of Kenya (Now repealed by the new Companies Act No.17 of 2015) as a wholly owned subsidiary of CIC Insurance Group Plc, to conduct and carry on long term insurance underwriting business within the Republic of Kenya. The Company's incorporation was informed by the regulatory requirement by the Insurance Regulatory Authority (IRA) to separate long term and short term insurance businesses. The Company was duly registered and licensed as a long term insurer on 27th November 2012.

Being a subsidiary of the CIC Insurance Group Plc, the Company shares into the Group's vision of being a world class provider of insurance and other financial services.

Since inception, the Company has institutionalized a good governance culture as the foundation upon which the business operations of the Company are anchored. This culture has been critical in the stability of the Company and in positively impacting the relationship between the Company and its stakeholders, including the regulators protecting the policyholders' interests hence transforming the Company into a top tier long term insurer in Kenya.

2. Overview of Governance Statement Regulations and Compliance

The governance and internal control systems, which comprise the Memorandum and Articles of Association, Board Charter, Committee terms of references, policies, organizational structure, and any subsequent amendments demonstrate that the Company has adopted the requirements and principles of good governance thereby achieving the objectives of Insurance Act, Chapter 487, the Insurance Regulatory Authority Corporate Governance Guidelines for Insurance and Reinsurance Companies, 2011 (The "Guidelines"), Insurance Regulatory Authority Guidelines On Risk Management and Internal controls, 2013, Insurance (Group-Wide Supervision) Regulations, 2019, Companies Act, 2015, Companies (General)(Amendment)No.2 Regulations, 2015 and emerging trends and best practices in corporate governance.

The Company's adherence to the Guidelines is outlined below.

3. Statement of Commitment

The Board of Directors understands and appreciates that it plays a lead role in illuminating the governance roadmap for better protection of stakeholders and policyholders. The Board acknowledges that it bears the ultimate responsibility of formulating governance structures that are appropriate for the nature, scale and complexity of the business and its overall risk profile and to adequately assess if its implemented.

The Board has a responsibility to conduct its affairs with prudence, transparency, accountability, fairness, and social responsibility, thereby ensuring its sustainability while safeguarding the interests of all its stakeholders. The Board also acknowledges the relationship between good governance, on the one hand and risk management practices for the achievement of the Company's strategic objectives and performance, on the other.
The Company subscribes to a governance system where, in particular, ethics and integrity set the standards for compliance. It continuously reviews and modifies its structures and policies to facilitate effective leadership, sustainability, corporate citizenship and prudent management in order to support the business strategy and reflect sound corporate governance standards and best practices.

The Board promotes and supports high standards of corporate governance and is committed to the demonstrable pursuit of excellence in sound corporate governance practices, policies and procedures as evidenced in its internal policies and procedures. With regard to the year under review, the Board believes that the principles of the governance framework are embedded in the corporate culture, internal controls, policies and procedures governing corporate conduct within the Company. The Board is committed to continuous improvement to strengthen the principles and spirit envisioned in the guidelines in its operations, to the extent that the same are applicable and appropriate.

CORPORATE GOVERNANCE *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

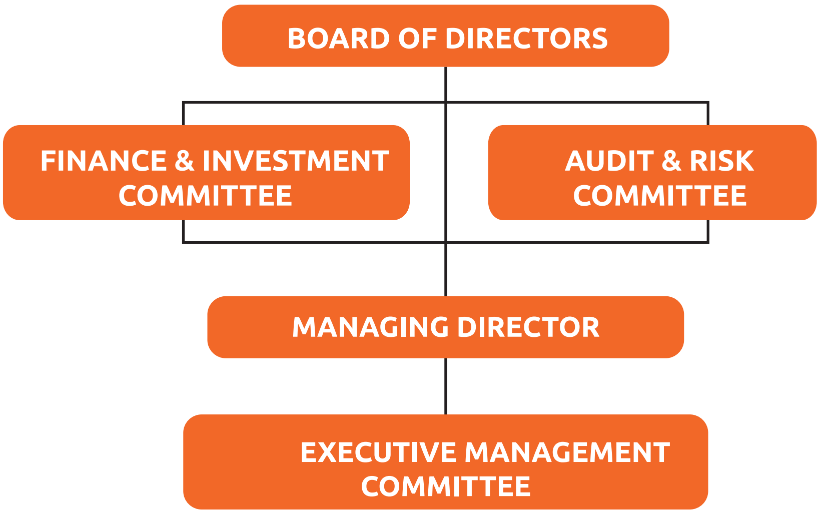
4. Governance Structure

The Company has implemented an internal governance structure with defined roles and responsibilities. The Company's shareholder appoints the Board of Directors, who in turn govern the Company. The Board has established committees to discharge its responsibilities in an effective manner. The Chairman and Managing Director provides overall direction and guidance to the Board. In 2021, the Board delegated some of its Board functions to various Board Committees, namely the:

i. Audit and Risk Committee; and
ii. Finance & Investment Committee

Apart from the Board Committees, the Company also has the Executive Management Committee (ExCom) that is responsible for overseeing critical functions that are necessary for the attainment of the strategic objectives. The internal control functions consist of Internal Audit, Risk & Compliance and Actuarial. These functions are an important part of the overall governance structure. The role and responsibilities of the Board, its Committees, Executive Management Committee, and each of the internal control functions are set out subsequently in this report.

Table 1
The Diagram below provides an Overview of the Company's Corporate Structure.



5. The Board Charter

The Board recognizes the importance of the Board Charter and has to this extent developed and put in place a board charter to ensure effective strategic oversight administration in its stewarding task of the company to greater prosperity while ensuring accountability and disclosure, in line with the IRA Corporate Governance Guidelines.

The Board Charter defines and distinguishes the relationship and interactions between the Board and Management and sets out matters expressly reserved for Board's decision. For instances, it defines the Board's roles and responsibilities, powers of various Board Committees and their roles, separation of roles between the Board and Management regarding policies and practices.

The Board is responsible for determining the Company's overall objectives; developing strategies to meet those objectives in conjunction with management; formulating a clear and concise governance policy to which the Company shall adhere; delegation and segregation of the Board's responsibilities and accountability; and evaluating the performance of the Board, its committees and individual Directors.

The Board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.

CORPORATE GOVERNANCE *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

The existing Board Charter has been further reviewed and approved by the Board during the year under review in its meeting held in the month of March, 2021.

Committees' Terms of Reference
The Board has in place Board Committee Charters, which describe the terms of reference of the committees and incorporates the principles of the IRA Corporate Governance Guidelines.

6. Board Composition
Members of the Board of Directors are appointed in accordance with the Company's Memorandum and Articles of Association, the Insurance Act and the IRA Corporate Governance Guidelines.

Guideline 3 of the IRA Corporate Governance Guidelines provide that in line with the requirements of section 27A of the Insurance Act, the Insurer is expected to appoint at least five (5) members of the Board. A third of the board members shall be independent directors who shall not hold office for more than two terms of three years each. The Principal Officer shall be an ex-officio member of the Board with no right to vote at the Board Meetings. For the financial period under review, the Board composition complied with this statutory requirement.

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

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 Board currently comprises of six directors constituted as follows:

i. Two (2) non-executive directors
ii. Two (2) executive directors
iii. Two (2) independent non-executive directors.

The following are the guiding principles in determination of the board composition:

i. The Company's shareholding structure;
ii Maintenance of the requisite independence on the board;
iii. The sufficiency of the size of the Board as is necessary to attain the objectives of the company;
iv. Effective succession planning to ensure smooth transition on the board;
v. Board diversity to ensure that there is the desired mix of skills progressively reflected on Board of Directors given the increasingly dynamic operating environment, knowledge, expertise and experience to enable the board to discharge its duties effectively.

7. The Board's Function and Responsibilities

The Board of Directors is responsible for the management of the Company. This includes setting goals and strategies necessary to operate the Company and monitoring implementation by Management.
The responsibilities of the Board are outlined in the Charter of the Board of Directors. The Board has delegated certain responsibilities to its Committees that operate within the mandate as entrusted by the Board of Directors.
The Board's responsibilities as set out in the Board Charter, and include inter alia:

i. Providing effective and ethical leadership in the best interest of the Company;
ii. Informing and setting the strategic direction of the company and ensuring that strategy, risk, performance and sustainability considerations are effectively integrated and appropriately balanced;
iii. Determining and setting the tone of the Company values including principles of ethical business practice and the requirements to be a responsible corporate citizen;
iv. Bringing independent, informed and effective judgment to bear on material decisions of the Company;
v. Satisfying itself that the Company is governed effectively in accordance with corporate governance best practices to: -
   a) Maximize returns sustainably
   b) Safeguard the people, assets and reputation of the company; and
   c) Ensure an effective control environment and compliance with applicable laws and regulations.

vi. Ensuring that effective audit, risk management and compliance systems are in place and continously monitored to protect Company's assets and to minimize the possibility of the company operating beyond legal or regulatory requirements or beyond acceptable risk parameters as determined by the Board;
vii. Monitoring and ensuring implementation of Board's strategies, decisions, values and policies with a structured approach to governance, integrated reporting and risk management;
viii. Governing the disclosure control process of the Company including ensuring the integrity, accuracy, timely and appropriateness of the Company's disclosure reports;
ix. Ensuring that disputes are resolved as effectively, efficiently and expeditiously as possible; and
x. Monitoring of the relationship between the Company and its stakeholders

8. The Board of Directors Duty of Trust

Each member of the Board of Directors owes a duty of due diligence, care and trust to the Company and adherence to responsibilities as defined in the Board Charter. This also includes the principles of clear information, transparency, good faith, care, trust, and efficiency, needed to achieve the Company's interest and that of the stakeholders.

9. 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 or between a director and third parties that may compromise the director's independence.

10. Duties of the Chairman of the Board

The Chairman of the Board is responsible for the proper functioning of the Board. He ensures that discussion on all key issues is efficient and timely, as well as fulfilling his responsibilities and powers set forth in the Board Charter. The Chairmanship of the Board and the Managing Director are separate functions held by different individuals.

11. Duties of the Managing Director

i. Driving the implementation of the strategy and business as approved by the Board.
ii. Managing all matters affecting the operations and performance of the company within the authority delegated to him by the Board.
iii. Providing timely and accurate information about the company and material developments to the Board.
iv. Communicating to internal and external stakeholders on matters affecting the Company.
v. 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.
vi. 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.

12. 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.

CORPORATE GOVERNANCE *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

13. 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 set out in the table below. The tenure of office of an Independent Director is capped at two terms of three years each.

