Heritage
Insurance Company

A member of the LIBERTY Group

THE HERITAGE INSURANCE COMPANY KENYA LIMITED
ANNUAL FINANCIAL STATEMENTS AND REPORTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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.

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
Peter Gethi - Chairman	2009
Godfrey Kioi - Managing Director	2014
Michael du Toit - Non-Executive*	2009
Stuart Wenman - Non-Executive* (Resigned 31 August 2022)	2009
Rachel Mbai - Non-Executive (Resigned 31 December 2022)	2017
Catherine Mitchem - Non-Executive	2017
Rajesh Shah - Non-Executive (Resigned 31 December 2022)	2018
Andrew Lonmon-Davis - Non-Executive*	2019

*South African

Secretary

Doreen Onwong'a
Qwasha Corporate Services
5th Floor, The Pavilion Westland
Lower Kabete Road
P.O. Box 27547 – 00100 Nairobi

Independent auditor

PricewaterhouseCoopers LLP
Certified public accountants
PwC Tower
Waiyaki way, Westlands
P.O. Box 48963 - 00100 Nairobi

CORPORATE INFORMATION (continued)

Registered office and principal place of business
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

Actuaries
Kenbright Actuarial & Financial Services
Ack Garden House
1st Ngong Avenue
Nairobi, Kenya.

Tax consultants
Ernst & 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

Walker Kontos Advocates
Hakika House, Bishops Road
P.O. Box 60680-00200
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 six non-executive Directors who have been chosen for their business acumen and wide range of skills and experience. The Board has an appropriate mix of proficient Directors, approved by the Insurance Regulatory Authority, who are able to add value through independent judgement in the decision-making process.

2. Board responsibilities

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

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

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

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

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 five Board meetings held in the year 2022. A director, if unable to attend a Board meeting, has the opportunity beforehand to discuss any agenda item with the Chairman. Attendance is expressed as the number of meetings attended out of the number eligible to attend.

STATEMENT ON CORPORATE GOVERNANCE (continued)

3. Board meetings and attendance (Continued)

Director	Directorship status	Attendance at meetings
Peter Gethi (Chairman)	Non - Executive Director	5/5
Godfrey Kioi (Managing Director)	Executive Director	5/5
Michael du Toit	Non - Executive Director	5/5
Stuart Wenman (Resigned 31 August 2022)	Non - Executive Director	3/3
Catherine Mitchem	Non - Executive Director	5/5
Rachel Mbai (Resigned 31 December 2022)	Non - Executive Director	5/5
Rajesh Shah (Resigned 31 December 2022)	Non - Executive Director	5/5
Andrew Lonmon-Davis	Non - Executive Director	5/5

4. Appointment of directors

Upon consideration and recommendation 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.

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 Register of Interest/ Conflicts is maintained by the Company 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.

STATEMENT ON CORPORATE GOVERNANCE (continued)

8. Conflict of interests (Continued)

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 2022 - 2025 strategy refresh was developed by Staff and Management in liaison with the Board and was approved in Year 2021.

The Company's strategic objectives are 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 implementation of agreed deliverables started in 2022.

12. Board Committees

The Board has established three Board Committees, the Audit and Risk Committee, the Investment Committee and the Joint Information communication Technology (JICT) committee and are formally set up by Board resolutions with defined mandates. The Audit and Risk Committee has established a Joint Actuarial Committee as approved by Board resolution and with a defined mandate.

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

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.

STATEMENT ON CORPORATE GOVERNANCE (continued)

12. Board Committees (Continued)

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 Head of Internal Audit regularly attend the Committee meetings to respond to issues raised by Committee members. The Company Secretary attends the Committee meetings and acts as Secretary to the Committee.

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

Name	Directorship status	Attendance at meetings
Rajesh Shah (Resigned 31 December 2022)	Non - Executive Director	5/5
Michael du Toit	Non - Executive Director	5/5
Stuart Wenman (Resigned 31 August 2022)	Non - Executive Director	3/3
Rachel Mbai (Resigned 31 December 2022)	Non - Executive Director	5/5
Andrew Lonmon-Davis	Non - Executive Director	5/5

b) Joint Actuarial Committee

This is a joint sub-committee of the ARCs. Its mandate is to consider the technical actuarial matters and reports that inform the decisions of the ARCs and the boards.

Name	Directorship status	Attendance at meetings
Andrew Lonmon-Davis (Chairman)	Non-Executive Director	5/5
Stuart Wenman (Resigned 31 August 2022)	Non-Executive Director	3/3
Godfrey Kioi	Managing Director - Heritage Insurance	5/5
Abel Munda	Managing Director - Liberty Life Assurance	5/5

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.

STATEMENT ON CORPORATE GOVERNANCE (continued)

12. Board committees (Continued)

The members of the Committee, and their attendance at the four meetings held in the year 2022 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 (Resigned 31 August 2022)	Non - Executive Director	2/2
Catherine Mitchem	Non - Executive Director	4/4
Andrew Lonmon - Davis	Non - Executive Director	4/4

d) Joint Information Technology Committee

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

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

Name	Directorship status	Attendance at meetings
Catherine Mitchem (Chairman)	Non-Executive Director	4/4
Rajesh Shah (Resigned 31 December 2022)	Non-Executive Director	4/4
Godfrey Kioi	Executive Director	4/4
Abel Munda	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 – Operations
- General Manager – Finance and Administration
- General Manager – Risk and Compliance
- General Manager – Marketing and Communications
- General Manager – Human Resources
- General Manager – Health
- Chief Information Officer
- Head of Retail Business
- Head of Corporate Business
- Head of Actuarial services

STATEMENT ON CORPORATE GOVERNANCE (continued)

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;

- General Manager - Finance - Chairman
- Director - Operations - Alternate Chair
- Business Manager - Secretary
- Managing Director - Member
- Manager - Credit Control - Member
- General Manager - Health - Member
- Head of Corporate Business - Member
- Manager - Credit Control - Manager
- Head of Retail Business - 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 (Chair), General Manager – Finance and Administration, General Manager – Health, 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:
- Managing Director - Chairman
- Director -Operations - Member
- General Manager - Finance - Member
- General Manager - Health - Member
- Head of Corporate Business - Member
- Head of Retail Business - Member
- General Manager – Risk and Compliance - Member

STATEMENT ON CORPORATE GOVERNANCE (continued)

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 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 agents 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:

• Managing Director	- Chairman
• Director - Operations	- Convener
• General Manager - Finance	- Member
• General Manager - Health	- Member
• Head of Corporate Business	- Member
• Head of Retail Business	- Member
• Manager Customer Experience	- Member
• Claims Manager -Legal	- Secretary
• General Manager - Risk and Compliance	- Member
• General Manager - Marketing and Communications	- Member

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.

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:

• Managing Director	- Chairman
• General Manager - Finance	- Member
• Director - Operations	- Member
• General Manager - Health	- Member
• Claims Manager - Legal	- Secretary
• General Manager - Risk and Compliance	- Member

STATEMENT ON CORPORATE GOVERNANCE (continued)

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.

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.

STATEMENT ON CORPORATE GOVERNANCE (continued)

14. Internal control and risk management (Continued)

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

Peter Gethi
Chairman
16 March 2023

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

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 26 to 117 which comprise of the Group and Company statements of financial position at 31 December 2022, 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 as at 31st December 2022 and of the Group's and the Company's financial performance and cash flows for the year then ended.

The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of 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 16 March 2023.

By Order of the Board

Peter Gethi
Chairman

Godfrey Kioi
Managing Director

16 March 2023

Nairobi

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 December 2022, which disclose the state of affairs of 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 2022 of KShs 511 million (2021: KShs 424 million) has been added to retained earnings.

During the year, the Company paid KShs 350 million (2021: KShs 200 million) as an interim dividend. The directors do not propose payment of a final dividend (2021: nil).

4. Share capital

	2022	2021	2022	2021
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 13 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 175 (2021: 170)

Out of the 175 members of staff employed by Heritage Kenya as at 31 December 2022, 105 are male and 70 are female (2021: 102 are male and 68 are female).

8. Terms of appointment of the auditor

The Company's auditor, PricewaterhouseCoopers LLP, continues in office in accordance with Section 159 (2) of the Companies Act.

DIRECTORS' REPORT (continued)

9. Business Overview

The group profit went up by 29% in the year mainly driven by premium growth, improved investment income and expenses containment in both Kenya and Tanzania. The combined premium written grew by 9% while the investment and other income improved by 7% in the year. Management expenses were contained below budget and at same level as last year on account of increased efficiency in service delivery. Kenya business profit before tax grew by 10% compared to prior year.

The premium volume in Kenya, increased by 11% showing great resilience amidst the high inflation rates experienced for the better part of 2022. Despite the economic hardships in the country, the business profit before tax increased by 10%.

Tanzania business earnings improved significantly against the previous year. The Company moved to actuarial methodology of estimating incurred but not reported claims (IBNR) in the previous year resulting in a spike in claim reserves then. The business has now stabilized hence the improved performance over the prior year.

Further description and analysis of the key risks facing the Group and Company is set out in the risk management section of these 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 materially affect the group.

12. Approval of the financial statements

The financial statements set out on pages 26 to 117, which have been prepared on the going concern basis, were approved and authorised for issue by the board of directors on 16 March 2023.

By Order of the Board

Doreen Onwong'a
Qwasha Corporate Services LLP
Company Secretary
16 March 2023

Independent auditor's report to the shareholders of The Heritage Insurance Company Kenya Limited

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of The Heritage Insurance Company Kenya Limited (the Company) and its subsidiaries (together, the Group) set out on pages 21 to 22 and 33 to 118, which comprise the consolidated statement of financial position at 31 December 2022 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2022, and the Company statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion the financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2022 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

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

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

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

Key audit matters

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

Independent auditor's report to the shareholders of The Heritage Insurance Company Kenya Limited (continued)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matter	*How our audit addressed the key audit matter*
Determination of insurance contract liabilities Insurance contract liabilities comprises outstanding claims and incurred but not reported ("IBNR") claims. *Short term business* For the short-term business, insurance contract liabilities comprise reported claims and incurred but not reported ("IBNR") claims. We considered claims provisions as a significant area of focus due to: • The estimation of the provisions involves significant judgement given the inherent uncertainty in estimating expected future outflows in relation to claims incurred. • The valuation of these liabilities relies on the accuracy of claims data and the assumption that future claims development will follow a similar pattern to past claims development experience and involve engagement of internal and external actuarial experts.	We assessed the competence, capabilities and objectivity of the Statutory Actuary. We validated, on a sample basis, the claims paid to supporting documentation and comparing the claim payments in 2022 to the reserves previously held. We tested the reasonableness of claims outstanding by comparing the recorded amounts to the latest available information on source documents. We reviewed the methodology and assumptions used by the Statutory Actuary to compute the liabilities against generally accepted actuarial practice approaches, in relation to the business written and expected risks. We assessed the reasonableness of the reserves by comparing actual outcomes against reserve estimates in the prior years. We independently recalculated the IBNR reserves for a sample of classes and compared this to the values estimated by management.

Other information

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

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

Independent auditor's report to the shareholders of The Heritage Insurance Company Kenya Limited (continued)

Report on the audit of the financial statements (continued)

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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Independent auditor's report to the shareholders of The Heritage Insurance Company Kenya Limited (continued)

Report on the audit of the financial statements (continued)

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

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

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

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

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

Report on other matters prescribed by the Companies Act, 2015

Report of the directors

In our opinion the information given in the report of the directors on pages 14-15 is consistent with the financial statements.

Bernice Kimacia

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

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

16 March 2023

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

The table below summaries the impact a change to the value of claims would have on the financial position of the entity:

		2022		2021	
	% change	Impact on outstanding claims reserves KShs '000	Impact on profit before tax KShs '000	Impact on outstanding claims reserves	Impact on profit before tax KShs '000
Group					
Value of claims	1	11 705	4 081	8 137	3 155
Company					
Value of claims	1	7 941	3 224	5 547	2 172

The principal assumption underlying the liability estimates is that the Group's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claims costs, claims handling costs, claims inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in future, for instance; one-off occurrence, changes in market factors such as public claims experience, economic conditions as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

KEY JUDGEMENTS IN APPLYING ASSUMPTIONS ON APPLICATION OF ACCOUNTING POLICIES (continued)

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 measured using amortised cost

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.

Cash flow statement

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

CHAIRMAN'S REPORT

Performance Review

According to the October 2022 World Economic Outlook Report by the International Monetary Fund (IMF), the global economy is projected to grow at a slower rate of 3.2% in 2022, from the 6.0% growth recorded in 2021. The expected slowdown in the Global economy's growth is majorly attributable to the persistent inflationary pressures, unfavorable financial conditions occasioned by high cost of borrowing and worsened liquidity in emerging economies, pre-existing supply chain disruptions worsened by the ongoing conflict in Ukraine and the Covid 19 Pandemic.

Kenya macroeconomic environment

Kenya

In 2022, the Kenyan economy is projected to grow at an average of 5.1%, lower than the 7.5% growth recorded in 2021. The slower growth is mainly attributable to a deteriorated business environment precipitated by the worst draught in 40 years, depreciation of the currency against the US dollar due to disruption in global supply chains occasioned by continuing Russia-Ukraine war. On a positive note, the country held peaceful elections in 2022 followed by smooth transition of power.

The World Bank projects GDP to grow at 5.2% on average in 2023-24, supported by recovery in the agriculture sector, robust private sector credit growth and high international prices for exports. The likely negative impact of the global economic downturn and the large effect of drought conditions locally present risks to a stable macroeconomic outlook.

Tanzania

GDP growth is projected at 5.0% and 5.6% in 2022 and 2023 respectively, due to improved performance in tourism, the reopening of trade corridors, and accelerated rollout of vaccines. Inflation was projected to increase to 4.4% in 2022 and to 3.8% in 2023 due to higher energy prices because of the Russia–Ukraine conflict. The fiscal deficit is expected to narrow to 2.7% and 2.8% of GDP in the same period due to better revenue performance and will be financed by domestic and external borrowing. The current account deficit is expected to widen to 4.0% of GDP in 2022 due to higher oil prices before narrowing to 2.6% in 2023 as merchandise exports and tourism receipts stabilize and will be financed mainly by external borrowing. The major downside risks relate to new COVID-19 variants and associated disruptions to economic activity but should be mitigated by increased public awareness and uptake of vaccines.

Results

Both Businesses had solid performance in 2022. Group premium written increased by 9% to KShs.9.98 billion (2021: KShs.9.17 billion). This demonstrates solid business fundamentals regarding the future of the business. Kenya business benefitted from increased productivity where gross written premium exceeded the KShs.7 billion mark for the first time. However, a combination of increase in inflation rates and depreciation of the currency against the US dollar translated directly to increased motor vehicle repair costs since parts are imported. This increase in claims costs especially in the first half of the year almost dented an otherwise great performance. Heritage Tanzania benefitted mostly from reduced claims cost and strengthening of the Tanzania shilling against the Kenya Shilling by 8% in the year.

