Heritage
Insurance Company

A member of the LIBERTY Group

THE HERITAGE INSURANCE COMPANY KENYA LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

Contents

CORPORATE INFORMATION

The Heritage Insurance Company Kenya Limited has provided a range of insurance services for over 50 years. The company's origins trace back to 1976 when Norwich Union Fire Insurance Society and The Legal and General Insurance Company merged to form Heritage Insurance. Heritage Insurance Kenya holds 60% of the shares in Heritage Insurance Tanzania.

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

The Heritage Insurance Company Kenya Limited is proud to be associated with Liberty Life Assurance Kenya Limited, also a wholly owned subsidiary of Liberty Kenya Holdings Plc. Liberty Kenya Holdings Plc's parent is South African based Liberty Holdings Limited, which is part of Standard Bank Group Limited. Liberty Holdings Limited is listed at the Johannesburg Stock Exchange.

Our Mission

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

Our Purpose

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

Our Company Values

Involvement: Our humanity and empathy.
Innovation: Our ingenuity and curiosity to do things better.
Integrity: Our fairness and honouring our word.
Insight: Our knowledge and understanding.
Action: We roll up our sleeves and always find a way to make things happen.

Directors

	First appointed
P. Gethi - Chairman	2009
G. Kioi - Managing Director	2014
M. du Toit - Non-Executive**	2009
G. R. May - Non-Executive* (Retired 11 June 2020)	2009
S. Wenman - Non-Executive**	2009
R. Mbai - Non-Executive	2017
C. Mitchem - Non-Executive	2017
R. Shah - Non-Executive	2018
A. Lonmon-Davis - Non-Executive**	2019

*British
**South African

Secretary

C. Kioni (Ms)
P.O.Box 30390
00100 Nairobi

Independent auditor

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers Waiyaki Way
P.O.Box 40612 - 00100 Nairobi

CORPORATE INFORMATION

Registered office
Liberty House
P.O.Box 30390 - 00100
Mamlaka Road
Nairobi

Bankers
Stanbic Bank Kenya Limited
Stanbic Centre, Chiromo Road
P.O.Box 72833 - 00200 Nairobi

NCBA Bank Kenya Plc
Mamlaka Road
P.O.Box 44599-00100 Nairobi

Actuaries
Ernest & Young
102 Rivonia Road,
Sandton,
South Africa

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

Lawyers
Wamae and Allen Advocates
3rd floor
Top plaza
P.O. Box 4132-00200
Nairobi, Kenya

STATEMENT ON CORPORATE GOVERNANCE

Statement on Corporate Governance

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

At The Heritage Insurance Company Kenya Limited we believe that good corporate governance is integral to the structures and processes that the Board has put in place to inform, advise, manage and supervise the activities of the company towards the achievement of its strategic objectives. The Heritage Insurance Company Kenya Limited constantly monitors developments and trends in corporate governance. We are subject to various jurisdictional requirements, and therefore we conduct our operations in accordance with nationally accepted principles of good corporate governance and best practices, ensuring compliance with the highest of each of those standards. The Board prescribes to the Commonwealth Association of Corporate Governance principles and has adopted the 15 recommended guidelines and associated best practice codes.

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

The following section of the report includes descriptions of our company's corporate governance structures and procedures, along with an explanation of the work of the various Boards and how they have applied the principles of leadership, effectiveness, accountability and relations with shareholders.

1. Board of Directors

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

2. Board responsibilities

The Board has ultimate responsibility for the management, general affairs, direction, performance and long-term success of the business as a whole. The responsibility of the Directors is collective, taking into account their combined roles as executives and non-executives.

The Board has delegated the operational running of the Company to the Managing Director who although is responsible to the Board, is able to sub-delegate some of his powers at his discretion.

Matters reserved for the Board include structural and constitutional issues, corporate governance, approval of dividends, approval of overall strategy for the Company and approval of significant transactions or arrangements in relation to mergers, acquisitions, joint ventures and disposals, capital expenditure, contracts and financing.

The Board has also established Board Committees whose actions are regularly reported to and monitored by the Board.

STATEMENT ON CORPORATE GOVERNANCE

3. Board meetings and attendance

The Board meets at least four times during the year to review the financial performance and operations of the company. Other Board meetings are held periodically to discuss topical matters and strategic issues. The Chairman presides over all meetings.

The following table reflects the attendance of Directors at twelve Board meetings during 2020. A director if unable to attend a Board meeting, has the opportunity beforehand to discuss any agenda item with the Chairman. Attendance is expressed as the number of meetings attended out of the number eligible to attend.

Director	Directorship status	Attendance at meetings
Peter Gethi (Chairman)	Non - Executive Director	12/12
Godfrey Kioi (Managing Director)	Executive Director	12/12
Gayling May (Retired June 2020)	Non - Executive Director	6/6
Michael du Toit	Non - Executive Director	12/12
Stuart Wenman	Non - Executive Director	12/12
Catherine Mitchem	Non - Executive Director	12/12
Rachel Mbai	Non - Executive Director	11/12
Rajesh Shah	Non - Executive Director	12/12
Andrew Lonmon-Davis	Non - Executive Director	12/12

4. Appointment of directors

Upon consideration and recommendation from the Directors' Affairs Committee for a candidate to be nominated as an independent Director, suitable candidates are appointed by the Board to fill the casual vacancies.

They are thereafter elected as directors by the shareholders at an Annual General Meeting. The Directors, unless they are retiring, submit themselves for re-election after every three years of their tenure, and shareholders vote to re-appoint them by a simple majority vote.

5. Board evaluation

The Board remains focused on the need for continued improvements in its effectiveness and corporate governance performance and annually conducts a Board self-assessment evaluation along the lines of structure, process and effectiveness.

6. Board Induction, training and support

All newly appointed Directors are taken through a comprehensive induction programme organised by the Company Secretary immediately upon appointment. The Board undertakes an annual Board enhancement seminar, with sessions covering corporate governance principles, best practices and updates on legislation in relation to the duties of directors amongst others.

Any specific training needs or areas of Board improvement identified from the Board's self-evaluation process are also addressed regularly.

7. Remuneration

The Heritage Insurance Company Kenya Limited has a clear policy on remuneration of Executive and Non-Executive directors at levels that are fair and reasonable in a competitive market for the skill, knowledge, experience, nature and size of the Board.

STATEMENT ON CORPORATE GOVERNANCE

8. Conflict of interests

The Heritage Insurance Company Kenya Limited attaches special importance to avoiding conflict of interest between the company and its Directors. The Board is responsible for ensuring that there are rules in place to avoid conflicts of interest by Board members and a Regisger of Interest/Conflicts is maintained by the Comapany Secretary. Declarations of such interests or conflicts are a standing agenda item at each board meeting. Conflict of interest is understood not to include transactions and other activities between companies in the Heritage Insurance Company Kenya Limited and Liberty as a group.

Authorisation of situational conflicts is given by the Board to the relevant Director. The authorisation includes conditions relating to keeping The Heritage Insurance Company Kenya Limited information confidential and to their exclusion from receiving and discussing relevant information at Board meetings.

A Director may not vote on, or be counted in a quorum in relation to, any resolution of the Board in respect of any contract in which he or she has a material interest. The procedures that Heritage Insurance Company Kenya Limited has put in place to deal with conflicts of interest continue to operate effectively.

9. Role of the Chairman vs the Managing Director

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

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

10. Business ethics

The Board subscribes to the highest levels of professionalism and integrity in conducting The Heritage Insurance Company Kenya Limited business and in dealing with stakeholders. All The Heritage Insurance Company Kenya Limited employees and representatives are expected to act in a manner that inspires trust and confidence from the general public.

All employees within the Company are required to sign the Company's Code of Conduct. The Code sets out the Company's commitment to ethical behavior in the conduct of its business. Appropriate codes of conduct are driven by governance practice (code of ethics, corporate citizenship code etc.), statutory and regulatory requirements, service objectives (service level agreements, business protocols, business excellence models) and the corporate governance framework itself.

Management are required to ensure there is compliance with the code.

11. Strategic drive

The Heritage Insurance Company Kenya Limited Year 2015 to Year 2020 strategy was developed by Staff and Management in liaison with the Board and was approved in Year 2015.

The strategy is reviewed annually and built into the budgeting process for the respective years. At each quarterly Board meeting, the Board is briefed by Management of the progress made to achieve the various checkpoints as detailed in the strategic plan.

The Company has concluded the formulation of the 2021-25 strategy. The implementation of agreed deliverables will start in 2021.

STATEMENT ON CORPORATE GOVERNANCE

12. Board Committees

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

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

a) Audit and Risk Committee

The Committee is comprised of an independent non-executive Chairman and four non-executive Directors. It has an approved mandate and is responsible for the monitoring of risk management, compliance and internal controls as established by the Board and executed by the management of the Company.

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

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

The attendance of Committee members at the six meetings held in the year 2020 was as follows:

Name	Directorship status	Attendance at meetings
Rajesh Shah (Appointed Chair June 2020)	Non - Executive Director	6/6
Gayling May (Chairman) (Retired June 2020)	Non - Executive Director	3/3
Michael du Toit	Non - Executive Director	6/6
Stuart Wenman	Non - Executive Director	6/6
Rachel Mbai	Non - Executive Director	5/6
Andrew Lonmon-Davis (Appointed March 2020)	Non - Executive Director	3/3

b) Joint Actuarial Committee

This is a Sub Committee of the Audit and Risk committee.

Name	Directorship Status	Attendance at meetings
Andrew Lonmon-Davis(Chairman)	Non-Executive Director	5/5
Stuart Wenman (Member)	Non-Executive Director	5/5
Godfrey Kioi (Member)	Managing Director - Heritage Insurance	4/5
Abel Munda (Member)	Managing Director - Liberty Life Assurance	5/5

STATEMENT ON CORPORATE GOVERNANCE

12. Board committees (Continued)

c) Investment committee

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

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

The members of the Committee, and their attendance at the four meetings held in the year 2020 was as follows:

Name	Directorship Status	Attendance at meetings
Michael du Toit (Chairman)	Non-Executive Director	4/4
Godfrey Kioi	Executive Director	4/4
Stuart Wenman	Non - Executive Director	4/4
Catherine Mitchem	Non - Executive Director	4/4
Andrew Lonmon - Davis	Non - Executive Director	4/4

13. Management and operational committee

Five Management and Operations Committees have been constituted to facilitate effective implementation of the Strategic Plan, efficient company operations and compliance with regulatory requirements. They include;

a) The Executive Committee (ExCo)

The mandate of ExCo is to oversee strategic and operational matters of the Company, as well as all its relations with the Liberty Group. The objective of this committee is to enhance coordination and communication across the business units and carry out reviews of company performance and implementation of the Strategic Plan. This committee meets weekly.

The members of ExCo are;

- Managing Director
- Director – Health
- Director – Operations
- General Manager – Finance and Administration
- General Manager – Risk and Compliance
- General Manager – Marketing and Communications
- General Manager – Human Resources
- Chief Information Officer
- Head of Retail Business
- Head of Corporate Business
- Head of Actuarial

STATEMENT ON CORPORATE GOVERNANCE

13. Management and operational committee (Continued)

b) The Credit Oversight Committee

The mandate of the Credit Oversight Committee is to ensure full implementation of the Credit Policy, as well as providing policy guidance and oversight in credit management. It is chaired by the General Manager – Finance and Administration and is constituted by members whose functions have the greatest impact on debt management and credit control.

Its key objectives are:

- To ensure compliance with the credit management policy.
- To ensure that all money owed to the company is promptly collected in accordance with credit terms.
- To take appropriate measures in dealing with defaulters.
- To recommend to the Board, through the Managing Director and Audit and Risk Committee, amounts to provide for doubtful debts and write off of uncollectible debts.

The Credit Oversight Committee holds weekly meetings for continuous monitoring of the company's debt level. The members of the Credit Management Committee are;

- L Magambo - Chairman
- L Wachira - Secretary
- G Kioi - Member
- B Hiuhu - Member
- A Ngunjiri - Member
- A Musunza - Member
- J Gatiko - Manager Credit control
- S Chege - Member

c) The Human Resource Committee

The objectives of this committee are as follows:

- To design and review the organisational structure in response to business needs, skills and skill development, staff appointments, promotions and succession planning.
- To develop policies on terms and conditions of service, performance management and staff remuneration in line with best market practice.
- To ensure compliance with legislation regarding human capital management.
- To develop and review the code of ethics and evaluate cases of unethical behaviour.

The members of this committee are the Managing Director, General Manager – Finance and Administration, Director – Medical, and the General Manager – Human Resources. The committee meets bi-monthly or as deemed necessary.

d) The Operations Committee (OpCo)

The company has implemented an enterprise risk management framework, and upholds internal controls designed to enhance compliance, integrity and reliability of financial data. This framework is also supported by policies, procedures and segregation of duties, which ensure accountability and the safeguarding of company assets. The effectiveness of the risk management and internal control environment is monitored regularly through the internal audit function and the annual review by external auditors.

As part of risk governance, internal control and compliance oversight, the company has established an Operations Committee (OpCo). The objective of this committee is to monitor key risk indicators, and to set the tone in management of operational, market, insurance and compliance risks. This committee holds monthly meetings.

The members of the OpCo are:

- G Kioi - Chairman
- M Kivuitu - Member
- B Hiuhu - Member
- A Ngunjiri - Member
- L Magambo - Member
- S Chege - Member
- A Musunza - Member
- C Were – Member

STATEMENT ON CORPORATE GOVERNANCE

13. Management and operational committee (Continued)

e) The Customer Fairness Committee (CFC)

Treating Customers Fairly (TCF) is the legislative and regulatory embodiment of a fair and more transparent consumer environment and promotes more efficient and equitable financial services. The Heritage Insurance Company Kenya Limited seeks to differentiate itself in the market by providing products that customers perceive to have value. It is our responsibility to balance shareholder value and customer fairness in the creation of customer value. By adopting a customer centric approach, we seek to internalise TCF as part of our culture. By using the TCF outcomes to inform our customer service principles, we have embedded TCF across the organisation, elevating it beyond regulatory compliance.

The Value created for customers includes the objective advice of financial advisers and brokers, risk solutions that provide peace of mind for families and protection to our businesses.

The Customer Fairness Committee is also responsible for ensuring adherence to Anti-Money Laundering/Combating Terrorism Financing (AML/CFT) & Sanctions controls within the Company.

In accordance with The Heritage Insurance Company Kenya Limited's AML/CFT & Sanctions Business Operating Standards, the CFC has the responsibility of ensuring adherence to AML / CFT & Sanctions controls within the Company. In order to discharge this responsibility, the CFC must determine its appetite for establishing or continuing a business relationship with all parties that it engages with. This includes client, employees and vendors.

As part of the decision-making process, members of the CFC must consider both Financial Crime and Reputational Risks which can be introduced by a relationship with such parties and/or a transaction(s) carried out by them. The CFC also has the responsibility to ensure that potential reputational risks are considered within the Company's financial crime risk appetite.

The members of the Customer Fairness Committee are:

- G Kioi – Chairman
- B Hiuhu – Convener
- L Magambo – Member
- A Ngunjiri – Member-
- F Karira – Member
- S Chege – Member
- A Musunza – Member
- M Kabangi – Member
- M Kivuitu - Member
- G Kamau – Secretary

f) The Claims Committee

The Claims Committee is constituted as a management committee and is responsible to the Executive Committee. The Claims Committee is responsible for the application of governance with specific emphasis to;

- Conforming to existing group and Liberty Holdings Limited standards and procedures as is practically possible.
- Formal committee processes and procedures.
- Appropriate setting of mandates and accountabilities where required.

The committee meets on a quarterly basis and its responsibilities include;

- Review of both large Initial Opening Claim reserve and large reserves revisions in the month.
- Review and approval of ex-gratia claims above the stipulated limit.
- Review of Quality Assurance reports.
- Review of Legal Claims Reports.

STATEMENT ON CORPORATE GOVERNANCE

13. Management and operational committee (Continued)

f) The Claims Committee (Continued)

The chairperson of the Claims Committee reports to the Executive Committee on the activities of the committee. The chairperson also ensures that the committee always remains compliant with any regulations and policies.

The members of the Claims Committee are:

- G Kioi - Chairman
- L Magambo – Member
- A Ngunjiri – Member
- B Hiuhu – Member
- M Kivuitu – Member
- C Were – Member
- G Kamau – Secretary

14. Internal control and risk management

The Heritage Insurance Company Kenya Limited is committed to increasing shareholder value through the prudent management of risks inherent in the production, distribution and maintenance of products and services. The Heritage Insurance Company Kenya Limited is mindful of achieving this objective in the interests of all stakeholders.

The company continues to explore opportunities to develop and grow its business sustainably, with strategic plans being subject to careful consideration of the trade-off between risk and reward, taking into account the risk appetite limits.

Ultimate responsibility for risk management resides with the Board which ensures that the Business executive is responsible and is held accountable for risk management. The Business executive is supported by risk specialists who instill risk management best practice among all staff.

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

Governance and the 'three lines of defence' model

The Company has adopted the 'three lines of defense' model for managing risk. This model defines the roles, responsibilities and accountabilities for managing, reporting and escalating risks and issues.

The model incorporates the oversight, management and assurance of risk management, essentially giving three independent views of risk in the organisation. The implementation of this model helps ensure that risk management is embedded in the culture of the organisation and provides assurance to the Board and senior management that risk management is effective.

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

Roles and responsibilities within the governance model

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

a) Oversight

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

b) Management committees

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

STATEMENT ON CORPORATE GOVERNANCE

14. Internal control and risk management (Continued)

c) First line of defence - business unit management

Business unit management is accountable for:

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

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

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

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

d) Second line of defence - Head of risk and compliance, statutory actuaries, policy and oversight functions

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

e) Third line of defence - assurance

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

The company's key risk management objectives are to:
- Grow shareholder value by generating a long-term sustainable return on capital;
- Ensure the protection of policyholder and investor interests by maintaining adequate solvency levels;
- Meet the statutory requirements regulated and monitored by the Insurance Regulatory Authority and other regulators; and
- Ensure that capital and resources are strategically focused on activities that generate the greatest value on a risk adjusted basis.

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

The framework is based upon the following principles:
- Identification of risks;
- Clarity of accountability and ownership of risks;
- Risk appetite needs to be set making use of limits and controls and the risks need to be managed accordingly;
- Risk quantification and measurement;
- Risk monitoring and reporting; and
- Assessment of value creation on a risk adjusted basis.

The Company enhances the risk management framework designed to achieve enterprise-wide value optimisation (value creation, value realisation and value protection) through the following six business capabilities:
- Capital funding and risk transfer
- Strategic planning and capital allocation
- Asset-liability and investment management
- Product development and pricing
- Performance management and incentivisation
- External communication and reporting risk management and mitigation

P. Gethi
Chairman
12 March 2021

CHAIRMAN'S REPORT

To most of us, 2020 is yet the most challenging year in our lifetime. The impact of the COVID-19 pandemic in Kenya and globally has stretched beyond the sphere of healthcare. Economic development outcomes are expected to be seriously affected. The emotional, mental and economic stresses as a result of the pandemic and necessary restrictions are profound.

The Kenya government implemented a host of containment measures in the year while extending some stimulus packages in terms of tax breaks. While the containment measures were designed to protect the health of the people, in most instances, they were not condusive to the business climate. The greatest impact was felt in hospitality and travel sectors where the majority of the businesses shutdown resulting in significant job losses. Despite the above, IMF still projects a positive GDP growth of 1% for Kenya in 2020.

Safety First: 80% of our staff in Kenya were fully enabled to work from home. Only critical staff worked from the office from May 2020 while observing fully the guidelines issued by the Ministry of Health. The Crisis Management Committee was activated and met weekly to review various initiatives employed.

Our staff in Tanzania worked on rotational basis between April and May and fully resumed normal office working thereafter.

Strategy: In October last year, we launched our five-year strategic framework, which acts as a guide for the work we will deliver, starting 2021. Central to this is our clients; and the relentless delivery on our promises to them. Our client-orientation ethos prescribes that we need to understand what clients want so that we can build the right solutions quickly, and they can receive the fruits of our labours more seamlessly.

Governance

Mr. Gayling May retired in June after serving the group diligently for 10 years. During his time, the group made significant strides in strengthening its Risk Management function. I take this opportunity to thank Mr. Gayling for his contribution to the group and wish him well in retirement.