Table 2 Directors Tenure of Office

Director	Date of Appointment to the Board	Date Last Re-Appointed
Michael Wambia	28.03.2012	9.3.2020
Gordon Owuor	28.03.2012	9.3.2021
Meshack Miyogo	22.6.2021	-
David Ngunjiri	29.7.2019	Retired 28.5.2021
Rogers Kinoti	29.7.2021	-
Patrick Nyaga*	6.8.2020	-
Dr. Rachel Monyoncho*	11.05.2016	Retires 12.5.2022
Jyoti Patel	21.06.2018	Retired 29.7.2021

Note:
*Dr. Rachel Monyoncho retires by rotation from the Board on 12.5.2022 in accordance with the company's Articles of Association having served her full tenure and is therefore not eligible for re-appointment as a Director of the Company.
*Mr. Patrick Nyaga was appointed Group Chief Executive Officer of CIC Insurance Group Plc and by virtue of the office, he is an Executive Director of the company.

14. Director Appointment and Due Diligence

Board members receive formal letters of appointment setting out the main terms and conditions relative to their appointment. In addition, the company also takes out appropriate director professional indemnity insurance for each director to enable them to discharge their roles efficiently and effectively.

All Directors have undergone the fit and proper due diligence assessment conducted by the regulator (Insurance Regulatory Authority) to access the fitness and propriety as Board Members including senior management and key persons in control functions and approvals granted. All Directors are in good standing and have a current certificate of good conduct from the Criminal Investigation Directorate and Credit Reference Bureau. All Directors on appointment or re-appointment have completed annual declaration forms stating that the information provided during the fit and proper assessment has not undergone any significant change.

15. Director Induction

Newly appointed Directors receive appropriate formal 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 Board Induction Policy for new Directors and ensures that all directors regularly update their skills and knowledge at regular intervals.

16. Capacity building for the Board

In relation to the governance guidelines on 12 hours annual board training, CIC Life Board has undertaken various trainings facilitated by industry and professional bodies including receiving updates on industry developments on legislation, governance, corporate and significant accounting trainings tailor made for committees. It is on this background that in the month of October 2021 a comprehensive training on Corporate Governance was conducted by an independent governance specialist namely; The "Leadership Group Limited" and subsequently earlier in the year 2022. The board also undertook further training by IRA on Anti Money Laundering / Combating the Finance of Terrorism (AML/CFT).

CORPORATE GOVERNANCE *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

17. Conflict of Interest

The Board has put in place a conflict of interest policy which conforms to the Companies Act No.17 of 2015, to manage conflict of interest. A register of directors declared interests is maintained by the Company Secretary. Internal controls are in place to ensure that any related party transactions involving directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

We confirm that there were no business transactions with directors or their related parties in the year ended 2021.

18. Code of Ethics and Conduct

The company's Code of Ethics and Conduct continues to be in place and is geared towards inculcating a culture of professionalism and integrity, in line with our Vision and Mission Statements. The Board, Management and Employees are required to observe the code of ethics and high standards of integrity. Further, these standards are applied in all deliberations, decisions, actions and dealings with customers, suppliers and other stakeholders. The Code of Ethics and Conduct is reviewed and updated on a regular basis and is integrated in the company's operations and strategies.

19. 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 and approved Annual Board Work Plan.

The attendance at the meetings is as detailed under table 3 below.

20. Board and Committee Meetings held during the year

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.

Directors	Board Meeting		Audit and Risk Committee Meeting		Finance and Investment Committee Meeting	
	(a)	(b)	(a)	(b)	(a)	(b)
Gordon Owuor - (Chairman)	4	4	*	*	4	4
Michael Wambia	4	4	*	*	*	*
Dr. Rachel Monyoncho	4	4	4	4	*	*
Jyoti Patel	4	2	4	2	*	*
Partrick Nyaga	4	4	*	*	*	*
Julius Nyaga	*	*	*	*	4	4
David Ngunjiri*	4	2	*	*	4	2
Rogers Kinoti**	4	2	4	2	*	*
Meshack Miyogo	4	2	*	*	*	*
Joseph Maina	*	*	4	4	*	*
Julius Mwatu*	*	*	*	*	4	3

Notes:

(a) Number of meetings convened during year when the director was a member.
(b) Number of Meetings attended by the Director during the year.
(c) *Not a Member.
(d) Jyoti Patel retired from the board on 29.7.2021.
(e) David Ngunjiri retired from the board on 28.5.2021

CORPORATE GOVERNANCE *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

(f) Julius Mwatu appointed member of Finance and Investment Committee on 9.3.2021.
(g) ** Rogers Kinoti appointed director on 29.7.2021
(h) All the directors attended the company's Annual General Meeting held on 18.5.2021.

21. Secretary to the Board
The Secretary of the Board is Ms. Mary Wanga, who is also the Legal Advisor of the Company. She is a Certified Public Secretary and licensed legal practitioner by the Law Society of Kenya. She has been the Secretary of the Board since 2015.

The Secretary of the Board maintains all documents of Board meetings and the reports submitted and presented to the Board. The Secretary ensures the delivery and distribution of information relating to the Company as requested by members of the Board. The Secretary arranges to provide clarifications to all queries raised by the members and provides advice to them as required. She coordinates between the Board and other stakeholders, including the shareholder, management, and staff.

22. Board Committees
The Board has established two permanent standing committees with specific responsibilities, which are defined in their respective Terms of Reference, to assist the Board in discharging its duties and responsibilities. The ultimate responsibility resides at all times with the Board and as such, it does not abdicate this responsibility to the committees.

As a general principle there is full disclosure, transparency and reporting of these committees to the board. Each committee comprises a majority of non-executive directors and an independent non-executive director who play an important role.

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 meet at least quarterly or at such other times as the respective chairman of the committees may require.

The respective committee members are all satisfied that they have fulfilled their responsibilities as set out in their respective Terms of Reference.

The main functions performed by the respective committees are briefly stated hereinafter in this section.

The Board Committees are as follows:

23. Audit and Risk Committee
The committee's 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.

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.

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 Internal Auditor is the secretary to this committee.

CORPORATE GOVERNANCE *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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

Audit and Risk Committee Members
1. Rogers Kinoti - Chairperson
2. Dr. Rachael Monyoncho
3. Joseph Kamau

24. 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. Gordon Owuor - Chairman
2. Julius Nyaga
3. Julius Mwatu

25. Performance Assessment of the Board,

The Board understands the importance of board performance and effectiveness in achieving the overall objectives and goals of the company. To this end, yearly performance appraisals of individual directors, the board, board committees, the chairman, managing director and the company secretary is conducted through a self-assessment appraisal to provide the basis for identifying future training needs and, where necessary, explain why a re-appointment may or may not be appropriate while providing a forum through which directors can consider the ways in which the board contributes to the overall goals and strategy of the organization. During 2021 financial year, an extensive Self-Board evaluation and its Committees was facilitated by an independent governance consultant.

The assessments performed for 2021, demonstrated that the Board and its committees, and executive management are effective in achieving its objectives.

26. Board Remuneration

The remuneration policy of the Company is an integral part of the governance and incentive structure overseen by the Board. The aim is to enhance performance, encourage acceptable risk-taking behaviour and reinforce the Company's risk culture.

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 Limited's 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 Board 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.

CORPORATE GOVERNANCE *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

27. Risk Management Framework

The risk management framework is designed to assess, control, and monitor risks from all sources, with the aim of increasing short and long-term value to the stakeholders. The risk management framework involves determining, evaluating, and managing the risks faced by the Company as below:

27.1. Insurance Risk

The Company manages its insurance risk through the careful formulation and implementation of its underwriting strategy and guidelines, together with ensuring that adequate reinsurance arrangements are in place and that claims handling is proactively carried out.

The concentration of the Company's insurance risk exposure is mitigated by the Company's underwriting strategy, which attempts to ensure that the risks are prudently underwritten by considering the type of risk, level of insured benefits, amount of risk, and industry.

The Company, in the normal course of business and to minimize its financial exposure arising from large claims, enters into reinsurance contracts. These reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the Company's underwriting is reinsured under treaty and facultative reinsurance contracts. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the terms of the reinsurance contracts.

27.2. Operational Risk

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 does not expect to eliminate all operational risks, but by implementing a rigorous control framework and by monitoring and responding to potential risks, the Company seeks to manage its operational risk.

The Company has policies, systems and procedures manuals designed to achieve effective segregation of duties, access controls, authorization and reconciliation procedures, staff training and assessment processes. These procedures are backed up by the risk management framework and internal audit framework.

27.3. Credit Risk

The Company has established a range of credit risk limits to manage its exposure within the defined Company credit risk appetite. These limits are monitored periodically. The Company's exposure to credit risk principally arises from its insurance and reinsurance receivables, its cash and cash equivalents held in bank accounts, its reinsurance contract assets, and its portfolio of available for sale fixed income securities.

27.4. Investment Risk

The Company manages investment risk by quantifying the risks associated with each investment and only investing in accordance with the Company's investment strategy and risk profile. Any proposed investment that is outside established limits must be approved by the Finance & Investment Committee.

The Company seeks to limit investment risk by maintaining a diversified portfolio of investments and by continuously monitoring developments in international and local equity and bond markets. In addition, the Company actively monitors the key macro and micro economic factors that might have a significant impact on its investments.

28. Internal Control Functions.

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 Board's Audit and Risk Committee is charged with the mandate of monitoring and evaluating the efficacy of the internal control functions. The internal control function in the company are as follows:

CORPORATE GOVERNANCE *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

29. Risk & Compliance Function

The Company's Risk & Compliance function is responsible for risk management and exposure monitoring for the Company. In liaison with the different business areas, the function performs a qualitative and quantitative assessment of exposures against the defined tolerances and reports to the Audit & Risk Committee of the Board.

Additionally, stress and scenario testing is used in setting strategy and in business planning to quantify the implications of possible events and future changes in economic conditions that could have unfavourable effects on the business plan and financial standing of the Company. This analysis is used to support the development of management and mitigation strategies.

The function also monitors the Company's compliance with applicable laws, industry regulations, codes and its own ethical standards and internal policies in doing business. The function facilitates the management of compliance through the analysis of statutory and regulatory requirements, and monitoring the implementation and execution thereof.

The monitoring of regulatory requirements includes due diligence procedures and the reporting to relevant agencies with an aim to combat money laundering and the financing of terrorism. In addition, the Group Compliance function undertakes screening checks against applicable sanctions watch lists.