The company recorded improved profit after tax of KShs.511 million (2021: KShs.424 million), on account of increased production, growth in investment income and management expenses that were contained within budget.

Similarly, Group profit after tax of KShs.623 million (2021: KShs.428 million) was further boosted by Tanzania business earnings that grew by over 100% against prior year. The Tanzania Business Gross Written Premium grew by 3%. During the year, the Company had a good experience with the claims costs that came lower than prior year.

CHAIRMAN'S REPORT (continued)

Business Environment

The environment under which the industry operates is quite complex as it consists of many players with differing orientation to businesses practices. The sector players face real challenges in providing differentiated, value-adding products that speak to customers anxieties and building trust of capital. High claims in the industry continue to pile pressure on the insurers in the region, despite an improving business environment in post-pandemic era. The transformation and enabling technologies also pose risks, such as those concerning data protection and the possibility of cybercrime and fraud. Regulatory changes are complex and challenging as we are seeing with implementation of IFRS-17 and related data modelling and skill development requirements.

The Company, in response to the above challenges, is tapping to the wider Liberty group capabilities especially in area of cyber security, data privacy and IFRS 17 implementation. In addition, the successful implementation of key security tools planned for the year, which includes the Privilege Access Management (PAM), Domain Name Service (DNS) Security, Data Loss Prevention (DLP) and File Integrity Monitoring (FIM) security solutions are in response to global security threats.

Operationally, the Business has also established early warning triggers that enable us respond accurately to changes in claims trends.

Appreciation

It is with great pleasure that I extend my sincere appreciation to all the business partners, busineseses and individuals who have supported our organization throughout the year. My deep gratitude also goes to our hard working staff who made it possible to achieve the success we had in the year.

Mr. Stuart Wenman who served as a director on our board for 12 years resigned in the year. He has been an invaluable asset to our Board and contributed significantly over the years. He has been a source of wise counsel, sound judgement, and unwavering support. It is with great appreciation that I acknowledge his contribution and wish him the best for his future endeavors. M/s Rachel Mbai and Mr Rajesh Shah who also joined the Board in 2017 and 2018 respectively also resigned at the end of 2022, to allow the Company align with Regulatory requirements. The collective impact of their contributions to the Board has been immense and greatly valued. I wish to appreciate and acknowledge their invaluable services in this regard.

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

2023 Outlook

Our businesses are in the middle of a three year strategy focus with a review expected in 2023. We will continue to conscientiously focus on customer value proposition to enable our customers to achieve financial freedom.

Peter Gethi
Chairman

MANAGING DIRECTOR'S REPORT

Heritage believes and nurtures relationships with business supporters and staff members who work tirelessly each day to make financial freedom possible for customers. In the year, we welcomed our staff back in the office after a long period of working remotely. We have learnt valuable lessons through that process of serving and enabling remote working that makes us more resilient than ever before. The milestones achieved will be the cornerstone of future work environment in one shape or another. Technology has played a key part in enabling our business to sustainably meet the various goals and will be more prominent in the future when it becomes the preferred medium of our customer interactions.

In the year, we resumed the suspended face to face business supporters and customer interactions. We quickly realized how meaningful these interactions are and cannot be replaced. The feedback we are receiving back is helping us become more and more relevant to our key stakeholders – the customer.

Business operations

The insurance industry has faced numerous challenges in the year 2022 and chief among them is persistently high claims costs especially in the motor class. The vehicle repair costs shot-up as alluded in the chairman's report, medical service providers increased costs due to higher cost of purchasing drugs and other supplies as well as higher bed charges due to rising cost of living. Incidences of fraudulent behavior was also on the rise. This is notwithstanding numerous post-covid challenges that we have been helping our customers overcome.

In 2023, IFRS 17 is coming into effect to replace the current IFRS 4 and sets out principles for the recognition, measurement, presentation, and disclosure of insurance contracts. The standard is complex and has required significant investment in terms of building capability (systems), getting resources with requisite skills and investment in process re-engineering. Fortunately for us, we have large competence pool at liberty group which have tapped into to help in project governance and policy elections.

Still on systems capability, we have started a journey to replace our current medical administration system. This is borne out of the need to equip our customers and medical health providers with modern tools. At the core of customer experience is the continuous refinement of our internal processes to make them responsive to customer needs. In the immediate term, we are investing in automation to create a leaner and a more efficient organization and in the process transform user experience when consuming our services.

While acknowledging that the primary workplace is the office, we are also cognizant of changing global trends towards workplace. Technology has made it possible to achieve what would have been considered futuristic in a very short space of time. Our business is endowed with great young talent and robust technology to enable them work anytime and anywhere. In 2023, we will be announcing to our staff new changes to work environment consistent with the company's commitment to promote employee value proposition.

In the year, Standard Bank South Africa completed 100% acquisition of Liberty Holdings. The work of integration has begun with urgency, and it is expected the merger will have significant benefits to the Kenya businesses.

In conclusion, I wish to recognize the contribution of each member of the Heritage family in enabling the company to continue realising its purpose.

Godfrey Kioi
Managing Director

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

1. Directors

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

Peter Gethi	Chairman
Godfrey Kioi	Managing Director
Michael du Toit*	Non-Executive Director
Stuart Wenman* (Resigned 31 August 2022)	Non - Executive Director
Rachel Mbai (Resigned 31 December 2022)	Non - Executive Director
Catherine Mitchem	Non - Executive Director
Rajesh Shah (Resigned 31 December 2022)	Non - Executive Director
Andrew Lonmon-Davis*	Non - Executive Director

* - South African

2. Company Secretary

Doreen Onwong'a
Qwasha Corporate Services LLP

3. Senior Management

Godfrey Kioi	Managing Director
Luke Magambo	General Manager - Finance and Administration
Beatrice Njeri Gitau	Director – Operations
Tony Mwangi	General Manager - Health
Musili Kivuitu	General Manager - Risk and Compliance
Felix Ochieng	General Manager - Human Resources
Mohamed Dalal	Chief Information Officer
Lawrence Kairegi	Head of Actuarial

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

		Group		Company	
	Note	2022 KShs '000	2021 KShs '000	2022 KShs '000	2021 KShs '000
Assets					
Interests in subsidiaries	3	-	-	146 557	146 557
Intangible assets	1	41 108	33 941	28 195	19 799
Equipment	2	119 246	113 677	103 246	102 032
Right-of-use assets	2	124 661	110 272	89 044	102 307
Deferred tax asset	9	159 089	187 820	90 547	125 310
Financial investments	5(a)	5 255 160	5 693 861	5 134 215	5 563 634
Staff loans receivable	5(b)	241 429	235 682	241 429	235 682
Deferred acquisition costs	4	124 582	99 799	106 381	87 964
Reinsurers' share of insurance liabilities	8	3 812 511	3 226 301	2 300 953	1 888 581
Current income tax recoverable	25	168 075	107 321	86 466	63 938
Prepayments, insurance and other receivables	6	447 670	321 917	226 791	228 671
Receivable arising out of reinsurance arrangements		243 740	183 769	104 816	63 243
Agents, brokers and intermediaries balances	14	348 231	458 305	348 231	458 305
Cash and cash equivalents	7	4 319 490	3 229 024	2 905 868	1 685 242
Total assets		**15 404 992**	**14 001 689**	**11 912 739**	**10 771 265**
Liabilities					
Lease liabilities	10(a)	160 598	144 779	125 699	136 403
Insurance contracts	8	4 892 836	4 277 873	3 760 897	3 206 747
Creditors arising from reinsurance arrangements		591 327	618 514	210 566	189 130
Employee benefits	11.1	100 514	83 894	100 514	83 894
Other payables	12	329 571	341 445	225 508	126 636
Creditors arising from direct insurance arrangements		383 262	396 877	365 049	384 258
Unearned premium reserve	15	3 805 321	3 337 586	2 798 357	2 478 976
Total liabilities		**10 263 429**	**9 200 968**	**7 586 590**	**6 606 044**
Equity					
Ordinary shareholders' equity		4 540 511	4 322 496	4 326 149	4 165 221
Share capital	13	1 000 000	1 000 000	1 000 000	1 000 000
Retained surplus	26	3 540 511	3 322 496	3 326 149	3 165 221
Other reserves	26	216 263	165 401	-	-
Non-controlling interest	24	384 789	312 824	-	-
Total equity		5 141 563	4 800 721	4 326 149	4 165 221
Total equity and liabilities		**15 404 992**	**14 001 689**	**11 912 739**	**10 771 265**

The financial statements and the notes on pages 20 to 21 and 32 to 117, were approved by the board of directors on 16 March 2023 and were signed on its behalf by:

Peter Gethi

Mike du Toit

Godfrey Kioi

The notes on pages 20 to 21 and 32 to 117 form an integral part of the financial statements.

GROUP AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED31 DECEMBER 2022

		Group		Company	
	Note	2022 KShs '000	2021 KShs '000	2022 KShs '000	2021 KShs '000
Gross earned premium revenue	16	9 588 142	8 751 070	6 729 486	6 082 882
Outward reinsurance	16	(4 708 950)	(4 340 304)	(2 644 918)	(2 485 096)
Net insurance premium revenue		**4 879 192**	**4 410 766**	**4 084 568**	**3 597 786**
Commissions earned		961 081	842 641	617 122	563 366
Investment income	17	3 186	1 648	-	-
Interest income on financial assets using the effective	18	305 443	273 477	188 897	149 380
Fair value adjustments to assets held at fair value through profit or loss	19	452 082	416 946	445 524	410 821
Other income	20	10 639	30 439	3 379	21 706
		1 732 431	**1 565 151**	**1 254 922**	**1 145 273**
Total income		**6 611 623**	**5 975 917**	**5 339 490**	**4 743 059**
Claims and policyholder benefits	21	(4 187 169)	(4 141 208)	(3 554 624)	(2 809 756)
Amounts recoverable from reinsurers	21	1 616 812	1 702 639	1 347 710	898 161
Net insurance benefits and claims		**(2 570 357)**	**(2 438 569)**	**(2 206 914)**	**(1 911 595)**
Commission expenses	22	(1 208 862)	(1 090 566)	(854 112)	(737 123)
Interest expense on lease liabilities	10(b)	(19 643)	(20 660)	(18 224)	(19 979)
General marketing and administration expenses	23	(1 914 514)	(1 727 313)	(1 499 548)	(1 382 833)
Total expenses and commissions		**(3 143 019)**	**(2 838 539)**	**(2 371 884)**	**(2 139 935)**
Profit before income tax		**898 247**	**698 809**	**760 692**	**691 529**
Income tax expense	25	(275 123)	(270 886)	(249 764)	(267 781)
Total earnings		**623 124**	**427 923**	**510 928**	**423 748**
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation	24(b)	67 718	27 900	-	-
Total comprehensive income		**690 842**	**455 823**	**510 928**	**423 748**
Total earnings attributable to:					
Shareholders' equity		578 246	426 253	510 928	423 748
Non-controlling interest	24	44 878	1 670	-	-
		623 124	**427 923**	**510 928**	**423 748**
Total comprehensive income attributable to:					
Shareholders' equity		645 964	454 153	510 928	423 748
Non-controlling interest	24	44 878	1 670	-	-
		690 842	**455 823**	**510 928**	**423 748**

The notes on pages 20 to 21 and 32 to 117 form an integral part of the financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital	Currency translation reserve	Statutory reserve	Retained income	Subtotal owners of the Company	Non-controlling interest	Total equity
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Balance at 01 January 2021	**1 000 000**	**(166 262)**	**290 939**	**3 120 341**	**4 245 018**	**300 067**	**4 545 085**
Prior year adjustment (Heritage Tanzania)	-	-	-	(13)	(13)	-	(13)
Total comprehensive income							
Profit for the year	-	-	-	426 253	426 253	1 670	427 923
Other comprehensive income							
Foreign currency translation difference (Note 24 (b))	-	16 639	-	-	16 639	11 087	27 726
Transfer to statutory reserve	-	-	24 085	(24 085)	-	-	-
Total other comprehensive income	**-**	**16 639**	**24 085**	**402 168**	**442 892**	**12 757**	**455 649**
Transactions with owners of the Group							
Interim dividend for 2021	-	-	-	(200 000)	(200 000)	-	(200 000)
Total transactions with owners of the Group	**-**	**-**	**-**	**(200 000)**	**(200 000)**	**-**	**(200 000)**
Balance at 31 December 2021	**1 000 000**	**(149 623)**	**315 024**	**3 322 496**	**4 487 897**	**312 824**	**4 800 721**

The notes on pages 20 to 21 and 32 to 117 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 2022	**1 000 000**	**(149 623)**	**315 024**	**3 322 496**	**4 487 897**	**312 824**	**4 800 721**
Total comprehensive income							
Profit for the year	-	-	-	578 246	578 246	44 878	623 124
Other comprehensive income							
Foreign currency translation difference (Note 24 (b))	-	40 631	-	-	40 631	27 087	67 718
Transfer to statutory reserve	-	-	10 231	(10 231)	-	-	-
Total other comprehensive income	**-**	**40 631**	**10 231**	**568 015**	**618 877**	**71 965**	**690 842**
Transactions with owners of the Group							
Interim dividend for 2022	-	-	-	(350 000)	(350 000)	-	(350 000)
Total transactions with owners of the Group	**-**	**-**	**-**	**(350 000)**	**(350 000)**	**-**	**(350 000)**
Balance at 31 December 2022	**1 000 000**	**(108 992)**	**325 255**	**3 540 511**	**4 756 774**	**384 789**	**5 141 563**

The notes on pages 20 to 21 and 32 to 117 form an integral part of the financial statements.

The statutory reserve comprises a separate reserve set aside as required by insurance regulations in Tanzania. Tanzania regulations require a separate reserve equal to 5% of net written premium or 20% of the net Profits whichever is higher. This reserve is capped at minimum paid-up capital or 50% of net written premiums.

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital KShs '000	Retained income KShs '000	Total equity KShs '000
Balance at 01 January 2021	**1 000 000**	**2 941 473**	**3 941 473**
Profit for the year	-	423 748	423 748
Total comprehensive income for the year	**-**	**423 748**	**423 748**
Interim dividend 2021	-	(200 000)	(200 000)
Total contributions by and distributions to owners of the Company recognised directly in equity	**-**	**(200 000)**	**(200 000)**
Balance at 31 December 2021	**1 000 000**	**3 165 221**	**4 165 221**
Balance at 01 January 2022	**1 000 000**	**3 165 221**	**4 165 221**
Profit for the year	-	510 928	510 928
Total comprehensive income for the year	**-**	**510 928**	**510 928**
Interim dividend 2022	-	(350 000)	(350 000)
Total contributions by and distributions to owners of Company recognised directly in equity	**-**	**(350 000)**	**(350 000)**
Balance at 31 December 2022	**1 000 000**	**3 326 149**	**4 326 149**

The notes on pages 20 to 21 and 32 to 117 form an integral part of the financial statements.

