2020

ANNUAL REPORT AND FINANCIAL STATEMENTS

HAPPINESS IS...

...ONE GOOD THING AFTER ANOTHER.

APA LIFE

www.apainsurance.org

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COMPANY INFORMATION

BOARD OF DIRECTORS

R M Ashley* – Chairman

D M Ndonye

A K M Shah*

P J Shah

S M Shah

R Schnarwiler** *(Resigned on 26 February 2021)*

P M K Shah*

M M'Mukindia

Jeremy P Rowse* *(Appointed on 26 February 2021)*

***British** ****Swiss**

SECRETARY

P H Shah
Certified Secretary (Kenya)
P.O. Box 30094 - 00100
Nairobi

SENIOR MANAGEMENT

Catherine Karimi	- Chief Executive Officer
Daniel Mugo	- Chief Finance Officer
Bernard Kinyanjui	- Head of Corporate Business
Vitalis Mbae	- Actuarial Officer
Jane Watiki	- Head of Operations, Corporate Business
Harriet Aleke	- Team leader, Operations, Retail Business
Stephen Muiga	- Business Development Manager, Alternative Channels
James Njagi	- Business Development Manager, Deposit Administration
Mark Mumo	- Business Development Manager, Corporate Business, Group Life
Benedicto Makena	- Business Development Manager, Retail Business

INDEPENDENT AUDITOR

PricewaterhouseCoopers LLP
Certified Public Accountants (Kenya)
PwC Tower, Waiyaki Way/ Chiromo Road, Westlands
P.O. Box 43963 - 00100