30. Internal Audit Function

This function performs an independent review of the internal control and governance systems within the Company. It reports on the existence, effectiveness and/or weaknesses of such systems covering risk management, the system for maintaining and safeguarding assets and the accuracy of the financial statements of the Company. It also reviews the effectiveness of the risk & compliance function as an internal control tool of Management by providing assurance to the Board of the existence of sound internal control systems in the Company commensurate with size and nature of its business.

31. The Actuarial Function

The Actuarial Function supports the Company across all areas where actuarial support is typically sought and to coordinate the development of best practices within the Company.

The areas requiring actuarial support consist of two main functions: the reserving function, which ensures the Company is adequately reserved to face its future liabilities; the pricing function, which helps assess and drive the profitability of the business in a strategic manner.

32. External Auditor

The shareholders at the Annual General Meeting of the Company held in the month of May 2021 approved the re-appointment of PriceWaterhouseCoopers as the external auditors for the year 2021, on the recommendation of the Board of Directors.

33. Disclosure

The Company is fully committed to all disclosure requirements as required by regulatory authorities and has complied with the requirements set forth in this regard. The most important requirements in this regard relate to submission of financial information to the Insurance Regulatory Authority in conformance with the Insurance Act.

The Board of Directors, ensures that all the disclosures that the Company makes are accurate and the financial reports of the Company conform to applicable accounting standards and guidelines.

Open lines of communication are maintained to ensure transparency and optimal disclosure, and stakeholders are encouraged to make their views known to the Company. The Managing Director is the designated spokesperson for the Company to ensure appropriate communication channels are maintained.

During 2021, the Company was not subject to any material regulatory penalties for non-compliances with regulatory provisions.

CORPORATE GOVERNANCE (*Continued*)
FOR THE YEAR ENDED 31 DECEMBER 2021

34. Corporate Social Responsibility

The Board is committed to the highest standards of business integrity, ethical values, and governance. It recognizes the Company's responsibility to conduct its affairs with prudence, transparency, accountability, fairness, and social responsibility, thereby ensuring its sustainability while safeguarding the interests of all its stakeholders.

35. 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 the present and anticipated future conditions including future projections of profitability cash flows, capital and other.

36. Share-holding

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

37. Looking Ahead

The Board continues to support good 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 Limited

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Dated 8th March 2022

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2021

The directors submit their report together with the audited financial statements of CIC Life Assurance Limited "the Company" for the year ended 31 December 2021 which discloses the status of affairs of the company.

1. INCORPORATION

The Company is domiciled in Kenya where it is incorporated as a private company limited by shares under the Companies Act, 2015. The address of the registered office is set out on page 4.

2. DIRECTORATE

The directors who held office during the year and to the date of this report are set out on page 4.

3. PRINCIPAL ACTIVITIES

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

4. COMPANY RESULTS

The table below highlights some of the key performance indicators:

	2021 Kshs'000	2020 Kshs'000
Gross earned premiums	6,117,112	4,928,862
(Loss)/profit before income tax	(78,580)	86,006
Income tax (credit)/expense	(23,574)	(25,802)
(Loss)/profit for the year	(55,006)	60,204
Total comprehensive (loss)/profit for the year	(162,351)	92,416
Total assets	18,446,104	16,452,096
Total equity	1,942,948	2,105,299

5. RECOMMENDED DIVIDEND

Loss for the year of Kshs: 55,006,000 (2020: Profit of Kshs: 60,204,000) has been deducted from the statutory reserve. The directors do not recommend payment of dividend in respect of the year ended 2021 (2020 – 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, as far as each director is aware, no relevant audit information of which the Company's auditor is unaware; and

b) each director had taken all the steps that ought to have been 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.

REPORT OF THE DIRECTORS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

7. BUSINESS REVIEW

ECONOMIC AND BUSINESS ENVIRONMENT IN 2021

Kenya's activity indicators point to a more upbeat pace of recovery in 2022 despite overhang risks. The emergence of a vicious cycle of new variants has brought renewed fears globally amid politics taking centre stage as we gear up for elections. Given the impressive degree of recovery across sectors and full reopening of the country effective 20th October 2021, we expect economic growth to exceed the 5.3% forecasted by the government for the 2021/22 fiscal year in the budget review outlook paper. IMF retains a forecast of 5% for full year 2021 GDP and 4.7% for 2022.

The yield curve steepened as both short term and long term rates rose in 2021. This was driven by higher demand for government securities by banks and institutional investors seeking to increase their exposure. The CBK persisted in issuing more long term papers at attractive interest rates to meet their funding needs while at the same time seeking to lengthen the country's debt maturity profile. The Central Bank Rate (CBR) was retained at 7% in 2021 with the CBK opining that the accommodative stance was still needed to rebuild the economy.

Inflation remained well anchored despite a significant increase to average 6.11% in 2021 from 5.28% in 2020; largely due to higher global oil prices amid rising demand as economic borders began to re-open. We experienced drought conditions in the second half of the year that elevated food prices and subsequently higher consumer price levels. Soaring global energy prices and a potential trigger of food supply shocks pose an upside risk heading into 2022.

The Kenya Shilling depreciated by 3.5% to the USD in 2021. A number of factors jointly contributed to this led by a marginal rise in our import bill, reduced inflows from agricultural exports and tourism and servicing of euro bond debt obligations. The country received program support from the IMF by way of an extended fund facility but this did not suffice to tame currency volatility.

The equities market registered gains in 2021 with the NASI & NSE-20 gaining 9.43% and 1.83% respectively after a year of losses in 2020 as the country's GDP witnessed a recession (-0.3%). The gains were largely in first 3 quarters of the year when the economy began to gain some momentum as covid-19 measures were relaxed despite the interference caused by the 3rd (delta) and 4th (Omicron) variants of covid-19.

Business performance review

2021 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 increased by 24% from 2020 due to acquisition of new businesses. Expense ratio increased from 27% to 30% driven by the allowance for credit losses and introduction of statutory levies on the premiums written. Claims ratio increased from 75% in 2020 to 79% in 2021 largely driven by Group life claims owing to Covid-19 pandemic. Deposit administration contracts grew by 18% from Kshs. 4.9 billion in 2020 to Kshs 5.8 billion in 2021.

Investment and other income increased by 37% from Kshs 588 million in 2020 to Kshs 804 million in 2021. This is attributable to rebound of equities market in 2021 compared to 2020, leading to fair value gains on equities, compared to fair value losses recorded in 2020.

The Company's profit after tax reduced from Kshs 60 million in 2020 to a loss of Kshs 55 million in the year mainly due to the increase in claims and actuarial reserves directly contributed by unfavourable claims experience in the year.

REPORT OF THE DIRECTORS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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 and place emphasis on aggressive marketing and retention strategies. Focus is also directed at improving the business processes to serve emerging digital economy to reduce the cost of operation and prudent management of claims towards achieving overall profitability.

TERMS OF APPOINTMENT OF THE AUDITOR

PricewaterhouseCoopers LLP continue in office in accordance with the company's Articles of association and section 719(2) of the 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 shareholders.

BY ORDER OF THE BOARD
SECRETARY

8th March, 2022

Nairobi

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2021

The 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 as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Company keeps proper accounting records that: (a) show and explain the transactions of the Company; (b) disclose, with reasonable accuracy, the financial position of the Company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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 Companies Act, 2015. They also accept responsibility for:

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, 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 assessed 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 responsibility.

Approved by the board of directors on 8th March, 2022 and signed on its behalf by:

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Director	Director/ Principal Officer	Director
Gordon Owuor	Meshack Miyogo	Rogers Kinoti

REPORT OF THE CONSULTING ACTUARY
FOR THE YEAR ENDED 31 DECEMBER 2021

I have conducted an actuarial valuation of insurance business of CIC Life Assurance Limited as at 31 December 2021.

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 2021.

Name of Actuary: Abel Muriithi_

8th March, 2022

INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

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 38 to 118 which comprise the statement of financial position at 31 December 2021, 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 2021, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional 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.

PricewaterhouseCoopers LLP. PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P O Box 43963 – 00100 Nairobi, Kenya
T: +254 (20)285 5000 F: +254 (20)285 5001 www.pwc.com/ke
Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu R Njoroge S O Norbert's B Okundi K Saiti

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Valuation of policyholder liabilities and unit linked contracts Policyholder liabilities as disclosed in Notes 3o and 39 (a) of the financial statements are of significant magnitude to the overall financial statements. This is an area of focus because the valuation of insurance contract liabilities involves significant judgement in estimating the expected future outflows. Specifically, the actuarial assumptions and methodologies involve judgement about future events. The valuation results are also dependent on the quality, integrity and accuracy of the data used. For policyholder liabilities, both economic and non -economic assumptions are made. Economic assumptions such as discount rates, investment returns and inflation rates are benchmarked to available market information. Non-economic assumptions such as mortality rates, future expenses, investment returns, discount rates and lapse rates, are projected based on experience	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, assessed the reasonableness of the actuarial assumptions, challenged management's rationale for the judgments applied and performed independent reprojections of the actuarial liabilities; and Assessed the adequacy and appropriateness of the related disclosures in notes 30 and 39 (a) of the financial statements.
Valuation of receivables arising out of reinsurance arrangements As described in the accounting policies and note 19 of the financial statements, at 31 December 2021, the Company had gross receivables arising out of reinsurance arrangements of Shs. 1 billion. This is a key audit matter because the assessment of the recoverability reinsurance receivables involves significant judgement given uncertainty in estimating the expected future cash inflows. Specifically, the determination of loss rate applied on the gross receivables involves significant judgement about future events and the assumption that future collections of receivables will follow a similar pattern to past collections experience.	Tested, on a sample basis, the existence and completeness of receivable balances by obtaining independent confirmations of the balances; Tested the appropriateness of ageing of receivable balances by comparing recorded amounts and dates to the source documents; Evaluated the methodology applied by management in estimating the impairment losses for insurance and reinsurance receivables; Assessed the reasonableness of the loss allowance applied to reinsurance receivables; Evaluated evidence supporting the expectations of cash flows that were applied in the impairment provision computations; Tested mathematical accuracy of the impairment provisions computation; and Assessed the adequacy of the disclosures in 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.

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

1. 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.

2. 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.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

4. 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.

5. 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.

6. 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 29 and 31 is consistent with the financial statements.