GROUP AND COMPANY STATEMENTS OF CASH FLOWS

		Group		Company	
	Note	2022 KShs '000	2021 KShs '000	2022 KShs '000	2021 KShs '000
Cash flows from operating activities					
Cash (utilised in)/generated from operations	27	**1 159 440**	**665 277**	**1 376 711**	**728 248**
Cash receipts from policyholders		9 588 142	8 751 070	6 729 486	6 082 882
Cash paid to policyholders, intermediaries, suppliers and employees		(8 428 702)	(8 085 793)	(5 352 775)	(5 354 634)
Interest income on financial assets using the effective interest method	18	305 443	273 477	188 897	149 380
Interest expense on lease liabilities	10(c)	(19 643)	(20 660)	(18 224)	(19 979)
Purchase of government securities and corporate bonds	5(a)	(2 729 567)	(5 133 863)	(2 721 000)	(5 073 052)
Purchase of unquoted shares	5(a)	(2 889)	-	-	-
Proceeds from disposal of shares	5(a)	1 002	7 008	1 002	7 008
Proceeds from disposal of government securities and corporate bonds	5(a)	3 109 859	4 638 876	3 080 000	4 460 000
Taxation paid	25	(301 761)	(289 875)	(237 491)	(265 188)
Net cash from operating activities		**1 521 884**	**140 240**	**1 669 895**	**(13 583)**
Cash flows from investing activities					
Purchase of equipment	2	(47 141)	(41 598)	(32 789)	(36 948)
Proceeds from sale of equipment and intangibles		600	3 605	600	3 605
Purchase of intangible assets	1	(28 319)	(7 593)	(20 981)	(6 899)
Loans advanced	5(b)	(71 065)	(61 234)	(71 065)	(61 234)
Loans repaid	5(b)	60 949	78 835	60 949	78 835
Net cash used in investing activities		**(84 976)**	**(27 985)**	**(63 286)**	**(22 641)**
Cash flows from financing activities					
Payment of lease liabilities	10(c)	(50 852)	(49 092)	(35 983)	(34 485)
Dividends paid	28	(350 000)	(200 000)	(350 000)	(200 000)
Net cash used in financing activities		**(400 852)**	**(249 092)**	**(385 983)**	**(234 485)**
Total cash movement for the year		**1 036 056**	**(136 837)**	**1 220 626**	**(270 709)**
Cash at the beginning of the year		3 229 024	3 341 485	1 685 242	1 955 951
Foreign currency translation		54 410	24 376	-	-
Total cash at the end of the year	7	**4 319 490**	**3 229 024**	**2 905 868**	**1 685 242**

The notes on pages 20 to 21 and 32 to 117 form an integral part of the financial statements.

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

1. Intangible assets

Summary of net carrying value

	Group		Company	
	2022 KShs '000	**2021 KShs '000**	**2022 KShs '000**	**2021 KShs '000**
Cost at the beginning of the year	155 182	186 458	123 348	116 449
Additions	28 319	7 593	20 981	6 899
Derecognition	(2 674)	(41 454)	-	-
Foreign currency translation	2 722	2 585	-	-
Cost at the end of the year	183 549	155 182	144 329	123 348
Accumulated amortisation at the beginning of the year	(121 241)	(143 078)	(103 549)	(92 010)
Impairment	-	41 454	-	-
Amortisation	(19 686)	(17 731)	(12 585)	(11 539)
Foreign currency translation	(1 514)	(1 886)	-	-
Accumulated amortisation and impairment at the end of the year	(142 441)	(121 241)	(116 134)	(103 549)
Net carrying amount at the end of the year	**41 108**	**33 941**	**28 195**	**19 799**

Summary of net carrying value	**Amortisation period (years)**				
Computer software - purchased[1]	5	41 108	33 941	28 195	19 799

	Group					
KShs '000	**Balance at beginning of year**	**Additions**	**Currency translation**	**Derecognition of work in progress**	**Amortisation**	**Balance at end of year**
2022						
Cost – movement						
Computer software – purchased[1]	155 182	28 319	2 722	(2 674)	-	183 549
Total cost	155 182	28 319	2 722	(2 674)		183 549
Accumulated amortisation and impairment – movement						
Computer software – purchased[1]	(121 241)	-	(1 514)	-	(19 686)	(142 441)
Total accumulated amortisation and depreciation	**(121 241)**	**-**	**(1 514)**	**-**	**(19 686)**	**(142 441)**
Net carrying value at the end of the year	**33 941**	**-**	**1 208**	**(2 674)**	**(19 686)**	**41 108**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

1. Intangible assets (continued)

KShs '000	Balance at beginning of year	Additions	Currency translation	Disposals	Amortisation	Balance at end of year
2021						
Cost – movement						
Computer software – purchased[1]	186 458	7 593	2 585	(41 454)	-	155 182
Total cost	186 458	7 593	2 585	(41 454)		155 182
Accumulated amortisation and impairment – movement						
Computer software – purchased[1]	(143 078)	-	(1 886)	41 454	(17 731)	(121 241)
Total accumulated amortisation and depreciation	**(143 078)**	**-**	**(1 886)**	**41 454**	**(17 731)**	**(121 241)**
Net carrying value at the end of the year	**43 380**	**7 593**	**699**	**-**	**(17 731)**	**33 941**

	Company			
KShs '000	Balance at beginning of year	Additions	Amortisation	Balance at end of year
2022				
Cost – movement				
Computer software – purchased[1]	123 349	20 981	-	144 330
Total cost	123 349	20 981		144 330
Accumulated amortisation and impairment – movement				
Computer software – purchased[1]	(103 550)	-	(12 585)	(116 135)
Total accumulated amortisation and impairment	**(103 550)**	**-**	**(12 585)**	**(116 135)**
Net carrying value at the end of the year	**19 799**	**20 981**	**(12 585)**	**28 195**

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

	Company			
KShs '000	Balance at beginning of year	Additions	Amortisation	Balance at end of year
2021				
Cost – movement				
Computer software – purchased[1]	116 450	6 899	-	123 349
Total cost	116 450	6 899		123 349
Accumulated amortisation and impairment – movement				
Computer software – purchased[1]	(92 011)	-	(11 539)	(103 550)
Total accumulated amortisation and depreciation	**(92 011)**	**-**	**(11 539)**	**(103 550)**
Net carrying value at the end of the year	**24 439**	**6 899**	**(11 539)**	**19 799**

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

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

2. Equipment and right-of-use assets

2.1. Summary

		Group		Company	
	Note	2022 KShs '000	2021 KShs '000	2022 KShs '000	2021 KShs '000
Equipment	2.2.1	119 246	113 677	103 246	102 032
Right-of-use assets	2.2.2	124 661	110 272	89 044	102 307
Total equipment and right-of-use assets		**243 907**	**223 949**	**192 290**	**204 339**

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

Summary of net carrying value	**Depreciation period (years)**				
Equipment	5	119 246	113 677	103 246	102 032
IT equipment	5	74 458	57 489	70 614	57 489
Furniture and fixtures	10	18 998	32 361	16 561	5 102
Motor vehicles	5	22 679	18 725	12 960	16 842
Office equipment	10	3 111	5 102	3 111	22 599
Right-of-use assets (refer note 2.2.2)	1 – 10	124 661	110 272	89 044	102 307

2.2.1. Equipment

	Group					
KShs '000	Balance at the beginning of the year	Additions	Currency translation	Disposals	Depreciation	Balance at the end of the year
2022						
Cost – movement						
Furniture and fixtures	190 053	4 134	4 948	(228)	-	198 907
Motor vehicles	32 972	10 218	626	(1 426)	-	42 390
Office equipment	115 684	110	-	-	-	115 794
IT equipment	288 110	32 679	-	-	-	320 789
Total cost	626 819	47 141	5 574	(1 654)		677 880
Accumulated depreciation – movement						
Furniture and fixtures	(161 061)	-	(4 113)	228	(13 076)	(178 022)
Motor vehicles	(14 246)	-	(467)	1 426	(6 420)	(19 707)
Office equipment	(111 110)	-	-	-	(1 573)	(112 683)
IT equipment	(226 725)	-	-	-	(21 497)	(248 222)
Total accumulated depreciation	**(513 142)**	**-**	**(4 580)**	**1 654**	**(42 566)**	**(558 634)**
Net carrying amount at the end of the year	**113 677**	**47 141**	**994**	**-**	**(42 566)**	**119 246**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

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

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

2.2.1. Equipment (continued)

	Group					
KShs '000	**Balance at the beginning of the year**	**Additions**	**Currency translation**	**Disposals**	**Depreciation**	**Balance at the end of the year**
2021						
Cost – movement						
Furniture and fixtures	182 345	6 732	976	-	-	190 053
Motor vehicles	22 373	19 908	243	(9 552)	-	32 972
Office equipment	115 684	-	-	-	-	115 684
IT equipment	272 215	14 958	937	-	-	288 110
Total cost	592 617	41 598	2 156	(9 552)		626 819
Accumulated depreciation – movement						
Furniture and fixtures	(147 500)	(7 516)	(629)	-	(5 416)	(161 061)
Motor vehicles	(20 376)	(690)	(169)	9 552	(2 564)	(14 247)
Office equipment	(109 394)	-	-	-	(1 716)	(111 110)
IT equipment	(209 219)	-	(816)	-	(16 689)	(226 724)
Total accumulated depreciation	**(486 489)**	**(8 206)**	**(1 614)**	**9 552**	**(26 385)**	**(513 142)**
Net carrying amount at the end of the year	**106 128**	**33 392**	**542**	**-**	**(26 385)**	**113 677**

	Company				
KShs '000	**Balance at the beginning of the year**	**Additions**	**Disposals**	**Depreciation**	**Balance at the end of the year**
2022					
Cost – movement					
Furniture and fixtures	138 305	-	-	-	138 305
Motor vehicles	21 492	-	(1 320)	-	20 172
Office equipment	115 684	110	-	-	115 794
IT equipment	261 754	32 679	-	-	294 433
Total cost	537 235	32 789	(1 320)		568 704
Accumulated depreciation – movement					
Furniture and fixtures	(115 704)	-	-	(4 628)	(120 332)
Motor vehicles	(4 650)	-	1 320	(3 877)	(7 207)
Office equipment	(111 110)	-	-	(1 573)	(112 683)
IT equipment	(203 739)	-	-	(21 497)	(225 236)
Total accumulated depreciation	**(435 203)**	**-**	**1 320**	**(31 575)**	**(465 458)**
Net carrying amount at the end of the year	**102 032**	**32 789**	**-**	**(31 575)**	**103 246**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

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

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

2.2.1. Equipment (continued)

	Company				
KShs '000	Balance at the beginning of the year	Additions	Disposals	Depreciation	Balance at the end of the year
2021					
Cost – movement					
Furniture and fixtures	135 721	2 584	-	-	138 305
Motor vehicles	11 638	19 406	(9 552)	-	21 492
Office equipment	115 684	-	-	-	115 684
IT equipment	246 796	14 958	-	-	261 754
Total cost	509 839	36 948	(9 552)		537 235
Accumulated depreciation – movement					
Furniture and fixtures	(110 288)	-	-	(5 416)	(115 704)
Motor vehicles	(11 638)	-	9 552	(2 564)	(4 650)
Office equipment	(109 394)	-	-	(1 716)	(111 110)
IT equipment	(187 050)	-	-	(16 689)	(203 739)
Total accumulated depreciation	**(418 370)**	**-**	**9 552**	**(26 385)**	**(435 203)**
Net carrying amount at the end of the year	**91 469**	**36 948**	**-**	**(26 385)**	**102 032**

Equipment is stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Included in Equipment as at 31 December 2022 are fully depreciated assets with a cost of KShs 427 067 000 (2021: KShs 415 633 000). The notional annual depreciation charge on these assets would have been KShs 74 540 000 (2021: KShs 64 766 000).

Depreciation is calculated using the straight line method over the estimated useful lives of the asset.

2.2.2. Right-of-use assets

	Group						
KShs '000	Balance at the beginning of the year	Additions	Modifications	Currency translation	Terminations	Depreciation	Balance at the end of the year
2022							
Cost – movement							
Properties	243 615	78 927	(12 070)	3 827	(48 973)	-	265 326
Total cost	243 615	78 927	(12 070)	3 827	(48 973)		265 326
Accumulated depreciation – movement							
Properties	(133 343)	-	(930)	(3 145)	48 973	(52 220)	(140 665)
Total accumulated depreciation	**(133 343)**	**-**	**(930)**	**(3 145)**	**48 973**	**(52 220)**	**(140 665)**
Net carrying amount at the end of the year	**110 272**	**78 927**	**(13 000)**	**682**	**-**	**(52 220)**	**124 661**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

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

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

2.2.2. 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**
2021							
Cost – movement							
Properties	252 678	13 004	-	1 613	(23 680)	-	243 615
Total cost	252 678	13 004		1 613	(23 680)		243 615
Accumulated depreciation – movement							
Properties	(102 766)	-	-	(903)	22 605	(52 279)	(133 343)
Total accumulated depreciation	**(102 766)**	**-**	**-**	**(903)**	**22 605**	**(52 279)**	**(133 343)**
Net carrying amount at the end of the year	**149 912**	**13 004**	**-**	**710**	**(1 075)**	**(52 279)**	**110 272**

	Company					
KShs '000	**Balance at the beginning of the year**	**Additions**	**Modifications**	**Disposals**	**Depreciation**	**Balance at the end of the year**
2022						
Cost – movement						
Properties	196 744	38 079	(12 070)	(3 488)	-	219 265
Total cost	196 744	38 079	(12 070)	(3 488)		219 265
Accumulated depreciation – movement						
Properties	(94 437)	-	(930)	3 488	(38 342)	(130 221)
Total accumulated depreciation	**(94 437)**	**-**	**(930)**	**3 488**	**(38 342)**	**(130 221)**
Net carrying amount at the end of the year	**102 307**	**38 079**	**(13 000)**	**-**	**(38 342)**	**89 044**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