The board reviewed and enacted several policies during the year. These additional policies continue to demonstrate growing maturity of our business.

In addition to enactment of the above policies, our staff were trained on Cybersecurity threats, Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF), Conflicts of interest and gift policy among other policies that were either reviewed or enacted in the year.

Appreciation

I would like to commend our staff for showing great resilience and agility the whole of 2020. They demonstrated openness to change and came through for our customers when most needed.

To our intermediaries, we changed our business operating model to suit the circumstances of the day, just for you. We are grateful for the support received in the year and look forward to even greater engagement in 2021.

The Board members were available most of 2020 to provide policy and strategy guidance. Indeed, the number of interactions increased reflective of the circumstances that required greater involvement by the board members. I would like to thank the Board members for their availability and active participation.

In my opening remarks, I painted 2020 as a difficult challenging year. Much nevertheless was achieved in the year that lays firm foundation for 2021. Indeed, some of the technological milestones could not have had a better setting for actualization. We look forward to 2021 with optimism to deliver on our strategic plans.

P. Gethi
Chairman

12 March 2021

MANAGING DIRECTOR'S REPORT

The challenges enumerated by the chairman in 2020 had a silver lining in fast tracking the migration our work processes online and working on projects that were not in-scope at the beginning the year. All of this ensured that we kept our promise to our clients and has positioned our businesses well for the future.

This is evidently demonstrated by good Company financial results for the year ended 31 December 2020 that recorded a profit after tax growth of 7%.

Some of the achievements in the year

We remained open for business in all our business premises throughout through a mix of remote and physical presence.

Our staff

In the midst of uncertainties, health and safety of our, customers and intermediaries' remained paramount. A majority of staff worked from home with specialist departments accessing the office on a need-to basis. Those staff who necessarily had to work from office were provided with safe means of transport and in the office, the Ministry Of Health (MOH) protocols were full observed.

We launched the New Ways of Working (nWOW): This has been the backbone from which most of our collaboration, team and customer- centered initiatives have arisen. It has better allowed us to live our strategic intent of being oriented around the client and has improved the quality and speed of our execution. It has also allowed us to access and use the capacity of all of our talent. This change in how we work, which is intended to make our businesses more agile and responsive to client needs, will continue to be an area of significant focus, investment and learning for all of us in 2021.

Systems Improvement: Our IT and Operations teams enhanced our systems capabilities by deploying cyber security initiatives and upgrades that reduced operational risks. We fast tracked and prioritized some of the Digital initiatives necessary to achieve effective work from home environment. The team will continue to invest in our technology in 2021, aligned to our target strategic architecture.

Our Customers

In recognition of low mobility and therefore lower risk, we extended a discount to both traditional and Auto Correct motor customers as policies renewed. We further allowed a cashback to autocorrect customers during the periods of restricted movement based on mobility statistics.

As expected, several of our customers especially in hospitality, aviation and education sectors experienced significant financial constraints. In the circumstances, the management engaged with businesses to retain covers that were most appropriate given the reduced scale of operations.

Despite the declaration of a pandemic, our medical products - Heritage Blue and Liberty Blue (Liberty Health Cover) enabled access to benefits for the diagnosis and treatment of COVID-19 at our network of contracted providers.

G. Kioi
Managing Director

12 March 2021

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

1. Directors

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

Mr P Gethi	Chairman
Mr G Kioi	Managing Director
Mr M du Toit**	Non-Executive Director
Mr G R May *	Non Executive Director (Retired on 11th June 2020)
Mr S Wenman **	Non - Executive Director
Ms Rachel Mbai	Non - Executive Director
Ms Catherine Mitchem	Non - Executive Director
Mr Rajesh Shah	Non - Executive Director
Mr Andrew Lonmon-Davis**	Non - Executive Director

* - British, ** - South African

2. Company Secretary

Ms Caroline Kioni

3. Senior Management

Mr Godfrey Kioi	Managing Director
Mr Luke Magambo	General Manager - Finance and Administration
Mrs Beatrice Njeri Gitau	Director – Operations
Mr Albert Ngunjiri	Director - Health
Mr Musili Kivuitu	General Manager - Risk and Compliance
Mr Felix Ochieng	General Manager - Human Resources
Mr Mohamed Dalal	Chief Information Officer
Ms Cindy Were	Head of Actuarial

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 December 2020, which disclose the state of affairs of The Heritage Insurance Company Kenya Limited (the 'Company') and its subsidiary, Heritage Insurance Company Tanzania Limited (together the 'Group').

1. Incorporation

The company was incorporated in Kenya in the year 1975. 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 3.

2. Principal activities

The Group underwrites all classes of non-life insurance risks as defined by the Insurance Act except Micro Insurance.

There have been no material changes to the nature of the group's business from the prior year.

3. Company results and Dividend

Profit after tax for the year ended 31 December 2020 of KShs 654 million (2019: KShs 609 million) has been added to retained earnings.

During the year, the Company paid KShs 185 million (2019: KShs 223 million) as an interim dividend. The directors do not propose payment of a final dividend (2019: nil).

4. Share capital

	2020	2019	2020	2019
Authorised and Issued	KShs '000	KShs '000	Number of shares	
Ordinary shares	1,000,000	1,000,000	50,000,000	50,000,000

Refer to note 10 of the financial statements for detail of the movement in authorised and issued share capital.

5. Directors

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

6. Relevant Audit information

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

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

7. Employees

The number of persons employed by the Company at the end of the year was 172 (2019: 165)

Out of the 172 members of staff employed by Heritage Kenya as at 31 December 2020, 102 are male and 70 are female (2019: 97 are male and 68 are female).

8. Terms of appointment of the auditor

KPMG Kenya retire as auditor of the Company and a recommendation will be made to the Shareholders at the forthcoming Annual General Meeting to appoint a new auditor in accordance with the provisions of Section 719 of the Kenyan Companies Act, 2015, and subject to Section 56(4) of the Insurance Act.

DIRECTORS' REPORT

9. Business Overview

The group profit before tax grew by 4% in the year mainly driven by premium growth, improved investment earnings and expenses containment.

Kenya business profit before tax grew by 15%(after elimination of intercompany dividends from Tanzania) showing great resilience amidst great uncertainties. In 2019, the company earned a dividend amounting to KShs 80m from its Tanzanian operations. 2020 was rather difficult for the Tanzania business whose profit after tax decreased by 60%.

Kenya benefited from improved investment earnings, Containment of expenses that reduced by 9%, a marginal growth in premiums income as well income from reinsurance arrangements. Claims costs however, recorded a growth of 9% over the same period.

Tanzania premium income dipped due to slow down in the economy that mostly impacted large corporates with large risks. On the flipside, the gross claims and recoveries from reinsurers recorded significant reduction due to absence of large claims that are normally highly reinsured.

The description and analysis of the key risks facing the Group and Company is set out in the risk management section of the annual financial statements.

10. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

11. Going concern

The directors believe that the group has adequate financial resources to continue in operation for the foreseeable future and accordingly the financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the group is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the group. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the group.

12. Approval of the financial statements

The financial statements set out on pages 23 to 114, which have been prepared on the going concern basis, were approved and authorised for issue by the board of directors on 12 March 2021.

By Order of the Board

C Kioni
Company Secretary
12 March 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of The Heritage Insurance Company Kenya Limited set out on pages 23 to 114 which comprise of the Group and Company statements of financial position at 31 December 2020, and the Group and Company statements of profit or loss, Group and Company other comprehensive income, the Group and Company statements of changes in equity and the Group and Company statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements including, a summary of significant accounting policies and other explanatory information.

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

The Directors are required to prepare financial statements for each financial period which give a true and fair view of the financial position of the Group and Company as at the end of the financial period and of the profit or loss of the Group and Company for that period. It also requires the Directors to ensure the Group and Company keep proper accounting records which disclose with reasonable accuracy the financial position of the Group and Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards, and the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the Group and Company and of its profit or loss.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Group's and Company's ability to continue as a going concern and have no reason to believe the Group and the Company will not be a going concern for at least the next 12 months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the board of directors on 12 March 2021.

By Order of the Board

P. Gethi **Chairman**	**G. Kioi** **Managing Director**

12 March 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE HERITAGE INSURANCE COMPANY KENYA LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of The Heritage Insurance Company Kenya Limited (the 'Group and Company') set out on pages 23 to 114, which comprise the Group and Company statements of financial position as at 31 December 2020, and the Group and Company statements of profit or loss, Group and Company statements of comprehensive income, Group and Company statements of changes in equity and Group and Company statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of The Heritage Insurance Company Kenya Limited as at 31 December 2020, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act, 2015.

Basis of 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 consolidated and separate financial statements, section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (Including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of insurance contract liabilities (applicable to the consolidated and separate financial statements)

See accounting policy note 6, disclosure note 11 and key judgements in applying assumptions on application of accounting policies - insurance contract liabilities

The key audit matter	**How the matter was addressed**
Insurance contract liabilities constitute about 46% of the Group's total liabilities and 52% of the Company's total liabilities. Valuation of these liabilities is highly judgemental, and requires a number of assumptions to be made that have high level of estimation uncertainty. This is particularly the case for those liabilities that are recognised in respect of claims incurred but not yet reported to the Group and Company. Small changes in the assumptions used to value the liabilities, particularly those relating to the amount and timing of future claims, can lead to a material impact on the valuation of insurance liabilities.	Our audit procedures in this area included; – Evaluating the design and testing the implementation and operating effectiveness of key controls around the claims handling and reserve setting processes of the Group and Company; – Evaluating the claims paid post year end to assess the adequacy of reserves and completeness of outstanding claims as at year end; – Testing the adequacy of notified claim liabilities by comparing the estimated amount of the reserve to supporting documentation such as reports from loss adjusters;

Report on the audit of the consolidated and separate financial statements (Continued)

Valuation of Insurance Contract Liabilities (Applicable to the consolidated and separate financial statements) (continued)

See accounting policy note 6, disclosure note 11 and key judgements in applying assumptions on application of accounting policies - insurance contract liabilities

The key audit matter	How the matter was addressed
The valuation of insurance contract liabilities depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then a material impact on the valuation of insurance liabilities may arise. Consequently, we have determined the valuation of insurance contract liabilities to be a key audit matter.	– Re-performing reconciliations between the data recorded in the financial systems and the data used in the reserving calculations including selecting a sample of the data and comparing to the policy documents to ensure its complete and accurate; – Independently calculating the incurred but not reported reserve using the actuarially determined reserve percentages per class of business and compared our calculation to that performed by management; – Reviewing the assumptions and the reserving methodology applied and reviewing the valuation results presented and movements since the previous year end. We focused on understanding the methodologies applied and examined areas of judgement such as changes in valuation assumptions; and – We tested the reasonableness of management's liability adequacy test by reviewing the projected cash flows and challenging the assumptions adopted in the context of group/company and industry experience data and specific product features.

Information Technology (IT) systems and controls (Applicable to the consolidated and separate financial statements)

See risk management note 7.5 - Information Technology risk

The key audit matter	How the matter was addressed
The Group and Company are highly dependent on its use of information and technology to ensure high quality operations. Many financial reporting controls depend on the operational effectiveness of the operational and financial Information Technology (IT) systems, which include interfaces between the operating systems and financial reporting systems and automated controls that prevent or detect inaccurate or incomplete transfers of financial information. If these systems are unreliable or controls do not operate effectively, a significant risk of error in reported financial information can arise from. This is an area requiring particular audit effort due to the complexity of the IT infrastructure, reliance on the IT systems and legacy systems which require manual inputs, relative to more automated processes.	This is an area requiring particular audit effort due to the complexity of the IT infrastructure, reliance on the IT systems and legacy systems which require manual inputs, relative to more automated processes. – Testing the design and implementation and the operating effectiveness of general IT controls around system access, administrator access database and change management and testing the design, implementation and operating effectiveness of controls over computer operations within specific applications which are required to be operating effectively to produce accurate and reliable financial information. This specifically involved: • examining the process for approving changes to the systems, and assessing the restrictions placed on access and revocation to core systems; and • Testing the interface between the key IT systems.

Report on the audit of the consolidated and separate financial statements (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in *The Heritage Insurance Company Kenya Limited annual report and financial statements for the year ended 31 December 2020,* but does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information 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, 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 consolidated and separate financial statements

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

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate 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 unqualified opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and/or the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

Report on the audit of the consolidated and separate financial statements (continued)

Auditors responsiblities for the audit of the consolidated and separate financial statements (continued)

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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 Directors, we determine those matters that were of most significance in the audit of the consolidated and separate 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 legal and regulatory requirements

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that in our opinion, the information given in the report of the Directors on pages 16 - 17 is consistent with the consolidated and separate financial statements.

The signing partner responsible for the audit resulting in this independent auditor's report is CPA Jacob Gathecha – P/1610

KPMG Kenya

KPMG Kenya
8th Floor, ABC Towers
Waiyaki Way
P.O.Box 40612
00100 Nairobo GPO

31 March 2021

GROUP AND COMPANY STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

		Group			Company	
		2020	2019*	1 January 2019*	2020	2019
	Note	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Assets						
Equipment	1	106,128	79,108	89,974	91,469	61,990
Right-of-use assets	1	149,912	194,673	229,771	130,683	164,737
Intangible assets	3	43,380	56,585	51,529	24,439	34,534
Investment in subsidiaries	4	-	-	-	146,557	146,557
Deferred tax	13	219,764	230,763	221,492	182,812	189,799
Other receivables	5	328,649	345,965	180,463	221,413	234,505
Financial investments	6(a)	5,190,556	4,692,123	3,746,967	4,947,685	4,469,965
Staff loans	6(b)	249,846	256,600	262,884	249,846	256,600
Deferred acquisition costs	7	79,498	85,285	36,673	59,796	69,381
Current tax receivable	24	55,023	23,441	94,922	9,029	-
Receivable arising out of reinsurance arrangements		169,558	320,375	110,318	20,601	123,439
Receivable arising out of direct insurance arrangements		550,109	493,267	733,582	550,109	493,267
Reinsurers' share of insurance liabilities	8	3,162,100	2,709,114	2,625,590	2,391,129	1,555,614
Cash and cash equivalents	9	3,341,485	2,998,096	3,478,567	1,955,951	1,630,917
Total Assets		**13,646,008**	**12,485,395**	**11,862,732**	**10,981,519**	**9,431,305**
Liabilities						
Lease liabilities	2(a)	181,203	199,720	229,771	160,728	169,054
Insurance contract liabilities	11	4,176,699	3,598,041	3,452,303	3,686,883	2,717,200
Creditors arising from reinsurance arrangements		462,147	511,319	626,594	85,903	22,883
Other payables	12	771,175	546,709	415,363	317,977	97,219
Employee benefits	29.1	95,639	88,407	95,646	94,866	86,747
Unearned premium reserve	14	2,934,932	2,995,655	2,846,218	2,230,392	2,311,574
Current tax payable	24	-	65,098	2,693	-	65,098
Creditors arising from direct insurance arrangements		479,128	493,243	552,382	463,297	489,631
Total Liabilities		**9,100,923**	**8,498,192**	**8,220,970**	**7,040,046**	**5,959,406**
Net Assets		**4,545,085**	**3,987,203**	**3,641,762**	**3,941,473**	**3,471,899**
Share capital	10	1,000,000	1,000,000	500,000	1,000,000	1,000,000
Retained income	25	3,120,341	2,654,740	2,801,305	2,941,473	2,471,899
Reserves	25	124,677	67,839	59,412	-	-
Equity attributable to equity holders		**4,245,018**	**3,722,579**	**3,360,717**	**3,941,473**	**3,471,899**
Non-controlling interest	23	300,067	264,624	281,045	-	-
Total Equity		**4,545,085**	**3,987,203**	**3,641,762**	**3,941,473**	**3,471,899**

* Restated, refer to note 33.

The financial statements and the notes on pages 23 to 114, were approved by the board of directors on 12 March 2021 and were signed on its behalf by:

P. Gethi

R. Shah

G. Kioi

The notes on pages 30 to 92 and the accounting policies on pages 93 to 114 form an integral part of the financial statements.

GROUP AND COMPANY STATEMENTS OF PROFIT OR LOSS

		Group		Company	
	Note	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Gross earned premium revenue	15	8,469,729	7,942,948	5,846,390	5,585,912
Outward reinsurance	15	(4,290,068)	(3,843,195)	(2,376,386)	(2,179,661)
Net insurance premium revenue		**4,179,661**	**4,099,753**	**3,470,004**	**3,406,251**
Commissions earned		855,942	757,430	548,490	462,507
Investment income	16	1,550	1,110	-	79,865
Interest income on financial assets held at amortised cost	17	242,265	225,281	150,277	139,715
Fair value gains/(losses) on financial investments	18	426,335	376,462	401,334	350,876
Other income	19	3,155	19,865	689	13,508
		1,529,247	**1,380,148**	**1,100,790**	**1,046,471**
Total income		**5,708,908**	**5,479,901**	**4,570,794**	**4,452,722**
Claims and policyholder benefits	20	(3,702,021)	(3,355,768)	(3,378,184)	(2,514,838)
Amounts recoverable from reinsurers	20	1,831,435	1,622,237	1,767,221	1,039,263
Net insurance benefits and claims		**(1,870,586)**	**(1,733,531)**	**(1,610,963)**	**(1,475,575)**
Commission expenses	21	(1,058,423)	(949,628)	(691,387)	(610,767)
Interest expense on lease liabilities	2(b)	(24,053)	(25,849)	(22,659)	(23,844)
Other operating expenses	22	(1,790,713)	(1,843,191)	(1,354,731)	(1,488,034)
Total expenses and commissions		**(2,873,189)**	**(2,818,668)**	**(2,068,777)**	**(2,122,645)**
Profit before income tax		**965,133**	**927,702**	**891,054**	**854,502**
Income tax expense	24	(269,031)	(300,455)	(236,480)	(245,369)
Profit for the year		**696,102**	**627,247**	**654,574**	**609,133**
Profit attributable to:					
Owners of the parent		679,491	588,057	654,574	609,133
Non-controlling interest	23	16,611	39,190	-	-
		696,102	**627,247**	**654,574**	**609,133**

The notes on pages 30 to 92 and the accounting policies on pages 93 to 114 form an integral part of the financial statements.