Richard Njoroge

FCPA Richard Njoroge, Practising certificate Number 1244
Engagement partner responsible for the audit

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

16th March, 2022

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 Kshs'000	2020 Kshs'000
Gross earned premiums	3(a)	6,117,112	4,928,862
Less: Reinsurance premiums ceded	3(b)	(1,675,694)	(1,046,257)
Net earned premiums		4,441,418	3,882,605
Interest income	4(a)	682,224	607,028
Other interest and investment income	4(b)	48,382	51,095
Other gains/ (losses)	5	73,626	(69,987)
Fees and commissions earned	6(a)	406,004	303,557
Total income		5,651,654	4,774,298
Expenses			
Gross incurred claims	7(a)	(4,691,932)	(3,421,552)
Reinsurance recoveries	7(b)	1,657,248	1,077,380
Gross change in actuarial reserves	7(c)	(915,966)	(843,892)
Reinsurer's share of change in actuarial reserves	7(c)	144,385	58,658
Net benefits and claims expense		(3,806,265)	(3,129,406)
Commissions expenses	6(b)	(500,142)	(407,875)
Operating and other expenses	8(a)	(1,406,443)	(1,140,315)
Net increase in expected credit losses	8(b)	(9,371)	(628)
Finance cost	11(b)	(8,013)	(10,068)
Total benefits, claims and other expenses		(5,730,234)	(4,688,292)
(Loss)/income before tax		(78,580)	86,006
Income tax credit/(expense)	10(a)	23,574	(25,802)
(Loss)/profit for the year		(55,006)	60,204
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent years			
Fair value (losses)/ gains on debt instruments at fair value through other comprehensive income – Government securities	14(b)	(107,345)	32,212
Other comprehensive (loss)/ income for the year		(107,345)	32,212
Total comprehensive (loss)/ income for the year		(162,351)	92,416

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2021

		2021	2020
ASSETS	Notes	Kshs'000	Kshs'000
Property and equipment	11(a)	44,957	39,806
Right of use Assets	11(b)	59,029	47,816
Investment properties	12	2,181,875	2,181,875
Intangible assets	13	1,159	1,346
Financial assets at amortised cost - Government securities	14(a)	981,410	971,091
Financial assets at amortised cost - Corporate bonds	15	52,770	107,197
Financial assets at amortised cost - Loans receivable	16(a&b)	632,820	612,597
Financial assets at fair value through profit or loss - investments in collective investment scheme	17(b)	723,047	753,991
Financial assets at fair value through other comprehensive income- Government securities	14(b)	7,806,914	6,894,258
Financial assets at fair value through profit or loss- quoted equity instruments	18	836,523	782,707
Current income tax	10 (c)	42,170	42,170
Receivables arising out of reinsurance arrangements	19(a)	817,891	836,139
Receivables arising out of direct insurance arrangements	19(b)	-	23
Reinsurers share of liabilities and reserves	33	1,189,560	685,971
Other receivables	20	163,173	91,593
Due from related parties	21(a)	414,914	260,520
Deposits with financial institutions	22	2,404,360	1,990,858
Cash and bank balances	35(b)	93,532	152,138
Total assets		18,446,104	16,452,096
EQUITY AND LIABILITIES			
EQUITY			
Share capital	24	800,000	800,000
Statutory reserve		1,128,818	1,183,824
Fair value reserve		(57,731)	49,614
Retained earnings		71,861	71,861
Total equity		1,942,948	2,105,299
LIABILITIES			
Deferred income tax	28	485,042	508,616
Deposits administration contracts	29	5,798,488	4,946,353
Actuarial value of policyholder liabilities	30	7,991,800	7,075,834
Unit linked contracts	31	546,552	523,663
Claims payable	32	971,169	757,371
Due to related party	21(b)	5,375	4,639
Other payables	34	596,549	468,762
Lease liabilities	11(b)	67,339	56,805
Payables arising from reinsurance arrangements	19(c)	40,842	4,754
Total liabilities		16,503,156	14,346,797
Total equity and liabilities		18,446,104	16,452,096

The financial statements on pages 38 to 118 were approved by the Board of Directors on 8th March, 2022 and signed on its behalf by:

Director
Gordon Owuor

Director
Meshack Miyogo

Director
Rogers Kinoti

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	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 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
At 31 December 2020	800,000	1,183,824	71,861	49,614	2,105,299
At 1 January 2021	800,000	1,183,824	71,861	49,614	2,105,299
Loss for the year	-	(55,006)	-	-	(55,006)
Other comprehensive loss for the year	-	-	-	(107,345)	(107,345)
At 31 December 2021	800,000	1,128,818	71,861	(57,731)	1,942,948

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 Kshs'000	2020 Kshs'000
Cash generated from operations	35	689,074	1,232,213
Tax paid	10	-	-
Dividend income	4	16,416	16,013
Interest from financial assets at fair value through other comprehensive income-government securities	4	480,887	383,084
Interest from financial assets at amortised cost-government securities.	4	91,705	112,718
Interest from financial assets at amortised cost-corporate bonds	4	3,469	9,845
Interest from deposits with financial institutions	4	62,884	69,710
Interest on financial assets at amortised cost-staff loan and receivables	4	51,710	40,100
Interest paid on lease liabilities	11(b)	(8,013)	(10,068)
Purchase of financial assets at amortised cost- government securities	14(a)	(179,573)	(317,016)
Purchase of financial assets through other comprehensive income - government securities	14(b)	(1,325,000)	(1,677,111)
Proceeds of maturity of financial assets at amortised- government securities	14(a)	160,530	394,249
Proceeds of sales of financial assets through other comprehensive income-government securities	14(b)	302,879	352,400
Purchase of financial assets at amortised cost-corporate bonds	15	(52,490)	
Maturity of financial assets at amortised cost-corporate bonds	15	99,293	13,726
Mortgage loans repaid	16(a)	16,228	9,047
Other loans advanced	16(b)	(247,408)	(256,016)
Other loans repayment	16(b)	213,000	202,516
Investment in financial assets at amortised cost-deposits and commercial papers	17(a)	-	25,243
Proceeds from maturity of collective investment scheme	17(b)	499,400	393,000
Purchase of financial assets at fair value through profit or loss- collective investments scheme	17(b)	(455,341)	(455,106)
Disposal of financial assets at fair value through profit or loss-equity instruments	18	45,371	151,418
Purchase of financial assets at fair value through profit or loss-equity instruments	18	(60,837)	(106,836)
Net increase in fixed deposits with financial institutions (excluding cash and cash equivalents)		(340,142)	(588,148)
Net cash generated from/ (used in) operating activities		64,042	(5,019)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property plant and equipment	11(a)	(20,025)	(3,456)
Purchase of intangible assets	13	(526)	(1,142)
Net cash used in investing activities		(20,551)	(4,598)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Dividends paid	36	-	-
Payment of principal portion of lease liability	11(b)	(27,360)	(51,383)
Net cash used in financing activities		(27,360)	(51,383)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		16,131	(61,000)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		229,479	290,479
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	35 (b)	245,610	229,479

HEALTH

CIC GROUP

Financial protection to enjoy great healthcare in old age with **CIC Seniors Mediplan**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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 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 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

This section provides a summary of (i) new standards and amendments that are effective for the first time for periods commencing on or after 1 January 2021 (i.e. years ending 31 December 2021), and (ii) forthcoming requirements, being standards and amendments that will become effective on or after 1 January 2022.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) New standards and amendments – applicable 1 January 2021 *(Continued)*

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2021:

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. * The relief was originally limited to reduction in lease payments that were due on or before 30 June 2021. However, the IASB subsequently extended this date to 30 June 2022. If a lessee already applied the original practical expedient, it is required to continue to apply it consistently, to all lease contracts with similar characteristics and in similar circumstances, using the subsequent amendment. If a lessee did not apply the original practical expedient to eligible lease concessions, it is prohibited from applying the expedient in the 2021 amendment. However, if a lessee has not yet established an accounting policy on applying (or not) the practical expedient to eligible lease concessions, it can still decide to do so.	1 June 2020/ 1 April 2021 *
Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide the following reliefs: • When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes, that are necessary as a direct consequence of IBOR reform and which are considered economically equivalent, will not result in an immediate gain or loss in the income statement. • The hedge accounting reliefs will allow most IAS 39 or IFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded. Affected entities need to disclose information about the nature and extent of risks arising from IBOR reform to which the entity is exposed, how the entity manages those risks, and the entity's progress in completing the transition to alternative benchmark rates and how it is managing that transition. Given the pervasive nature of IBOR-based contracts, the reliefs could affect companies in all industries.	1 January 2021

* Applicable to reporting periods commencing on or after the given date.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) New standards and amendments – applicable 1 January 2021 *(Continued)*

The above amendments did not have a significant impact on the Company's financial statements.

(ii) Forthcoming requirements

The following standards and interpretations had been issued but were not mandatory for annual reporting periods ending on 31 December 2021.

Title	Key requirements	Effective Date *
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 remeasured in each reporting period. Contracts are measured using the building blocks of: • discounted probability-weighted cash flows • an explicit risk adjustment, and • 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. 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. Targeted amendments made in July 2020 aimed to ease the implementation of the standard by reducing implementation costs and making it easier for entities to explain the results from applying IFRS 17 to investors and others. The amendments also deferred the application date of IFRS 17 to 1 January 2023.	1 January 2023 (deferred from 1 January 2021)
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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*
(i) New standards and amendments – applicable 1 January 2021 *(Continued)*
(ii) Forthcoming requirements *(Continued)*

Title	Key requirements	Effective Date *
Reference to the Conceptual Framework – Amendments to IFRS 3	Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.	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: • IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities. • 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. • IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption. • IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.	1 January 2022
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	1 January 2023 (deferred from 1 January 2022)

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*
(i) New standards and amendments – applicable 1 January 2021 *(Continued)*
(ii) Forthcoming requirements *(Continued)*

Title	Key requirements	Effective Date *
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.	1 January 2023
Definition of Accounting Estimates – Amendments to IAS 8	The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with: • right-of-use assets and lease liabilities, and • decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets. The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate. IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.	1 January 2023

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

Other than IFRS 17, the standards are no expected to have a significant impact on the Company's financial statements. The Company has embarked on an IFRS 17 implementation process but is yet to fully quantify the impact of the standard in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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 business 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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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
(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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Taxation *(Continued)*

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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Taxation *(Continued)*

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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 2021.

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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.

Leases where the Company assumes substantially all the risks and rewards incidental to ownership are 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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Accounting for leases *(continued)*

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 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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of non-financial assets *(Continued)*

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.