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

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

2.2.2. Right-of-use assets (continued)

	Company				
KShs '000	**Balance at the beginning of the year**	**Additions**	**Disposals**	**Depreciation**	**Balance at the end of the year**
2021					
Cost – movement					
Properties	206 883	10 159	(20 298)	-	196 744
Total cost	206 883	10 159	(20 298)		196 744
Accumulated depreciation – movement					
Properties	(76 200)	-	20 298	(38 535)	(94 437)
Total accumulated depreciation	**(76 200)**	**-**	**20 298**	**(38 535)**	**(94 437)**
Net carrying amount at the end of the year	**130 683**	**10 159**	**-**	**(38 535)**	**102 307**

3. Interests in subsidiaries

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	**Country of incorporation**	**Beneficial ownershi p 2022**	**Beneficial ownership 2021**	**Carrying amount 2022**	**Carrying amount 2021**
The Heritage Insurance Company Tanzania Limited	Tanzania	60.00 %	60.00 %	146 557	146 557

4. Deferred acquisition costs

	Group		Company	
	2022	**2021**	**2022**	**2021**
Balance at the beginning of the year	99 799	79 498	87 964	59 796
Cost of new business acquired	970 533	859 844	254 114	215 351
Amortisation realised through profit or loss	(946 762)	(840 271)	(235 697)	(187 183)
Foreign currency translation	1 012	728	-	-
Balance at the end of the year	**124 582**	**99 799**	**106 381**	**87 964**
Current	124 582	99 799	106 381	87 964
	124 582	**99 799**	**106 381**	**87 964**

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

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

5. Financial investments

	Group		Company	
	2022 KShs '000	2021 KShs '000	2022 KShs '000	2021 KShs '000
5(a) Financial investments				
At fair value through profit or loss - designated	5 255 160	5 693 861	5 134 215	5 563 634
Current	2 673 078	1 663 220	2 673 078	1 663 220
Non-current	2 582 082	4 030 641	2 461 137	3 900 414
	5 255 160	**5 693 861**	**5 134 215**	**5 563 634**
At fair value through profit or loss - designated				
Quoted shares	-	1 002	-	1 002
Unquoted shares	59 479	52 131	-	-
Government securities	5 195 681	5 640 728	5 134 215	5 562 632
As at end of year	**5 255 160**	**5 693 861**	**5 134 215**	**5 563 634**
Quoted shares				
As at start of year	1 002	6 768	1 002	6 768
Disposals	(1 002)	(7 008)	(1 002)	(7 008)
Net fair value gains/(losses)	-	1 242	-	1 242
As at end of year	**-**	**1 002**	**-**	**1 002**
Unquoted shares				
As at start of year	52 131	49 231	-	-
Additions	2 889	-	-	-
Net fair value gains	-	1 082	-	-
Foreign currency translation	4 459	1 818	-	-
As at end of year	**59 480**	**52 131**	**-**	**-**
Government securities				
As at start of year	5 640 728	5 127 287	5 562 632	4 940 917
Additions	2 729 567	5 132 951	2 721 000	5 073 052
Disposals	(3 109 859)	(4 631 023)	(3 080 000)	(4 460 000)
Fair value gains	(69 379)	4 631	(69 417)	8 663
Foreign currency translation	4 624	6 882	-	-
As at end of year	**5 195 681**	**5 640 728**	**5 134 215**	**5 562 632**
Corporate bonds				
As at start of year	-	7 270	-	-
Additions	-	912	-	-
Maturity	-	(7 853)	-	-
Net fair value losses	-	(597)	-	-
Currency translation	-	268	-	-
As at end of year	**-**	**-**	**-**	**-**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

5. Financial investments (continued)

5 b) Staff loans (at amortised cost)

Movement of loans and receivables is as shown below:

	Group		Company	
	2022 KShs '000	**2021 KShs '000**	**2022 KShs '000**	**2021 KShs '000**
As at start of year	235 682	249 846	235 682	249 846
Loan advanced	71 065	61 233	71 065	61 233
Loan repayment	(60 949)	(78 834)	(60 949)	(78 834)
Charge/release to income statement - IFRS 9	(4 369)	3 437	(4 369)	3 437
	241 429	**235 682**	**241 429**	**235 682**

	Group		Company	
	2022 KShs '000	**2021 KShs '000**	**2022 KShs '000**	**2021 KShs '000**
The movement in ECL impairment for the loan is shown below:				
As at start of year	21 089	24 526	21 089	24 526
Write back to income statement	-	(3 693)	-	(3 693)
Charge to income statement - IFRS 9	4 371	256	4 371	256
	25 460	**21 089**	**25 460**	**21 089**
Current	7 427	7 542	7 427	7 542
Non-current	234 002	228 140	234 002	228 140
	241 429	**235 682**	**241 429**	**235 682**

Mortgage loans are offered to staff members as a benefit which are collateralised. The Heritage Insurance 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 2022. Any expected impairment losses would therefore be recognised under the 12 months expected credit loss. The mortgage loans 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 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	
	2022 KShs '000	**2021 KShs '000**	**2022 KShs '000**	**2021 KShs '000**
Level 1				
Quoted equities and government securities	5 195 681	5 641 730	5 134 215	5 563 634
Level 3				
Unquoted shares	59 479	52 131	-	-
	5 255 160	**5 693 861**	**5 134 215**	**5 563 634**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

5. Financial investments (continued)

For Level 3 instruments, management exercises judgment on the selection of the valuation technique. Key assumptions include the discounting factors and observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

6. Prepayments, insurance and other receivables

	Group		Company	
	2022 KShs '000	**2021 KShs '000**	**2022 KShs '000**	**2021 KShs '000**
Prepayments	144 310	177 818	100 946	104 947
Due from related parties	-	3 616	-	3 616
Accrued income	51 840	33 181	51 840	33 181
Other receivables at amortised cost	196 150	214 615	152 786	141 744
Other receivables	251 520	107 302	74 005	86 927
Total prepayments, insurance and other receivables	**447 670**	**321 917**	**226 791**	**228 671**
Split between non-current and current portions				
Current assets	447 670	321 917	226 791	228 671

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	Group		Company	
	2022 KShs '000	**2021 KShs '000**	**2022 KShs '000**	**2021 KShs '000**
Bank balances	207 921	311 288	127 832	157 756
Short-term deposits	4 111 569	2 917 736	2 778 036	1 527 486
	4 319 490	**3 229 024**	**2 905 868**	**1 685 242**

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

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

8. Insurance contracts

	Group					
	2022			2021		
	Gross of reinsurance KShs '000	Reinsurance KShs '000	Net of reinsurance KShs '000	Gross of reinsurance KShs '000	Reinsurance KShs '000	Net of reinsurance KShs '000
Short-term insurance liabilities						
Short-term insurance liabilities comprise:						
Outstanding reported claims	3 722 302	(1 431 180)	2 291 122	3 464 179	(1 296 072)	2 168 107
Claims incurred but not reported	1 170 534	(762 475)	408 059	813 694	(498 181)	315 513
Insurance contract liabilities	**4 892 836**	**(2 193 655)**	**2 699 181**	**4 277 873**	**(1 794 253)**	**2 483 620**
Unearned premiums (Note 15)	3 805 321	(1 618 856)	2 186 465	3 337 586	(1 432 048)	1 905 538
Total short-term insurance liabilities	**8 698 157**	**(3 812 511)**	**4 885 646**	**7 615 459**	**(3 226 301)**	**4 389 158**
Current	4 600 602	(1 804 813)	2 795 789	4 789 171	(2 302 293)	2 486 878
Non-current	4 097 555	(2 007 698)	2 089 857	2 826 288	(1 578 678)	1 247 610

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

8. Insurance contracts (continued)

	Group					
	2022			2021		
Movement analysis	**Gross of reinsurance KShs '000**	**Reinsurance KShs '000**	**Net of reinsurance KShs '000**	**Gross of reinsurance KShs '000**	**Reinsurance KShs '000**	**Net of reinsurance KShs '000**
Outstanding reported claims						
Balance at the beginning of the year	3 464 179	(1 296 072)	2 168 107	3 527 639	(1 483 998)	2 043 641
Cash-settled claims	(3 668 537)	1 280 806	(2 387 731)	(4 062 526)	1 864 772	(2 197 754)
Claims provided for	3 857 213	(1 364 896)	2 492 317	3 999 066	(1 676 846)	2 322 220
Foreign currency translation	69 447	(51 018)	18 429	-	-	-
Balance at the end of the year	**3 722 302**	**(1 431 180)**	**2 291 122**	**3 464 179**	**(1 296 072)**	**2 168 107**
Claims incurred but not reported						
Balance at the beginning of the year	813 694	(498 181)	315 513	649 060	(447 839)	201 221
Movements for the year	329 956	(251 916)	78 040	164 634	(50 342)	114 292
Foreign currency translation	26 884	(12 378)	14 506	-	-	-
Balance at the end of the year	**1 170 534**	**(762 475)**	**408 059**	**813 694**	**(498 181)**	**315 513**
Unearned premiums						
Balance at the beginning of the year	3 337 586	(1 432 048)	1 905 538	2 934 932	(1 230 263)	1 704 669
Premiums received/(accrued)	9 984 192	(4 846 125)	5 138 067	9 153 724	(4 542 089)	4 611 635
Recognised to revenue	(9 588 142)	4 708 950	(4 879 192)	(8 751 070)	4 340 304	(4 410 766)
Foreign currency translation	71 685	(49 633)	22 052	-	-	-
Balance at the end of the year	**3 805 321**	**(1 618 856)**	**2 186 465**	**3 337 586**	**(1 432 048)**	**1 905 538**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

8. Insurance contracts (continued)

	Company					
	2022			2021		
	Gross of reinsurance KShs '000	Reinsurance KShs '000	Net of reinsurance KShs '000	Gross of reinsurance KShs '000	Reinsurance KShs '000	Net of reinsurance KShs '000
Short-term insurance liabilities						
Short-term insurance liabilities comprise:						
Outstanding reported claims	2 966 759	(895 109)	2 071 650	2 652 079	(699 483)	1 952 596
Claims incurred but not reported	794 138	(471 740)	322 398	554 668	(337 446)	217 222
Insurance contract liabilities	**3 760 897**	**(1 366 849)**	**2 394 048**	**3 206 747**	**(1 036 929)**	**2 169 818**
Unearned premiums	2 798 357	(934 104)	1 864 253	2 478 976	(851 652)	1 627 324
Total short-term insurance liabilities	**6 559 254**	**(2 300 953)**	**4 258 301**	**5 685 723**	**(1 888 581)**	**3 797 142**
Current	3 901 592	(1 257 403)	2 644 189	3 826 926	(1 375 055)	2 451 871
Non-current	2 657 662	(1 043 550)	1 614 112	1 856 799	(513 524)	1 343 275

	Company					
	2022			2021		
Movement analysis	Gross of reinsurance KShs '000	Reinsurance KShs '000	Net of reinsurance KShs '000	Gross of reinsurance KShs '000	Reinsurance KShs '000	Net of reinsurance KShs '000
Outstanding reported claims						
Balance at the beginning of the year	2 652 079	(699 483)	1 952 596	3 119 459	(1 228 939)	1 890 520
Cash-settled claims	(3 000 474)	1 017 790	(1 982 684)	(3 289 891)	1 486 999	(1 802 892)
Claims provided for	3 315 154	(1 213 416)	2 101 738	2 822 511	(957 543)	1 864 968
Balance at the end of the year	**2 966 759**	**(895 109)**	**2 071 650**	**2 652 079**	**(699 483)**	**1 952 596**
Claims incurred but not reported						
Balance at the beginning of the year	554 668	(337 446)	217 222	567 424	(396 827)	170 597
Movements for the year	239 470	(134 294)	105 176	(12 756)	59 381	46 625
Balance at the end of the year	**794 138**	**(471 740)**	**322 398**	**554 668**	**(337 446)**	**217 222**
Unearned premiums						
Balance at the beginning of the year	2 478 976	(851 652)	1 627 324	2 230 392	(765 363)	1 465 029
Premiums received/(accrued)	7 048 867	(2 727 370)	4 321 497	6 331 466	(2 571 385)	3 760 081
Recognised to revenue	(6 729 486)	2 644 918	(4 084 568)	(6 082 882)	2 485 096	(3 597 786)
Balance at the end of the year	**2 798 357**	**(934 104)**	**1 864 253**	**2 478 976**	**(851 652)**	**1 627 324**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

8. Insurance contracts (continued)

Short-term insurance contracts

The Group mainly uses the Basic Chain Ladder method to estimate the cost of claims for the Incurred But Not Reported (IBNR) provision with the Bornehuetter Fergusson (BF) technique being used for more recent accident periods where data may be sparse or where older years may not be reliable indicators of future experience.

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 Kenbright Actuarial and Financial Services Limited as at 31 December 2022.

Group	2016 KShs '000	2017 KShs '000	2018 KShs '000	2019 KShs '000	2020 KShs '000	2021 KShs '000	2022 KShs '000	Total KShs '000
Estimates of ultimate claims costs:								
At end of accident year	1 491 202	2 061 529	2 882 637	2 559 757	2 773 530	2 692 461	3 849 730	18 310 846
One year later	229 393	1 677 827	1 828 135	1 681 550	1 726 459	1 545 607	-	8 688 971
Two years later	30 175	46 422	1 761 818	642 720	786 135	-	-	3 267 270
Three years later	65 184	39 236	1 252 029	521 313	-	-	-	1 877 762
Four years later	11 358	(29 947)	1 209 758	-	-	-	-	1 191 169
Five years later	9 573	(5 507)	-	-	-	-	-	4 066
Six years later	2 504	-	-	-	-	-	-	2 504
Current estimate of cumulative claims	1 839 389	3 789 560	8 934 377	5 405 340	5 286 124	4 238 068	3 849 730	33 342 588
Less: cumulative payments to date	(1 344 341)	(3 658 533)	(8 605 773)	(5 168 410)	(4 978 519)	(3 709 876)	(2 154 836)	(29 620 288)
Liability in the statement of financial position	**495 048**	**131 027**	**328 604**	**236 930**	**307 605**	**528 192**	**1 694 894**	**3 722 300**
Incurred but not reported								1 170 536
Total gross claims liability included in the statement of financial position	**495 048**	**131 027**	**328 604**	**236 930**	**307 605**	**528 192**	**1 694 894**	**4 892 836**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

8. Insurance contracts (continued)

Short-term insurance contracts (continued)

Company	2016 KShs '000	2017 KShs '000	2018 KShs '000	2019 KShs '000	2020 KShs '000	2021 KShs '000	2022 KShs '000	Total KShs '000
Estimates of ultimate claims costs:								
At end of accident year	1 491 202	2 061 529	1 474 896	1 999 867	1 809 322	2 112 951	2 494 469	13 444 236
One year later	229 393	1 677 827	506 902	1 016 432	756 531	858 554	-	5 045 639
Two years later	30 175	46 422	500 675	66 772	74 443	-	-	718 487
Three years later	65 184	39 236	29 134	(14 371)	-	-	-	119 183
Four years later	11 358	(29 947)	(3 672)	-	-	-	-	(22 261)
Five years later	9 573	(5 507)	-	-	-	-	-	4 066
Six years later	2 504	-	-	-	-	-	-	2 504
Current estimate of cumulative claims	1 839 389	3 789 560	2 507 935	3 068 700	2 640 296	2 971 505	2 494 469	19 311 854
Less: cumulative payments to date	(1 344 341)	(3 658 533)	(2 216 401)	(2 842 472)	(2 374 415)	(2 517 700)	(1 391 234)	(16 345 096)
Liability in the statement of financial position	**495 048**	**131 027**	**291 534**	**226 228**	**265 881**	**453 805**	**1 103 235**	**2 966 758**
Incurred but not reported								794 139
Total gross claims liability included in the statement of financial position	**495 048**	**131 027**	**291 534**	**226 228**	**265 881**	**453 805**	**1 103 235**	**3 760 897**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

9. Deferred tax asset

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		Company	
	2022 KShs '000	**2021 KShs '000**	**2022 KShs '000**	**2021 KShs '000**
Deferred tax asset	159 089	187 820	90 547	125 310
Reconciliation of deferred tax asset				
At beginning of year	187 820	219 764	125 310	182 812
Credit to profit/loss	(34 078)	(33 309)	(34 763)	(57 502)
Currency translation	5 347	1 365	-	-
	159 089	**187 820**	**90 547**	**125 310**

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.