GROUP AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME

		Group		Company	
	Note	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Profit for the year		**696,102**	**627,247**	**654,574**	**609,133**
Other comprehensive income:					
Items that may be reclassified to profit or loss:					
Exchange differences on translating foreign operations	23(b)	46,780	(5,638)	-	-
Other comprehensive income for the year net of taxation		**46,780**	**(5,638)**	**-**	**-**
Total comprehensive income		**742,882**	**621,609**	**654,574**	**609,133**
Total comprehensive income attributable to:					
Owners of the parent		707,439	584,862	654,574	609,133
Non-controlling interest		35,443	36,747	-	-
		742,882	**621,609**	**654,574**	**609,133**

The notes on pages 30 to 92 and the accounting policies on pages 93 to 114 form an integral part of the financial statements

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital KShs '000	Currency translation reserve KShs '000	Statutory reserve KShs '000	Retained income KShs '000	Subtotal owners of the Company KShs '000	Non-controlling interest KShs '000	Total equity KShs '000
Balance at 01 January 2019	**500,000**	**(191,734)**	**251,146**	**2,801,305**	**3,360,717**	**281,045**	**3,641,762**
Total comprehensive income							
Profit for the year	-	-	-	588,057	588,057	39,190	627,247
Other comprehensive income							
Foreign currency translation difference (Note 23 (b))	-	(3,195)	-	-	(3,195)	(2,443)	(5,638)
Transfer to statutory reserve	-	-	11,622	(11,622)	-	-	-
Total other comprehensive income	**-**	**(3,195)**	**11,622**	**(11,622)**	**(3,195)**	**(2,443)**	**(5,638)**
Total comprehensive income for the year	**-**	**(3,195)**	**11,622**	**576,435**	**584,862**	**36,747**	**621,609**
Transactions with owners of the company							
Issue of shares	500,000	-	-	(500,000)	-	-	-
Interim dividend for 2019	-	-	-	(223,000)	(223,000)	(53,168)	(276,168)
Total transactions with owners of the Company	**500,000**	**-**	**-**	**(723,000)**	**(223,000)**	**(53,168)**	**(276,168)**
Balance at 31 December 2019	**1,000,000**	**(194,929)**	**262,768**	**2,654,740**	**3,722,579**	**264,624**	**3,987,203**

The notes on pages 30 to 92 and the accounting policies on pages 93 to 114 form an integral part of the financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital KShs '000	Currency translation reserve KShs '000	Statutory reserve KShs '000	Retained income KShs '000	Subtotal owners of the Company KShs '000	Non-controlling interest KShs '000	Total equity KShs '000
Balance at 01 January 2020	**1,000,000**	**(194,929)**	**262,768**	**2,654,740**	**3,722,579**	**264,624**	**3,987,203**
Total comprehensive income							
Profit for the year	-	-	-	679,491	679,491	16,611	696,102
Other comprehensive income							
Foreign currency translation difference (Note 23 (b))	-	28,667	-	(719)	27,948	18,832	46,780
Transfer to statutory reserves	-	-	28,171	(28,171)	-	-	-
Total other comprehensive income	**-**	**28,667**	**28,171**	**(28,890)**	**27,948**	**18,832**	**46,780**
Total comprehensive income for the year	**-**	**28,667**	**28,171**	**650,601**	**707,439**	**35,443**	**742,882**
Transactions with owners of the company							
Interim dividend for 2020	-	-	-	(185,000)	(185,000)	-	(185,000)
Total transactions with owners of the Company	**-**	**-**	**-**	**(185,000)**	**(185,000)**	**-**	**(185,000)**
Balance at 31 December 2020	**1,000,000**	**(166,262)**	**290,939**	**3,120,341**	**4,245,018**	**300,067**	**4,545,085**

The notes on pages 30 to 92 and the accounting policies on pages 93 to 114 form an integral part of the financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital KShs '000	Retained income KShs '000	Total equity KShs '000
Balance at 01 January 2019	**500,000**	**2,585,766**	**3,085,766**
Profit for the year	-	609,133	609,133
Total comprehensive income for the year	**-**	**609,133**	**609,133**
Issue of shares	500,000	(500,000)	-
Interim dividend 2019	-	(223,000)	(223,000)
Total contributions by and distributions to owners of the Company recognised directly in equity	**500,000**	**(723,000)**	**(223,000)**
Balance at 31 December 2019	**1,000,000**	**2,471,899**	**3,471,899**
Balance at 01 January 2020	**1,000,000**	**2,471,899**	**3,471,899**
Profit for the year	-	654,574	654,574
Total comprehensive income for the year	**-**	**654,574**	**654,574**
Interim dividend 2020	-	(185,000)	(185,000)
Total contributions by and distributions to owners of company recognised directly in equity	**-**	**(185,000)**	**(185,000)**
Balance at 31 December 2020	**1,000,000**	**2,941,473**	**3,941,473**

The notes on pages 30 to 92 and the accounting policies on pages 93 to 114 form an integral part of the financial statements.

GROUP AND COMPANY STATEMENTS OF CASH FLOWS

		Group		Company	
	Note	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Cash flows from operating activities					
Cash generated from operations	26	**1,200,130**	**733,628**	**1,230,329**	**589,348**
Cash receipts from policyholders		8,469,729	7,942,948	5,846,390	5,585,912
Cash paid to policyholders, intermediaries, suppliers and employees		(7,269,599)	(7,209,320)	(4,616,061)	(4,996,564)
Interest income on financial assets using the effective interest method	17	242,265	225,281	150,277	139,715
Interest expense on lease liabilities	2(c)	(24,053)	(25,849)	(22,659)	(23,844)
Taxation paid	24	(351,773)	(175,839)	(303,620)	(100,182)
Net cash from operating activities		**1,066,569**	**757,221**	**1,054,327**	**605,037**
Cash flows from investing activities					
Purchase of equipment	1	(81,961)	(28,623)	(77,613)	(24,829)
Proceeds from sale of equipment and intangibles		26,722	3,387	26,722	-
Purchase of intangible assets	3	(1,447)	(23,835)	(438)	(13,981)
Purchase of government securities and corporate bonds	6(a)	(5,421,862)	(5,373,986)	(5,401,044)	(5,351,000)
Purchase of unquoted shares	6(a)	(668)	-	-	-
Proceeds from disposal of shares	6(a)	-	286,341	-	286,341
Proceeds from disposal of government securities and corporate bonds	6(a)	4,949,704	4,146,096	4,929,000	4,115,684
Loans advanced	6(b)	(63,843)	(58,004)	(63,843)	(58,004)
Loans repaid	6(b)	69,511	73,788	69,511	73,788
Net cash used in investing activities		**(523,844)**	**(974,836)**	**(517,705)**	**(972,001)**
Cash flows from financing activities					
Payment of lease liabilities	2(c)	(39,609)	(46,362)	(26,588)	(34,896)
Dividends paid	27	(185,000)	(276,168)	(185,000)	(223,000)
Net cash used in financing activities		**(224,609)**	**(322,530)**	**(211,588)**	**(257,896)**
Total cash movement for the year		**318,116**	**(540,145)**	**325,034**	**(624,860)**
Cash at the beginning of the year		2,998,096	3,542,017	1,630,917	2,255,777
Foreign currency translation		25,273	(3,776)	-	-
Total cash at the end of the year	9	**3,341,485**	**2,998,096**	**1,955,951**	**1,630,917**

The notes on pages 30 to 92 and the accounting policies on pages 93 to 114 form an integral part of the financial statements.

KEY JUDGEMENTS IN APPLYING ASSUMPTIONS ON APPLICATION OF ACCOUNTING POLICIES

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

Classification and measurement of financial instruments

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

Fair value of unlisted financial instruments disclosed in level 3 in the fair value hierarchy

The fair value of financial instruments significantly affects the measurement of profit and loss and disclosures of financial risks in the financial statements. Fair value calculations are dependent on various sources of external and internal observable data and on sophisticated modelling techniques used to value financial instruments. Financial instruments disclosed as level 3 have more unobservable inputs and the valuation requires greater judgement and estimation in determining appropriate valuation techniques and obtaining relevant and reliable inputs.

The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process.

Insurance contract liabilities

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

Income taxes

The Group and Company is subject to income taxes in various jurisdictions. Significant judgment is required in determining the Group and 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 Group and Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Impairment of receivables

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

Considering the COVID-19 pandemic emergence in the early part of 2020, the directors and management were required to apply significant key judgement to the potential future impact that COVID-19 will have on the group's operations and the associated IFRS measurement of various assets and liabilities as at 31 December 2020. The assets, where measurement judgement has been significant, have been identified as premium receivables where directors and management revised provisioning criteria in order to quantify the best estimate of the likely expected credit losses, based on all relevant and reliable data that are currently available, whist recognising that the range of outcome is large.

NOTES TO THE FINANCIAL STATEMENTS

1. Equipment and right-of-use assets

1.1. Summary

		Group		Company	
	Notes	**2020 KShs '000**	**2019 KShs '000**	**2020 KShs '000**	**2019 KShs '000**
Equipment	1.2.1	106,128	79,108	91,469	61,990
Right-of-use assets	1.2.2	149,912	194,673	130,683	164,737
Total equipment and right-of-use assets		**256,040**	**273,781**	**222,152**	**226,727**

1.2. Movement analysis of equipment and right-of-use assets

Summary of net carrying value	**Depreciation period (years)**				
Equipment	5	106,128	79,108	91,469	61,990
IT equipment	5	62,996	34,429	59,746	30,202
Furniture and fixtures	10	34,845	36,740	25,433	23,882
Motor vehicles	5	1,997	161	-	128
Office equipment	10	6,290	7,778	6,290	7,778
Right-of-use assets (refer note 1.2.2)	1 – 10	149,912	194,673	130,683	164,737

1.2.1. Equipment

	Group					
KShs '000	**Balance at the beginning of the year**	**Additions**	**Currency translation**	**Disposals**	**Depreciation**	**Balance at the end of the year**
2020						
Cost – movement						
Furniture and fixtures	173,598	6,878	1,869	-	-	182,345
Motor vehicles	21,962	2,373	442	(2,404)	-	22,373
Office equipment	115,150	534	-	-	-	115,684
IT equipment	225,178	72,176	1,583	(26,722)	-	272,215
Total cost	535,888	81,961	3,894	(29,126)		592,617
Accumulated depreciation – movement						
Furniture and fixtures	(136,858)	-	(947)	-	(9,695)	(147,500)
Motor vehicles	(21,801)	-	(439)	2,404	(540)	(20,376)
Office equipment	(107,372)	-	-	-	(2,022)	(109,394)
IT Equipment	(190,749)	-	(1,280)	-	(17,190)	(209,219)
Total accumulated depreciation	**(456,780)**	**-**	**(2,666)**	**2,404**	**(29,447)**	**(486,489)**
Net carrying amount at the end of the year	**79,108**	**81,961**	**1,228**	**(26,722)**	**(29,447)**	**106,128**

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

1.2. Movement analysis of equipment and right-of-use assets (continued)

1.2.1. Equipment (continued)

	Group					
KShs '000	Balance at the beginning of the year	Additions	Currency translation	Disposals	Depreciation	Balance at the end of the year
2019						
Cost – movement						
Furniture and fixtures	169,611	3,987	-	-	-	173,598
Motor vehicles	21,962	-	-	-	-	21,962
Office equipment	114,395	755	-	-	-	115,150
IT Equipment	201,297	23,881	-	-	-	225,178
Total cost	507,265	28,623				535,888
Accumulated depreciation – movement						
Furniture and fixtures	(115,190)	-	(142)	(10,822)	(10,704)	(136,858)
Motor vehicles	(20,240)	-	-	-	(1,561)	(21,801)
Office equipment	(104,916)	-	-	-	(2,456)	(107,372)
IT Equipment	(176,945)	-	-	-	(13,804)	(190,749)
Total accumulated depreciation	**(417,291)**	**-**	**(142)**	**(10,822)**	**(28,525)**	**(456,780)**
Net carrying amount at the end of the year	**89,974**	**28,623**	**(142)**	**(10,822)**	**(28,525)**	**79,108**

	Company				
KShs '000	Balance at the beginning of the year	Additions	Disposals	Depreciation	Balance at the end of the year
2020					
Cost – movement					
Furniture and fixtures	129,116	6,605	-	-	135,721
Motor vehicles	11,638	-	-	-	11,638
Office equipment	115,150	534	-	-	115,684
IT equipment	203,044	70,474	(26,722)	-	246,796
Total cost	458,948	77,613	(26,722)		509,839
Accumulated depreciation – movement					
Furniture and fixtures	(105,234)	-	-	(5,054)	(110,288)
Motor vehicles	(11,510)	-	-	(128)	(11,638)
Office equipment	(107,372)	-	-	(2,022)	(109,394)
IT Equipment	(172,842)	-	-	(14,208)	(187,050)
Total accumulated depreciation	**(396,958)**	**-**	**-**	**(21,412)**	**(418,370)**
Net carrying amount at the end of the year	**61,990**	**77,613**	**(26,722)**	**(21,412)**	**91,469**

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

1.2. Movement analysis of equipment and right-of-use assets (continued)

1.2.1. Equipment (continued)

	Company				
KShs '000	Balance at the beginning of the year	Additions	Disposals	Depreciation	Balance at the end of the year
2019					
Cost – movement					
Furniture and fixtures	144,570	2,787	(18,241)	-	129,116
Motor vehicles	11,638	-	-	-	11,638
Office equipment	114,395	755	-	-	115,150
IT Equipment	181,757	21,287	-	-	203,044
Total cost	452,360	24,829	(18,241)		458,948
Accumulated depreciation – movement					
Furniture and fixtures	(106,163)	-	7,419	(6,490)	(105,234)
Motor vehicles	(9,971)	-	-	(1,539)	(11,510)
Office equipment	(104,916)	-	-	(2,456)	(107,372)
IT Equipment	(161,452)	-	-	(11,390)	(172,842)
Total accumulated depreciation	**(382,502)**	**-**	**7,419**	**(21,875)**	**(396,958)**
Net carrying amount at the end of the year	**69,858**	**24,829**	**(10,822)**	**(21,875)**	**61,990**

1.2.2. Right-of-use assets

	Group						
KShs '000	Balance at the beginning of the year	Additions	Modifications	Currency translation	Disposals	Depreciation	Balance at the end of the year
2020							
Cost – movement							
Properties	246,082	5,510	359	3,021	(2,294)	-	252,678
Total cost	246,082	5,510	359	3,021	(2,294)		252,678
Accumulated depreciation – movement							
Properties	(51,409)	-	(235)	(875)	2,294	(52,541)	(102,766)
Total accumulated depreciation	**(51,409)**	**-**	**(235)**	**(875)**	**2,294**	**(52,541)**	**(102,766)**
Net carrying amount at the end of the year	**194,673**	**5,510**	**124**	**2,146**	**-**	**(52,541)**	**149,912**

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

1.2. Movement analysis of equipment and right-of-use assets (continued)

1.2.2. Right-of-use assets (continued)

	Group						
KShs '000	Balance at the beginning of the year	Additions	Modifications	Currency translation	Disposals	Depreciation	Balance at the end of the year
2019							
Cost – movement							
Properties	229,771	16,311	-	-	-	-	246,082
Total cost	229,771	16,311					246,082
Accumulated depreciation – movement							
Properties	-	-	-	-	-	(51,409)	(51,409)
Total accumulated depreciation	**-**	**-**	**-**	**-**	**-**	**(51,409)**	**(51,409)**
Net carrying amount at the end of the year	**229,771**	**16,311**	**-**	**-**	**-**	**(51,409)**	**194,673**

	Company					
KShs '000	Balance at the beginning of the year	Additions	Modifications	Disposals	Depreciation	Balance at the end of the year
2020						
Cost – movement						
Properties	203,950	4,868	359	(2,294)	-	206,883
Total cost	203,950	4,868	359	(2,294)		206,883
Accumulated depreciation – movement						
Properties	(39,213)	-	(235)	2,294	(39,046)	(76,200)
Total accumulated depreciation	**(39,213)**	**-**	**(235)**	**2,294**	**(39,046)**	**(76,200)**
Net carrying amount at the end of the year	**164,737**	**4,868**	**124**	**-**	**(39,046)**	**130,683**

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

1.2. Movement analysis of equipment and right-of-use assets (continued)

1.2.2. Right-of-use assets (continued)

	Company					
KShs '000	Balance at the beginning of the year	Additions	Modifications	Disposals	Depreciation	Balance at the end of the year
2019						
Cost – movement						
Properties	190,083	13,867	-	-	-	203,950
Total cost	190,083	13,867				203,950
Accumulated depreciation – movement						
Properties	-	-	-	-	(39,213)	(39,213)
Total accumulated depreciation	**-**	**-**	**-**	**-**	**(39,213)**	**(39,213)**
Net carrying amount at the end of the year	**190,083**	**13,867**	**-**	**-**	**(39,213)**	**164,737**

2. Leases

The Company leases office premises for use in its branches and head office operations. The leases typically run for a period of 4-6 years and are open for renewal. Some leases provide for additional rent payments that are based on estimated changes in local price indices. There are no restrictions on the use of the leased office premises.

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

a) Lease Liability

The movement in lease liabilities during the year is as follows:

	Group		Company	
Lease Liability	**2020 KShs '000**	**2019 KShs '000**	**2020 KShs '000**	**2019 KShs '000**
At 1 January	199,720	229,771	169,054	190,083
Additions	5,510	16,311	4,868	13,867
Modifications	13,394	-	13,394	-
Repayments	(63,662)	(72,211)	(49,247)	(58,740)
Interest expensed on lease liabilities	24,053	25,849	22,659	23,844
Currency translation	2,188	-	-	-
Carrying amount at 31 December	**181,203**	**199,720**	**160,728**	**169,054**

Maturity analysis of lease liabilities based on undiscounted cashflows	Group		Company	
	2020 KShs '000	**2019 KShs '000**	**2020 KShs '000**	**2019 KShs '000**
Less than one year	52,278	48,991	52,278	48,991
Later than one year and not later than 5 years	166,492	218,257	146,017	187,591
Later than 5 years	13,339	17,176	13,339	17,176
	232,109	**284,424**	**211,634**	**253,758**

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Leases (continued)

b) Amounts recognised in profit or loss

	Group		Company	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Interest expensed on lease liabilities	24,053	25,849	22,659	23,844
Depreciation charge	52,541	51,409	39,046	39,213
	76,594	**77,258**	**61,705**	**63,057**

c) Amounts recogised in statement of cash flows

	Group		Company	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Payment of lease liabilities	39,609	46,362	26,588	34,896
Interest expense on lease liabilities	24,053	25,849	22,659	23,844
	63,662	**72,211**	**49,247**	**58,740**

3. Intangible assets

Summary of net carrying value

	Group		Company	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Cost at the beginning of the year	180,514	159,941	116,011	102,031
Additions	1,447	23,835	438	13,980
Disposals	-	(3,122)	-	-
Currency translation	1,453	(140)	-	-
Cost at the end of the year	183,414	180,514	116,449	116,011
Accumulated amortisation at the beginning of the year	(123,929)	(108,412)	(81,477)	(70,181)
Disposals	-	714	-	-
Amortisation	(16,105)	(16,231)	(10,533)	(11,296)
Accumulated amortisation and impairment at the end of the year	(140,034)	(123,929)	(92,010)	(81,477)
Net carrying amount at the end of the year	**43,380**	**56,585**	**24,439**	**34,534**

Summary of net carrying value	Amortisation period (years)				
Computer software - purchased[1]	5	43,380	56,585	24,439	34,534

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Intangible assets (continued)

Group

KShs '000	Balance at beginning of year	Additions	Currency translation	Disposals	Amortisation	Balance at end of year
2020						
Cost – movement						
Computer software – purchased(1)	180,514	1,447	4,497	-	-	186,458
Total cost	180,514	1,447	4,497			186,458
Accumulated amortisation and impairment – movement						
Computer software – purchased(1)	(123,929)	-	(3,044)	-	(16,105)	143,078
Total accumulated amortisation and depreciation	**(123,929)**	**-**	**(3,044)**	**-**	**(16,105)**	**143,078**
Net carrying value at the end of the year	**56,585**	**1,447**	**1,453**	**-**	**(16,105)**	**43,380**

KShs '000	Balance at beginning of year	Additions	Currency translation	Disposals	Amortisation	Balance at end of year
2019						
Cost – movement						
Computer software – purchased(1)	159,941	23,835	(140)	(3,122)	-	180,514
Total cost	159,941	23,835	(140)	(3,122)		180,514
Accumulated amortisation and impairment – movement						
Computer software – purchased(1)	(108,412)	-	-	714	(16,231)	(123,929)
Total accumulated amortisation and depreciation	**(108,412)**	**-**	**-**	**714**	**(16,231)**	**(123,929)**
Net carrying value at the end of the year	**51,529**	**23,835**	**(140)**	**(2,408)**	**(16,231)**	**56,585**

Company

KShs '000	Balance at beginning of year	Additions	Currency translation	Disposals	Amortisation	Balance at end of year
2020						
Cost – movement						
Computer software – purchased(1)	116,012	438	-	-	-	116,450
Total cost	116,012	438				116,450
Accumulated amortisation and impairment – movement						
Computer software – purchased(1)	(81,478)	-	-	-	(10,533)	(92,011)
Total accumulated amortisation and impairment	**(81,478)**	**-**	**-**	**-**	**(10,533)**	**(92,011)**
Net carrying value at the end of the year	**34,534**	**438**	**-**	**-**	**(10,533)**	**24,439**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Intangible assets (continued)

	Company					
KShs '000	Balance at beginning of year	Additions	Currency translation	Disposals	Amortisation	Balance at end of year
2019						
Cost – movement						
Computer software – purchased[1]	102,031	13,981	-	-	-	116,012
Total cost	102,031	13,981				116,012
Accumulated amortisation and impairment – movement						
Computer software – purchased[1]	(70,181)	-	-	-	(11,297)	(81,478)
Total accumulated amortisation and depreciation	**(70,181)**	**-**	**-**	**-**	**(11,297)**	**(81,478)**
Net carrying value at the end of the year	**31,850**	**13,981**	**-**	**-**	**(11,297)**	**34,534**

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

4. Interests in subsidiaries including consolidated structured entities

The following table lists the entities which are controlled directly by the Company, and the carrying amounts of the investments in the Company's separate financial statements.