Nairobi

BANKERS

NCBA Group Limited

P.O. Box 30437 - 00100

Nairobi

REGISTERED OFFICE

Apollo Centre

07 Ring Road Parklands, Westlands

P.O. Box 30389-00100

Nairobi

CONSULTING ACTUARIES

Giles T Waugh, FASSA, FIA

Independent Actuarial Consultant

+27 11 646 0199/ +27 83 680 7990

HEAD OFFICE

Apollo Centre

07 Ring Road Parklands, Westlands

P.O. Box 30389 - 00100

Tel: +254 (0) 20 364 1000

Nairobi

AGENCY OFFICES

ABSA Plaza (formerly Barclays),

Loita Street

P.O. Box 30389 - 00100

Tel: +254 (0) 20 364 1042

Nairobi

Apollo House

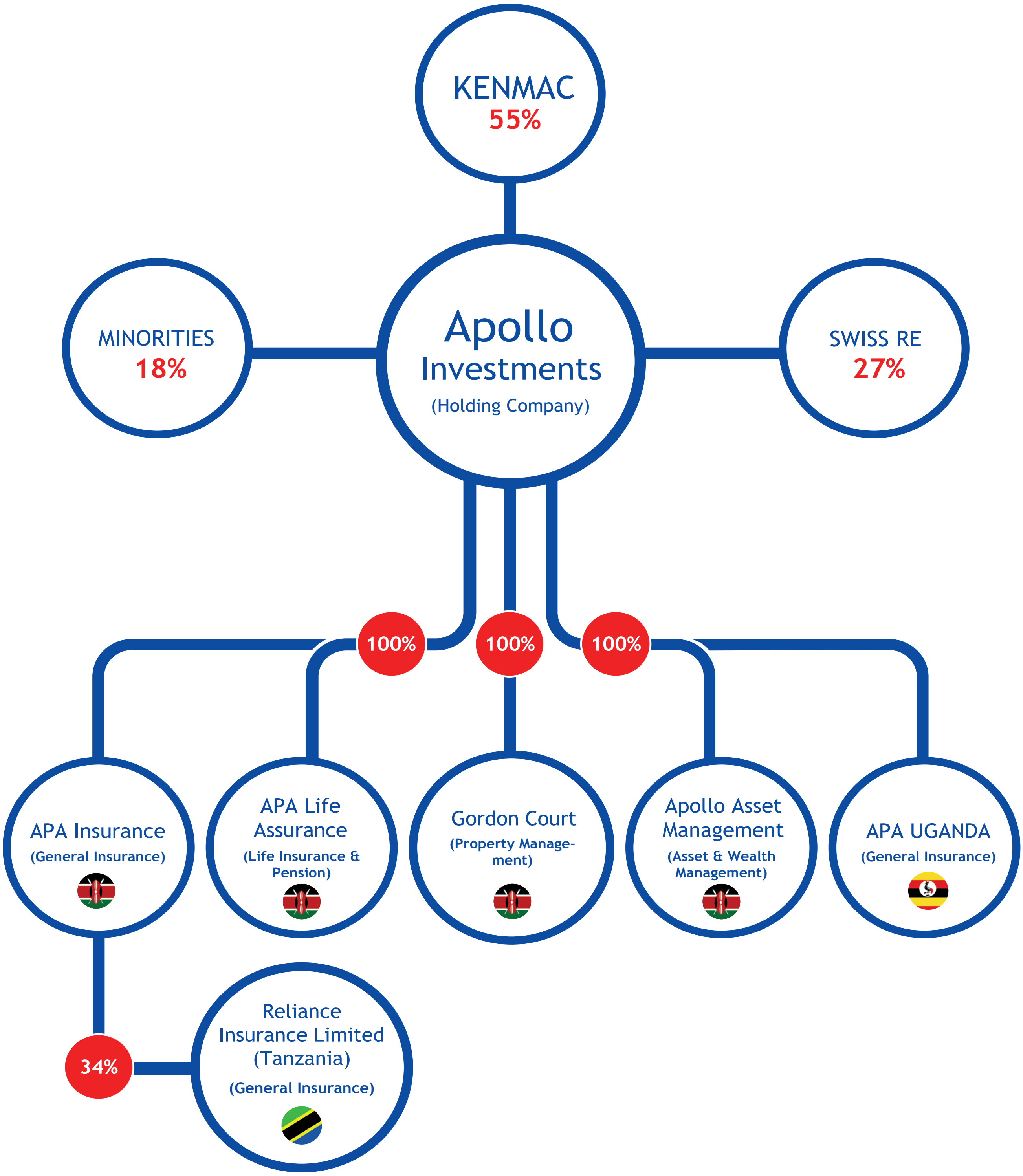
Moi Avenue

P.O. Box 81821 - 80100

Tel: +254 (0) 41 227506

Mombasa

GROUP STRUCTURE



BOARD OF DIRECTORS

Oliver Chen
Swiss Re Board Observer

Ashok Shah
Director

Richard Ashley
Chairman

Daniel Ndonye
Director

Pratul Shah
Company Secretary

Jeremy Rowse
Director

BOARD OF DIRECTORS *(continued)*

P J Shah
Director

Piyush Shah
Director

Mary M'Mukindia
Director

Shashi Shah
Director

Reto Schnarwiler
Director

MANAGEMENT TEAM

Catherine Karimi
Chief Executive Officer

Daniel Mugo
Chief Finance Officer

Bernard Kinyanjui
Head of Corporate Business

Benedicto Makena
National Sales Manager

Jane Watiki
Head of Operations, Corporate Business

Harriet Aleke
Team leader Individual Life Operations

Stephen Muiga
Business Development Manager, Alternative Channels

James Njagi
Business Development Manager, Deposit Administration

Mark Mumo
Business Development Manager, Corporate Business - Group Life

Vitalis Mbae
Actuarial Officer

MANAGEMENT TEAM *(continued)*

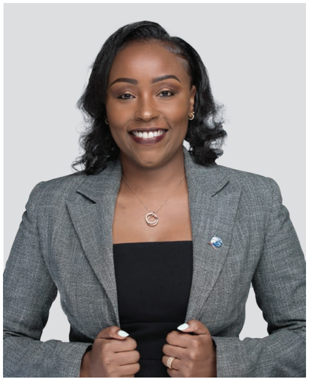
Keval Shah
Group Chief Finance Officer

Beth Kajuju
Group Head of Human Resource

LeRoy Barnes
Head of Digital

Stella Kariuki
Ag. Head of Internal Audit

Siani Malama
Head of Inclusive Insurance



Grace Nganga
Group Head of Corporate Communications and Marketing

James Nyakomitta
Group Chief Information Officer

Irene Sakuda
Chief of Staff

Benjamin Otieno
Group Head of Risk

Judith Bogonko
Group Head of Customer Experience and Innovation

APA, Insuring Happiness

APOLLO GROUP TIME CAPSULE

1946

Pan Africa was founded in Mombasa as 'IndoAfrica' by the Patel Community

1963

IndoAfrica changes its name to Pan Africa, moves to Nairobi and joins the Stock Exchange