(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 valuation 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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Insurance contract liabilities *(Continued)*

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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*
(t) Fair value measurement *(Continued)*
The principal or the most advantageous market must be accessible to the Company. *(Continued)*

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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*
(u) Financial instruments *(Continued)*
Financial assets *(Continued)*

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

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*
(u) Financial instruments *(Continued)*

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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*
(u) Financial instruments *(Continued)*
Financial assets at fair value through profit or loss *(Continued)*

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 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

IFRS 9 requires the recognition of a forward looking expected credit loss (ECL) for all financial assets at amortised cost and at fair value through OCI other than equity investments.

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).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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, are valued based on data provided by third parties such as real estate valuers.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Financial instruments *(Continued)*

Financial liabilities *(Continued)*

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 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 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Events after the reporting date *(Continued)*

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

i. Unit linked contracts

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.

ii. 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 amortised cost 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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.

(i) Key sources of estimation uncertainty

Valuation of actuarial liabilities

Critical assumptions are made by the actuary and the company 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)*

(i) Key sources of estimation uncertainty (Continued)

Impairment of reinsurance receivables

The Company reviews its individually significant reinsurance balances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. Judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Company makes judgements about the debtor's financial situation. These estimate to provide debts is based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance (note 19(a)).

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 use 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, especially in particular the estimation of the probability of default 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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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

(i) Key sources of estimation uncertainty (Continued)

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 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 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).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

			2021	2020
3.	(a)	GROSS EARNED PREMIUMS	Kshs'000	Kshs'000
		Group life	4,965,184	3,766,118
		Ordinary life	1,094,034	1,041,646
		Annuities	57,894	121,098
		Total gross earned premium	6,117,112	4,928,862
	(b)	REINSURANCE PREMIUMS CEDED		
		Group life	1,663,492	1,031,514
		Ordinary life	12,202	14,743
		Total reinsurance premium ceded	1,675,694	1,046,257

			2021	2020
4.	INVESTMENT INCOME			
	Interest on financial assets at amortised cost- Government securities		91,705	112,718
	Interest on financial assets at amortised cost-corporate bonds		3,469	9,845
	Interest on bank deposit		62,884	69,710
	Interest on staff loan and receivables		51,710	40,100
	Dividend income		16,416	16,013
	Interest on financial assets at fair value through other comprehensive income- Government securities		480,887	383,084
	Rental income from investment properties		31,966	35,082
	Amortisation of financial assets at amortised cost (note 14a)		(8,431)	(8,429)
			730,606	658,123
	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			
		Financial assets at amortised cost	201,337	223,944
		Financial assets at fair value through other comprehensive income Government securities	480,887	383,084
			682,224	607,028
(b)	Other interest and investment income			
		Financial assets at fair value through profit or loss	16,416	16,013
		Investment income earned on non-financial assets	31,966	35,082
			48,382	51,095
	Total investment income (a & b)		730,606	658,123

		2021	2020
5.	OTHER GAINS (LOSSES)		
	Fair value gain/(loss) on equity investments at fair value through profit or loss (note 18)	38,350	(100,124)
	Gain on disposal of property plant and equipment	10	-
	Fair value gain on financial assets at fair value through profit or loss- investments in collective investment scheme (note 17(b))	13,115	12,243
	Decrease in provision for impairment on receivables arising from direct insurance arrangements (note 19(b))	-	2,147
	Other gains	22,151	15,747
		73,626	(69,987)

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

		2021	2020
6. (a)	FEES AND COMMISSIONS EARNED		
		Kshs'000	Kshs'000
	Group life commission	339,646	277,931
	Ordinary life commission	6,867	8,134
	Fees on pension administration	16,701	17,492
	Charge on pension fund by the sponsor	42,790	-
		406,004	303,557

Fees and commission earned relates to the commission received from the reinsurance premium ceded and fees on policy administration and investment management. Charge on pension fund relates to fees charged by the sponsor on the pensions funds under adminstration.

		2021	2020
		Kshs'000	Kshs'000
(b)	COMMISSION EXPENSES		
	Group life	390,329	291,251
	Ordinary life	108,904	114,153
	Annuities	909	2,471
		500,142	407,875

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

		2021	2020
7.	CLAIMS AND POLICYHOLDERS BENEFITS EXPENSE		
		Kshs'000	Kshs'000
(a)	Gross incurred claims		
	Group life	3,841,047	2,717,295
	Ordinary life	613,827	475,070
	Annuities	237,058	229,187
		4,691,932	3,421,552
(b)	Reinsurance recoveries		
	Group life	(1,656,170)	(1,076,043)
	Ordinary life	(1,078)	(1,337)
		(1,657,248)	(1,077,380)
(c)	Actuarial reserves		
	Gross change in actuarial reserves (note 30)	(915,966)	(843,892)
	Reinsurers share of change in actuarial reserves (note 30)	144,385	58,658
		(771,581)	(785,234)

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

8.(a)	OPERATING AND OTHER EXPENSES	2021	2020
		Kshs'000	Kshs'000
	Staff costs (note 9(a))	575,080	561,525
	Directors' fees (note 21e)	9,213	7,628
	Directors' emoluments (note 21e)	24,638	20,298
	Depreciation on property and equipment (note11)	14,874	36,789
	Amortisation on right of use assets (note 11(b))	26,681	28,859
	Amortisation of intangible assets (note 13)	713	2,407
	Auditors' remuneration	4,800	4,500
	Premium tax	10,577	10,373
	Staff welfare	100,067	96,949
	Utilities	40,230	51,281
	Printing and stationery	6,875	11,912
	Business advertising and promotion	71,805	67,932
	Professional fees	67,671	58,700
	Statutory levies	65,244	32,815
	Professional subscription	4,829	3,814
	Software licences	83,084	74,549
	Impairment provision on reinsurance receivables (note 19(a))	192,194	-
	Performance incentives	47,617	34,634
	Other costs*	60,251	35,350
		1,406,443	1,140,315

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

8(b)	Net Increase in expected credit losses	2021	2020
		Kshs'000	Kshs'000
	Allowance for expected credit losses		
	Related parties (note21a)	(775)	(149)
	Commercial papers (note 17a)	-	127)
	Corporate bonds(note15)	(9,965)	7
	Cash (note 16a)	(84)	-
	Loans receivable (note 16a)	2,043	(15)
	Deposits with financial institutions (note 22)	1,935	(598)
	Government Securities	(405)	-
	Government Securities AFS	(2,120)	-
		(9,371)	(628)

Only the amount transferred to shareholders is subject to tax on condition that the company expenditure is within the permitted expenditure as per the insurance act. All expenses are allowable for tax purposes as long as they are within the permitted expenditure per the insurance act.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

9 STAFF COSTS

	2021 Kshs'000	2020 Kshs'000
Staff costs include the following:		
-Salaries and gratuity	524,185	514,047
-Defined contribution expense	31,863	31,813
-Termination benefits expense	12,997	11,058
-Staff annual leave expense	6,035	4,607
	575,080	561,525
Average number of employees during the year	174	173

10 INCOME TAX EXPENSE

(a) Statement of profit or loss

	2021 Kshs'000	2020 Kshs'000
Current tax at 30% (2020: 25%)	-	-
Deferred income tax (note 28)	(23,574)	25,802
Income tax (credit)/expense	(23,574)	25,802
(b) (Loss)/profit before income tax	(78,580)	86,006
Tax calculated at a tax rate of 30% (2020 :25%)	(23,574)	25,802
Tax effects of:		
Income not subject to tax	(1,695,496)	(1,193,573)
Expenses not deductible for tax purposes	1,719,070	1,167,771
Taxation charge for the year	-	-
*Only amount transferred to shareholders is subject to tax.		
Total management expenses	1,923,969	1,558,887
Permitted management expenses	(2,163,097)	(2,135,049)
Deficit	(239,128)	(576,162)
Tax thereon	-	-

*The tax charge for the Company is derived by subjecting to tax only 30% (2020: 25%) 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 30% on the current tax was applied but since there is no taxable income, the tax liability for 2021 is nil.

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) Current income tax

	2021 Kshs'000	2020 Kshs'000
At 1 January	42,170	42,170
Current tax charge at 30% (2020: 25%)	-	-
Tax paid during the year	-	-
At 31 December	42,170	42,170

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

11 (a) PROPERTY AND EQUIPMENT

	Motor Vehicles Kshs'000	Computers Kshs'000	Furniture fittings & Equipment Kshs'000	Total Kshs'000
COST				
At 1 January 2020	-	99,858	275,476	375,334
Additions	-	2,637	819	3,456
	-	102,495	276,295	378,790
At 31 December 2020				
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	-	4,826	34,980	39,806
COST				
At 1 January 2021	-	102,495	276,295	378,790
Additions	8,389	3,379	8,527	20,025
Disposals	-	(85)	-	(85)
At 31December 2021	8,389	105,789	284,552	398,730
ACCUMULATED DEPRECIATION				
At 1 January 2021	-	97,669	241,315	338,984
Charge for the year	1,729	2,352	10,793	14,874
Elimination on Disposal	-	(85)	-	(85)
	1,729	99,936	252,108	353,773
At 31 December 2021		-	-	-
CARRYING AMOUNT		-	-	-
At 31December 2021	6,660	5,853	32,444	44,957

There are no property and equipment pledged as security for liabilities. There are no contractual commitments for the acquisition of property and equipment.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

11 (a) RIGHT OF USE OF ASSETS

The Company's leases include office space.