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**
2022				
Deferred tax movement analysis	187 820	5 347	(34 078)	159 089
Equipment	8 208	93	3 695	11 996
Fair value gains	(336)	-	(64 100)	(64 436)
Prepayments, provisions and unrealised fair value revaluation of shares and bonds	179 948	5 254	26 327	211 529
Total	**187 820**	**5 347**	**(34 078)**	**159 089**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

9. Deferred tax asset (continued)

	Asset/ (liability) at the beginning of the year	Foreign currency translation	(Provision)/re ease for the year	Asset/ (liability) at the end of the year
	KShs '000	KShs '000	KShs '000	KShs '000
2021				
Deferred tax movement analysis	219 764	1 365	(33 309)	187 820
Equipment	5 585	(29)	2 652	8 208
Fair value gains	2 814	-	(3 150)	(336)
Prepayments, provisions and unrealised fair value revaluation of shares and bonds	211 365	1 394	(32 811)	179 948
Total	**219 764**	**1 365**	**(33 309)**	**187 820**

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.

Deferred tax movement analysis

Company

	Asset/ (liability) at the beginning of the year	(Provision)/re ease for the year	Asset/ (liability) at the end of the year
	KShs '000	KShs '000	KShs '000
2022			
Deferred tax movement analysis	125 310	(34 763)	90 547
Equipment	7 138	1 858	8 996
Fair value gains	(336)	(79 351)	(79 687)
Provisions and other temporary differences	118 508	42 730	161 238
Total	**125 310**	**(34 763)**	**90 547**
2021			
Deferred tax movement analysis	182 812	(57 502)	125 310
Equipment	6 392	746	7 138
Fair value gains	2 814	(3 150)	(336)
Provisions and other temporary differences	173 606	(55 098)	118 508
Total	**182 812**	**(57 502)**	**125 310**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

10. 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. Some leases include an option to renew the lease for an additional period after the end of the initial contract term.

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

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

a) Lease liabilities

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

	Group		Company	
Lease liability	**2022 KShs '000**	**2021 KShs '000**	**2022 KShs '000**	**2021 KShs '000**
Balance at beginning of the year	144 779	181 203	136 403	160 728
Additions	79 715	13 005	38 867	10 160
Modifications	(13 588)	-	(13 588)	-
Repayments	(70 495)	(69 752)	(54 207)	(54 464)
Finance costs	19 643	20 660	18 224	19 979
Terminations	(183)	(1 095)	-	-
Foreign currency translation	727	758	-	-
Carrying amount at 31 December	**160 598**	**144 779**	**125 699**	**136 403**
Current	50 875	47 798	50 875	47 798
Non-current	109 723	96 981	74 824	88 605
Carrying amount at 31 December	**160 598**	**144 779**	**125 699**	**136 403**

Maturity analysis of lease liabilities based on undiscounted cashflows	Group		Company	
	2022 KShs '000	**2021 KShs '000**	**2022 KShs '000**	**2021 KShs '000**
Up to 1 year	50 875	47 798	50 875	47 798
Between 1 and 5 years	109 723	90 596	74 824	117 970
Over 5 years	-	6 385	-	6 385
Total undiscounted lease liabilities at the end of the year	**160 598**	**144 779**	**125 699**	**172 153**

b) Amounts recognised in profit or loss

	Group		Company	
	2022 KShs '000	**2021 KShs '000**	**2022 KShs '000**	**2021 KShs '000**
Interest expensed on lease liabilities	19 643	20 660	18 224	19 979
Depreciation charge	52 220	52 279	38 342	38 535
	71 863	**72 939**	**56 566**	**58 514**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

10. Leases (continued)

c) Amounts recognised in statement of cash flows

	Group		Company	
	2022	**2021**	**2022**	**2021**
	KShs '000	**KShs '000**	**KShs '000**	**KShs '000**
Payment of lease liabilities	50 852	49 092	35 983	34 485
Interest expense on lease liabilities	19 643	20 660	18 224	19 979
	70 495	**69 752**	**54 207**	**54 464**

11. Employee benefits

11.1. Short-term employee benefits

Group

	Leave pay		**Short-term incentive schemes**		**Total**	
KShs '000	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Balance at the beginning of the year	26 894	29 866	57 000	65 000	83 894	94 866
Additional liability raised	33 514	26 894	67 000	57 000	100 514	83 894
Utilised during the year	(26 894)	(29 866)	(57 000)	(65 000)	(83 894)	(94 866)
Foreign currency translation	-	-	-	-	-	-
Balance at the end of the year	**33 514**	**26 894**	**67 000**	**57 000**	**100 514**	**83 894**

Company

	Leave pay		**Short-term incentive schemes**		**Total**	
KShs '000	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Balance at the beginning of the year	26 894	29 866	57 000	65 000	83 894	94 866
Additional liability raised	33 514	26 894	67 000	57 000	100 514	83 894
Utilised during the year	(26 894)	(29 866)	(57 000)	(65 000)	(83 894)	(94 866)
Balance at the end of the year	**33 514**	**26 894**	**67 000**	**57 000**	**100 514**	**83 894**

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).

11.2. Details of funds

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

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

11. Employee benefits (continued)

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.

11.3. Transactions between group companies and the funds

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

	Group		Company	
	2022 KShs '000	2021 KShs '000	2022 KShs '000	2021 KShs '000
Retirement				
Defined contribution funds	68 425	67 926	51 535	51 036

11.3.2. 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	740 409	652 746	740 409	652 746
Premiums	102 323	101 951	102 323	101 951
Fair value adjustments	13 494	48 443	13 494	48 443
Withdrawals	(121 467)	(62 731)	(121 467)	(62 731)
Balance at the end of the year	**734 759**	**740 409**	**734 759**	**740 409**

12. Other payables

Accrued expenses	125 374	61 376	125 374	61 376
Sundry payables	164 572	256 236	60 937	41 823
Due to related parties (note 29(e))	39 625	23 833	39 197	23 437
	329 571	**341 445**	**225 508**	**126 636**

13. Share capital

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	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 GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

14. Agents, brokers and intermediaries balances

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

	ECL Rate %	Group and Company Gross Carrying amount KShs '000	Impairment allowance KShs '000	Net carrying amount KShs '000
Current	-	126 397	-	126 397
31 - 60 days past due	-	80 294	-	80 294
61 - 90 days past due	-	92 951	-	92 951
91 - 365 days past due	-	48 589	-	48 589
More than 365 days past due	100	27 406	(27 406)	-
		375 637	**(27 406)**	**348 231**

Movement in impairment losses on Insurance receivables	Group 2022 KShs '000	Group 2021 KShs '000	Company 2022 KShs '000	Company 2021 KShs '000
Insurance contracts	375 637	711 229	375 637	711 229
Opening impairment loss allowance	(252 924)	(430 238)	(252 924)	(430 238)
Charge to profit or loss	27 662	14 498	27 662	14 498
Bad debts written-off	197 856	162 816	197 856	162 816
Provision for impairment loss allowance - Closing	(27 406)	(252 924)	(27 406)	(252 924)
Receivables arising out of direct insurance arrangements (Net)	**348 231**	**458 305**	**348 231**	**458 305**

Write off policy for balances from agents and brokers

Balances due from agents and brokers are written off when there is no reasonable expectation of recovery. Conditions for write-off are that;
1) a debt shall be considered to have become bad if it is proved to the satisfaction of the board to have become uncollectable after all reasonable steps have been taken to collect it and,

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

15. 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 2022 KShs '000	Group 2021 KShs '000	Company 2022 KShs '000	Company 2021 KShs '000
As at 1 January	3 337 586	2 934 932	2 478 976	2 230 392
Currency adjustment	71 685	26 017	-	-
Adjusted balance as at 1 January	**3 409 271**	**2 960 949**	**2 478 976**	**2 230 392**
Premiums received	9 984 192	9 127 707	7 048 867	6 331 466
Recognised to revenue	(9 588 142)	(8 751 070)	(6 729 486)	(6 082 882)
Movement in unearned premium reserve (note 16)	**396 050**	**376 637**	**319 381**	**248 584**
As at 31 December	**3 805 321**	**3 337 586**	**2 798 357**	**2 478 976**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

16. Insurance premiums

	Group		Company	
	2022 KShs '000	**2021 KShs '000**	**2022 KShs '000**	**2021 KShs '000**
Short-term insurance				
Motor	2 275 021	1 938 190	1 785 437	1 484 727
Fire	2 399 120	2 150 362	1 017 666	812 227
Accident	2 392 414	2 325 347	1 641 754	1 650 480
Medical	2 237 703	2 072 784	2 152 156	2 007 331
Marine	283 884	264 387	132 473	128 117
Gross earned premium revenue	**9 588 142**	**8 751 070**	**6 729 486**	**6 082 882**
Reconciliation of gross earned premium				
Group written premium	9 984 192	9 127 707	7 048 867	6 331 466
Movement in unearned premium reserves (Note 15)	(396 050)	(376 637)	(319 381)	(248 584)
Gross earned premium revenue	**9 588 142**	**8 751 070**	**6 729 486**	**6 082 882**
Short term insurance				
Motor	150 201	149 091	79 526	87 468
Fire	2 009 362	1 741 670	734 190	532 501
Accident	1 239 919	1 263 371	638 872	765 548
Medical	1 152 330	1 078 414	1 152 330	1 078 414
Marine	157 138	107 758	40 000	21 165
Outward reinsurance	**4 708 950**	**4 340 304**	**2 644 918**	**2 485 096**

17. Investment income

Dividend income				
Listed investments - Local	3 186	1 648	-	-

18. Interest income on financial assets using the effective interest rate method

Interest income on financial assets using effective interest method	285 329	252 610	168 783	128 513
Staff loans receivable	20 114	20 867	20 114	20 867
	305 443	**273 477**	**188 897**	**149 380**

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

Debt instruments				
Fair value gains on financial investments	531 395	405 962	524 875	400 916
Fair value movement on assets measured through profit or loss	(79 313)	10 984	(79 351)	9 905
	452 082	**416 946**	**445 524**	**410 821**

Included in the fair value adjustments for 2022 was KShs 165 million (2021: KShs 102 million) related to interest income.

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

	Group		Company	
	2022 KShs '000	2021 KShs '000	2022 KShs '000	2021 KShs '000

20. Other income

Profit on sale of property and equipment	600	3 605	600	3 605
Other sundry income	10 039	26 834	2 779	18 101
	10 639	**30 439**	**3 379**	**21 706**

21. Insurance claims expense

Claims and policyholder benefits under insurance contracts				
Motor	1 451 534	1 305 760	1 264 059	1 050 274
Fire	542 862	905 628	364 845	224 012
Marine	116 481	54 447	40 987	16 006
Medical	1 487 954	1 353 554	1 406 541	1 293 151
Accident	588 338	521 819	478 192	226 313
	4 187 169	**4 141 208**	**3 554 624**	**2 809 756**
Insurance claims recovered from reinsurers				
Motor	102 270	81 544	82 062	55 541
Fire	370 831	739 554	251 958	143 332
Marine	118 402	181 994	33 868	12 949
Medical	744 884	682 981	744 884	682 981
Accident	280 425	16 566	234 938	3 358
	1 616 812	**1 702 639**	**1 347 710**	**898 161**

22. Commission expenses

Commission expenses	1 208 862	1 090 566	854 112	737 123
Incurred during the year	1 233 645	1 110 867	872 529	765 291
Deferred acquisition costs (Note4)	(124 582)	(99 799)	(106 381)	(87 964)
Amortisation of deferred acquisition costs	99 799	79 498	87 964	59 796
Commission expense per class				
Motor	230 056	191 749	175 540	141 181
Fire	403 742	379 802	203 581	174 857
Marine	34 125	38 403	18 354	23 103
Medical	206 520	180 910	204 046	180 910
Accident	334 419	299 702	252 591	217 072
Commission expenses	**1 208 862**	**1 090 566**	**854 112**	**737 123**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

	Group		Company	
	2022 KShs '000	2021 KShs '000	2022 KShs '000	2021 KShs '000
23. General marketing and administration expenses				
Employee costs	1 068 716	950 998	810 230	735 807
Office costs	738 406	654 124	607 484	537 724
Other	107 392	122 191	81 834	109 302
Total general marketing and administration expenses	**1 914 514**	**1 727 313**	**1 499 548**	**1 382 833**
Office costs	**738 406**	**654 124**	**607 484**	**537 724**
Amortisation and impairment of intangible assets (refer note 1)	19 686	17 731	12 585	11 539
Audit fees – current year	24 085	18 843	10 837	8 784
Consulting fees and outsource arrangements	329 860	289 102	305 930	280 518
Repairs and maintenance	101 316	86 631	101 278	86 519
Depreciation of equipment (refer note 2)	42 566	26 385	31 375	26 385
Depreciation of right-of-use assets (refer note 2)	52 220	52 279	38 342	38 535
Other office costs	168 673	163 153	106 937	85 444
Other	**107 392**	**122 191**	**81 834**	**109 302**
Directors' fees	21 957	19 964	11 964	12 591
Other rental charges	25 530	25 347	24 111	23 900
Bad debts	(24 728)	3 005	(22 719)	12 590
Regulatory levies	84 633	73 875	68 478	60 221
Employee costs	**1 068 716**	**950 998**	**810 230**	**735 807**
Salaries and wages	794 179	739 778	552 583	541 478
Medical aid contributions	46 265	44 392	46 265	44 392
Staff and management incentive schemes	72 551	58 041	72 551	58 041
Other retirement contributions	68 425	67 926	51 535	51 036
Employee insurances	14 210	13 930	14 210	13 930
Other	73 086	26 931	73 086	26 930
Number of staff				
Permanent salaried staff	237	227	175	170
In Kenya	175	170	175	170
In Tanzania	62	57	-	-