1975

Ashok Shah comes back to Kenya for holiday and finds out that his family has lost their farm and coffee has been stolen

1977

Shashi Shah is trained by SwissRe, who also provided technical support to Apollo

Shashi Shah decides to venture in Insurance and founded Apollo Insurance, naming it after Apollo 13

The first office was opened in Mombasa and comprised of two rooms with only 5 employees

1984

First support came from Minet, who helped place more businesses

1987

The Insurance Act of 1984 came into effect, mandating immediate & major changes within Apollo

Apollo decides to change its governance structure, implementing stricter rules

Apollo also institutes major financial restructuring to meet the Act's requirements

1991-92

Apollo places more emphasis on General Insurance. Life Insurance became stagnant due to lack of a good distribution strategy

1994

Shashi, who had served as CEO until now steps down, with an interim CEO in place

1980s

Apollo was the leading company in Life Insurance Brand promise was: "Be Apollosure, Insure with Apollo"

Apollo Life business was managed from Mombasa while General Insurance was managed from Nairobi

1981

Apollo establishes its first branch in Nairobi, located at Hughes building 6th floor

Apollo starts looking for support to continue growing and expanding its business

Shashi Insurance agents agree to start placing business with Apollo

1982

Gordon Court is purchased as a specialist property development company

1996

Ashok Shah, who had thus far been helping on Marketing and other areas is appointed as new CEO

2000

Pan Africa brought on a new strategic partner and instituted major changes in the board

2002

Pan Africa approaches Apollo and starts discussion to consolidate the 2 general businesses

APOLLO GROUP TIME CAPSULE *(continued)*

2003

APA Insurance Kenya formed after the merger of the General Insurance businesses of Apollo Insurance Company and Pan Africa Insurance

2004

APA starts trading "A New Dimension in Insurance"

APA settles enormous amounts for all the discharge vouchers issued by Pan Africa before the merger

2006

APA holds its first Power of Alignment retreat and launches new brand promise titled "Rewriting the Rules of Insurance"

For 6 years until now, APA was the sole provider of HIV cover in health insurance. Others now follow suit...

Gordon Court - starts the construction of Apollo Centre which becomes the Group headquarters

2013

Apollo Life Assurance Ltd rebrands to APA Life Assurance Limited

2014

1.97 Billion claim paid to JKIA in record time of 6 months

Leapfrog sells their 27% shares to SwissRe (who has been APA's reinsurer since 1977)

2015

Apollo doubles its number of employees in just 5 years, exceeding the 400 mark

2017

Catherine Karimi - 1st Female CEO of APA Life Assurance

The microfinance and agri insurance receives a matching grant of $2.5M from MCF to support agricultural businesses

2006-07

APA is a trailblazer again! APA is now the only one to insure old cars and old people up to the age of 75-80

2007 ONWARDS

APA is considered as one of the biggest players in Insurance in Kenya

2009

APA Insurance (Uganda) commences operations as a specialist General Insurance provider in Uganda

All entities move to Apollo Centre, retaining a branch at Hughes Building

2010

Pan Africa sells their shares in APA. Leapfrog invests in Apollo Insurance

AIL set up Uganda and a new life & health system

Apollo Insurance hives off life insurance business to Apollo Assurance & changes its name to Apollo investments

APA innovates again and pilots Micro Insurance and Agriculture Insurance

Apollo exceeds the 200 employee mark for the first time in its existence

Ashok Shah-1st recepient of the Life time Achievement award at the Think Business Insurance awards

2018

APA actively starts looking at digitization as a key step to position itself amongst the best insurers in the world

Launched the happiness campaign: "Insuring happiness"

Vinod Bharatan wins the CEO of the Year at the Think Business Insurance award

2019

APA starts digital journey

APA wins the European microfinance award for strengthening resilience to climate change

2020

APA launches the hAPPiness App

Annual Travel insurance cover is embedded in existing group life and medical policies

Catherine Karimi wins the CEO of the Year at the Think Business Insurance Awards

APA Insurance emerges the overall winner in 2020 FIRE Awards (Financial Reporting)

CHAIRMAN'S STATEMENT

"As a company, we made a conscious decision to pay all Covid-19 claims upto the full sum assured."