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

		2021	2020
		Kshs'000	Kshs'000
(i)	Right of Use assets		
	At 1 January	47,816	63,574
	Additions	37,894	13,101
	Amortisation charge	(26,681)	(28,859)
	At 31 December	59,029	47,816
(ii)	Lease liabilities		
	At 1 January	56,805	69,078
	Additions	37,894	39,110
	Accretion of interest	8,013	10,068
	Payment of interest	(8,013)	(10,068)
	Payment of principal portion of lease liabilities	(27,360)	(51,383)
	At 31December	67,339	56,805

Sensitivity analysis of impact of changes in discount rates:
If the discount rates were to change by 10% with all other factors held constant, the impact of the carrying value of lease liabilities at 31 December 2021 would be Kshs 6.7 million (2020: Kshs. 5.7 million)

Amounts recognised in profit or loss:	2021	2020
	Kshs'000	Kshs'000
Interest on lease liabilities	8,013	10,068
Amortisation of right of use assets	26,681	28,859
Amounts recognised in statement of cash flows:		
Payment of principal portion on lease liabilities	27,360	51,383
Payment of interest	8,013	10,068
Total cash outflow for leases	35,373	61,451

Lease liability maturity analysis

2021	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Lease liabilities	7,659	20,977	59,581	-	88,217

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

12. INVESTMENT PROPERTIES

	CIC Phase I Plaza Kshs'000	Kisaju Land Kshs'000	Kajiado Land Kshs'000	Total Kshs'000
31 December 2021	1,115,875	680,000	386,000	2,181,875
31 December 2020	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 2021 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 2021	Average 2020
Capitalized rent income (year purchase) method	Net annual rent	31,966,321	35,082,131
	Annual rent growth rate	1%	2%
	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 2021

13. INTANGIBLE ASSETS	2021 Kshs'000	2020 Kshs'000
COST		
At 1 January	110,234	109,092
Additions	526	1,142
At 31 December	110,760	110,234
ACCUMULATED AMORTISATION		
At 1 January	108,888	106,481
Amortisation charge for the year	713	2,407
At 31 December	109,601	108,888
CARRYING AMOUNT		
At 31 December	1,159	1,346

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

	2021 Kshs'000	2020 Kshs'000
At 1 January	971,091	1,036,456
Additions	179,573	317,016
Maturities	(160,530)	(394,249)
Amortisation of discount (note 4)	(8,431)	(8,429)
Accrued interest	112	20,297
Allowance for expected credit loss	(405)	-
At 31 December	981,410	971,091
Treasury bonds maturity profile		
- Within 1 year	67,057	159,381
- Between 1-2 years	71,161	10,141
- Between 2-5 years	74,185	145,219
- Over 5 years	769,007	656,350
At 31 December	981,410	971,091

Government securities at amortised cost of Kshs 925 million (2020 - Kshs 811 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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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

	2021 Kshs'000	2020 Kshs'000
At 1 January	6,894,258	5,537,335
Additions	1,325,000	1,677,111
Maturities	(302,879)	(352,400)
Fair value (loss)/gain on debt instruments at fair value through other comprehensive income	(107,345)	32,212
Allowance for expected credit losses	(2,120)	-
At 31 December	7,806,914	6,894,258

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

15. FINANCIAL ASSETS AT AMORTISED COST-CORPORATE BONDS

	2021 Kshs'000	2020 Kshs'000
Chase Bank Limited	73,545	73,545
Family Bank Limited	45,329	10,274
Real people Limited	10,500	10,807
East African Breweries Limited	7,445	86,653
Allowance for expected credit losses	(84,049)	(74,082)
	52,770	107,197
At 1 January	107,197	120,930
Additions	52,490	
Maturities	(99,293)	(13,726)
Accrued interest	2,341	-
Allowance for expected credit losses during the year	(9,965)	(7)
At 31 December	52,770	107,197
Corporate bonds securities maturing		
- Within 1 year	-	20,977
- Between 1-2 years	-	86,220
- Between 2-5 years	52,770	-
- Over 5 years	-	-
	52,770	107,197

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).

16. (a) 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.

	2021	2020
MORTGAGE LOANS:	Kshs'000	Kshs'000
At 1 January	47,680	56,658
Loan repayments	(16,228)	(9,047)
Recovery/(allowance) for xpected credit losses during the year	1,155	69
At 31 December	32,607	47,680
Maturity profile of mortgage loans:		
In 1-5 years	-	832
In over 5 years	32,607	46,848
	32,607	47,680

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

16. (b) OTHER LOANS	2021	2020
	Kshs'000	Kshs'000
Staff loans	5,533	18,568
Policy loans	594,681	546,349
	600,214	564,917
Movement:		
At 1 January	564,917	511,501
Loans advanced	247,408	256,016
Loan repayments	(213,000)	(202,516)
Recovery/(allowance) for expected credit losses in the year	888	(84)
At 31 December	600,213	564,917
Maturity profile of other loans:		
Within 1 year	796	656
In 1-5 years	594,680	551,199
In over 5 years	4,737	13,062
	600,213	564,917
Total(a & b)	632,820	612,597

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:

		Fair value of collateral and credit enhancements held		
31 December 2021	Maximum exposure to credit risk	Property	Net exposure	ECLs
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Mortgage loans	32,607	48,836	Nil	-
Other loans	6,707	20,631	Nil	1,174
	39,314	69,467	Nil	1,174

		Fair value of collateral and credit enhancements held		
31 December 2020	Maximum exposure to credit risk	Property	Net exposure	ECLs
	Kshs'000	Kshs'000	Kshs'000	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

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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.

	2021 Kshs'000	2020 Kshs'000
At 1 January	-	25,243
Additions	-	-
Accrued interest	-	-
Disposals	-	25,243
Allowance for expected credit losses	-	-
At 31 December	-	-

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

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

	2021 Kshs'000	2020 Kshs'000
1 January	753,991	679,642
Additions	455,341	455,106
Maturities	(499,400)	(393,000)
Fair value gains (note 5)	13,115	12,243
	723,047	753,991

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

	2021 Kshs'000	2020 Kshs'000
At 1 January	782,707	927,413
Additions	60,837	106,836
Disposals	(45,371)	(151,418)
Fair value gain/(loss) (note 5)	38,350	(100,124)
At 31 December	836,523	782,707

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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.

	2021	2020
	Kshs'000	Kshs'000
Gross reinsurance receivables	1,010,085	836,139
Provision for impairment losses	(192,194)	(-)
Net reinsurance receivables	817,891	836,139
Movement on the provision for impairment of reinsurance receivables is as follows:		
At 1 January	-	-
Charge to profit or loss	192,194	-
At 31 December	192,194	-
Ageing		
1-30 days	476,039	329,715
31-60 days	-	53,551
61-90 days	-	220,584
91-120 days	180,642	19,589
Over 120 days	353,404	212,700
	1,010,085	836,139

(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.

	2021	2020
	Kshs'000	Kshs'000
Gross receivables	224	2,149
Provision for impairment	(224)	(2,126)
	-	
Net receivable	-	23
Ageing		
1-30 days	-	15
31-60 days	-	-
61-90 days	-	2
91-120 days	-	6
Over 120 days	-	2,126
	-	2,149

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

	2021 Kshs'000	2020 Kshs'000
1 January	2,126	4,273
Decrease in provision for impairment	(1,902)	(2,147)
31 December	224	2,126

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

19 (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.

	2021 Kshs'000	2020 Kshs'000
1 January	4,754	20,083
Arising during the year	176,557	22,877
Payments during the year	(140,469)	(38,206)
31 December	40,842	4,754

20. OTHER RECEIVABLES

	2021 Kshs'000	2020 Kshs'000
Staff advances	3,754	3,571
Prepayment	5,118	3,161
Advances for agents	3,643	3,746
Rental receivables	42,784	47,603
Rent deposits	2,131	2,131
Receivables from Mavuno investments fund manager	3,637	-
Pension fund receivable	59,564	-
Other receivables	42,542	31,381
	163,173	91,593

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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 amount to Kshs 2,085,000 (2020: 1,310,000).

		2021 Kshs'000	2020 Kshs'000
(a)	Due from related parties		
	Gross	416,999	261,830
	Allowance for expected credit losses	(2,085)	(1,310)
		414,914	260,520
	The CIC Insurance Group PLC	391,343	240,944
	CIC General Insurance Limited	23,571	19,576
		414,914	260,520
(b)	Due to related parties		
	CIC Asset Management Limited	5,375	4,639
		5,375	4,639

The related party balances arise from the payments to a related party for offering fund management services as well as funding by the company to the CIC Group for payment of shared costs and acquisition of shared Group assets.

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

(b) Transactions with related parties

		2021 Kshs'000	2020 Kshs'000
(i)	Receipts from related parties		
	CIC Insurance Group PLC	238,039	239,104
	CIC General Insurance Limited	291,239	114,517
	CIC Asset Management Limited	28,615	26,014
		557,893	379,635
(ii)	Payments to related parties		
	CIC Insurance Group PLC	389,194	278,377
	CIC Asset Management Limited	27,879	31,527
	CIC General Insurance Limited	247,875	104,800
		664,948	414,704

*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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

21. RELATED PARTIES *(Continued)*

(c) Loans to directors of the Company

The Company did not advance any loan to its directors (2020: 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:

	2021 Kshs'000	2020 Kshs'000
Short-term employment benefits:		
Directors 'emoluments – fees	9,213	7,628
Others		
Sitting allowances	16,180	18,032
Insurance	333	630
Honoraria	1,630	-
Retreats and training	1,575	947
Exit/retirement	4,023	-
Christmas token	897	689
	24,638	20,298
Key management		
Salaries	84,518	73,943
Gratuity	6,454	13,888
Staff annual leave allowance	848	1,044
National Social Security Fund (NSSF)	24	24
Pension contribution	4,492	5,013
Total short term employment benefits	130,187	121,838

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

22. DEPOSITS WITH FINANCIAL INSTITUTIONS

	2021 Kshs'000	2020 Kshs'000
The Co-operative Bank of Kenya Limited	396,272	402,461
Family Bank Limited	188,456	172,419
Credit Bank Limited	57,350	80,271
KCB Bank Kenya Limited*	336,719	325,851
Development Bank of Kenya Limited	45,851	86,089
Equity Bank Limited	848,323	250,525
Victoria Commercial Bank Limited	-	8,489
Imperial Bank Limited	23,200	23,366
UBA Kenya Bank Limited	85,708	157,596
NCBA Bank	87,679	349,295
Middle East Bank	-	-
Investments and Mortgages Bank (I&M bank)	291,042	86,937
Kingdom Bank	31,552	40,893
Sidian Bank	37,160	33,553
	2,429,312	2,017,745
Allowance for expected credit losses	(24,952)	(26,887)
Net deposits	2,404,360	1,990,858
Maturing within 3 months	568,786	77,341
Maturing between 3-6 months	586,388	661,217
Maturing after 6 months	1,249,186	1,252,300
	2,404,360	1,990,858

*This relates to staff loan collateral deposits held at KCB Bank Kenya Limited which is restricted cash and 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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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.

	2021 %	2020 %
Government securities	12.00	12.30
Corporate bonds	11.50	11.00
Staff loans	6.00	6.00
Policy loans	8.00	8.00
Deposits with financial institutions	9.25	9.00
Other deposits and commercial papers	11.00	12.00

24. SHARE CAPITAL

	31 December 2021		31 December 2020	
	Number of shares '000	Share Capital '000	Number of shares '000	Share Capital '000
Authorised ordinary shares of Kshs 20 each:				
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 2021

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%.