Company

Name of company	Held by	% voting power 2020	% voting power 2019	% holding 2020	% holding 2019	Carrying amount 2020	Carrying amount 2019
The Heritage Insurance Company Tanzania Limited	Heritage Kenya	60.00 %	60.00 %	60.00 %	60.00 %	146,557	146,557

5. Other receivables

	Group		Company	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Prepayments	141,507	211,369	128,723	203,397
Due from related parties	5,200	1,790	15,012	6,688
Accrued income	90,905	69,780	37,021	20,808
Trade receivables at amortised cost	237,612	282,939	180,756	230,893
Other receivables	91,037	63,026	40,657	3,612
Total trade and other receivables	**328,649**	**345,965**	**221,413**	**234,505**

Split between non-current and current portions

Current assets	328,649	345,965	221,413	234,505

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Financial investments

	Group		Company	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
a) At fair value through profit or loss designated	5,190,556	4,692,123	4,947,685	4,469,965
Current	4,690,838	1,656,887	4,523,313	1,661,633
Non-current	499,718	3,035,236	424,372	2,808,332
	5,190,556	**4,692,123**	**4,947,685**	**4,469,965**
At fair value through profit or loss - designated				
Quoted shares	6,768	11,304	6,768	11,304
Unquoted shares	49,231	40,671	-	-
Government securities	5,127,287	4,604,886	4,940,917	4,429,968
Corporate bonds	7,270	35,262	-	28,693
As at end of year	**5,190,556**	**4,692,123**	**4,947,685**	**4,469,965**
Quoted shares				
As at start of year	11,304	285,196	11,304	285,196
Disposals	-	(286,341)	-	(286,341)
Net fair value (losses)/gains	(4,536)	12,449	(4,536)	12,449
As at end of year	**6,768**	**11,304**	**6,768**	**11,304**
Unquoted shares				
As at start of year	40,671	40,071	-	-
Additions	668	-	-	-
Net fair value gains	4,976	884	-	-
Currency translation	2,916	(284)	-	-
As at end of year	**49,231**	**40,671**	**-**	**-**
Government securities and corporate bonds				
As at start of year	4,640,148	3,421,700	4,458,661	3,231,562
Additions	5,421,862	5,373,986	5,401,044	5,351,000
Disposals	(4,949,704)	(4,146,096)	(4,929,000)	(4,115,684)
Fair value gains/ (loss)	9,238	(8,146)	10,212	(8,217)
Currency translation	13,013	(1,296)	-	-
As at end of year	**5,134,557**	**4,640,148**	**4,940,917**	**4,458,661**

b) Staff loans (at amortised cost)

Movement of loans and receivables is as shown below:

	Group		Company	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
As at start of year	256,600	262,885	256,600	262,885
Loan advanced	63,843	58,004	63,843	58,004
Loan repayment	(69,511)	(73,788)	(69,511)	(73,788)
IFRS 9 impairment	(1,086)	9,499	(1,086)	9,499
	249,846	**256,600**	**249,846**	**256,600**

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Financial investments (continued)

b) Staff loans (at amortised cost) (continued)

	Group		Company	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Current	20,608	252	20,608	252
Non-current	229,238	256,348	229,238	256,348
	249,846	**256,600**	**249,846**	**256,600**

Mortgage loans offered to staff members as a benefit which are collateralised. The Heritage Insuance Company Kenya Limited has the first right to recover mortgage deductions from employment income.

The risk of default occurring over the expected life of the financial instrument has not increased significantly during the year ended 31 December 2020. Any expected impairment losses would therefore be recognised under the 12 months expected credit loss. The mortgage loans and are assessed to have a low expected credit loss impairment as they have a low risk of default. The borrower has a high probability of meeting cash flow obligations due to the loans being recovered either directly from staff salaries.

Fair value hierarchy of fair value through profit or loss financial assets

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

	Group		Company	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Level 1				
Quoted equities	6,768	11,304	6,768	11,304
Level 2				
Government securities and Corporate bonds	5,134,557	4,640,148	4,940,917	4,458,661
Level 3				
Unquoted shares	49,231	40,671	-	-
	5,190,556	**4,692,123**	**4,947,685**	**4,469,965**

7. Deferred acquisition costs

	Group		Company	
	2020	2019	2020	2019
Assets				
At start of the year	155,235	123,615	69,381	33,284
Additions	502,619	429,428	133,312	184,357
Amortisation charge	(506,796)	(397,167)	(142,897)	(148,260)
Currency translation	6,156	(641)	-	-
At end of the year	**157,214**	**155,235**	**59,796**	**69,381**
Liabilities				
At start of the year	(69,950)	(86,942)	-	-
Additions	(307,575)	(205,200)	-	-
Amortisation charge	304,824	221,575	-	-
Currency translation	(5,015)	617	-	-
At end of the year	**(77,716)**	**(69,950)**	**-**	**-**
Net	**79,498**	**85,285**	**59,796**	**69,381**
Current	79,498	85,285	59,796	69,381

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Reinsurance share of insurance liabilities

		Group		Company	
		2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Reinsurers' share of:					
Unearned premium		1,230,263	1,289,143	765,363	791,766
Notified claims outstanding	(Note 11)	1,483,998	1,142,371	1,228,939	595,602
Claims incurred but not reported	(Note 11)	447,839	277,600	396,827	168,246
		3,162,100	**2,709,114**	**2,391,129**	**1,555,614**
Current		2,325,896	2,462,099	1,131,143	1,163,942
Non-current		836,204	247,015	1,259,986	391,672
		3,162,100	**2,709,114**	**2,391,129**	**1,555,614**

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

9. Cash and cash equivalents

Cash and cash equivalents consist of:

	Group		Company	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Bank balances	155,251	575,130	58,665	490,459
Short-term deposits	3,186,234	2,422,966	1,897,286	1,140,458
	3,341,485	**2,998,096**	**1,955,951**	**1,630,917**

10. Share capital

	Group		Company	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Authorised				
50 Million Ordinary shares of 20 each	1,000,000	1,000,000	1,000,000	1,000,000
Reconciliation of number of shares issued:				
Reported as at 01 January	1,000,000	500,000	1,000,000	500,000
Issue of shares – ordinary shares (Issued on 6 Aug 2019)	-	500,000	-	500,000
Reported as at 31 December	**1,000,000**	**1,000,000**	**1,000,000**	**1,000,000**
Issued				
50 Million ordinary shares of 20 each	1,000,000	1,000,000	1,000,000	1,000,000

All shares rank equally with regard to the Company's residual assets. The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Insurance contract liabilities

	Group		Company	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Short-term insurance contracts:				
Reported claims and claims handling expenses	3,527,639	2,965,872	3,119,459	2,231,838
Claims incurred but not reported	649,060	632,169	567,424	485,362
	4,176,699	**3,598,041**	**3,686,883**	**2,717,200**
Current	1,322,305	1,992,802	1,006,018	994,797
Non-current	2,854,394	1,605,239	2,680,865	1,722,403
	4,176,699	**3,598,041**	**3,686,883**	**2,717,200**

Movements in insurance liabilities and reinsurance assets

	Group					
	2020			2019		
	Gross KShs '000	Reinsurance KShs '000	Net KShs '000	Gross KShs '000	Reinsurance KShs '000	Net KShs '000
Notified claims	2,965,872	1,142,371	1,823,501	2,797,727	1,066,657	1,731,070
Incurred but not reported	632,169	277,600	354,569	654,576	169,769	484,807
Total at the beginning of year	**3,598,041**	**1,419,971**	**2,178,070**	**3,452,303**	**1,236,426**	**2,215,877**
Cash paid for claims settled in year	(3,182,326)	(2,015,307)	(1,167,019)	(3,115,482)	(1,428,776)	(1,686,706)
Increase in liabilities						
Arising from current year claims	2,100,727	1,432,899	667,828	2,439,103	1,278,652	1,160,451
Arising from prior year claims	1,597,102	1,047,230	549,872	822,117	333,669	488,448
Currency translation	63,155	47,044	16,111	-	-	-
Total at end of year	**4,176,699**	**1,931,837**	**2,244,862**	**3,598,041**	**1,419,971**	**2,178,070**
Notified claims	3,527,639	1,483,998	2,043,641	2,965,872	1,142,371	1,823,501
Incurred but not reported	649,060	447,839	201,221	632,169	277,600	354,569
Total at end of year	**4,176,699**	**1,931,837**	**2,244,862**	**3,598,041**	**1,419,971**	**2,178,070**

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Insurance contract liabilities (continued)

Movements in insurance liabilities and reinsurance assets (continued)

	Company					
	2020			2019		
	Gross KShs '000	Reinsurance KShs '000	Net KShs '000	Gross KShs '000	Reinsurance KShs '000	Net KShs '000
Notified claims	2,231,838	595,602	1,636,236	2,206,606	690,604	1,516,002
Incurred but not reported	485,362	168,246	317,116	536,352	94,558	441,794
Total at the beginning of year	**2,717,200**	**763,848**	**1,953,352**	**2,742,958**	**785,162**	**1,957,796**
Cash paid for claims settled in year	(2,408,501)	(1,554,547)	(853,954)	(2,540,596)	(1,060,576)	(1,480,020)
Increase in liabilities						
Arising from current year claims	1,915,425	1,343,097	572,328	1,907,148	794,201	1,112,947
Arising from prior year claims	1,462,759	1,073,367	389,392	607,690	245,061	362,629
Total at end of year	**3,686,883**	**1,625,765**	**2,061,118**	**2,717,200**	**763,848**	**1,953,352**
Notified claims	3,119,459	1,228,939	1,890,520	2,231,838	595,602	1,636,236
Incurred but not reported	567,424	396,827	170,597	485,362	168,246	317,116
Total at end of year	**3,686,883**	**1,625,766**	**2,061,117**	**2,717,200**	**763,848**	**1,953,352**

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Insurance contract liabilities (continued)

Short-term insurance contracts

The Group uses the Bornehuetter Fergusson (BF) technique to estimate the ultimate cost of claims for the Incurred But Not Reported (IBNR) provision. The BF method recognises the occasional limitation of the chain ladder in using the actual claims paid or reported only but also takes into account the loss ratios of the business classes to provide an additional indication of the expected ultimate claims. In the year the company adopted fully the actuarial reserving basis of IBNR.

As the data is still sparse and not fully matured for the various classes of business, basic chain ladder maybe somewhat volatile. BF was therefore recommended to provide a more stable statistical estimate of the liabilities for the IBNR provisions.

The latest valuation of IBNR was carried out by Ernest and Young as at 31 December 2020.

Group	2014 KShs '000	2015 KShs '000	2016 KShs '000	2017 KShs '000	2018 KShs '000	2019 KShs '000	2020 KShs '000	Total KShs '000
Estimates of ultimate claims costs:								
At end of accident year	3,759,813	3,912,924	4,172,702	5,435,943	4,012,435	5,430,124	4,739,231	31,463,172
One year later	2,973,925	1,745,926	1,551,817	3,834,595	1,985,691	2,548,984	-	14,640,938
Two years later	1,674,556	865,080	192,470	2,519,523	747,451	-	-	5,999,080
Three years later	832,800	138,807	209,119	1,474,790	-	-	-	2,655,516
Four years later	111,774	92,396	71,403	-	-	-	-	275,573
Five years later	165,164	54,650	-	-	-	-	-	219,814
Six years later	105,177	-	-	-	-	-	-	105,177
Current estimate of cumulative claims	9,623,209	6,809,783	6,197,510	13,264,851	6,745,577	7,979,108	4,739,231	55,359,269
Less: cumulative payments to date	(9,260,852)	(6,661,417)	(5,998,301)	(12,999,215)	(6,181,065)	(7,395,029)	(3,335,751)	(51,831,630)
Liability in the statement of financial position	**362,357**	**148,366**	**199,209**	**265,636**	**564,512**	**584,079**	**1,403,480**	**3,527,639**
Incurred but not reported								649,060
Total gross claims liability included in the statement of financial position	**362,357**	**148,366**	**199,209**	**265,636**	**564,512**	**584,079**	**1,403,480**	**4,176,699**

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Insurance contract liabilities (continued)

Short-term insurance contracts (continued)

Company	2014 KShs '000	2015 KShs '000	2016 KShs '000	2017 KShs '000	2018 KShs '000	2019 KShs '000	2020 KShs '000	Total KShs '000
Estimates of ultimate claims costs:								
At end of accident year	3,010,467	2,823,727	3,398,778	4,657,498	3,321,860	4,360,611	3,675,230	25,248,171
One year later	2,403,142	1,380,112	830,632	3,602,486	1,550,265	2,316,501	-	12,083,138
Two years later	1,590,664	485,287	108,259	2,466,142	735,716	-	-	5,386,068
Three years later	739,031	82,234	170,692	1,467,189	-	-	-	2,459,146
Four years later	70,023	71,994	60,673	-	-	-	-	202,690
Five years later	153,656	44,793	-	-	-	-	-	198,449
Six years later	92,070	-	-	-	-	-	-	92,070
Current estimate of cumulative claims	8,059,053	4,888,147	4,569,034	12,193,315	5,607,841	6,677,112	3,675,230	45,669,732
Less: cumulative payments to date	(7,707,796)	(4,745,035)	(4,379,962)	(11,924,147)	(4,944,938)	(6,005,653)	(2,842,742)	(42,550,273)
Liability in the statement of financial position	**351,257**	**143,112**	**189,072**	**269,168**	**662,903**	**671,459**	**832,488**	**3,119,459**
Incurred but not reported								567,424
Total gross claims liability included in the statement of financial position	**351,257**	**143,112**	**189,072**	**269,168**	**662,903**	**671,459**	**832,488**	**3,686,883**

NOTES TO THE FINANCIAL STATEMENTS (continued)

	Group		Company	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
12. Other payables				
Accrued expenses	765,238	525,036	312,474	75,901
Due to related parties (note 28(e))	5,937	21,673	5,503	21,318
	771,175	**546,709**	**317,977**	**97,219**
Current	771,175	546,709	317,977	97,219

13. Deferred tax

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

	Group 2020	Group 2019	Company 2020	Company 2019
Deferred tax asset	219,764	230,763	182,812	189,799
Reconciliation of deferred tax asset / (liability)				
At beginning of year	230,763	221,493	189,799	174,965
Profit (charge)/credit loss	(13,939)	9,600	(6,987)	14,834
Currency translation	2,940	(330)	-	-
	219,764	**230,763**	**182,812**	**189,799**

Recognition of deferred tax asset

The Group and Company recognises deferred tax assets for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Deferred tax (continued)

Deferred tax movement analysis

Group

	Asset/ (liability) at the beginning of the year	Foreign currency translation	(Provision)/ release for the year	Asset/ (liability) at the end of the year
	KShs '000	KShs '000	KShs '000	KShs '000
2020				
Normal taxation	230,763	2,940	(13,939)	219,764
Equipment	9,734	144	(4,292)	5,586
Prepayments, provisions and unrealised fair value revaluation of shares and bonds	221,029	2,796	(9,647)	214,178
Total	**230,763**	**2,940**	**(13,939)**	**219,764**
2019				
Normal taxation	221,493	(330)	9,600	230,763
Equipment	8,509	(8)	1,233	9,734
Prepayments, provisions and unrealised fair value revaluation of shares and bonds	212,984	(322)	8,367	221,029
Total	**221,493**	**(330)**	**9,600**	**230,763**

Unused tax losses

The group recognises deferred tax assets on carried forward tax losses to the extent there are sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Deferred tax (continued)

Deferred tax movement analysis (continued)

Company

	Asset/ (liability) at the beginning of the year	Foreign currency translation	(Provision)/ elease for the year	Asset/ (liability) at the end of the year
	KShs '000	KShs '000	KShs '000	KShs '000
2020				
Normal taxation	189,799	-	(6,987)	182,812
Equipment	7,745	-	(1,353)	6,392
Prepayments, provisions and unrealised fair value revaluation of shares and bonds	182,054	-	(5,634)	176,420
Total	**189,799**	**-**	**(6,987)**	**182,812**
2019				
Normal taxation	174,965	-	14,834	189,799
Equipment	7,391	-	354	7,745
Prepayments, provisions and unrealised fair value revaluation of shares and bonds	167,574	-	14,480	182,054
Total	**174,965**	**-**	**14,834**	**189,799**

14. Unearned premium reserve

This reserve represents the liability for short term business contracts where the Group's obligations are not expired as at the year end. Movements in the reserve are shown below:

	Group		Company	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
As at 1 January	2,995,655	2,846,218	2,311,574	2,263,150
Net movement in the year	(109,771)	153,570	(81,182)	48,424
Currency adjustment	49,048	(4,133)	-	-
As at 31 December	**2,934,932**	**2,995,655**	**2,230,392**	**2,311,574**

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Gross earned premium revenue

	Group		Company	
	2020 KShs '000	**2019 KShs '000**	**2020 KShs '000**	**2019 KShs '000**
Short-term insurance				
Motor	1,866,165	1,856,148	1,476,090	1,476,583
Fire	2,054,237	1,778,969	759,029	721,546
Accident	2,401,926	2,215,298	1,689,475	1,522,366
Medical	1,917,289	1,846,393	1,811,344	1,761,379
Marine	230,112	246,140	110,452	104,038
Gross earned premium revenue	**8,469,729**	**7,942,948**	**5,846,390**	**5,585,912**
Short term insurance				
Motor	127,784	123,375	69,102	65,965
Fire	1,714,483	1,443,552	487,939	455,103
Accident	1,315,790	1,063,549	794,592	563,665
Medical	989,843	1,065,358	989,843	1,065,358
Marine	142,168	147,361	34,910	29,570
Outward reinsurance	**4,290,068**	**3,843,195**	**2,376,386**	**2,179,661**

16. Investment income

Dividend income				
Subsidiaries - Foreign	-	-	-	79,865
Listed investments - Local	1,550	1,110	-	-
Total dividend income	**1,550**	**1,110**	**-**	**79,865**

17. Interest income on financial assets held at amortised cost

Interest income on cash and cash equivalents	218,991	199,842	127,003	114,276
Staff loans receivable	23,274	25,439	23,274	25,439
	242,265	**225,281**	**150,277**	**139,715**

18. Fair value gains on financial investments

Debt instruments				
Fair value gains on sale of financial investments	416,655	370,777	395,658	346,644
Fair value movement on assets measured through profit or loss	9,680	5,685	5,676	4,232
	426,335	**376,462**	**401,334**	**350,876**

19. Other income

Loss on sale of equipment	-	(9,843)	-	(10,822)
Other sundry income	3,155	29,708	689	24,330
	3,155	**19,865**	**689**	**13,508**

NOTES TO THE FINANCIAL STATEMENTS (continued)

		Group		Company	
		2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000

20. Claims and policy holder benefits

	Group 2020 KShs '000	Group 2019 KShs '000	Company 2020 KShs '000	Company 2019 KShs '000
Total claims and policyholder benefits				
Motor	1,092,952	986,110	987,730	884,129
Fire	192,430	728,237	195,297	67,173
Marine	(4,768)	18,689	6,721	12,392
Medical	1,078,498	1,188,682	989,546	1,188,682
Accident	1,342,909	434,050	1,198,890	362,462
	3,702,021	**3,355,768**	**3,378,184**	**2,514,838**
Recoverable from reinsurance				
Motor	142,444	82,823	134,032	72,063
Fire	49,534	660,665	82,019	31,943
Marine	1,131,154	144,291	1,029,523	206,339
Medical	523,714	723,170	523,714	723,170
Accident	(15,411)	11,288	(2,067)	5,748
	1,831,435	**1,622,237**	**1,767,221**	**1,039,263**

21. Commission expenses

		Group 2020 KShs '000	Group 2019 KShs '000	Company 2020 KShs '000	Company 2019 KShs '000
Commission expenses		1,058,423	949,628	691,387	610,767
Incurred during the year		1,052,636	974,164	681,802	646,864
Deferred acquisition costs	(Note7)	(79,498)	(85,285)	(59,796)	(69,381)
Amortisation of deferred acquisition costs		85,285	60,749	69,381	33,284

NOTES TO THE FINANCIAL STATEMENTS (continued)