Richard M Ashley
Chairman

Dear Shareholders,

It is my pleasure to present to you the 2020 Annual Report and Financial Statements for APA Life Assurance Limited. I write this statement with a sense of pride as I look at what we have been able to achieve over the past year during such challenging times, both economically and socially, due to the Covid-19 pandemic.

BUSINESS ENVIRONMENT

The year under review has been a testing period for the business, staff, customers and the economy. Our main focus has been on keeping our staff and customers safe while maintaining business continuity.

The start of 2020 heralded great optimism before the onset of the Covid-19 pandemic in March. Initial containment measures involved the introduction of a strict curfew, local travel restrictions and the closure of the Kenyan airspace. The adverse economic impact was swift and devastating. Following a real GDP growth of 5.2% in the first quarter of 2020, the Kenyan economy suffered two consecutive quarters of contraction where GDP growth came in at -5.5% and -1.1% respectively, effectively pushing Kenya into a recession.

The Central Bank of Kenya, through the Monetary Policy Committee (MPC), was quick to pursue an accommodative monetary policy stance as they lowered the Central Bank Rate (CBR) to 7% ensuring the banking system remained sufficiently liquid. In addition to lowering the CBR rates, the government implemented some fiscal changes to cushion the economy including reducing the corporate and personal income tax rates to 25% from 30% and reducing the Value Added Tax rate from 16% to 14%. As a result, real GDP growth expectations for 2020 fell between -0.1% and 1% according to various forecasters. On a positive note, the overall inflation remained well anchored in 2020, averaging circa 5.2% on the back of lower food and fuel prices and muted demand pressures.

INSURANCE SECTOR REGULATORY CHANGES

The Covid-19 pandemic has impacted and will continue to impact the insurance sector mainly through reduced returns from the capital markets, premium reduction as well as increase in insurance claims in some classes of insurance business. During 2020, the Insurance Regulatory Authority (IRA) issued a myriad of guidelines aimed at promptly responding to Covid-19 admissible claims and supporting the vulnerable intermediaries. The industry players however, responded in a non-uniform fashion depending on the interpretation of the covers and conviction of flexibility to support the clients.

The long awaited implementation of Risk Based Capital (RBC) as from 30 June 2020 was deferred to allow companies to deal with the impact of Covid-19. This is a setback to the industry as with RBC regime, it was anticipated that price undercutting, that ravages the industry, would be controlled due to the high capital requirements to support the resultant business risks. As the year came to a close and the 2021 reinsurance terms were being discussed, reinsurers issued strict guidelines on rates and acceptance of risks on business ceded to them. The terms included reduced capacity, commissions and limits. These objectives will bring much needed sanity to the very unhealthy competition and deterioration of underwriting standards, provided all insurers conduct themselves appropriately.

CHAIRMAN'S STATEMENT *(continued)*

FINANCIAL PERFORMANCE

Despite the downturn in the economy and many businesses closing with negative consequences in employment, APA Life continued to show growth. In 2020, we recorded gross premium income of Sh1.23 billion for the ordinary life and group life insurance. This was a growth of 35% from Shs.908 million in 2019 against a backdrop of cut-throat competition, undercutting and the COVID-19 pandemic. The total revenue including the DAP contribution grew to Sh1.765 billion from Shs1.517 million over 2019, translating to 16% growth.

Our deposit administration fund maintained a steady growth of 10.9% to stand at Shs4.54 billion at end of the year, up from Shs4.10 billion in 2019. In consultation with our Statutory Actuary, the Board of Directors has approved a reversionary bonus of 4% and 50% of the sum assured as terminal bonus on all "with profit individual life policies" and net interest of 10% (2019: 10.50%) to our deposit administration schemes and individual pension plans funds. This was occasioned by strict controls in respect of investment income and successful execution of the investment strategy during the year. The board continues to support management's new initiatives geared towards improving business efficiency and improving returns to all stakeholders thus ensuring that the business remains on the right track and direction.