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

24 a) Non controlling interest (NCI)

NCI percentage	Heritage Tanzania 2022 40 % KShs '000	Heritage Tanzania 2021 40 % KShs '000
Non-current assets	64 530	139 644
Current assets	3 688 727	3 300 546
Current liabilities	(2 791 285)	(2 658 131)
Net assets	**961 972**	**782 059**
Net assets attributable to NCI	**384 789**	**312 824**
Revenue	2 858 656	2 697 361
Profit for the year	**112 196**	**4 189**
Profit allocated to NCI	44 878	1 670
Foreign currency translation differences	27 087	11 087
Cashflow flows from operating activities	(7 305)	(60 714)
Cashflow flows from investing activities	(7 606)	88 616
Cashflow flows from financing activities	(6 515)	(15 176)
Net increase (decrease) in cash and cash equivalents	(21 426)	12 726

24 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	
	2022 KShs '000	**2021 KShs '000**	**2022 KShs '000**	**2021 KShs '000**
At start of the year	27 726	46 780	-	-
Movement for the year	39 992	(19 054)	-	-
	67 718	**27 726**	**-**	**-**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

25. Income tax expense

	Group		Company	
	2022 KShs '000	2021 KShs '000	2022 KShs '000	2021 KShs '000
Sources of taxation				
Current tax	241 045	237 577	215 001	210 279
Deferred tax	34 078	33 309	34 763	57 502
	275 123	**270 886**	**249 764**	**267 781**
Reconciliation of the tax expenses				
Profit before income tax	898 247	698 808	760 692	691 527
Tax calculated at a rate of 30% (2021 - 30%)	269 474	209 642	228 208	207 458
Income not subject to tax	(1 446)	(1 839)	(1 446)	(1 345)
Expenses not deductible for tax purposes	24 140	64 479	23 002	61 668
Prior year tax over provision	(17 045)	(1 396)	-	-
Income tax charge	**275 123**	**270 886**	**249 764**	**267 781**
Tax recoverable movement				
As at 1 January	107 321	55 023	63 938	9 029
Current tax charge for the year	(241 045)	(237 577)	(215 001)	(210 279)
Paid in the year	275 258	283 556	237 491	265 188
Tax withheld	26 541	6 319	38	-
	168 075	**107 321**	**86 466**	**63 938**

Reconciliation between applicable tax rate and average effective tax rate.

	Group 2022	Group 2021	Company 2022	Company 2021
Profit before taxation per statement of comprehensive income	898 247	698 809	760 692	691 529
Taxation per statement of comprehensive income	275 123	270 886	249 764	267 781
Applicable tax rate	30.63 %	32.39 %	32.83 %	28.70 %
Adjustments due to:				
Income exempt from normal taxation	0.16 %	0.27 %	0.19 %	2.47 %
Tax effect of interest income	- %	0.05 %	- %	0.05 %
Expenses not deductible for tax purposes	(2.69)%	(1.60)%	(3.02)%	(1.24)%
Prior year tax over provision	1.90 %	(1.10)%	- %	- %
Combined rate of Kenya and Tanzania	**30.00 %**	**30.00 %**	**30.00 %**	**30.00 %**

(1) All significant transactions that are accounted for in other comprehensive income (OCI) for both 2022 and 2021 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 GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

	Group		Company	
	2022 KShs '000	2021 KShs '000	2022 KShs '000	2021 KShs '000

26. Retained earnings and other reserves

Statutory reserve	325 255	315 024	-	-
Foreign currency translation reserve	(108 992)	(149 623)	-	-
Total other reserves	**216 263**	**165 401**	**-**	**-**
Retained earnings	3 540 511	3 322 496	3 326 149	3 165 221
At 31 December	**3 756 774**	**3 487 897**	**3 326 149**	**3 165 221**

- Movement in the statutory reserves are shown in the statement of changes in equity on pages 28 to 30.
- 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.

27. Cash generated from operations

Profit before taxation	898 247	698 809	760 692	691 529
Adjustments for:				
Interest income (Note18)	(305 443)	(273 477)	(188 897)	(149 380)
Interest expense on lease liabilities (Note 10(c))	19 643	20 660	18 224	19 979
Depreciation (Note 2)	42 566	26 385	31 575	26 385
Amortisation of intangibles (Note 1)	19 686	17 731	12 585	11 539
Depreciation of right-of-use assets (Note 2.2.2)	52 220	52 279	38 342	38 535
Profit on disposal of property, equipment and intangibles (Note 1)	(600)	(3 605)	(600)	(3 605)
Loss on lease modifications	(588)	-	(588)	-
Revaluation reserve of bonds and shares	69 379	(6 358)	70 203	(9 904)
Staff loan impairment	4 369	(3 437)	4 369	(3 437)
Changes in working capital:				
Prepayments, insurance and other receivables	(125 791)	6 732	1 842	(7 257)
Deferred acquisition costs	(24 783)	(20 301)	(18 417)	(28 168)
Receivable arising out of reinsurance arrangements	(59 971)	(14 211)	(41 572)	(42 642)
Agents, brokers and intermediaries balances	110 074	91 804	110 074	91 804
Reinsurers' share of insurance liabilities	(586 210)	(64 201)	(412 372)	502 548
Creditors arising from reinsurance arrangements	(27 187)	156 367	21 436	103 227
Employee benefits	16 620	(11 745)	16 620	(10 972)
Other payables	(11 874)	(429 731)	98 873	(191 341)
Creditors arising from direct insurance arrangements	(13 615)	(82 251)	(19 209)	(79 039)
Insurance contract liabilities	614 963	101 173	554 150	(480 137)
Unearned premium reserve	467 735	402 654	319 381	248 584
	1 159 440	**665 277**	**1 376 711**	**728 248**

28. Dividends paid

Dividends	(350 000)	(200 000)	(350 000)	(200 000)

Dividends are from profits generated by the Group and Company.

During the year, the Company paid KShs 350 million (2021: KShs 200 million) The directors do not propose payment of a final dividend (2021: Nil)

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

29. 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.

The Heritage Insurance Company Kenya Limited and its subsidiaries is referred to as 'group'; The Heritage Insurance Company Kenya Limited 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 11.

A. Stanbic Bank Kenya Limited

A.1 Financial instrument investments

Stanbic term deposits and Corporate bonds

		Group Fair value		Company Fair value
	2022 KShs '000	2021 KShs '000	2022 KShs '000	2021 KShs '000
Summary of holdings and movements				
Holdings at the beginning of the year	**138 760**	**213 771**	**138 760**	**213 771**
Term deposits	138 760	213 771	138 760	213 771
Purchases	**309 468**	**7 658**	**309 468**	**7 658**
Term deposits	309 468	7 658	309 468	7 658
Sales	**(134 292)**	**(82 669)**	**(134 292)**	**(82 669)**
Term deposits	(134 292)	(82 669)	(134 292)	(82 669)
Holdings at the end of the year	**313 936**	**138 760**	**313 936**	**138 760**
Term deposits	313 936	138 760	313 936	138 760

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

29. Related parties (continued)

A.2 Financial instrument investments

Stanbic equity investments

	Group Fair value		Company Fair value	
	2022 KShs '000	**2021 KShs '000**	**2022 KShs '000**	**2021 KShs '000**
Summary of holdings and movements				
Holdings at the beginning of the year	**1 002**	**6 768**	**1 002**	**6 768**
STANLIB Fahari I-Reit	1 002	6 768	1 002	6 768
Sales	**(1 002)**	**(7 009)**	**(1 002)**	**(7 009)**
STANLIB Fahari I-Reit	(1 002)	(7 009)	(1 002)	(7 009)
	-	-	-	-
Fair value adjustments	**-**	**1 243**	**-**	**1 243**
STANLIB Fahari I-Reit	-	1 243	-	1 243
Holdings at the end of the year	**-**	**1 002**	**-**	**1 002**
Stanbic Bank Kenya Limited - term deposits	-	1 002	-	1 002

A.3 Banking arrangements

The Heritage Insurance Group and Company makes use of banking facilities provided by Standard Group Limited through it's subsidiaries in Kenya and Tanzania.

Summary of cash balances, interest earned and bank charges

	Group		Company	
	2022 KShs '000	**2021 KShs '000**	**2022 KShs '000**	**2021 KShs '000**
Holdings at the beginning of the year	**95 721**	**54 036**	**66 464**	**30 740**
Standard Bank Group Limited (SA)	95 721	54 036	66 464	30 740
Net movements during the year	**(6 819)**	**41 685**	**23 774**	**35 724**
Standard Bank Group Limited (SA)	(6 819)	41 685	23 774	35 724
Holdings at the end of the year	**88 902**	**95 721**	**90 238**	**66 464**
Standard Bank Group Limited (SA)	88 902	95 721	90 238	66 464

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

29. 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 2022 amounted to KShs 980 million (2021: KShs 743 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 2022 is KShs 42 million (2021: KShs 35 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 5.9 million (2021: KShs 5.9 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. 2022 premium income was KShs 569 million (2021: KShs 483 million).

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. 2022 premium income was KShs 265 million (2021: KShs 136 million).

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 2022 is KShs 107 million (2021: KShs 80 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 2022 was KShs 31million (2021: 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 70 million (2021: KShs 75 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:

	2022 KShs '000	2021 KShs '000
Executive management	52 224	48 917
Non-executive directors' fees	21 957	19 964
Total	**74 181**	**68 881**

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

29. 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	
	2022 KShs '000	2021 KShs '000	2022 KShs '000	2021 KShs '000
Short term insurance	3 464 133	3 299 175	9 090	8 657

D. STANLIB Fahari-Reit

Heritage Insurance had an investment in ICEA-Lion Fahari I-Reit of 160 000 units in 2021 at a fair value of KShs 1 202 000. 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	
	2022 KShs '000	2021 KShs '000	2022 KShs '000	2021 KShs '000
Liberty Holdings Limited SA	(17 663)	(16 572)	(17 235)	(16 145)
The Heritage Insurance Company Tanzania Limited	-	-	-	2 930
Liberty Kenya Holdings Plc	(2 460)	3 616	(2 460)	3 616
Liberty Life Assurance Kenya Limited	(19 104)	(6 801)	(19 104)	(6 801)
Stanbic Bank Kenya Limited	(398)	(460)	(398)	(491)
Amounts included in other receivables	-	3 616	-	3 616
Amounts included in other payables	(39 625)	(23 833)	(39 197)	(23 437)

The related party balances are assessed to have a low expected credit loss impairment as they have a low risk of default. As such no provision has been made for impairment of related party balances.

30. Contingent liability

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

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.

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (continued)

31. Subsequent events

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

RISK MANAGEMENT

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)

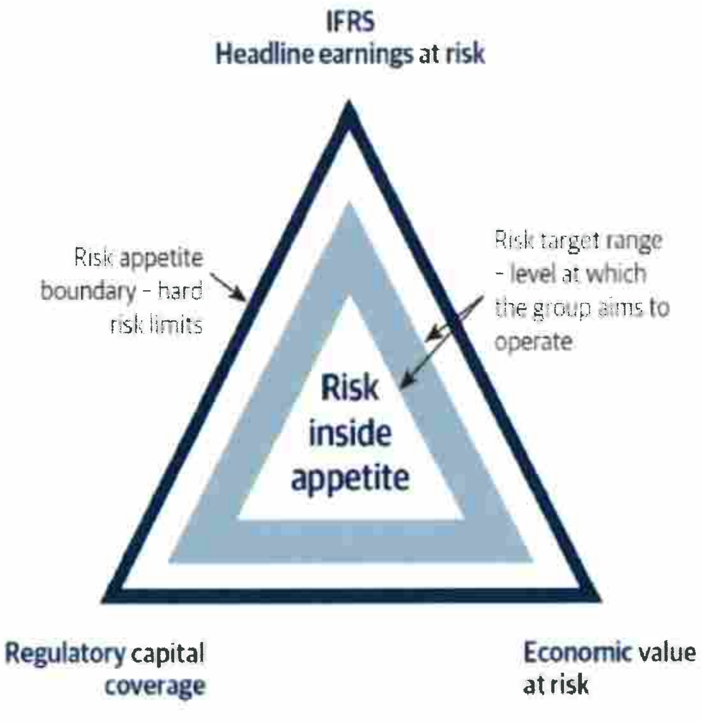
(c) Risk appetite and risk target (continued)

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.