	Group		Company	
	2020	**2019**	**2020**	**2019**
	KShs '000	**KShs '000**	**KShs '000**	**KShs '000**
22. Operating expenses				
Employee costs	965,830	936,825	740,350	741,471
Office costs	690,744	755,279	507,912	621,682
Other	134,139	151,087	106,469	124,881
Total general marketing and administration expenses	**1,790,713**	**1,843,191**	**1,354,731**	**1,488,034**
Office costs	**690,744**	**755,279**	**507,912**	**621,682**
Amortisation and impairment of intangible assets (refer note 3)	16,105	16,231	10,533	11,297
Audit fees – current year	11,123	10,520	6,880	6,880
Consulting fees and outsource arrangements	265,419	360,657	249,836	346,073
Repairs and maintenance	79,762	74,428	79,272	73,969
Depreciation of equipment (refer note 1)	29,447	28,525	21,412	21,875
Depreciation of right-of-use assets (refer note 2)	52,541	51,409	39,046	39,213
Other office costs	236,347	213,509	100,933	122,375
Other	**134,139**	**151,087**	**106,469**	**124,881**
Directors' fees	25,438	15,142	17,332	8,452
Other rental charges	35,780	32,182	25,278	22,353
Bad debts	1,474	34,508	6,975	38,450
Regulatory levies	71,447	69,255	56,884	55,626
Employee costs	**965,830**	**936,825**	**740,350**	**741,471**
Salaries and wages	685,298	669,906	518,484	481,181
Medical aid contributions	47,533	49,269	40,704	42,877
Staff and management incentive schemes	69,474	57,828	61,875	50,716
Other retirement contributions	67,067	62,354	48,612	45,082
Employee insurances	14,231	8,082	12,640	8,082
Termination benefits	1,300	16,685	-	15,468
Other	80,927	72,701	58,035	98,065
Number of staff				
Permanent salaried staff	229	222	172	165
In Kenya	172	165	172	165
In Tanzania	57	57	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 a) Non controlling interest (NCI)

NCI percentage	Heritage Tanzania 2020 40% KShs '000	Heritage Tanzania 2019 40% KShs '000
Non-current assets	127,053	85,008
Current assets	2,771,522	3,120,538
Current liabilities	(2,148,407)	(2,543,987)
Net assets	**750,168**	**661,559**
Net assets atributable to NCI	**300,067**	**264,624**
Revenue	2,623,339	2,357,036
Profit for the year	**41,528**	**97,975**
Profit allocated to NCI	16,611	39,190
Foreign currency translation differences	18,832	(2,443)
Cashflow flows from operating activities	9,592	115,160
Cashflow flows from investing activities	(6,139)	66,323
Cashflow flows from financing activities	(13,033)	(53,168)
Net increase (decrease) in cash and cash equivalents	(9,580)	128,315

23 b) Foreign currency translation difference

The foreign currency translation difference comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

	Group		Company	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
At start of the year	(5,638)	(29,966)	-	-
Movement for the year	52,418	24,328	-	-
	46,780	**(5,638)**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)

	Group		Company	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000

24. Taxation

Major components of the tax expense

Current				
Local income tax - current period	255,092	299,487	229,493	260,203
Local income tax - recognised in current tax for prior periods	-	10,568	-	-
	255,092	**310,055**	**229,493**	**260,203**
Deferred				
Deferred tax (note 13)	13,939	(9,600)	6,987	(14,834)
	269,031	**300,455**	**236,480**	**245,369**
Reconciliation of the tax expenses				
Profit before income tax	965,133	927,702	891,054	854,502
Tax calculated at a rate of 25% (HIK) and 30% (HIT) (2019 - 30%)	244,988	278,311	222,764	256,351
Income not subject to tax	(690)	(2,515)	(225)	(21,099)
Tax effect of interest income	(181)	(442)	(181)	(442)
Expenses not deductable for tax purposes	23,833	14,862	12,958	10,559
Difference in tax rate	1,164	-	1,164	-
Prior year tax under provision of current tax	(83)	10,239	-	-
Income tax charge	**269,031**	**300,455**	**236,480**	**245,369**

Tax recoverable/(payable) movement

As at 1 January	(41,658)	92,229	(65,098)	94,922
Current tax charge for the year	(255,092)	(299,487)	(229,493)	(260,202)
Recognised in current tax for prior periods	-	(10,239)	-	-
Paid in the year	347,823	167,581	303,620	100,182
Tax withheld	3,950	8,258	-	-
	55,023	**(41,658)**	**9,029**	**(65,098)**

Reconciliation between applicable tax rate and average effective tax rate.

Profit before taxation per statement of comprehensive income	965,133	927,702	891,054	854,502
Taxation per statement of comprehensive income	269,031	300,455	236,480	245,369
Applicable tax rate	27.88 %	32.39 %	26.54 %	28.71 %
Adjustments due to:				
Income not subject to tax (1)	0.07 %	0.27 %	0.03 %	2.47 %
Tax effect on interest income	0.02 %	0.05 %	0.02 %	0.05 %
Expenses not deductible for tax purposes(2)	(2.47)%	(1.60)%	(1.45)%	(1.24)%
Difference in tax rate	(0.12)%	- %	(0.13)%	- %
Prior year tax under provision of current tax	0.01 %	(1.10)%	- %	- %
Combined rate of Kenya and Tanzania	**25.5 %**	**30 %**	**25 %**	**30 %**

(1) All significant transactions that are accounted for in other comprehensive income (OCI) for both 2020 and 2019 attracted tax at the standard tax rates with the exception of the foreign currency translation reserve which does not attract taxation as it emerges on consolidation of foreign subsidiaries. Income not subject to tax relates to exempt dividends.

(2) Expenses not deductible for tax purposes includes expenses attributable to exempt income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. Retained earnings and other reserves

	Group 2020 KShs '000	Group 2019 KShs '000	Company 2020 KShs '000	Company 2019 KShs '000
Statutory reserve	290,939	262,768	-	-
Foreign currency translation reserve	(166,262)	(194,929)	-	-
Total other reserves	**124,677**	**67,839**	**-**	**-**
Retained earnings	3,120,341	2,654,740	2,941,473	2,471,899
At 31 December	**3,245,018**	**2,722,579**	**2,941,473**	**2,471,899**

- Movement in the statutory reserves are shown in the statement of changes in equity on pages 26 to 28.
- A statutory reserve is maintained by the Tanzania subsidiary as required by the Tanzania Insurance Act. The reserve is calculated annually as the greater of 3% of net written premium or 20% of the net profit. This reserve shall accumulate until it reaches the minimum paid-up share capital or 50% of the net premiums, whichever is greater.
- The Currency translation reserve represents exchange rate differences arising on the translation of the foreign subsidiary.
- The retained earnings balance represents the amount available for dividend distribution to the shareholders of the Company.

26. Cash generated from operations

	Group 2020 KShs '000	Group 2019 KShs '000	Company 2020 KShs '000	Company 2019 KShs '000
Profit before taxation	965,133	927,702	891,054	854,502
Adjustments for:				
Interest income (Note17)	(242,265)	(225,281)	(150,277)	(139,715)
Interest expense on lease liabilities (Note 2(c))	24,053	25,849	22,659	23,844
Depreciation (Note 1)	29,447	28,525	21,412	21,875
Amortization of intangibles (Note 3)	16,105	16,231	10,533	11,297
Depreciation of right-of-use assets (Note 1.2.2)	52,541	51,409	39,046	39,213
Losses on disposals of equipment and intangibles (Note 19)	-	9,843	-	10,822
Loss on lease modifications	13,270	-	13,270	-
Revaluation reserve of bonds and shares	(9,678)	(5,187)	(5,676)	(4,232)
Staff loan impairment	1,086	(9,499)	1,086	(9,499)
Changes in working capital:				
Other receivables	17,316	(228,952)	13,092	(105,658)
Deferred acquisition costs	5,787	(48,612)	9,585	(36,097)
Receivable arising out of reinsurance arrangements	150,817	(210,057)	102,838	(114,740)
Receivable arising out of direct insurance arrangements	(56,842)	240,315	(56,842)	240,315
Reinsurers' share of insurance liabilities	(452,986)	(83,524)	(835,515)	186,736
Creditors arising from reinsurance arrangements	(49,172)	(115,277)	63,020	(382,351)
Employee benefits	7,232	(7,239)	8,119	6,561
Other payables	224,466	131,346	220,758	19,796
Creditors arising from direct insurance arrangements	(14,115)	(59,139)	(26,334)	(55,987)
Insurance contract liabilities	578,658	145,738	969,683	(25,758)
Unearned premium reserve	(60,723)	149,437	(81,182)	48,424
	1,200,130	**733,628**	**1,230,329**	**589,348**

27. Dividends paid

	Group 2020 KShs '000	Group 2019 KShs '000	Company 2020 KShs '000	Company 2019 KShs '000
Dividends	(185,000)	(276,168)	(185,000)	(223,000)

Dividends are from profits generated by the Group and Company

During the year, the Company paid KShs 185 million (2019: KShs 223 million) The Directors do not propose payment of a final dividend (2019: Nil)

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. Related parties

The Group and Company is controlled by Liberty Kenya Holdings Plc, incorporated in the Republic of Kenya. The parent of Liberty Kenya Holdings Plc is Liberty Holdings Limited incorporated in South Africa. The ultimate parent of Liberty Holdings Limited is Standard Bank Group Limited, which is incorporated in South Africa.

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

Key management personnel

Key management personnel have been defined as follows:

- Heritage Insurance Company Kenya Limited directors and directors of subsidiary companies.

To the extent that specific transactions have occurred between the group and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management and where significant full details of all relationships and terms of the transaction are provided.

Post-employment benefit plans

Refer to note 29

A. Group Companies

A.1 Financial instrument investments

Stanbic term deposits and Corporate bonds

	Group Fair value		Company Fair value	
	2020 KShs '000	**2019 KShs '000**	**2020 KShs '000**	**2019 KShs '000**
Summary of holdings and movements				
Holdings at the beginning of the year	**123,277**	**340,995**	**123,277**	**340,995**
Stanbic Bank Kenya limited - term deposits	123,277	340,995	123,277	340,995
Purchases	**1,372,632**	**-**	**1,372,632**	**-**
Stanbic Bank Kenya Limited - term deposits	1,372,632	-	1,372,632	-
Sales	**(1,282,138)**	**(217,718)**	**(1,282,138)**	**(217,718)**
Stanbic Bank Kenya Limited - term deposits	(1,282,138)	(217,718)	(1,282,138)	(217,718)
Holdings at the end of the year	**213,771**	**123,277**	**213,771**	**123,277**
Stanbic Bank Kenya Limited - term deposits	213,771	123,277	213,771	123,277

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. Related parties (continued)

A.2 Financial instrument investments

Stanbic equity investments

	Group Fair value		Company Fair value	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Summary of holdings and movements				
Holdings at the beginning of the year	**-**	**13,140**	**-**	**13,140**
STANLIB Fahari I-Reit	-	13,140	-	13,140
Fair value adjustments	**-**	**(1,836)**	**-**	**(1,836)**
STANLIB Fahari I-Reit	-	(1,836)	-	(1,836)
Holdings at the end of the year	**-**	**11,304**	**-**	**11,304**
Stanbic Bank Kenya Limited - term deposits	-	11,304	-	11,304

A.3 Banking arrangements

The Heritage Insurance Company Kenya Limited makes use of banking facilities provided by Stanbic.

Summary of cash balances, interest earned and bank charges

	Group		Company	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Holdings at the beginning of the year	**191,117**	**392,362**	**174,359**	**198,441**
Stanbic Bank Kenya Limited	191,117	392,362	174,359	198,441
Net movements during the year	**(137,081)**	**(201,245)**	**(143,619)**	**(24,082)**
Stanbic Bank Kenya Limited	(137,081)	(201,245)	(143,619)	(24,082)
Holdings at the end of the year	**54,036**	**191,117**	**30,740**	**174,359**
Stanbic Bank Kenya Limited	54,036	191,117	30,740	174,359

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. Related parties (continued)

A.4 Bancassurance

The Heritage Insurance Company Kenya Limited has a bancassurance business agreement with Stanbic Bank Kenya Limited for the sale and promotion of Insurance and health products through the Stanbic Kenya's distribution capability. Premium income in respect of this business in 2020 amounted to KShs 724 million (2019: KShs 692 million). In terms of agreements, Heritage insurance Group and Company pays profit shares to Stanbic Bank. The amounts to be paid are in most cases dependent on source and type of business. The total combined net profit share amounts accrued as payable to the Stanbic Bank for the year to 31 December 2020 is KShs 104 million (2019: KShs 122 million).

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

A.5 Asset management fees – The Standard Bank Group Retirement Fund (fund)

Custodial fees of KShs 5.8 million (2019: KShs 5.5 million) were paid to Stanbic Bank Kenya Limited for services rendered during the year.

A.6 Health risk product

The Heritage Insurance Company Kenya Limited runs a Health risk product aimed at employer groups within Kenya. During the year the Liberty Life Assurance and Stanbic Kenya had contracted to use this product as a benefit for their employees. 2020 premium income was KShs 458 million (2019: KShs 403 million). NB: The year 2019 includes STANLIB

A.7 Short term insurance

Stanbic Kenya and Liberty Life Assurance Kenya Limited contracted to insure with the Heritage Insurance Company Kenya Limited various short term insurance risks. 2020 premium income was KShs 120 million (2019: KShs 133 million). NB: Year 2019 includes STANLIB.

A.8 Commission paid to Stanbic

Heritage Insurance pays commission to Stanbic bank for insurance policies sold through the bank's various distribution channels. The commission paid for the year to 31 December 2020 is KShs 80 million (2019: KShs 73 million).

A.9 Operating lease income

Heritage Insurance leases a portion of a property from Liberty Life Assurance Kenya Limited in Nairobi, total lease payments for 2020 was KShs 31million (2019: KShs 31 million).

B.1 Management services - Liberty Holdings Limited

Heritage Insurance contracts certain management and administration services from Liberty Holdings Limited. Fees paid for these services were KShs 63 million (2019: KSh79 million).

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

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

	2020 KShs '000	2019 KShs '000
Non-executive directors' fees	25,438	15,142
Total	**25,438**	**15,142**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. Related parties (continued)

C.2 Entities significantly influenced or controlled by key management

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

Insurance products

	Aggregate insured cover		Premiums received	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Short term insurance	3,142,071	2,905,738	8,245	7,631

D. STANLIB Fahari-Reit

Heritage Insurance has an investment in STANLIB Fahari-Reit of 1,200,000 units (2019: 1,200,000 units) at a fair value of KShs 6,768,000 (2019:Kshs 11,304,000). A related subsidiary, namely STANLIB Kenya Limited had the exclusive asset management mandate with STANLIB Fahari-Reit. With effect from 1 January 2020 the mandate was sold to ICEA Lion Limited Asset Management (ILAM) and therefore from that date there is no longer a related party relationship.

E. Outstanding balances with related parties

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

	Group		Company	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Liberty Holdings Limited SA	(4,631)	52	(4,197)	52
The Heritage Insurance Company Tanzania Limited	-	-	9,812	4,898
Liberty Kenya Holdings Plc	2,926	1,738	2,926	1,738
Liberty Life Assurance Kenya Limited	2,274	(17,160)	2,274	(16,805)
Stanlib Kenya Limited	-	(3,281)	-	(3,281)
Stanbic Bank Kenya Limited	(1,306)	(1,232)	(1,306)	(1,232)
Amounts included in other receivables	5,200	1,790	15,012	6,688
Amounts included in other payables	(5,937)	(21,673)	(5,503)	(21,318)

29. Employee benefits

29.1. Short-term employee benefits

	Group					
	Leave pay		Short-term incentive schemes		Total	
KShs '000	2020	2019	2020	2019	2020	2019
Balance at the beginning of the year	25,394	44,098	63,013	40,191	88,407	84,289
Additional liability raised	33,080	7,360	65,000	63,013	98,080	70,373
Utilised during the year	(27,954)	(26,064)	(63,013)	(40,191)	(90,967)	(66,255)
Foreign currency translation	119	-	-	-	119	-
Balance at the end of the year	**30,639**	**25,394**	**65,000**	**63,013**	**95,639**	**88,407**

NOTES TO THE FINANCIAL STATEMENTS (continued)

29. Employee benefits (continued)

29.1 Short-term employee benefits (continued)

	Company					
	Leave pay		Short-term incentive schemes		Total	
KShs '000	2020	2019	2020	2019	2020	2019
Balance at the beginning of the year	23,734	39,995	63,013	40,191	86,747	80,186
Additional liability raised	28,304	6,092	65,000	63,013	93,304	69,105
Utilised during the year	(22,172)	(22,353)	(63,013)	(40,191)	(85,185)	(62,544)
Balance at the end of the year	**29,866**	**23,734**	**65,000**	**63,013**	**94,866**	**86,747**

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

Leave pay

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

Short-term incentive schemes (cash-settled)

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

29.2. Details of funds

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

Defined contribution schemes:

Liberty Defined Contribution Pension Fund

The Heritage group operates a funded defined contribution pension scheme in terms of section 1 of the Income Tax Act, 1962. The Heritage Defined Contribution Pension Fund offers a benefit to Heritage employees based on the accumulated contributions and investment returns at retirement.

29.3. Transactions between group companies and the funds

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

	Group		Company	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Retirement				
Defined contribution funds	67,067	62,534	48,612	45,082

29.3.2. The following retirement benefit funds have insurance policies with Liberty Group Limited and its subsidiaries, held as investment policies in the funds. A summary of the transactions for each policy with each fund follows:

Liberty Defined Contribution Pension Fund				
Balance at the beginning of the year	619,213	602,847	619,213	602,847
Premiums	97,576	141,048	97,576	141,048
Withdrawals	(64,043)	(124,682)	(64,043)	(124,682)
Balance at the end of the year	**652,746**	**619,213**	**652,746**	**619,213**

NOTES TO THE FINANCIAL STATEMENTS (continued)

30. Contingent liability

In common with the insurance industry in general, the Group and Company are subjected to litigation arising in the normal course of insurance business. The Directors are of the opinion that such litigation will not have a material effect on the financial position or profits of the Group and Company with the exception of our Tanzania subsidiary which has tax disputes with Tanzania Revenue Authority.

The Company has filed an appeal in relation to all the disputed amounts. In the opinion of the Directors, no additional material liability is expected to arise from the disputed assessments.

31. Commitments

31.1. Capital commitments

	Group		Company	
	2020 KShs '000	**2019 KShs '000**	**2020 KShs '000**	**2019 KShs '000**
Equipment and internally generated computer software	-	36,163	-	36,163
Under contracts	-	36,163	-	36,163

32. Subsequent events

There were no events after 31 December 2020 that would have a material effect, adjusting or non-adjusting, on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

33. Restatement

Statement of Financial Position	Restated 31 December 2019 KShs '000	Impact of change in classification and presentation KShs '000	As previously reported 2019 KShs '000	Restated 1 January 2019 KShs '000	Impact of change in classification and presentation KShs '000	As previously reported 2019 KShs '000
Assets						
Equipment	79,108	-	79,108	89,974	-	89,974
Right-of-use assets	194,673	-	194,673	229,771	229,771	-
Intangible assets	56,585	-	56,585	51,529	-	51,529
Deferred tax	230,763	-	230,763	221,492	-	221,492
Other receivables	345,965	69,780	276,185	180,463	63,450	117,013
Financial investments	4,692,123	(256,600)	4,948,723	3,746,967	(262,884)	4,009,851
Staff loans	256,600	256,600	-	262,884	262,884	-
Deferred acquisition costs	85,285	-	85,285	36,673	-	36,673
Current tax receivable	23,441	-	23,441	94,922	-	94,922
Receivable arising out of reinsurance arrangements	320,375	-	320,375	110,318	-	110,318
Receivable arising out of direct insurance arrangements	493,267	-	493,267	733,582	-	733,582
Reinsurers' share of insurance liabilities	2,709,114	-	2,709,114	2,625,590	-	2,625,590
Cash and cash equivalents	2,998,096	(69,780)	3,067,876	3,478,567	(63,450)	3,542,017
Total Assets	**12,485,395**	**-**	**12,485,395**	**11,862,732**	**229,771**	**11,632,961**
Liabilities						
Lease liabilities	199,720	-	199,720	229,771	229,771	-
Insurance contract liabilities	3,598,041	-	3,598,041	3,452,303	-	3,452,303
Creditors arising from reinsurance arrangements	511,319	-	511,319	626,594	-	626,594
Employee benefits	88,407	88,407	-	95,646	95,646	-
Other payables	546,709	(88,407)	635,116	415,363	(95,646)	511,009
Unearned premium reserve	2,995,655	-	2,995,655	2,846,218	-	2,846,218
Current tax payable	65,098	-	65,098	2,693	-	2,693
Creditors arising from direct insurance arrangements	493,243	-	493,243	552,382	-	552,382
Total Liabilities	**8,498,192**	**-**	**8,498,192**	**8,220,970**	**229,771**	**7,991,199**
Net Assets	**3,987,203**	**-**	**3,987,203**	**3,641,762**	**-**	**3,641,762**
Share captial	1,000,000	-	1,000,000	500,000	-	500,000
Retained income	2,654,740	84,951	2,569,789	2,801,305	83,853	2,717,452
Reserves	67,839	(84,951)	152,790	59,412	(83,853)	143,265
Equity attributable to equity holders	**3,722,579**	**-**	**3,722,579**	**3,360,717**	**-**	**3,360,717**
Non-controlling interest	264,624	-	264,624	281,045	-	281,045
Total Equity	**3,987,203**	**-**	**3,987,203**	**3,641,762**	**-**	**3,641,762**

33.1.Changes in certain designations, calculation methodology and presentation

During 2020, the Group and Company completed a harmonisation project to align The Heritage Insurance Company Kenya Limited (HIK) annual financial statements to the group's ultimate holding company, Liberty Holdings Limited (LHL). This project identified a number of areas that have been needed to change in order to present aligned presentation and disclosures . In addition, further restatements were required to reflect a change in the foreign currency translation reserve calculation methodology and a recognise a change in classification regarding one portfolio of policyholder contracts. These are detailed below:

NOTES TO THE FINANCIAL STATEMENTS (continued)

33. Restatement (continued)

33.2.Change in application of the foreign currency translation reserve created on consolidation

The application of the foreign currency translation accounting policy in The Heritage Insurance Company Kenya Limited (HIK) previously differs from that applied in the LHL group annual financial statements. HIK previously transferred currency differences on consolidation of foreign subsidiaries to the Foreign Currency Translation Reserve (FCTR) limited to the cumulative introduced capital investment in the applicable subsidiary (Heritage Tanzania), whereas LHL takes all currency changes on the cumulative net asset value of the subsidiary to the FCTR. In order to create consistency the methods have been aligned to that applied by LHL. The group has processed an opening adjustment at 1 January 2019 between the FCTR, being KShs144 million, and other reserves. During the 2019 year the difference between the average and closing rate exchange rate was minimal and therefore there is no impact to profit or loss. The closing FCTR at 31 December 2019 is Ksh195 million as compared to Ksh48 million as previously reported. There is no change to the group's net asset value as the changes equally impact retained income and statutory reserves and therefore contra.