2021	At 1 January	Recognised in profit or loss	At 31 December
Deferred tax on life fund surplus	(508,616)	23,574	(485,042)
	-	-	-
Deferred tax liability	(508,616)	23,574	(485,042)
2020			
Deferred tax on life fund surplus	(482,814)	(25,802)	(508,616)
Deferred tax liability	(482,814)	(25,802)	(508,616)

** 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 amortised cost 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:	2021 Kshs.'000	2020 Kshs.'000
Pension contributions	879,807	980,107
Investment income	490,085	350,845
Total income for the year	1,369,892	1,330,952
Policy benefits (net)	(490,028)	(507,401)
Administrative expenses	(27,729)	(67,211)
Total outflow	(517,757)	(574,612)
Net movement for the year	852,135	756,340
Balance at beginning of the year	4,946,353	4,190,013
Net fund value	5,798,488	4,946,353

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021 and revealed actuarial liabilities of Kshs 7,991,800 - (2020: Kshs 7,075,834). No transfer in the year 2021 (2020: Nil) has been made to retained earnings based on the recommendation of the actuary.

	Ordinary Life	Group Life	Total Gross	Reinsurance (note 33)	Net
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
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 31 December 2020	4,105,064	2,970,770	7,075,834	(589,848)	6,485,986
As at 1 January 2021	4,105,064	2,970,770	7,075,834	(589,848)	6,485,986
Actuarial Adjustments (note 7(c)	206,846	709,120	915,966	(144,385)	771,581
As at 31 December 2021	4,311,910	3,679,890	7,991,800	(734,233)	7,257,567

*Sensitivity analysis on the key assumptions disclosed in note 39(c).

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.

	2021	2020
	Kshs'000	Kshs'000
At 1 January	523,663	514,972
Contributions received	21,056	19,210
Surrenders	(2,384)	(1,648)
Maturities	(33,827)	(17,233)
Far value gain	38,044	8,362
Net fund value	546,552	523,663

32. CLAIMS PAYABLE

	2021	2020
	Kshs'000	Kshs'000
Claims reported and claims handling expenses:		
At 1 January	661,248	418,727
Claims incurred in the year (Note 7(a))	4,691,932	3,421,552
Payments for claims and claims handling expenses	(4,837,338)	(3,179,031)
At 31 December	515,842	661,248
Comprising:		
Gross amounts	971,169	757,371
Reinsurers share (note 33)	(455,327)	(96,123)
Net claims payable	515,842	661,248

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

33.	REINSURERS SHARE OF INSURANCE LIABILITIES AND RESERVES		
	Claims Payable	455,327	96,123
	Actuarial value of policyholder liabilities (note30)	734,233	589,848
		1,189,560	685,971

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	2021	2020
		Kshs'000	Kshs'000
	Sundry payables	401,434	334,791
	Premiums received in advance	176,270	112,257
	Staff annual leave pay provision	10,634	11,979
	Rent deposits	8,211	9,735
		596,549	468,762

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

35. NOTES TO THE STATEMENT OF CASHFLOWS

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2021 Kshs'000	2020 Kshs'000
(a) Reconciliation of profit before tax to cash generated from operations:			
(Loss)/Profit before taxation		(78,580)	86,006
Adjustments for:			
Amortisation of financial assets at amortised cost-government securities	4	8,431	8,429
Dividend Income	4	(16,416)	(16,013)
Interest on financial assets at fair value through other comprehensive income-government securities	4	(480,887)	(383,084)
Interest on financial assets at amortised cost-government securities	4	(91,705)	(112,718)
Interest from financial assets at amortised cost-corporate bonds interest	4	(3,469)	(9,845)
Bank deposit interest	4	(62,884)	(69,710)
Interest Income on loans and receivables	4	(51,710)	(40,100)
Fair value loss/(gain) on equity instruments at fair value through profit or loss	5	(38,350)	100,124
Fair value (loss)/gain on Financial assets at FVPL- Collective investment scheme	5	(13,115)	(12,243)
Depreciation on property and equipment	11(a)	14,873	36,789
Depreciation of right of use	11(b)	26,681	28,859
Interest on lease liabilities	11(b)	8,013	10,068
Amortisation of intangible assets	13	713	2,407
Increase in allowance for expected credit losses	39(b)	9,371	606
Working capital changes;			
Increase in insurance contract liabilities		213,798	159,426
Decrease/ (increase) in receivables arising out of direct insurance arrangements		23	18,625
(Increase)/decrease in reinsurers share of liabilities and reserves		(503,589)	24,437
Increase in receivables arising out of reinsurance arrangements		18,248	(193,136)
(Increase)/ Decrease in other receivables		(71,580)	15,461
Decrease in other payables		127,788	19,154
Increase in actuarial value of policyholders' liabilities		915,966	843,892
Increase/ (decrease) in unit linked contracts		22,889	8,691
Increase in deposit administration contracts		852,135	756,340
(Decrease) /increase in payables arising from reinsurance arrangements and insurance bodies		36,088	(15,329)
Increase in related party balances		(153,658)	(34,923)
Cash generated from operations		689,074	1,232,213
(b) Cash and cash equivalents			
Cash and bank balances		93,532	152,138
Deposits with banks with original maturity of less than 3 months	22	152,078	77,341
		245,610	229,479

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

36. DIVIDENDS

The Board does not recommend for payment of dividends in the year 2021 (2020: 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:

	2021	2020
	Kshs'000	Kshs'000
Committed but not contracted for	141,599	131,440

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'.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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

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:

- 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 minimize 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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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

b. Capital management objectives, policies and approach *(Continued)*

Approach to capital management *(Continued)*

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

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

	2021	2020
	Kshs'000	Kshs'000
Share capital	800,000	800,000
Statutory reserve	1,128,818	1,183,824
Fair value deficit	(57,731)	49,614
Retained earnings	71,861	71,861
Equity	1,942,948	2,105,299

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 2021, the capital adequacy ratio was 106% (2020:159%), 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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021

	Gross				Reinsurance*	
	Insurance contract liabilities With DPF	Investment contract liabilities	Insurance contract liabilities without DPF	Total Insurance and investment contract liabilities	Insurance liabilities without DPF	Net liabilities
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Group life	-	-	470,033	470,033	136,653	333,380
Group credit	-	-	3,209,857	3,209,857	597,759	2,612,278
Endowment	2,404,342	-	-	2,404,342	-	2,404,342
Term assurance	-	-	101	101	-	101
Annuities	-	-	1,907,467	1,907,467	-	1,907,467
Total insurance liabilities (Note 30)	2,404,342	-	5,587,458	7,991,800	734,232	7,257,568
	-	-	-	-	-	-
Unit linked (note 31)	-	546,552	-	546,552	-	546,552
	-	-	-	-	-	-
Total	**2,404,342**	**546,552**	**5,587,458**	**8,538,352**	**734,232**	**7,804,120**

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

39. INSURANCE AND FINANCIAL RISK *(Continued)*

(a) Insurance risk *(Continued)*

Life insurance contracts *(Continued)*

31 December 2020

	Gross				Reinsurance*	
	Insurance contract liabilities With DPF	Investment contract liabilities	Insurance contract liabilities	Total Insurance contract and investment liabilities	Insurance liabilities	Net Liabilities
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	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 liabilities (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

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

39. INSURANCE AND FINANCIAL RISK *(Continued)*

(a) Insurance risk *(Continued)*

Life insurance contracts *(Continued)*

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.
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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

39. INSURANCE AND FINANCIAL RISK *(Continued)*

(a) Insurance risk *(Continued)*

Life insurance contracts *(Continued)*

Key assumptions

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	
	2021	2020	2021			2020	2021	2020
Insurance contracts			Yr 1 Lapse	Yr 2 Lapse	Yr 3 Lapse			
Annuities*	KE 2007 – 2010 Tables for Assured Lives	KE 2007 – 2010 Tables for Assured Lives	-	-	-	13.2%	13.6%	13.2%
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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

39. INSURANCE AND FINANCIAL RISK *(Continued)*

(a) Insurance risk *(Continued)*

Life insurance contracts *(Continued)*

	31 Dec 2021		31 Dec 2020	
	Kshs '000	% change	Kshs '000	% change
Main basis	6,889,027	-	6,162,150	-
Expenses plus 10%	6,931,053	0.46%	6,199,134	0.60%
Mortality and other claims				
Mortality plus 10%	6,906,821	0.11%	6,169,984	0.13%
Discount rate less 20%	7,216,399	4.60%	6,439,646	4.50%
Withdrawals plus 25%	6,900,375	0.02%	6,163,672	0.02%

(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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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 external party 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
0	High grade
1	High grade
2	Standard grade
3	Sub-standard grade
4	Past due but not impaired
5	Individually impaired

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

39. INSURANCE AND FINANCIAL RISK *(Continued)*

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

Significant increase in credit risk, default and cure *(Continued)*

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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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

1. Credit risk *(Continued)*

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.

	2021 KShs '000	2020 KShs '000
Stage 1	7,809,034	6,894,258
Stage 2	-	-
Stage 3	-	-
Total Gross	-	6,894,258
Less: Loss allowance*	(2,120)	-
Net carrying amount	7,806,914	6,894,258

In 2021, all the financial assets were classified as stage 1 and there is no difference between stages

*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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

39. INSURANCE AND FINANCIAL RISK *(Continued)*

(b) Financial risks *(Continued)*

1. Credit risk *(Continued)*

Corporate bonds

	2021 KShs '000	2020 KShs '000
Stage 1	52,774	107,741
Stage 2	-	-
Stage 3	84,045	73,545
Total corporate bonds	136,819	181,286
Less: Loss allowance	(84,049)	(74,089)
Net carrying amount	52,770	107,197
Loans receivable at amortised cost		
Stage 1	633,994	615,815
Stage 2	-	-
Stage 3	-	-
Total other receivables	633,994	615,815
Less: Loss allowance	(1,174)	(3,218)
Net carrying amount	632,820	612,597
Deposits with financial institutions		
Stage 1	2,406,112	1,994,379
Stage 2	-	-
Stage 3	23,200	23,366
Total other receivables	2,429,312-	2,017,745
Less: Loss allowance	(24,952)	(26,887)
Net carrying amount	2,404,360	1,990,858

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

39. INSURANCE AND FINANCIAL RISK *(Continued)*

(b) Financial risks *(Continued)*

1. Credit risk *(Continued)*

Related party receivables

	2021 KShs '000	2020 KShs '000
Stage 1	416,999	261,830
Stage 2	-	-
Stage 3	-	-
Total gross	416,999	261,830
Less: Loss Allowance	(2,085)	(1,310)
Net carrying amount	414,914	260,520

Debt instruments at amortised cost-government securities.