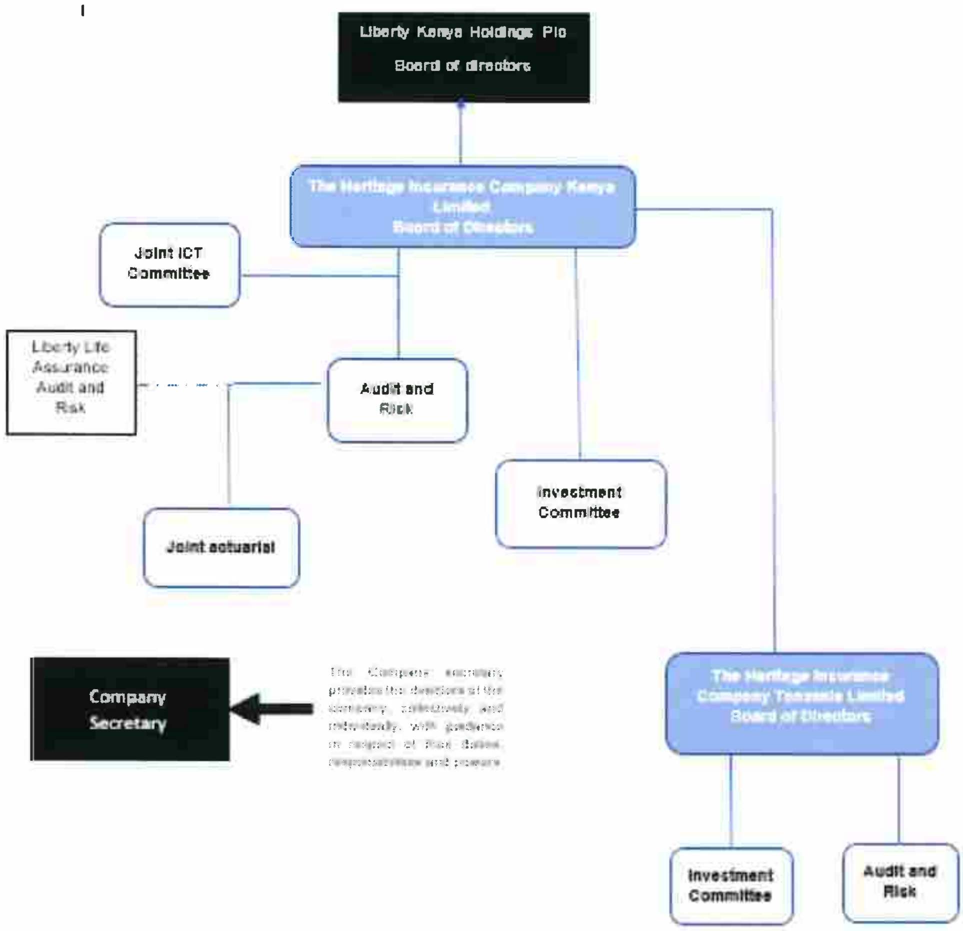
RISK MANAGEMENT (continued)

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. Joint ICT committee 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 company's financial position, ensure optimal utilisation of the financial assets as well as Asset Liability Management (ALM). 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	Management is focusing on: • enhancing the customer and adviser experience at points of delivery; • Insurance risk • enhancing intermediary experience through servicing and tools; and • building loyalty and increasing customer confidence in our brand.
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	

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
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 2022 which included a scenario of negative economic impact in Kenya as well as a scenario involving distressed financial markets to prepare for the potential impacts on the business.
Changes in the operating environment as a result of the changing regulatory landscape Classification: • Strategic and business risk • Compliance and legal risk	The 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.
Weaknesses in operational, IT, financial and accounting processes may lead to incorrect decision making and/or reporting Classification: • Operational risk	Simplification and automation initiatives as well as enhancements which increased the granularity of financial controls have contributed to mitigating this risk. Management has driven a number of initiatives in 2022 to enhance risk practices and risk culture by embedding risk management in business processes. Ongoing alignment to the broader Group IT architecture.

RISK MANAGEMENT (continued)

1. Enterprise risk management (continued)

(f) Understanding Heritage's risks (continued)

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

Emerging risks The following emerging risks have been identified as relevant to Heritage's business and pose both risks and present opportunities: • Climate change: The direct physical impact of climate change as well as the second order impact of transitioning to a low carbon economy presents risks and opportunities to Heritage. Changing stakeholder demands, including Environmental Social and Governance (ESG) related issues, are considered as part of a group-wide approach to managing climate change risk; • De-globalisation: Geopolitical shifts and the COVID-19 pandemic may result in a shift from globalisation to nationalism and protectionism.	Emerging risks involve a high degree of uncertainty (i.e. timeframe and severity). Heritage is in the process of investigating the potential risks and opportunities

(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.

	2022 KShs '000	2021 KShs '000
Due from group companies	-	3 616
Due to group companies	(39 197)	(23 437)
Net borrowings	(39 197)	(19 821)
Less: Cash and cash equivalents	2 905 868	1 685 242
Net Cash	2 866 671	1 665 421
Total Equity	**4 326 149**	**4 165 221**

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.
- provide an adequate return to shareholders by pricing products according to 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 and Heritage Insurance Company Tanzania Limited.

	Short Term business	
Heritage Insurance Company Kenya Limited	**2022 KShs'000**	**2021 KShs'000**
Available capital (or "own funds")	3 684 522	3 544 051
Risk-based capital requirement	820 345	1 005 282
Solvency ratio (times)	4.49	3.53
Target SCR coverage ratio (times)	**2.0 - 3.0**	**2.5 - 3.5**

	Short Term business	
Heritage Insurance Company Tanzania Limited	**2022 KShs'000**	**2021 KShs'000**
Available capital (or "own funds")	1 596 085	1 730 297
Risk-based capital requirement	1 311 912	1 523 024
Solvency ratio (times)	1.39	1.28
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 policyholder behaviour 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.

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

Motor	Includes Motor private, Motor PSV and Motor commercial. Cover for losses arising out of the use of motor vehicles, inclusive of third-party risks but exclusive of transit risks.
Fire	Includes Fire Personal, Fire industrial and Terrorism risks .Cover against loss or damage to property due to fire, explosion, storm and other occurrences arising out of loss of goods customarily included in a property.
Accident	These include Engineering, Liability, Workmen's compensation, Aviation, Theft, Agriculture and any other risks of incidental nature not included under the categories specifically listed above and below.
Medical	Cover for personal health risks and includes inpatient and outpatient cover, dental, optical and maternity cover.
Marine	Includes Marine cargo and Hull. Cover for losses arising out of haulage of cargo through the sea.

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	2022 Gross premiums earned KShs '000	2022 Gross claims loss ratio %	2021 Gross premiums earned KShs '000	2021 Gross claims loss ratio %
Motor	2 275 021	64	1 938 190	67
Fire	2 399 120	23	2 150 362	42
Accident	2 392 414	25	2 325 347	25
Medical	2 237 703	66	2 072 784	65
Marine	283 884	41	264 387	197
Total	**9 588 142**	**44**	**8 751 070**	**47**

(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 and 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 across the company and reports material risks to the ARC.

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 2022, 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 24 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

Risk category KShs '000	Total financial, property and insurance assets	Attributable to Residual liabilities and shareholders' interests
2022		
Assets subject to market risk only	59 479	59 479
Equity price	59 479	59 479
Assets subject to market and credit risk	14 608 790	14 608 790
Interest rate	10 796 279	10 796 279
Reinsurance assets(1)	3 812 511	3 812 511
Other assets not included in the asset class table	736 723	736 723
Total	**15 404 992**	**15 404 992**
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	
Risk category **KShs '000**	**Total financial, property and insurance assets**	**Residual liabilities and shareholders' interests**
2021		
Assets subject to market risk only	53 134	52 051
Equity price	53 134	52 051
Assets subject to market and credit risk	13 292 110	13 204 211
Interest rate	10 065 809	10 019 325
Reinsurance assets(1)	3 226 301	3 184 886
Other assets not included in the asset class table	656 445	644 442
Total	**14 001 689**	**13 900 704**
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.

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**	**2022**	**2021**
Lease liabilities	160 598	144 779
Insurance contract liabilities	4 892 836	4 277 873
Creditors arising from reinsurance arrangements	591 327	618 514
Employee benefits	100 514	83 894
Other payables	329 571	341 445
Unearned premium reserve	3 805 321	3 337 586
Creditors arising from direct insurance arrangements	383 262	396 877
Total equity	5 141 563	4 800 721
	15 404 992	**14 001 689**

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	7 923 993	-	7 923 993	6 510 371	-	6 510 371
1 – 5 years	1 666 730	-	1 666 730	1 605 264	-	1 605 264
6 – 10 years	62 673	-	62 673	62 673	-	62 673
11 – 20 years	86 440	-	86 440	86 440	-	86 440
Over 20 years	16 764	-	16 764	-	-	-
Variable	59 479	-	59 479	-	-	-
Total	**9 816 079**	**-**	**9 816 079**	**8 264 748**	**-**	**8 264 748**

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	430 085	-	430 085	326 022	-	326 022
Total	**430 085**	**-**	**430 085**	**326 022**	**-**	**326 022**

4.8.2. Currency risk

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

Foreign currency exposure	**2022**	**2021**
Tanzania Shillings		
Assets		
Financial investments	120 945	130 228
Reinsurance assets	1 511 558	1 337 720
Prepayments, insurance and other receivables	359 805	213 773
Cash and cash equivalents	1 361 930	1 381 610
Total financial and insurance assets by currency	**3 354 238**	**3 063 331**
Liabilities		
Insurance and other payables	(3 443 443)	(2 586 547)
Net Assets by currency	**(89 205)**	**476 784**
US Dollar		
Assets		
Cash and cash equivalents	51 692	162 173

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 2022 would have decreased profit and loss by KShs 0.62 million (2021: KShs 0.63 million)

A 10% strengthening of the Kenya Shilling against the US Dollar as at 31 December 2022 would have decreased profit and loss by KShs 0.65 million (2021: KShs 1.83 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 reasonable and 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 Audit and Risk management 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 probable.

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 2022 remains heavily weighted towards Kenyan counterparties including government and top tier Kenyan banks.

Rating methodology

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

Rating scale

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

Investment grade

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

Non-investment grade

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

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

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 charge 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
2022								
Debt instruments	5 188 411	-	-	-	7 270	-	300 908	5 496 589
Listed term deposits	5 188 411	-	-	-	-	-	-	5 188 411
Unlisted term deposits	-	-	-	-	7 270	-	59 479	66 749
Loans	-	-	-	-	-	-	241 429	241 429
Reinsurance assets	-	-	-	-	3 812 511	-	-	3 812 511
Prepayments, insurance and other receivables	-	-	-	-	-	1 776 402	-	1 776 402
Cash and cash equivalents	-	-	4 319 490	-	-	-	-	4 319 490
Total assets bearing credit risk	**5 188 411**	**-**	**4 319 490**	**-**	**3 819 781**	**1 776 402**	**300 908**	**15 404 992**
Local	5 188 411	-	1 011 744	-	3 819 781	750 797	251 677	11 022 410
Foreign	-	-	3 307 746	-	-	1 025 605	49 231	4 382 582

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
2021								
Debt instruments	5 749 002	-	-	-	-	-	287 814	6 036 816
Listed term deposits	5 749 002	-	-	-	-	-	-	5 749 002
Unlisted term deposits	-	-	-	-	-	-	52 132	52 132
Loans	-	-	-	-	-	-	235 682	235 682
Reinsurance assets	-	-	-	-	3 226 301	-	-	3 226 301
Prepayments, insurance and other receivables	-	-	-	-	-	963 991	545 557	1 509 548
Cash and cash equivalents	-	-	2 427 223	-	801 801	-	-	3 229 024
Total assets bearing credit risk	**5 749 002**	**-**	**2 427 223**	**-**	**4 028 102**	**963 991**	**833 371**	**14 001 689**
Local	5 562 632	-	1 034 419	-	3 257 131	750 797	784 140	11 389 119
Foreign	186 370	-	1 392 804	-	770 971	213 194	49 231	2 612 570

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 impairment

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Gross	348 231	-	27 406	375 637
Impairment	-	-	(27 406)	(27 406)
Net	**348 231**	**-**	**-**	**348 231**

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 2022. Consequently, no impairment loss has been carried in the Group and Company financial statements.

Movement in impairment losses on Insurance receivables

	Group		Company	
	2022 KShs '000	2021 KShs '000	2022 KShs '000	2021 KShs '000
Opening impairment loss allowance	(252 924)	(430 238)	(252 924)	(430 238)
Charge to profit or loss	27 662	14 498	27 662	14 498
Bad debts write off	197 856	162 816	197 856	162 816
Provision for impairment loss allowance - Closing	**(27 406)**	**(252 924)**	**(27 406)**	**(252 924)**

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 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 2022 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 liquid perspective.

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

	2022		2021	
Financial, property and insurance asset liquidity	%	KShs '000	%	KShs '000
Liquid assets (realisable within one month)	64.9	9 515 171	66.5	8 870 753
Medium assets (realisable within six months)	0.4	59 479	0.4	52 132
Illiquid assets (realisable in excess of six months)	34.7	5 093 619	33.1	4 422 358
	100.0	**14 668 269**	**100.0**	**13 345 243**

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**
2022						
Lease liabilities	-	50 875	74 824	34 899	-	160 598
Insurance and other payables	430 085	974 589	-	-	-	1 404 674
Total	**430 085**	**1 025 464**	**74 824**	**34 899**	**-**	**1 565 272**
Percentage portion (%)	**27**	**66**	**5**	**2**	**-**	**100**
2021						
Lease liabilities	-	31 978	98 340	14 461	-	144 779
Insurance and other payables	425 338	1 015 391	-	-	-	1 440 729
Total	**425 338**	**1 047 369**	**98 340**	**14 461**	**-**	**1 585 508**
Percentage portion (%)	**27**	**66**	**6**	**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 2022, 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.

We conduct regular tax health checks to identify any possible tax exposures.

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 2022

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 2021 and continued to be a focus in 2022 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, and:
- Complexity Management - complex products and the wide range of products sold over time result in elevated conduct risk.

RISK MANAGEMENT (continued)

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 some of the financial assets on its behalf:

		2022		2021
	%	KShs '000	%	KShs '000
Self managed	8	667 651	11	748 359
ILAM	92	7 244 600	89	6 342 760
Total Financial investments and short-term deposits	**100**	**7 912 251**	**100**	**7 091 119**

Internally managed assets include Bonds under lien required to be held under the provisions of the Kenyan Insurance Act.

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.

ACCOUNTING POLICIES

1 Basis of preparation

The 2022 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 '000), 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 and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2022

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

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

Standard issued, not yet effective: IFRS 17 Insurance Contracts (IFRS 17)

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

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

ACCOUNTING POLICIES (continued)

2. New IFRS standards and amendments (continued)

2.1 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2022 (continued)

a. Those expected to have a significant impact on the financial statements of company (continued)

Standard issued, not yet effective: IFRS 17 Insurance Contracts (IFRS 17) (continued)

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

Project governance, status and process going forward

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

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

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

To meet the requirements of IFRS 17, the company has invested significant effort in data collection and storage, modelling development, general ledger and supporting sub ledger configuration. Heritage Insurance will present the full restated IFRS 17 compliant results with the annual financial statements presented for the year ended 31 December 2023.

Overview of IFRS 17

IFRS 17 replaces IFRS 4, which was issued as an interim standard and permitted entities to account for insurance contracts (particularly the measurement thereof) using local accounting practices, resulting in a multitude of different approaches.

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

ACCOUNTING POLICIES (continued)

2. New IFRS standards and amendments (continued)

2.1 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2022 (continued)

a. Those expected to have a significant impact on the financial statements of company (continued)

Standard issued, not yet effective: IFRS 17 Insurance Contracts (IFRS 17) (continued)

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

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

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

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

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

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

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

IFRS 17 establishes a contractual service margin (CSM) at the initial measurement of the liability (LRC). The CSM represents the unearned profit on the contract which is expected to be earned in the future and results in no profit at initial recognition. The CSM is only applicable to the LRC as the group still has an obligation for service, and not to the LIC. The CSM is released over the life of the contract in line with the level of service provided in each period. The interest rate used to discount cash flows and determine the initial CSM is locked in at the rate at inception for that contract, for all future CSM movements. Although there is no profit recognised at inception, the standard does require the group to recognise losses on any onerous groups of contracts upfront.