33.3.Changes in presentation

During the year the group undertook a project to align the disclosures in its annual financial statements to those of its holding company, resulting in an aligned annual financial statement format. There was no change to reported profit or loss or earnings per share in the 2019 comparatives. However as a result of the alignment project, the prior year disclosure presentation for a number of notes to the financial statements was updated. These included the following:

Key judgements:

In line with LHL presentation, management supported a change in key judgement relating to the appropriateness of all cash flows relating to investment portfolios backing policyholder liabilities. Management are of the opinion that these should be reflected as cash flows from operating activities rather than as previously reflected as cash flows from investing activities. This provides more relevant information as it more accurately reflects the nature of the cash flows.

Statement of financial position changes:
1) Financial assets measured at amortised cost, being policy and staff loans receivable are now presented separately.
2) Employee benefits balances are now presented separately.

Notes to the annual financial statements:

In line with the changes summarised above the relevant notes have been updated. In addition a number of disclosure enhancements (additional information) have been included in the following notes:

Note 13 Deferred tax movement analysis now includes FCTR.

Note 28 Related party disclosures - a number of additional disclosures including details of key management.

33.4.Accrued income on cash and cash equivalents

At 31 December 2019, accrued investment income on cash and cash equivalents of KShs'000 69,780 was presented in the cash and cash equivalents amount in the finacial position statement. In alignining to the Liberty Holdings Limited Group disclosures this has been reclassified to other receivalbles.

NOTES TO THE FINANCIAL STATEMENTS (continued)

33. Restatement (continued)

33.5.The tables below summarises the effect of the reclassification and required restatements to the group's financial position and comprehensive income statement:

	Reference	As previously reported	Impact of change in FCTR calculation	Income accrued reclassification	Impact of change in presentation	Restated
			33.2	33.4	33.3	
		KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Statement of Financial Position						
Assets						
Financial investments	33.3	4,948,723	-	-	(256,600)	4,692,123
Staff loans	33.3	-	-	-	256,600	256,600
Other receivables	33.4	276,185	-	69,780	-	345,965
Cash and cash equivalents	33.4	3,067,876	-	(69,780)	-	2,998,096
Liabilities						
Employee benefits	33.3	-	-	-	88,407	88,407
Insurance and other payables	33.3	635,116	-	-	(88,407)	546,709
Equity						
Retained income	33.2	2,569,789	84,951	-	-	2,654,740
Other reserves	33.2	152,790	(84,951)	-	-	67,839
Statutory reserve	33.2	200,996	61,772	-	-	262,768
Foreign currency translation	33.2	(48,206)	(146,723)	-	-	(194,929)
Other comprehensive income Items that may be reclassified subsequently to profit or loss						
Currency translation reserve		(5,638)	-	-	-	(5,638)
Component foreign currency translation reserve		(5,638)	-	-	-	(5,638)
Total comprehensive income		**621,609**	**-**	**-**	**-**	**621,609**

RISK MANAGEMENT

Enterprise risk management (ERM) at a glance

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

Risk categories

- **Strategic and business** – Section 2
- **Insurance** – Section 3
- **Market** – Section 4
- **Credit** – Section 5
- **Liquidity** – Section 6
- **Operational** – Section 7
- **Business conduct** – Section 8
- **Compliance and Legal** – Section 9

Risk governance

First line of defence
Business unit management

- Manage day-to-day risk origination and management in accordance with risk policy and strategy
- Identify and assess risks and implement management's response
- Report and escalate material risks and issues to governance bodies
- Track losses and implement remedial actions

Second line of defence
Heads of compliance, risk and actuarial functions and statutory actuaries

- Provide oversight of and challenge to the first line of defence
- Propose risk policy and strategy
- Champion implementation of risk policy and strategy
- Provide assurance to board and regulators

Third line of defence
Independent assurance providers - internal and external audit and other independent service providers

- Provide assurance over effective functioning of the first and second lines of defence functions including independent assessment of the adequacy and effectiveness of the risk management framework

RISK MANAGEMENT (continued)

1. Enterprise risk management

(a) Overview

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

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

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

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

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

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

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

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

The board ensures that the business unit executive is responsible and held accountable for risk management within all operations. The Group and Company's risk management system is functioning effectively, and the company continues to be managed within risk appetite.

RISK MANAGEMENT (continued)

1. Enterprise risk management (continued)

(b) Risk strategy

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

Risk strategy	Business strategy link
The Group and Company and company risk philosophy is to ensure the sustainable growth of its business, by encouraging profitable risk-taking and ensuring that it operates within risk appetite.	The Group and Company's strategy plan is based on strategic objectives and concentrates on the growth of the core business.
The Group and Company's risk preferences are classified according to: • risks that the group actively seeks as a result of being in the business of underwriting and managing risks (i.e. insurance, market, credit and liquidity risks), all of which are viewed as value-enhancing; and • risks that are not actively sought but arise as a consequence of being in business and will be managed to an acceptable level to protect value (i.e. operational, strategic and business, business conduct and compliance and legal risks). All other risks are avoided as far as possible.	The strategic objectives provide clear direction for management, with detailed strategies being constructed around each. Risk preferences are considered in the formulation of these detailed strategies, and in any supporting operational capabilities that are built. Impacts of decisions taken during the formulation and execution of these detailed strategies are considered against the planned risk profile, and form part of the broader feedback loop of business decision-making (with particular attention paid to the extent that a decision may push the group outside risk appetite).

(c) Risk appetite and risk target

Definition

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

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

Determining risk appetite

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

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

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

RISK MANAGEMENT (continued)

1. Enterprise risk management (continued)

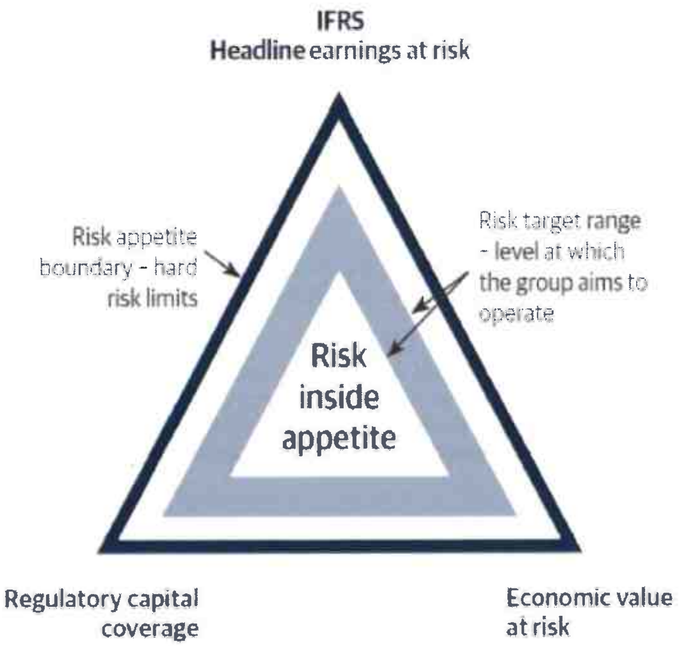
(c) Risk appetite and risk target (continued)

Risk dimensions and measurement

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

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

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



(d) Risk management framework

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

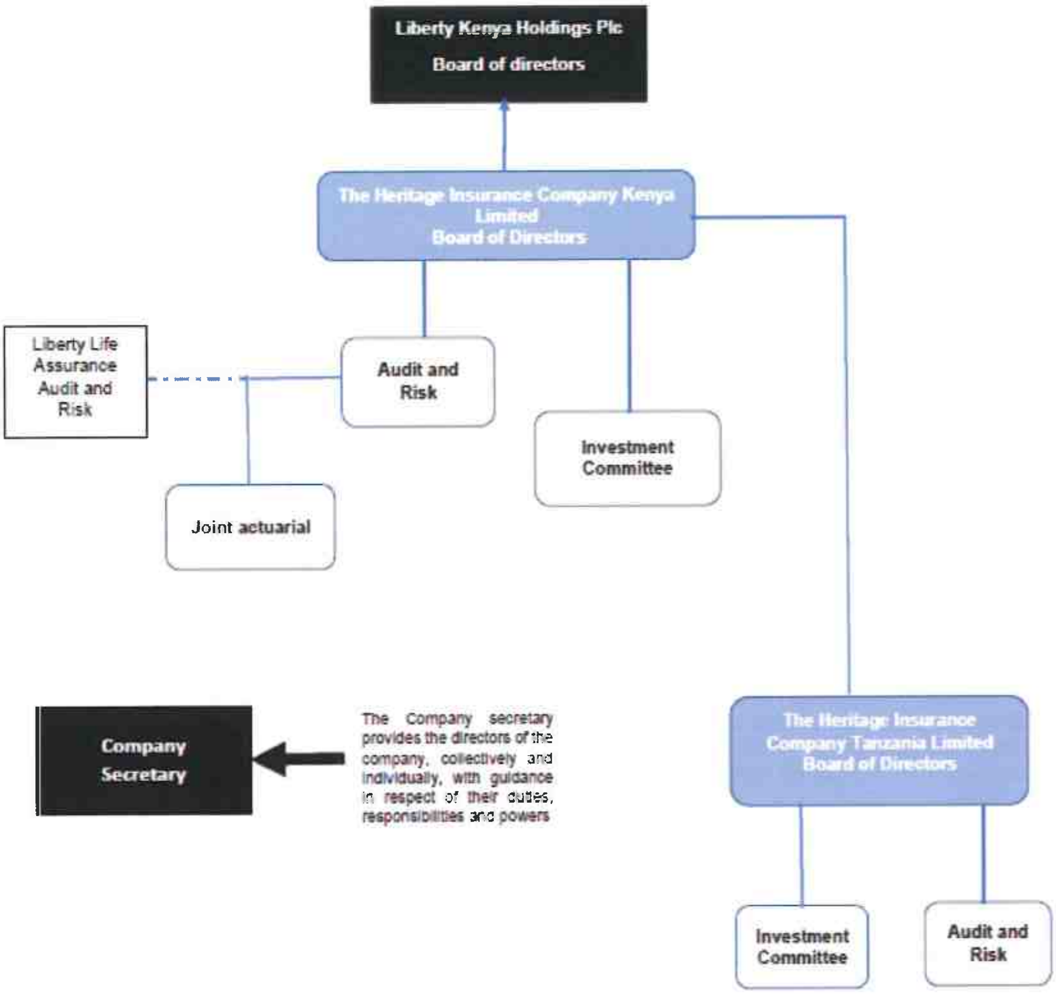
RISK MANAGEMENT (continued)

1. Enterprise risk management (continued)

(e) Governance of the risk management system

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

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



RISK MANAGEMENT (continued)

1. Enterprise risk management (continued)

(e) Governance of the risk management system (continued)

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

- The audit and risk committee (ARC) is responsible for providing the Boards with oversight relating to risk and control matters, and reviews Liberty's risk and control philosophy, strategy, frameworks, policies and processes and effectiveness of the risk management system. The ARC is also responsible for reviewing compliance with risk policies and for the overall risk profile of the Group and Company. The committee also has primary responsibility for risks relating to the production of financial statements and for compliance and legal risks.
- The respective boards monitor and provides oversight on "people" risks (such as those that arise from major business-wide change), customer fairness related risks, technology and information assets and processes, including: infrastructure, applications, information security (including cyber security), disaster recovery, IT investments and IT projects. The board ensures the integration of technology and information risks into the company's risk management system. The Executive committees are responsible for ensuring appropriate IT process governance and ensuring prioritisation of project delivery.
- The investment committee is delegated authority by the Board to manage the subsidiary financial position. This committee is also responsible for providing recommendations to the ARC regarding all risk and control related issues that require escalation to the Board.

(f) Understanding Heritage's risks

(f)(i) Risk identification and assessment process

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

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

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

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

(f)(ii) Stress testing

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

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

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

RISK MANAGEMENT (continued)

1. Enterprise risk management (continued)

(f) Understanding Heritage's risks (continued)

(f)(iii) Risk mitigation

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

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

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

(f)(iv) Risk response, monitoring and reporting

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

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

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

(f)(v) The Group and Company top risks

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

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

Risk strategy	Business strategy link
Non-compelling customer and adviser value proposition • Strategic and business risk • Insurance risk Erosion of the group and company brand Classification: • Strategic and business risk Not identifying the right opportunities and executing on building operations of value for Liberty's chosen markets Classification: • Strategic and business risk	Management is focusing on: • enhancing the customer and adviser experience at points of delivery; • enhancing intermediary experience through servicing and tools; and • building loyalty and increasing customer confidence in our brand. • Management have undertaken to do a comprehensive consumer survey to identify priority customer segments.

RISK MANAGEMENT (continued)

1. Enterprise risk management (continued)

(f) Understanding Heritage's risks (continued)

(f)(v) The Group and Company top risks (continued)

Risk strategy	Business strategy link
Poor investment performance relative to customer expectations Classification: • Strategic and business risk • Business conduct risk	• The Group and Company continues to enhance investment capabilities • Investment propositions offered are being reviewed and simplified. • There is focus on attracting and outsourcing top investment professionals, ensuring that the right mandates are in place and in monitoring performance.
Substantial complexity due to inadequate legacy management and an inadequate control environment for new initiatives Classification: • Strategic and business risk • Operational risk	Complexity reduction is included as a key consideration for all initiatives from a strategic perspective. Over time this will be embedded as a culture across the business. Management has rationalised several products and systems in recent years reducing the associated operational complexity and risk.
Disruption to the insurance business model and inability to adapt in an agile manner Classification: • Strategic and business risk • Operational risk	The Group and Company continues to drive initiatives that will ensure it remains future fit and operates effectively in the evolving external operating environment.
Instability in the socio-political & economic environment aggravated by the advent of the Covid-19 pandemic. Classification: • Insurance risk • Market risk • Credit risk • Operational risk	The Group and Company maintains a strong capital position and manages its asset/liability matching position within risk limits. In addition, the Group and Company performed stress tests during the course of 2020 which included a scenario of negative economic impact in Kenya as well as a scenario involving distressed financial markets to prepare for the potential impacts on the business.
Changes in the operating environment as a result of the changing regulatory landscape Classification: • Strategic and business risk • Compliance and legal risk	The Group and Company continues to develop strategic responses to new and emerging regulation.
Data risk Classification: • Operational risk • Compliance and legal risk	The Group and Company has established a robust data and information management capability and continues to enhance governance in this regard.
Inadequate cyber security and resilience Classification: • Operational risk • Compliance and legal risk	Investment continued to enhance the Group and Company's cyber security and update plans based on changes to the threat landscape and technology enhancements.

RISK MANAGEMENT (continued)

1. Enterprise risk management (continued)

(f) Understanding Heritage's risks (continued)

(f)(v) The Group and Company top risks (continued)

Weaknesses in operational, IT, financial and accounting processes may lead to incorrect decision making and/or reporting Classification: • Operational risk	Simplification and automation initiatives as well as enhancements which increased the granularity of financial controls have contributed to mitigating this risk. Management has driven a number of initiatives in 2020 to enhance risk practices and risk culture by embedding risk management in business processes. Ongoing alignment to the broader Group IT architecture.

(g) Capital management

(g)(i) Capital management strategy

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

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

Company

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

	2020 KShs '000	2019 KShs '000
Due from Group Companies (Note 28(e))	15,012	6,688
Due (to) Group Companies (Note 28(e))	(5,503)	(21,318)
Net borrowings	9,509	(14,630)
Add cash and cash equivalents (Note 9)	1,955,951	1,630,917
Net Cash	1,965,460	1,616,287
Total Equity	**3,941,473**	**3,471,899**

The board of directors of the company is responsible for monitoring and ensuring compliance with the regulatory framework as established by the Kenyan Insurance Regulatory Authority.

The Company is primarily regulated by the Kenyan Insurance Act, 1987, Companies Act, 2015, and the Kenya Retirement Benefit Authority and Insurance Regulatory Authority Act, 1997 and guidelines issued by these regulators..

The objectives when managing capital are to:

- comply with the capital requirements as set out in the Kenyan Insurance Act, 1987;
- comply with regulatory solvency requirements as set out in the Kenyan Insurance Act, 1987;
- safeguard the companies' ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders; and
- provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk

RISK MANAGEMENT (continued)

1. Enterprise risk management (continued)

(g) Capital management (continued)

(g)(i) Capital management strategy (continued)

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

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

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

(g)(ii) Available capital

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

Available capital and solvency capital requirements.

The following table summarises the available capital (or "own funds") and the solvency capital requirements ("SCR") for Heritage Insurance Company Kenya Limited.

	Short Term business	
Heritage Insurance Company Kenya Limited	**2020 KShs'000**	**2019 KShs'000**
Available capital (or "own funds")	3,367,525	2,909,185
Risk-based capital requirement	952,581	939,421
Solvency ratio (times)	3.54	3.10
Target SCR coverage ratio (times)	**1.5 - 2.0**	**1.5 - 2.0**

	Short Term business	
Heritage Insurance Company TanzaniaLimited	**2020 KShs'000**	**2019 KShs'000**
Available capital (or "own funds")	1,603,898	1,741,991
Risk-based capital requirement	1,300,159	1,504,804
Solvency ratio (times)	2.19	1.64
Target SCR coverage ratio (times)	**1.5 - 2.0**	**1.5 - 2.0**

RISK MANAGEMENT (continued)

2. Strategic and business risk

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

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

Management regularly monitors strategic and business risks and seeks to respond appropriately and manage them against the Group and Company appetite for risk.

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

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

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

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

3. Insurance risk

3.1. Definition

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

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

3.2. Ownership and accountability

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

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

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

- Audit and risk committee;
- Joint actuarial committee supporting the audit and risk committee.

RISK MANAGEMENT (continued)

3. Insurance risk (continued)

3.2. Ownership and accountability (continued)

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

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

The appointed actuaries, where applicable, provide oversight of the insurance risks undertaken by the company by:

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

3.3. Risk identification, assessment, measurement and management

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

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

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

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

RISK MANAGEMENT (continued)

3. Insurance risk (continued)

3.4. Reporting

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

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

3.5. Underwriting risks

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

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

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

3.5.1. Short-term insurance

The Group has one subsidiary, namely Heritage Tanzania, which conducts short-term insurance business in the East Africa region, including medical expense cover.