Stage 1	981,815	971,091
Stage 2	-	-
Stage 3	-	-
Total gross	981,815	971,091
Less: Loss Allowance	(405)	-
Net carrying amount	981,410	971,091

Reconciliation of loss allowance accounts

	At 31 December 2020 KShs'000	(Increase)/decrease in loss allowance in the year KShs'000	At 31 December 2021 KShs'000
Government securities at FVOCI	-	(2,120)	(2,120)
Corporate bonds	(74,082)	(9,965)	(84,049)
Loans receivable	(3,218)	2,043	(1,174)
Deposits with financial institutions	(26,887)	1,935	(24,952)
Due from related parties	(1,310)	(775)	(2,085)
Commercial papers/Cash	-	(84)	(84)
Government securities at amortised cost	-	(405)	(405)
	(105,497)	(9,371)	(114,868)

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

39. INSURANCE AND FINANCIAL RISK *(Continued)*

(b) Financial risks *(Continued)*

1. Credit risk *(Continued)*

Reconciliation of loss allowance accounts *(Continued)*

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

Age analysis of reinsurance receivables:

31 December 2021	< 90 days	91 to 120 days	121 to 365 days	Over 365 days	Provision for Impairment losses	Total past–due but not impaired
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Receivables arising out of reinsurance arrangements	476,039	180,642	238,225	115,179	(192,194)	817,891
Receivables arising out of direct insurance arrangements	-	-	-	-	-	-
Total	476,039	180,642	238,225	115,179	(192,194)	817,891

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

39. INSURANCE AND FINANCIAL RISK *(Continued)*
(b) Financial risks *(Continued)*
1. Credit risk *(Continued)*

31 December 2020	< 90 days	91 to 120 days	121 to 365 days	Over 365 days	Provision for Impairment losses	Total past–due but not impaired
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	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

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 2021

39. INSURANCE AND FINANCIAL RISK *(Continued)*
(b) Financial risks *(Continued)*
2. Liquidity risk *(Continued)*

The table below provides expected maturity analysis (undiscounted):

31 December 2021	No stated Maturity	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	-	11,065	-	81,742	88,188	1,294,331	1,475,326
Corporate bonds	-	-	-	-	85,990	-	85,990
Staff mortgages and other loans	-	-	4	222	605,291	64,874	670,391
Government securities at fair value through other comprehensive income	-	-	193,752	154,271	1,327,484	16,880,210	18,555,717
Equity investments at fair value through profit or loss	836,523	-	-	-	-	-	836,523
Receivables arising out of reinsurance arrangements	-	817,891	-	-	-	-	817,891
Receivables arising out of direct insurance arrangements	-	-	-	-	-	-	-
Due from related party	-	414,914	-	-	-	-	414,914
Deposits with financial institutions	-	1,453,361	957,229	-	-	-	2,410,590
Cash and bank balances	-	93,532	-	-	-	-	93,532
Total financial assets	836,523	2,790,763	1,150,985	236,235	2,106,953	18,239,415	25,360,874
Deposits administration contracts	-	1,356,391	786,768	126,449	573,493	2,955,387	5,798,488
Unit linked contract	-	-	546,552	-	-	-	546,552
Insurance contract liabilities	-	971,169	-	-	-	-	971,169
Due to related party	-	5,375	-	-	-	-	5,375
Other payables	-	596,550	-	-	-	-	596,550
Payables arising from reinsurance arrangements	-	40,842	-	-	-	-	40,842
Lease liabilities	-	15,128	13,508	17,905	29,535	12,141	88,217
Total Financial liabilities	-	2,985,455	1,346,828	144,354	603,028	2,967,528	8,047,193
Net liquidity excess/(gap)	836,523	(194,691)	(195,843)	91,881	1,503,925	(15,271,887)	17,313,682

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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 2020	No stated Maturity	6 months or on Demand	Between 6 months and 1 year	Between 1-2 years	Between 2-5 years	More than 5 year	Total
Government securities classified as held to maturity	-	-	-	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	782,707	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 2021

39. INSURANCE AND FINANCIAL RISK *(Continued)*

(b) Financial risks *(Continued)*

3. Market risk *(Continued)*

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

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 41,826,179 (2020 – Kshs 37,699,542).

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

40. FAIR VALUE MEASUREMENT *(Continued)*

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.

31-Dec-21

Recurring fair value measurements	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000	Carrying amounts
Investment properties	-	-	2,181,875	2,181,875	2,181,875
Government securities at fair value through other comprehensive income	7,806,914	-	-	7,806,914	7,806,914
Equity investments at fair value through Profit or loss	836,523	-	-	836,523	836,523
Financial assets at fair value through profit or loss-investments in unit trust	-	723,047	-	723,047	723,047
The fair value of financial assets not held at fair value is as follows:					
Non-recurring fair value Measurements					
Corporate bonds	-	52,490	-	52,490	52,770
Government securities at amortized cost	1,475,326	-	-	1,475,326	981,410
Financial Assets at amortised cost-Loan and Receivables	-	616,746	-	616,746	632,820
Total assets at fair value	10,118,763	1,392,283	2,181,875	13,692,921	13,215,359
Liabilities at fair value					
Unit linked contracts	-	546,552	-	546,552	546,552
Total liabilities at fair value	-	546,552	-	546,552	546,552

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

40. FAIR VALUE MEASUREMENT *(Continued)*

31-Dec-21

Recurring fair value measurements	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000	Carrying amounts
31-Dec-20					
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
Financial assets at fair value through profit or loss - investments in collective investment scheme	-	753,991	-	753,991	753,991
The fair value of financial assets not held at fair value is as follows:					
Non-recurring fair value Measurements					
Corporate bonds	-	119,127	-	119,127	107,197
Government securities at amortized cost	1,565,045	-	-	1,565,045	971,091
Financial Assets at amortised cost-Loan and Receivables	-	584,877	-	584,877	612,597
Total assets at fair value	9,242,010	1,457,995	2,181,875	12,881,880	12,303,716
Liabilities at fair value					
Unit Linked Contracts	-	523,663	-	523,663	523,663
Total liabilities at fair value	**-**	**523,663**	**-**	**523,663**	**523,663**

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

40. FAIR VALUE MEASUREMENT *(Continued)*

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

Instrument	Level	Valuation basis	Inputs
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 2021 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. (2020- Kshs 109.1 million)
			5%	Annual rent growth rate	Increase (decrease) in annual rent growth rate of 5% would decrease (increase) fair value by 1.6 million. (2020- Kshs –1.8 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.Reconciliation of fair value measurement under Level 3 hierarchy

2021	At January	Contributions/Additions/ Transfer from level 2	Disposals/ Settlements	Fair value gain	At 31 December
Investment property	2,181,875	-	-	-	2,181,875

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

41. ULTIMATE CONTROLLING PARTY

The parent company is The 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

	Ordinary Life & Annuities Kshs '000	Group Life Kshs '000	Total 2021 Kshs '000	Total 2020 Kshs '000
Gross written premiums	1,151,929	4,965,184	6,117,113	4,928,862
Less: Reinsurance premiums ceded	(12,202)	(1,663,492)	(1,675,694)	(1,046,257)
Net earned premiums	1,139,727	3,301,692	4,441,419	3,882,605
Claims and Policyholders' benefits:				
Life and health claims	(23,213)	(2,184,877)	(2,208,090)	(1,658,413)
Maturities	(608,790)	-	(608,790)	(554,047)
Surrenders	(217,804)	-	(217,804)	(131,712)
Actuarial reserves	(206,848)	(564,735)	(771,583)	(785,234)
Net claims and policyholders' benefits	(1,056,655)	(2,749,612)	(3,806,267)	(3,129,406)
Commissions paid	(86,246)	(50,682)	(136,928)	(104,319)
Expenses of management	(237,695)	(1,125,902)	(1,363,597)	(1,125,049)
Premium tax	(10,577)	(49,652)	(60,229)	(25,961)
Total expenses and commissions	(334,518)	(1,226,236)	(1,560,754)	(1,255,329)
Investment income	455,511	391,511	847,022	588,136
Profit before taxation	204,065	(282,645)	(78,580)	86,006
Taxation charge	-	23,574	23,574	(25,802)
Profit for the year	204,065	(259,071)	(55,006)	60,204
Increase in life fund for the year	204,065	(259,071)	(55,006)	60,204

The revenue account was approved by the board of directors on 8th March, 2022 and was signed on its behalf by:

Director	Director	Director
Gordon Owour	Meshack Miyogo	Rogers Kinoti

APPENDIX II
GLOSSARY OF INSURANCE TERMS

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.

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CIC INSURANCE GROUP PLC LOCATIONS

NAIROBI BRANCHES:
TOWN OFFICE
Reinsurance Plaza
Mezzanine Floor, Aga Khan Walk
Mobile: 0703 099 500
townoffice@cic.co.ke

BURU BURU BRANCH
Mesora Building, 1st 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

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

KITENGELA BRANCH
Kitengela Mall, 4th 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: 0703 099 763
nyahururu@cic.co.ke

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

BOMET BRANCH
Isenya Building, 2nd Floor
Mobile: 0703 099 650
bomet@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: 0703 099 832
homabay@cic.co.ke

EMBU BRANCH
Sparko Building, 3rd Floor
above Family Bank
Tel: 0703 099 900
embubranch@cic.co.ke

MERU BRANCH
Alexander House, 1st Floor
Ghana Street
Tel: 0703 099 930
merubranch@cic.co.ke

KAKAMEGA BRANCH
Walia's Centre, Ground Floor
Tel: 0703 099 802
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: 0703 099 870
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
MTC North Tower,
Mezzanine 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

REGIONAL OFFICES

CIC SOUTH SUDAN
CIC Plaza, Plot 714B - 3K - South, Kololo
Mobile: +211 919 280 280
info@ss.cicinsurancegroup.com

CIC UGANDA
AHA Building, 2 Floor,
Lourdel Rd, Kampala
Mobile: +256 200 900 100
uganda@ug.cicinsurancegroup.com

CIC MALAWI
Jash Building, Plot 4/387,
Colby Road, 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
callc@cic.co.ke www.cic.co.ke @CICGroupPLC CICGroupPLC
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