ACCOUNTING POLICIES (continued)

2. New IFRS standards and amendments (continued)

2.1 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2022 (continued)

a. Those expected to have a significant impact on the financial statements of company (continued)

Standard issued, not yet effective: IFRS 17 Insurance Contracts (IFRS 17) (continued)

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

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

The premium Allocation Approach (PAA) is a simplified model in which the profit for the period is determined as the revenue less expenses for the period.

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

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

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

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

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

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

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

ACCOUNTING POLICIES (continued)

2. New IFRS standards and amendments (continued)

2.1 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2022 (continued)

a. Those expected to have a significant impact on the financial statements of company (continued)

Standard issued, not yet effective: IFRS 17 Insurance Contracts (IFRS 17) (continued)

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

Contracts measured under PAA (including reinsurance)

The company has elected to measure contracts that have a short coverage period under the PAA measurement model.

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

Transition approaches

The standard requires retrospective application of IFRS 17 prior to the transition date, which is 1 January 2022, unless it is impracticable to do so. If it is impracticable, an entity can choose between either a modified retrospective or a fair value approach to measure the initial IFRS 17 balances on the transition date (1 January 2022, in the case of Heritage Insurance). For the short contract boundary nature contracts measured under the PAA approach (12 months or less), these will all be measured using full retrospective application.

The company has used a combination of two transition approaches (namely, full retrospective and fair value) depending on the extent of the historical data (including assumptions, methodologies and the availability of risk adjustment data) that is available per the IFRS 17 defined groups. The approach has been applied for majority of groups of insurance contracts recognised from 1 January 2016 onwards. Based on the impracticability assessment, in particular the:

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

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

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

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

ACCOUNTING POLICIES (continued)

2. New IFRS standards and amendments (continued)

2.1 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2022 (continued)

a. Those expected to have a significant impact on the financial statements of company (continued)

Standard issued, not yet effective: IFRS 17 Insurance Contracts (IFRS 17) (continued)

PAA approach

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

For contracts measured under PAA, the company has elected:

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

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

- Judgement as to which expenses meet the definition of directly attributable under IFRS 17 and are included in the measurement of fulfilment cash flows. The interpretation may vary for some expense items between insurers, as well as potentially the method to attribute the qualifying expense cash flows to the various portfolios.
- Defining criteria to determine whether a contract is unlikely to become onerous over the contract term.
- The technique for calculating the risk adjustment and associated confidence levels.
- Coverage units utilised for release of the CSM.

Financial Instruments

The group applied IFRS 9 Financial Instruments for years commencing 1 January 2018. There is no expected change to previously applied classification and designation of financial instruments that are linked to policyholder benefits as a result of IFRS 17. Management's intention is to document the full IFRS 17 accounting policies, including accounting policy elections and key judgements that will have been applied in the application of the standard, in the 2023 annual financial statements.

Transition adjustment to equity on 1 January 2022

The cumulative net adjustment to the group's equity as at 1 January 2022 arising from the adoption of IFRS 17 is approximately a reduction of KShs 63 million. This reduction in net asset value is the outcome of the more conservative measurement methodologies required under IFRS 17 guidance, compared to the previous accounting policies adopted under IFRS 4. The actual impact on adopting IFRS 17 on 1 January 2022 may change because of, amongst others: systems and controls not having been run for extended periods, which will occur in 2023; and accounting policies, assumptions, judgements and estimation techniques used are subject to change until the group finalises its first financial statements that include the date of initial application.

The impact of restating the 2022 financial results, presentation of the detailed transition statement of financial position and inclusion of the IFRS 17 compliant disclosures will be included in the annual financial statements for the year ending 31 December 2023.

Tax implications

The Authorities in Kenya and Tanzania have not issued tax legislation relating to impact and consequential tax implications of adopting IFRS 17. On transition date, there is expected deferred tax impact on the NAV impact arising from differences in carrying insurance reserves under IFRS 4 and IFRS 17 of approximately KShs 27 milllion. Heritage Insurance shall actively seek to comply with the any legislation that may be affected in due course.

ACCOUNTING POLICIES (continued)

2. New IFRS standards and amendments (continued)

2.1 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2022 (continued)

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

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

Standard	Effective date
IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture(amendments) The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business,even if these assets are housed in a subsidiary.	The effective date for these amendments have been deferred indefinitely.
Classification of liabilities as current or non-current (Amendment to IAS 1)	1 January 2024
IFRS 16 Leases The amendments add to requirements explaining how acompany accounts for a sale and leaseback after the date of the transaction. IFRS 16 had not previously specified how tomeasure the transaction when reporting after that date. Theamendments add to the sale and leaseback requirements inIFRS 16, thereby supporting the consistent application of thestandard. These amendments will not change the accountingfor leases other than those arising in a sale and lease back transaction.	1 January 2024

ACCOUNTING POLICIES (continued)

3 Basis of consolidation

The Group and Company 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.
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.

ACCOUNTING POLICIES (continued)

3. Basis of consolidation (continued)

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 (pages 20 to 21).

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.

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.

ACCOUNTING POLICIES (continued)

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.

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.

ACCOUNTING POLICIES (continued)

5. Financial instruments (continued)

5.1 Financial assets (continued)

Subsequent measurement

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

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

ACCOUNTING POLICIES (continued)

5. Financial instruments (continued)

5.1 Financial assets (continued)

Impairment (continued)

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.

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.

ACCOUNTING POLICIES (continued)

5. Financial instruments (continued)

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.

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.

ACCOUNTING POLICIES (continued)

5. Financial instruments (continued)

5.3 Fair value (continued)

- Level 3 – Values are estimated indirectly using valuation techniques or models for which one or more of the significant inputs are reasonable assumptions (that is unobservable inputs), based on market conditions.

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

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

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

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 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 Non Financial Assets (continued)

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)

	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.	**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.
	Termination of leases: When the group or lessor terminates or cancels a lease, the right-of-use asset and lease liability are derecognised.	**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.
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.	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.	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.
Reassessment and modification of leases	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.	

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) on a straight line basis. 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	Equity shares are classified as equity when there is no obligation to transfer cash of other assets to the holder. Incremental costs directly attributable to the issue of new shares or options are shown in equity as 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.

ACCOUNTING POLICIES (continued)

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.
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.

9.2 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.

ACCOUNTING POLICIES (continued)

9. Other significant accounting policies (continued)

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 for contract modification and derecognition. An insurance contract is derecognised when it is: • extinguished (i.e. when the obligation specified in the insurance contract expires or is discharged or cancelled); or • the contract is modified and certain additional criteria are met.
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.	The Company recognises revenue as and when it satisfies a performance obligation by transferring control of a product or service to a customer. The amount of revenue recognised is the amount the Company expects to receive in accordance with the terms of the contract. Commission is assessed on the basis of the actual service provided as a percentage of the total services to be provided.

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.

ACCOUNTING POLICIES (continued)

9. Other significant accounting policies (continued)

9.4.2 Deferred taxation (continued)

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.

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.

Supplementary information

Revenue Account

Group For the period ended 31 December 2022	Engineering KShs. 000	Fire Domestic KShs. 000	Fire Industrial KShs. 000	Liability KShs. 000	Marine KShs. 000	Aviation KShs. 000	Motor Private KShs. 000	Motor Commercial KShs. 000	Personal Accident KShs. 000	Medical KShs. 000	Theft KShs. 000	W.C.A KShs. 000	Miscellaneous KShs. 000	Year 2022 KShs. 000	Year 2021 KShs. 000
Gross Written Premium	340 965	162 967	2 360 874	598 712	267 288	78 065	1 478 241	952 759	311 275	2 289 596	119 215	444 875	578 298	9 983 130	9 153 724
Gross earned premium	241 630	150 286	2 253 586	608 847	283 884	101 798	1 398 102	876 919	321 692	2 152 156	115 880	432 584	650 778	9 588 142	8 751 070
less: Reinsurance payable Premium	(150 057)	(40 902)	(1 973 043)	(389 283)	(157 139)	(100 155)	(94 417)	(55 785)	(122 225)	(1 152 330)	(8 818)	(89 433)	(375 363)	(4 708 950)	(4 340 304)
Net Earned premiums	91 573	109 384	280 543	219 564	126 745	1 643	1 303 685	821 134	199 467	999 826	107 062	343 151	275 415	4 879 192	4 410 766
Gross Paid Claims	108 138	18 003	402 682	40 010	87 836	2 139	814 832	393 240	152 215	1 394 355	19 809	89 231	71 933	3 594 423	4 059 978
Gross outstanding movements	(11 518)	(8 429)	197 954	26 521	(3 374)	13 667	140 825	81 342	101 531	12 186	54 241	(33 499)	21 299	592 746	81 230
Gross claims incurred	96 620	9 574	600 636	66 531	84 462	15 806	955 657	474 582	253 746	1 406 541	74 050	55 732	93 232	4 187 169	4 141 208
Reinsurance recoveries	(8 713)	75	(445 069)	(27 981)	(53 916)	(13 839)	(62 528)	(36 982)	(140 916)	(744 884)	(30 613)	914	(52 360)	(1 616 812)	(1 702 639)
Net Claims incurred	87 907	9 649	155 567	38 550	30 546	1 967	893 129	437 600	112 830	661 657	43 437	56 646	40 872	2 570 357	2 438 569
Commission receivable	(69 524)	(4 736)	(427 156)	(42 666)	(24 518)	(10 530)	(17 145)	(3 895)	(23 486)	(277 518)	(2 445)	(23 753)	(33 709)	(961 081)	(840 929)
Commission payable	60 136	27 140	377 813	60 518	34 125	5 227	139 824	90 232	60 020	204 046	16 964	88 437	44 380	1 208 862	1 088 854
Net Commission expense	(9 388)	22 404	(49 343)	17 852	9 607	(5 303)	122 679	86 337	36 534	(73 472)	14 519	64 684	10 671	247 781	247 925
Expenses of Management:															
Overheads	72 640	64 749	196 094	101 205	71 251	18 697	396 585	210 280	100 023	351 718	60 949	94 524	126 963	1 865 678	1 687 752
Premium Tax	1 549	1 630	9 101	2 394	1 089	781	11 927	7 194	2 196	22 896	1 041	3 692	2 989	68 479	60 221
Total Revenue Expenses	74 189	66 379	205 195	103 599	72 340	19 478	408 512	217 474	102 219	374 614	61 990	98 216	129 952	1 934 157	1 747 973
Underwriting profit / (loss) - 31 December 2022	(61 135)	10 952	(30 876)	59 563	14 252	(14 499)	(120 635)	79 723	(52 116)	37 027	(12 884)	123 605	93 920	126 897	(23 701)

Supplementary information (continued)

Revenue Account

Company	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Aviation	Motor Private	Motor Commercial	Personal Accident	Medical	Theft	W.C.A	Miscellaneous	Year 2022	Year 2021
For the period ended 31 December 2022	KShs. 000	KShs. 000	KShs. 000	KShs. 000	KShs. 000	KShs. 000	KShs. 000	KShs. 000	KShs. 000	KShs. 000	KShs. 000	KShs. 000	KShs. 000	KShs. 000	KShs. 000
Gross Written Premium	**159 615**	**162 967**	**941 413**	**239 400**	**108 855**	**78 065**	**1 192 728**	**719 388**	**248 136**	**2 289 596**	**104 369**	**444 232**	**359 639**	**7 048 403**	**6 331 467**
Gross earned premium	**161 313**	**150 286**	**867 379**	**245 978**	**132 473**	**101 798**	**1 106 467**	**678 970**	**257 709**	**2 152 156**	**103 363**	**433 062**	**338 532**	**6 729 486**	**6 082 882**
less: Reinsurance payable Premium	(101 987)	(40 902)	(693 288)	(66 963)	(40 000)	(100 155)	(52 550)	(26 977)	(85 164)	(1 152 330)	(3 087)	(89 574)	(191 941)	**(2 644 918)**	**(2 485 096)**
Net Earned premiums	**59 326**	**109 384**	**174 091**	**179 015**	**92 473**	**1 643**	**1 053 917**	**651 993**	**172 545**	**999 826**	**100 276**	**343 488**	**146 591**	**4 084 568**	**3 597 786**
Gross Paid Claims	49 395	18 003	153 909	35 004	41 071	2 139	689 537	343 087	138 983	1 394 355	14 650	88 936	31 405	**3 000 474**	**3 289 891**
Gross outstanding movements	(36 828)	(8 429)	201 363	20 818	(84)	13 667	151 254	80 181	90 838	12 186	46 917	(35 412)	17 679	**554 150**	**(480 135)**
Gross claims incurred	**12 567**	**9 574**	**355 272**	**55 822**	**40 987**	**15 806**	**840 791**	**423 268**	**229 821**	**1 406 541**	**61 567**	**53 524**	**49 084**	**3 554 624**	**2 809 756**
Reinsurance recoveries	(1 910)	75	(252 033)	(24 144)	(33 868)	(13 839)	(51 507)	(30 555)	(139 557)	(744 884)	(29 408)	939	(27 019)	**(1 347 710)**	**(898 161)**
Net Claims incurred	**10 657**	**9 649**	**103 239**	**31 678**	**7 119**	**1 967**	**789 284**	**392 713**	**90 264**	**661 657**	**32 159**	**54 463**	**22 065**	**2 206 914**	**1 911 595**
Commission receivable	(32 674)	(4 736)	(196 413)	(16 427)	(5 050)	(10 530)	(12 591)	(591)	(15 486)	(277 518)	(10)	(23 726)	(21 370)	**(617 122)**	**(561 654)**
Commission payable	25 692	27 140	176 441	40 349	18 354	5 227	107 906	67 634	49 294	204 046	14 885	88 317	28 827	**854 112**	**735 411**
Net Commission expense	**(6 982)**	**22 404**	**(19 972)**	**23 922**	**13 304**	**(5 303)**	**95 315**	**67 043**	**33 808**	**(73 472)**	**14 875**	**64 591**	**7 457**	**236 990**	**173 757**
Expenses of Management:															
Overheads	48 955	64 749	99 354	81 308	52 324	18 697	294 948	138 387	85 294	351 718	48 391	89 488	75 680	**1 449 293**	**1 342 592**
Premium Tax	1 549	1 630	9 101	2 394	1 089	781	11 927	7 194	2 196	22 896	1 041	3 692	2 989	**68 479**	**60 221**
Total Revenue Expenses	**50 504**	**66 379**	**108 455**	**83 702**	**53 413**	**19 478**	**306 875**	**145 581**	**87 490**	**374 614**	**49 432**	**93 180**	**78 669**	**1 517 772**	**1 402 813**
Underwriting profit / (loss) - 31 December 2022	**5 147**	**10 952**	**(17 631)**	**39 713**	**18 637**	**(14 499)**	**(137 557)**	**46 656**	**(39 017)**	**37 027**	**3 810**	**131 254**	**38 400**	**122 892**	**109 621**