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

Class of business definition

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

RISK MANAGEMENT (continued)

3. Insurance risk (continued)

3.5. Underwriting risks (continued)

3.5.1. Short-term insurance (continued)

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

Class of insurance business	2020 Gross premiums earned KShs '000	2020 Gross claims loss ratio %	2019 Gross premiums earned KShs '000	2019 Gross claims loss ratio %
Motor	1,866,165	59	1,856,148	53
Fire	2,054,237	9	1,778,969	41
Accident	2,401,926	56	2,215,298	1
Medical	1,917,289	56	1,846,393	64
Marine	230,112	(2)	246,140	176
Total	**8,469,729**	**44**	**7,942,948**	**42**

(a). Underwriting risks associated with short-term insurance

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

(b). Pricing risk

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

(c). Reserving risk

For claims that have been reported by the financial position date, expert assessors estimate the expected cost of final settlement. For expected claims that have not been reported by the financial position date an incurred but not reported (IBNR) provision is calculated using appropriate techniques. Consideration is also given to any stipulated minimum IBNR prescribed by regulations. These provisions for claims are discounted for the time value of money and in Heritage Kenya the IBNR is increased by risk margin.

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

(d). Catastrophic risk

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

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

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

RISK MANAGEMENT (continued)

4. Market risk

4.1. Definition

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

4.2. Ownership and accountability

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

The investment committee, which is a sub-committee of the Board, is charged with ensuring that market risk remains within approved risk limits.

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

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

4.3. Risk identification, assessment and measurement

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

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

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

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

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

4.4. Risk management

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

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

4.4.1. Assets comprising Shareholder capital

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

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

RISK MANAGEMENT (continued)

4. Market risk (continued)

4.4.2. Asset/liability management portfolio (ALM Portfolio)

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

4.5. Alignment of market risk exposure to risk appetite statement

The maximum amount of risk assumed within the Company is defined by the Group and Company's risk appetite.

Market risk targets are set within risk appetite. These targets guide the setting of market risk limits for the ALM Portfolio. During 2020, the company remained within market risk limits.

4.6. Risk reporting

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

4.7. Summary of Group and Company assets subject to market risk

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

- Other policyholder liabilities – liabilities where shareholders bear the market risk but have largely hedged the risk via suitable matching assets.
- Non-controlling interest - this includes interests held by non-Heritage shareholders in subsidiaries. See note 23 for details.
- Residual liabilities and shareholders interests this shows the residual assets left once assets have been allocated to cover the liabilities mentioned above. Shareholders would be exposed to the market risk on these assets

		Attributable to
Group **Risk category** **KShs '000**	**Total financial, property and insurance assets**	**Residual liabilities and shareholders' interests**
2020		
Assets subject to market risk only	55,999	55,999
Equity price	55,999	55,999
Assets subject to market and credit risk	12,931,104	12,931,104
Interest rate	9,769,004	9,769,004
Reinsurance assets(1)	3,162,100	3,162,100
Other assets not included in the asset class table	658,905	658,905
Total	**13,646,008**	**13,646,008**
Percentage (%)	**-**	**100**

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

RISK MANAGEMENT (continued)

4. Market risk (continued)

4.7. Summary of Group and Company assets subject to market risk (continued)

	Attributable to	
Company **Risk category** **KShs '000**	**Total financial, property and insurance assets**	**Total assets**
2019		
Assets subject to market risk only	51,975	51,975
Equity price	51,975	51,975
Assets subject to market and credit risk	11,787,006	11,787,006
Interest rate	9,077,892	9,077,892
Reinsurance assets[1]	2,709,114	2,709,114
Other assets not included in the asset class table	646,414	646,414
Total	**12,485,395**	**12,485,395**
Percentage (%)	**-**	**100**

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

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

Group KShs '000	2020	2019
Provisions	-	-
Lease liabilities	181,203	199,720
Insurance contract liabilities	4,176,699	3,598,041
Creditors arising from reinsurance arrangements	481,724	511,319
Employee benefits	95,639	88,407
Other payables	751,598	546,709
Unearned premium reserve	2,934,932	2,995,655
Current tax payable	-	65,098
Creditors arising from direct insurance arrangements	479,128	493,243
Total Equity	4,545,085	3,987,203
	13,646,008	**12,485,395**

RISK MANAGEMENT (continued)

4. Market risk (continued)

4.8. Market risk by asset or liability class for financial instruments

4.8.1. Interest rate risk

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

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

Financial instrument assets by term to maturity and type of interest.

(Debt instruments, collateral deposits receivable, cash and cash equivalents)

	Group			Company		
Amount by maturity date KShs '000	**Fixed**	**Floating**	**Total**	**Fixed**	**Floating**	**Total**
Within 1 year	4,543,921	-	4,543,921	1,657,139	-	1,657,139
1 – 5 years	840,482	-	840,482	3,228,294	-	3,228,294
Over 20 years	-	-	-	-	-	-
Variable	55,999	-	55,999	63,290	-	63,290
Total	**5,440,402**	**-**	**5,440,402**	**4,948,723**	**-**	**4,948,723**

Financial instrument liabilities by term to maturity and type of interest

	Group			Company		
Amount by maturity date KShs '000	**Fixed**	**Floating**	**Total**	**Fixed**	**Floating**	**Total**
Within 1 year	795,619	-	795,619	635,115	-	635,115
Total	**795,619**	**-**	**795,619**	**635,115**	**-**	**635,115**

4.8.2. Currency risk

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

Foreign currency exposure KShs '000	**2020**	**2019**
Tanzania Shillings		
Assets		
Financial investments (Tanzanian Shilling)	242,871	222,158
Reinsurance assets (Tanzanian Shilling)	770,971	1,153,500
Prepayments, insurance and other receivables (Tanzanian Shilling)	256,193	308,396
Cash and cash equivalents (Tanzanian Shilling)	1,349,824	1,281,641
Total financial and insurance assets by currency	**2,619,859**	**2,965,695**
Liabilities		
Insurance and other payables (Tanzanian Shillings)	(2,040,402)	(2,508,120)
Net Assets by currency	**579,457**	**457,575**
US Dollar		
Assets		
Cash and cash equivalents (US Dollar)	35,710	85,538

RISK MANAGEMENT (continued)

4. Market risk (continued)

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

4.8.2 Currency risk (continued)

Sensitivity analysis

A 10% strengthening of the Kenya Shilling against the Tanzanian Shilling at 31 December 2020 would have decreased profit and loss by KShs 58 million (2019: KShs 46 million)

A 10% strengthening of the Kenya Shilling against the US Dollar at 31 December 2020 would have decreased profit and loss by KShs 4 million (2019: KShs 9 million)

Diversification benefits

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

5. Credit risk
5.1. Definition

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

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonableand supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

5.2. Taking of credit risk

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

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

5.3. Management and measurement

The board has delegated credit risk management to the investment committee.

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

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

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

RISK MANAGEMENT (continued)

5. Credit risk (continued)

5.3. Management and measurement (continued)

Regardless of whether the credit risk taken is for the risk and reward of the shareholders, the Group and Company recognises the need for credit to be originated and managed within a prudent and disciplined risk management framework.

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

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

5.4. Characteristics of credit risk exposures

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

Overall, the credit risk exposures at 31 December 2020 remains heavily weighted towards Kenyan counterparties including government and top tier Kenyan banks.

Rating methodology

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

Rating scale

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

Investment grade

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

Non-investment grade

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

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

Not rated

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

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

The loans reflected as not rated relate to loans granted by the Group and Company to, which are secured by a first change to the company.

RISK MANAGEMENT (continued)

5. Credit risk (continued)

5.4. Characteristics of credit risk exposures (continued)

Credit exposure

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

KShs '000	A- and above	BBB+	BBB	BBB-	BB+	BB	Not rated	Total
2020								
Debt instruments	5,127,287	-	-	-	7,270	-	299,077	5,433,634
Listed preference shares	-	-	-	-	-	-	-	-
Unlisted preference shares	-	-	-	-	-	-	-	-
Listed term deposits	5,127,287	-	-	-	-	-	-	5,127,287
Unlisted term deposits	-	-	-	-	7,270	-	49,231	56,501
Loans	-	-	-	-	-	-	249,846	249,846
Reinsurance assets	-	-	-	-	3,162,100	-	-	3,162,100
Prepayments, insurance and other receivables	-	-	-	-	-	1,048,316	-	1,048,316
Cash and cash equivalents	-	-	2,521,242	-	820,243	-	-	3,341,485
Total assets bearing credit risk	**5,127,287**	**-**	**2,521,242**	**-**	**3,989,613**	**1,048,316**	**299,077**	**12,985,535**
Local	4,940,917	-	1,135,708	-	3,218,642	750,797	249,846	10,295,910
Foreign	186,370	-	1,385,534	-	770,971	297,519	49,231	2,689,625

RISK MANAGEMENT (continued)

5. Credit risk (continued)

5.4. Characteristics of credit risk exposures (continued)

Credit exposure (continued)

KShs '000	A- and above	BBB+	BBB	BBB-	BB+	BB	Not rated	Total
2019								
Debt instruments	4,604,886	-	28,693	-	6,569	-	297,271	4,937,419
Listed preference shares	-	-	-	-	-	-	-	-
Unlisted preference shares	-	-	-	-	-	-	-	-
Listed term deposits	4,604,886	-	-	-	-	-	-	4,604,886
Unlisted term deposits	-	-	28,693	-	6,569	-	40,671	75,933
Loans	-	-	-	-	-	-	256,600	256,600
Reinsurance assets	-	-	-	-	2,709,114	-	-	2,709,114
Prepayments, insurance and other receivables	-	-	-	-	-	1,159,607	-	1,159,607
Cash and cash equivalents	-	-	2,453,901	-	544,195	-	-	2,998,096
Total assets bearing credit risk	**4,604,886**	**-**	**2,482,594**	**-**	**3,259,878**	**1,159,607**	**297,271**	**11,804,236**
Local	4,429,968	-	1,115,415	-	2,099,809	851,211	256,600	8,753,003
Foreign	174,918	-	1,367,179	-	1,160,069	308,396	40,671	3,051,233

Reinsurance assets

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

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

RISK MANAGEMENT (continued)

5. Credit risk (continued)

5.4. Characteristics of credit risk exposures (continued)

Insurance and other receivables

The Group and Company has formalised procedures in place to collect or recover amounts receivable. In the event of default, these procedures include industry supported lists that help to prevent rogue agents, brokers and intermediaries from conducting further business. Full impairment is made for non-recoverability as soon as management is uncertain as to the recovery.

Stages of impairement

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Gross	550,109	-	430,238	980,347
Impairement	-	-	(430,238)	(430,238)
Net	**550,109**	**-**	**-**	**550,109**

The other financial assets have been assessed as low credit risk (stage 1) and the estimated ECL was immaterial to the financial statements as at 31 December 2020. Consequently, no impairment loss has been carried in the Group and Company financial statements.

Movement in impairment losses on Insurance receivables

	Group		Company	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Opening impairment loss allowance	(477,902)	(426,900)	(477,902)	(426,900)
Charge to profit or loss	(5,889)	(51,002)	(5,889)	(51,002)
Bad debts write off	53,553	-	53,553	-
Provision for impairment loss allowance - Closing	**(430,238)**	**(477,902)**	**(430,238)**	**(477,902)**

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

Capital requirements

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

6. Liquidity risk

6.1. Definition

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

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

6.2. Ownership and accountability

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

RISK MANAGEMENT (continued)

6. Liquidity risk (continued)

6.3. Risk identification, assessment and measurement

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

The Liquidity assessment at 31 December 2020 indicates a healthy surplus of sources of liquidity available to meet stressed outflows across the Group and Company balance sheet.

6.4. Risk management

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

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

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

6.5. Risk reporting

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

6.6. Liquidity profile of assets

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

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

	2020		2019	
Financial, property and insurance asset liquidity	%	KShs '000	%	KShs '000
Liquid assets (realisable within one month e.g. cash, listed equities, term deposits)	65.3	8,482,810	65.3	7,719,328
Medium assets (realisable within six months e.g. unlisted equities, certain unlisted term deposits)	0.4	49,231	0.3	40,671
Illiquid assets (realisable in excess of six months e.g. investment properties)	34.3	4,455,062	34.4	4,055,541
	100.0	**12,987,103**	**100.0**	**11,815,540**

RISK MANAGEMENT (continued)

6. Liquidity risk (continued)

6.7. Liability profile

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

Maturity profile of financial instrument liabilities

The table below summarises the maturity profile of the financial instrument liabilities of the company based on the remaining undiscounted contractual obligations. These figures will be higher than amounts disclosed in the statement of financial position (where the effect of discounting is taken into account) except for short duration liabilities.

	Contractual cash flows					
KShs '000	**0 - 3 months[1]**	**3 - 12 months**	**1 - 5 years**	**5 - 10 years**	**Variable**	**Total**
2020						
Lease liabilities	-	64,966	153,804	13,339	-	232,109
Insurance and other payables	866,814	941,275	-	-	-	1,808,089
Total	**866,814**	**1,006,241**	**153,804**	**13,339**	**-**	**2,040,198**
Percentage portion (%)	**42**	**49**	**8**	**1**	**-**	**100**
2019						
Lease liabilities	-	70,313	196,935	17,176	-	284,424
Insurance and other payables	638,727	1,000,950	-	-	-	1,639,677
Total	**638,727**	**1,071,263**	**196,935**	**17,176**	**-**	**1,924,101**
Percentage portion (%)	**33**	**56**	**10**	**1**	**-**	**100**

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

7. Operational risk

7.1. Definition

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

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

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

The Group and Company also operates a robust business continuity capability which is considered a key component of managing operational risk.

7.2. Approach to managing operational risk

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

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

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

RISK MANAGEMENT (continued)

7. Operational risk (continued)

7.3. Insurance cover for operational risk

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

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

7.4. Capital requirements

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

7.5. Reporting

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

Operational risk reports include information relating to:

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

Management of key operational risks

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

People risk

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

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

Information security risk (including cyber risk)

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

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

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

RISK MANAGEMENT (continued)

7. Operational risk (continued)

7.5. Reporting (continued)

Information Technology risk

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

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

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

Third party risk

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

Operational process risk

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

Financial control risk

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

RISK MANAGEMENT (continued)

8. Business conduct risk

8.1. Definition

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

8.2. Approach to managing business conduct risk

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

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

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

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

8.3. Risk reporting

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

Key business conduct risks in 2020

The management of business conduct risk is a high priority for the Group and Company. Some of the key business conduct risks themes which were a focus in 2019 and will continue to be a focus in 2020 include:

- Advice Risk - the risk of providing inappropriate advice or not being able to demonstrate that advice was suitable at the time it was provided;
- Complexity Management - complex products and the wide range of products sold over time result in elevated conduct risk; and

9. Compliance and Legal risk

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

Compliance risk

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

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

Financial crime risk

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

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

10. Concentration risk

10.1. Introduction

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

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

Asset manager allocation

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

		2020		2019
	%	KShs '000	%	KShs '000
Self managed	69	9,451,956	58	7,255,598
ILAM	31	4,194,052	42	5,229,797
Total financial, property and insurance assets	**100**	**13,646,008**	**100**	**12,485,395**

Risks associated with asset managers are:

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

Kenya

The company was founded in Kenya over 50 years ago and has been in the last 22 years providing risk products to customers in Kenya and Tanzania. Consequently, both the Group and Company's asset base and liabilities contain significant Kenyan and Tanzanians overeign risk.

ACCOUNTING POLICIES

1 Basis of preparation

The 2020 Group and Company financial statements of The Heritage Insurance Company Kenya Limited have been prepared in accordance with and containing information required by:

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

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

Where reference is made to accounting policies to Group or Company it should be interpreted as being applicable to consolidated or separate financial statements as the context requires.

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

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

Accounting Policy Elections

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

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

- For all financial assets and financial liabilities that are measured at fair value through profit or loss, all income statement movements (including dividends, interest received and finance costs) are classified as fair value adjustments. (accounting policy 5)
- Equipment is stated at cost less accumulated depreciation (accounting policy 7.3)
- After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses (accounting policy 8.2)
- Although the application of the local actuarial valuation bases is not an accounting policy election as such, IFRS refers the measurement of these assets and liabilities to existing local practice until the adoption of IFRS 17 effective 1 January 2023.

2 New IFRS standards and amendments

2.1 New standards amendments and interpretations effective and adopted during the year ended 31 December 2020

The following new standards are effective from 1 January 2020.

Standard	Effective date
IFRS 3 Definition of a Business	1 January 2020
Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
Interest rate benchmark reform(Amendments to IFRS 9,IAS 39 and IFRS 7)	1 January 2020

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

2.2 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2020

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2020 and have not been applied in preparing these financial statements. The Group and Company does not plan to early adopt these standards. These are summarised below:

ACCOUNTING POLICIES (continued)

2. New IFRS standards and amendments (continued)

2.2 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2020 (continued)

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

Standard	Effective date
COVID-19-Related Rent Concessions (Amendments to IFRS 16).	1 June 2020
IInterest rate benchmark reform-phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).	1 January 2021
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	1 January 2021
Onerous contracts: Cost of Fulfilling a Contract (Amendments to IAS 37).	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).	1 January 2022
Annual improvements to IFRS standards 2018-2020.	1 January 2022
Reference to Conceptual Framework (Amendments to IFRS 3).	1 January 2023
Classification of Liabilities as Current or Non-current (Amendments to IAS 1).	1 January 2023

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

The following new standard has been issued by the IASB, however, are not yet effective for the current financial year. The Group and Company will comply with the new standards from the effective date and has elected not to early adopt any at this stage.

STANDARD	SCOPE	POTENTIAL IMPACT TO THE COMPANY
IFRS 17 Insurance Contracts Effective for years commencing 1 January 2023 (following IASB due process) with three transitional approaches permitted, namely: • retrospective; • modified retrospective; and • fair value approach. Early adoption is permitted.	IFRS 17 replaces IFRS 4, which was issued in 2004 as an interim standard. IFRS 4 permits various accounting models relating to insurance contracts, allowing reporting entities to account for insurance contracts (particularly measurement thereof) using the local actuarial practices, resulting in a multitude of different approaches. Consequently, the financial position and financial performance of otherwise similar companies are not always comparable.	The impact to the group is expected to be significant specifically in areas such as profit recognition, presentation in the statement of comprehensive income and level of transparency of components of reserving. Data collection and storage, modelling and general ledger configuration will require significant development.
	IFRS 17 prescribes a single accounting model under which insurance contracts are measured using current estimates. The application of IFRS 17 will enable investors to understand and compare the financial positions and performances of those reporting entities that issue insurance contracts. In addition, financial results of insurance companies will be comparable with companies in other industries and jurisdictions.	.

ACCOUNTING POLICIES (continued)

2. New IFRS standards and amendments (continued)

2.2 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2020 (continued)

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

STANDARD	SCOPE	POTENTIAL IMPACT TO THE COMPANY
IFRS 17 Insurance Contracts	Under IFRS 17, a general measurement model (GMM) is applicable to long-term insurance contracts, and is based on a fulfilment objective (risk-adjusted present value of best estimate future cash flows). It requires the use of current estimates, which are those informed by actual trends and investment markets.	An entity may re-assess its classification and designation of financial instruments under IFRS9, on adoption of IFRS 17.
	IFRS 17 establishes a contractual service margin (CSM) at initial measurement of the liability. The CSM represents the unearned profit on the contract and results in no gain on initial recognition. The CSM is released over the life of the contract in line with the level of service provided in each period. The interest rate on the CSM is locked in at the rate at inception. The CSM will be utilised as a "shock absorber" in the event of changes to best estimate cash flows. On loss making (onerous) contracts, there is no CSM and the full loss will be recognised as soon as it is expected that the group of contracts will be onerous in terms of the initial recognition criteria in IFRS 17. The GMM is modified for contracts that have participation features and this is the variable fee approach.	**IFRS 17 Project governance** The Heritage Insurance Company Kenya Limited has formed an IFRS 17 steering committee, sponsored by the group's financial director, which is responsible for providing overall strategic direction to the project and to monitor progress and interdependencies with other group initiatives. The committee comprises representation from Finance, Risk, Actuarial, IT, Internal Audit and business. The committee is supported by a number of working groups responsible for various work streams.
	An optional simplified premium allocation approach (PAA) is available for contracts that have a coverage period of 12 months or less. The PAA is similar to the current unearned premium reserve profile recognised over time.	In addition, an IFRS 17 Africa Steering Committee comprising members of Liberty SA, Heritage Insurance Kenya, Liberty Life Kenya and members of management representing Finance, Risk, Actuarial, IT, Internal Audit and business is in place. The committee is supported by a number of working groups responsible for various work streams and is accountable to the Liberty Holdings IFRS 17 Steering Committee.

ACCOUNTING POLICIES (continued)

2. New IFRS standards and amendments (continued)

2.2 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2020 (continued)

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

STANDARD	SCOPE	POTENTIAL IMPACT TO THE COMPANY
IFRS 17 Insurance Contracts	An optional simplified premium allocation approach (PAA) is available for contracts that have a coverage period of 12 months or less. The PAA is similar to the current unearned premium reserve profile recognised over time. The IASB has established a Transition Resource Group to assist companies, auditors and regulators with a public forum to discuss areas that are subject to interpretation and potentially require clarity.	The group has progressed well with design decisions Education training sessions have taken place and continue both in South Africa and Kenya. The financial impact of IFRS 17 has not yet been fully assessed. It is anticipated that the impact will only be quantified with reasonable certainty once the standard is effective on 1 January 2023

3 Basis of consolidation

The Group and Company 31 December 2020 consolidate the annual financial statements of the group and its subsidiaries.

Type	Measurement
Interest in subsidiaries	Subsidiaries are defined as entities that are controlled by the group. In order for control to exist, the must have: • power over the investee; • exposure or rights to variable returns from involvement with the investee; and • the ability to use power over the investee to affect the amount of the group's returns. The group must possess all three elements to conclude that it controls an investee. Refer to key judgements for assessment of control. Subsidiaries are consolidated from the date on which control is transferred to the group (effective date of acquisition) and are de-consolidated from the date that control ceases (effective date of disposal). Gains and losses on disposal of subsidiaries are included in profit or loss. The accounting policies for subsidiaries are consistent, in all material respects, with the policies adopted by the group. Intergroup transactions, balances and unrealised gains and losses are eliminated on consolidation.
Separate financial statements	Interests in subsidiary companies in the company financial statements comprise shares, which are measured at cost less any required impairment. Acquisition costs are recorded as an expense in the period in which they are incurred, except for the costs to issue debt or equity securities, which are part of the consideration transferred. The carrying amounts of these investments are reviewed annually for impairment. Intergroup balances with subsidiaries, under the IFRS 9 business model assessment for 2018, are measured at amortised cost. These are subject to the expected credit loss impairment model.

ACCOUNTING POLICIES (continued)

3. Basis of consolidation (continued)

Business combinations	The group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the sum of the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The cost of an investment in a subsidiary is adjusted to reflect changes in consideration arising from contingent consideration amendments. Transaction costs are recognised within profit or loss as and when they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the consideration transferred, being the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. The group elects to measure non-controlling interests on the acquisition date at either fair value or at the noncontrolling interest's proportionate share of the subsidiary's identifiable net assets on an acquisition-by-acquisition basis. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of profit or loss.
Transactions with non-controlling interests	The group applies a policy of treating transactions, including partial disposals with non-controlling interests that do not result in the gain or loss of control, as transactions with equity owners of the group. For purchases of additional interests from non-controlling interests, the excess of the purchase consideration over the group's proportionate share of the subsidiary's additional net asset value acquired is accounted for directly in equity. Profits or losses on the partial disposal of the group's interest in a subsidiary to non-controlling interests are also accounted for directly in equity.

Subsidiaries are defined as entities that are controlled by the group. In order for control to exist, the group must have power over the investee, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee to affect the amount of the group's returns. The group must possess all three elements to conclude that it controls an investee. Refer to key judgements for assessment of control (page 30).

Subsidiaries are consolidated from the date on which control is transferred to the group (effective date of acquisition) and are no longer consolidated from the date that control ceases (effective date of disposal). Gains and losses on disposal of subsidiaries are included in The Heritage Insurance Company Kenya Limited or loss. The accounting policies for subsidiaries are consistent, in all material respects, with the policies adopted by the group. Intergroup transactions, balances and unrealised gains and losses are eliminated on consolidation.

ACCOUNTING POLICIES (continued)

4 Foreign currencies

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

4.1 Transactions and balances

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

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

4.2 Company foreign operations

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

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

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

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

5 Financial instruments

Initial recognition and measurement

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

5.1 Financial assets

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

ACCOUNTING POLICIES (continued)

5. Financial instruments (continued)

5.1 Financial assets (continued)

Financial assets

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

Nature	
Amortised cost	A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): • Held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows. • The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement.
Fair value through OCI	The group have no equity instruments that have been elected to be measured at fair value through other comprehensive income. A debt instrument that meets both the following conditions (other than those designated at fair value through profit or loss): • held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets; and • the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment include determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement.
Designated at fair value through profit or loss	Financial assets are designated to be measured at fair value to eliminate or significantly through profit or loss reduce an accounting mismatch that would otherwise arise.
Fair value through profit or loss (default)	Financial assets that are not classified into one of the above mentioned financial asset categories; and/ or where the business model is that performance is assessed on a fair value basis.

Subsequent measurement

Subsequent to initial measurement, financial assets are classified, according to the business model assessment, in their respective categories and measured at either amortised cost or fair value as follows:

Amortised cost (loans receivable)	Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate. Interest income is shown as a separate line on the face of the income statement (combined with interest income on financial assets held at fair value through OCI).

ACCOUNTING POLICIES (continued)

5. Financial instruments (continued)

5.1 Financial assets (continued)

Subsequent measurement (continued)

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

Impairment

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

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

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

ACCOUNTING POLICIES (continued)

5. Financial instruments (continued)

5.1 Financial assets (continued)

Impairment (continued)

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

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

i) Cash and cash equivalents

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

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

ii) Prepayments and other receivables

Other receivables includes bid bonds, deposits and prepayments and are measured at amortised cost. The balances at amortised cost are subject to ECL impairment testing. The group has elected to apply the simplified approach for trade receivables that do not contain a significant financing component, contract assets and lease receivables. This means that the entity assesses lifetime losses on day one and does not have to do the three-stage testing as per the general ECL calculation. Prepayments are not financial instruments as defined.

Reclassification

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

Derecognition

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

5.2 Financial liabilities

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

Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or at Fair Value Through Profit or Loss (FVTPL). A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

i) Other payables

Other payables relate to expense accruals. The Group and Company has measured other payables at amortised cost.

ACCOUNTING POLICIES (continued)

5. Financial instruments (continued)

5.2 Financial liabilities (continued)

ii) Inter-company loans

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

Reclassification

A financial liability may not be reclassified.

Derecognition

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

5.3 Fair value

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

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

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

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

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

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

ACCOUNTING POLICIES (continued)

5. Financial instruments (continued)

5.3 Fair value (continued)

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

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

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

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

ACCOUNTING POLICIES (continued)

6 Insurance contracts

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

6.1 Insurance contract classification

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

Insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder or, in the case of life annuities, the lifespan of the policyholder is greater than that assumed. Such contracts may also transfer financial risk. The group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur. Where the value of policyholder contracts is negative or positive in aggregate, this is shown as long-term policyholder liabilities – insurance contracts and long-term policyholder assets – insurance contracts. Insurance contracts where the group accepts significant insurance risk from the policyholder are classified depending on the duration of or the type of insurance risk, as follows: • long-term insurance; and • Level 1 short-term insurance. Insurance contracts where another insurer (or reinsurer) accepts significant insurance risks from the group are reinsurance contracts.

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

Long-term insurance business	Long-term insurance business includes insurance business of all or any of the following classes, namely, life assurance business, superannuation business, industrial life assurance business and business incidental to any such class of business. Life assurance business means the business of, or in relation to, the issuing of or the undertaking of a liability to pay money on death (not being death by accident or in specified sickness only) or on the happening of any contingency dependent on the termination or continuance of human life (either with or without provision for a benefit under two continuous disability insurance contracts) and include a contract which is subject to the payment of premiums for term dependent on the termination or continuance of human life and any contract securing the grant of an annuity for a term dependent upon human life. Superannuation business means life assurance business, being business of, or in relation to, the issuing of or the undertaking of liability under superannuation, group life and permanent health insurance policy.
Short-term insurance business	It is insurance business of any class or classes that is not long-term insurance business. Classes of short-term (also known as general insurance) include engineering insurance, fire insurance - domestic risks, fire insurance - industrial and commercial risks, liability insurance, marine insurance, motor insurance - private vehicles, motor insurance - commercial vehicles, personal accident insurance, medical insurance, theft insurance, workmen's compensation and employer's liability insurance and miscellaneous insurance (i.e. class of business not included under those listed above). Motor insurance business means the business of affecting and carrying out contracts of insurance against loss of or damage to or arising out of or in connection with the use of motor vehicles, inclusive of third-party risks but exclusive of transit risks.

ACCOUNTING POLICIES (continued)

6 Insurance contracts (continued)

6.1 Insurance contract classification (continued)

	Personal accident insurance business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class or becoming incapacitated in consequence of disease or of disease of a specified class. It also includes business of effecting and carrying out contracts of insurance against risk of persons insured incurring medical expenses. Fire insurance business means the business of affecting and carrying out contracts of insurance, otherwise than incidental to some other class of insurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business, damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business

6.1.1 Short-term insurance

Provision for unearned premiums on short-term contracts	The provision for unearned premiums represents the portion of the current year's premiums that relates to risk periods extending into the following year. The unearned premiums are calculated using the 365ths method, except for those insurance contracts where allowance is made for uneven exposure.
Claims	The estimation of the ultimate liability arising from claims made under insurance contracts is the group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the group will ultimately pay for such claims. Estimates are made at the end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate costs of claims incurred but not reported ('IBNR"). Liabilities for unpaid reported claims are estimated using the input for assessments of individual cases reported to the group. At the end of each reporting period, prior year claim estimates are reassessed for adequacy and changes are made to the provision. Both of these provisions are discounted to present day which is in line with current accounting standards that indicate that discounting presents a more market consistent view of financial obligations. The provision for IBNR is an estimate of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to this date. The primary technique adopted by management in estimating this cost is that of using the past claims reporting and settlement trends to predict future claims for which the group will be liable. A range of actuarial methods such as the Basic Chain-Ladder, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement pattern of claims. Given the uncertainty associated with setting these assumptions, it is standard actuarial practice to also calculate a risk margin that is added to the best estimate IBNR reserves to allow for this uncertainty and ensure that adequate provisions are held to meet obligations as they arise. This risk margin requires the application of actuarial judgement in determining an appropriate level of sufficiency that considers materiality and the potential shortcomings and nature of the valuation process, as well as the volume, relevance and accuracy of the historical data available. At present, the risk margin has been determined using a stochastic reserving process parameterised such that the reserve is expected to be sufficient to meet 75% of all expected outcomes in the presence of adverse deviation.
Deferred acquisition costs (DAC)	Commissions that vary and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned, and recognised as an asset. All other costs are recognised as expenses when incurred.

ACCOUNTING POLICIES (continued)

6 Insurance contracts (continued)

6.1 Insurance contract classification (continued)

6.1.1 Short-term insurance (continued)

Liability adequacy test	Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims, as well as claims-handling fees and related administrative costs.
Provision for reported claims and claims incurred but not reported (IBNR)	Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. The group's own assessors or contracted external assessors individually assess claims. The claims provisions include an estimated portion of the direct expenses of the claims and assessment charges. Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the group at that date (IBNR claims). This provision is calculated using the chain ladder run-off triangle technique. These provisions for claims are not discounted for the time value of money due to the expected short duration to settlement.

6.2 Reinsurance contracts held

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

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

6.3 Receivables and payables related to insurance contracts

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

6.4 Salvage and subrogation reimbursements

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

ACCOUNTING POLICIES (continued)

7 Non Financial Assets

7.1 Leases

The core principal of IFRS 16 Leases is that the lessees and lessor should recognise all rights and obligations arising from lease arrangements on the statement of financial position. IFRS 16 eliminates the classification of leases for lessees as either operating or finance leases and introduces a single lessee accounting model, where a right-of-use (ROU) asset together with a lease liability for the future payments is recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

IFRS 16 Lessee accounting policies

Type and description	Statement of financial position	Statement of comprehensive income
Single lessee accounting model All leases are accounted for by recognising a right-of use asset and a lease liability except for: • leases of low value assets; and • leases with a duration of twelve months or less.	**Lease liabilities:** Initially measured at the present value of the contractual payments due to the lessor over the lease term that are not paid at commencement date, with the discount rate determined by reference to the rate implicit in the lease unless (as is typically the case for the group) this is not readily determinable, in which case an entity specific incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate. On initial recognition, the carrying value of the lease liability also includes: • Amounts expected to be payable under any residual value guarantee; • The exercise price of any purchase option granted in favour of the group, should it be reasonably certain that this option will be exercised; • Any penalties payable for terminating the lease, should the term of the lease be estimated on the basis of this termination option being exercised. Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.	**Interest expense on lease liabilities:** A lease finance cost, determined with reference to the interest rate implicit in the lease or the group's incremental borrowing rate, is recognised within interest expense over the lease period.

ACCOUNTING POLICIES (continued)

7. Non Financial Assets (continued)

7.1 Leases (continued)

IFRS 16 Lessee accounting policies (continued)

<table>
<tr><td></td><td>Right-of-use assets:

Initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:
lease payments made at or before commencement of the lease;
initial direct costs incurred; and
the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.
The group applies the cost model subsequent to the initial measurement of the right-of-use assets.</td><td>Depreciation on right-of-use assets:

Subsequent to initial measurement, the right-of-use assets are depreciated on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset should this term be shorter than the lease term unless ownership of the underlying asset transfers to the group at the end of the lease term, whereby the right-of-use assets are depreciated on a straight- line basis over the remaining economic life of the asset. This depreciation is recognised as part of general marketing and administration expenses.</td></tr>
<tr><td></td><td>Termination of leases:

When the group or lessor terminates or cancels a lease, the right-of-use asset and lease liability are derecognised.</td><td>Termination of leases:

On derecognition of the right-of-use asset and lease liability, any difference is recognised as a derecognition gain or loss together with termination or cancelation costs in profit or loss.</td></tr>
<tr><td>All leases that meet the criteria as either a lease of a low value asset or a short-term lease are accounted for on a straight-line basis over the lease term.</td><td>Accruals for unpaid lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease expense are recognised.</td><td>Payments made under these leases, net of any incentives received from the lessor, are recognised in operating expenses on a straight-line basis over the term of the lease. When these leases are terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating expenses in the period in which termination takes place.</td></tr>
<tr><td>Reassessment and modification of leases</td><td colspan="2">Reassessment of lease terms and lease modifications that are not accounted for as a separate lease: When the group reassesses the terms of any lease (i.e. it re-assesses the probability of exercising an extension or termination option) or modifies the terms of a lease without increasing the scope of the lease or where the increased scope is not commensurate with the stand-alone price, it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted at the applicable rate at the date of reassessment or modification. The carrying amount of lease liability is similarly revised when the variable element of future lease payments dependent on a rate or index is revised.</td></tr>
</table>

ACCOUNTING POLICIES (continued)

7. Non Financial Assets (continued)

7.1 Leases (continued)

IFRS 16 Lessee accounting policies (continued)

	For reassessments to the lease terms, an equivalent adjustment is made to the carrying amount of the right-of- use asset, with the revised carrying amount being depreciated over the revised lease term. However, if the carrying amount of the right-of-use asset is reduced to zero any further reduction in the measurement of the lease liability, is recognised in profit or loss.
	For lease modifications that are not accounted for as a separate lease, an equivalent adjustment is made to the carrying amount of the right-of-use asset, with the revised carrying amount being depreciated over the revised lease term. However, for lease modifications that decrease the scope of the lease the carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease, with any resulting difference being recognised in profit or loss as a gain or loss relating to the partial or full termination of the lease.
	Lease modifications that are accounted for as a separate lease: When the group modifies the terms of a lease resulting in an increase in scope and the consideration for the lease increases by an amount commensurate with a stand-alone price for the increase in scope, the group accounts for these modification as a separate new lease. This accounting treatment equally applies to leases which the group elected the short-term lease exemption and the lease term is subsequently modified

7.2 Intangible assets

Intangible assets relate to computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 - 5 years). Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years). Intangible assets comprise capitalised software costs. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortised over their estimated useful lives (three to five years). Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives.

ACCOUNTING POLICIES (continued)

7. Non Financial Assets (continued)

7.3 Equipment

The group's equipment provides it with the necessary infrastructure to operate effectively. Equipment principally comprises computer equipment and fixtures and fittings. The cost of these assets is recognised in the income statement over time as a depreciation charge. Where purchased software is an integral part of the related hardware, it is accounted for as equipment, however where that software is not integral to the related hardware, it is accounted for as an intangible asset. Depreciation periods are detailed in note 1 of the group annual financial statements.

7.4 Impairment of other non-financial assets

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

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

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

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

8 Equity

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

9. Other significant accounting policies

9.1 Employee benefits

Type of benefit	Description
Leave pay liability	The group recognises a liability for the amount of accumulated leave if the group has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.
Incentive scheme	Incentive scheme bonuses are short-term bonuses which are recognised as an expense as incurred when the group has a present or constructive obligation and the amount can be reliably measured.

ACCOUNTING POLICIES (continued)

9. Other significant accounting policies (continued)

Pension obligations (defined contribution plans)	The group operates a defined contribution retirement benefit scheme for its employees. A defined contribution plan is a pension plan under which the group companies pay fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the group and employees. The group and all its employees also contribute to the appropriate National Social Security Fund, which is also a defined contribution scheme. The group's contributions to the defined contribution schemes are charged to profit or loss in the year to which they relate.

9. Other significant accounting policies (continued)

9.2 Revenue recognition

Revenue is recognised either when the performance obligation has been satisfied ('point in time') or as control of the service is transferred to the customer ('over time'). This requires an assessment of the group's performance obligations and of when control is transferred to the customer. Where revenue is recognised over time, this is in general due to the group performing and the customer simultaneously receiving and consuming the benefits over the life of the contract as services are rendered. For each performance obligation over time, the group applies a revenue recognition method that faithfully depicts the group's performance in transferring control of the service to the customer. Due to the nature of the group's business, the majority of its revenue from contacts with customers is considered to be recognised 'over time'. If performance obligations in a contract do not meet the over time criteria, the group recognises revenue at a point in time. Revenue from administrative agency services is recognised over time as the services are provided. The amounts to be collected from customers on 31 December are recognised as trade receivables. Revenue related to transactions is recognised at the point in time when the transaction takes place.

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

As a result of the contracts which the group enters into with its customers, a number of different assets are recognised on the group's statement of financial position. Further details are included in note 5 of the group annual financial statements. Payment terms and conditions included in customer contracts are typically due in full within 30 days.

Revenue type	Description	Recognition and measurement
Insurance premium income (recognised under IFRS 4)	Short-term (including health) insurance premiums	For short-term insurance business, premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the financial reporting date and is computed using the 365ths method. Premiums gross of any taxes or duties levied on premiums.

ACCOUNTING POLICIES (continued)

9. Other significant accounting policies (continued)

Investment income (for financial instruments)		Dividends – recognised when the right to receive payment is established, dividends received are included in the fair value adjustments for financial assets at fair value through profit or loss. Interest income and expenses for all interest-bearing financial instruments: For financial instruments measured at fair value through profit or loss – recognised within fair value adjustments under IFRS 9 in profit or loss. For financial assets held at amortised cost or classified at fair value through other comprehensive income, as interest income on financial assets at amortised cost and financial assets classified at fair value through other comprehensive income; using the effective interest method.

ACCOUNTING POLICIES (continued)

9. Other significant accounting policies (continued)

9.2 Revenue recognition (continued)

Revenue recognition from contracts with customers		
Revenue from contracts with customers arises from transactions not associated with financial instruments, insurance contracts or investment properties.		
Reinsurance commission	Commission earned from reinsurers on placement of short-term reinsurance contracts.	Recognised over the term of the contract.

9.3 Deferred revenue

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

9.4 Taxation

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

9.4.1 Current taxation

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

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

9.4.2 Deferred taxation

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

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

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

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

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

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

ACCOUNTING POLICIES (continued)

9.5 Provisions

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

9.6 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when:

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

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