Our profit after income tax expense for the year stood at Sh55.3 million (2019: Sh68.4 million). Maintaining same levels of profits despite the negative events of 2020 was a major milestone for our business in a volatile business environment, and was largely attributable to better investments experience, improved underwriting practices and strict cost controls during the year. Our total asset base grew by 13.6% to stand at Sh6.76 billion from Sh5.95 billion in 2019. The capital adequacy ratio stood at a 159% (2019: 151%) demonstrating the seriousness of the company to meet the compliance standards. Our thrust is modelled on growth with profitability as that is the only sustainable business model and striving to remaining customer-centric in all our activities. This will ultimately become a competitive advantage in our much saturated market place barring any consolidations that may result from the implementation Risk Based Capital guidelines to the letter.

COVID- 19 IMPACT

As we face the pandemic together, our drive to keep people healthy and safe, to enhance and protect their lives, has served as a compass for decision making, for navigating our efforts towards innovative ways of serving our stakeholders and ensuring that we always act as a force for social good. As a company, we made a conscious decision to pay all claims up to the full sum assured. The company's pay-outs were above the industry averages. This was against other players who excluded Covid-19 claims under the pandemic and epidemic clauses. Our decision was made out of the need to support our insureds through the unchartered territories brought about by Covid-19 disease. We extend our deepest condolences to the families and friends of all who have passed away as a result of Covid-19.

CONNECTING WITH THE COMMUNITY

Just as we care for our people's development, we care for the progress of the communities around us. APA Apollo Foundation, donated Shs20 million to numerous projects, to assist those who had lost their jobs and needed assistance. In addition to the donation of money, food, masks and hand sanitizers, the APA staff members donated their time to assist in the distribution of care packages to various vulnerable groups and construction of sand dams. We continued our support to the youth, to education, and the environment.

We made another exceptional donation to the Dental Wing at Jalaram Medical Service. This is a modern fully fledged health facility catering for the needs of the poor and those who cannot afford expensive treatment. JMS will provide day surgery and chemotherapy at extraordinarily low rates, besides other specialist treatment.

The APA Apollo Foundation will continue to invest more resources into the social investment agenda to transform people's lives.

THE BOARD

As I write this statement, two changes to our Board have occurred. Mr. Reto Schnarwiler stood down as a member of the Board after serving since 2014. I would like to thank Reto for his invaluable contribution across many aspects of the business. In his place, I would like to welcome Mr. Jeremy Rowse to the Board. Mr. Rowse is a seasoned company director, consultant and commercial mediator with extensive experience in both life and general insurance.

CHAIRMAN'S STATEMENT *(continued)*

OUTLOOK

Hopefully, the Kenyan economy will continue to rebound as the measures to contain the pandemic improve with the availability of the vaccine This will lead to freer travel and loosening of restrictions. This will mean our tourism inflows will start to recover along with the other sectors of the economy

Going forward, despite the complex and difficult trading environment, the Board and I share the APA Life executive's optimism about potential growth. We endorse the leadership team's commitment to building for the future.

As we embrace the new normal, issues of health, wellness and resilience will rise on the agenda. APA Life Assurance business will be better placed to tap into these opportunities.

APPRECIATION

On behalf of the Board, I wish to express our deep gratitude to our clients, insurance intermediaries, reinsurers, business partners, suppliers, service providers, shareholders and the regulatory authorities for the business and support throughout the year. I recognise and appreciate the management and staff of the company for their loyalty, dedication and hard work that has made these results possible.

As I conclude, I wish to thank my fellow directors, for their commitment, support and considered advice that is so essential in this extremely competitive and specialised industry.

Together, we will maintain our strong brand of *Insuring Happiness* in the industry.

RICHARD M ASHLEY

CHAIRMAN

16 MARCH 2021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CHIEF EXECUTIVE OFFICER'S STATEMENT

I am delighted to present the CEO's statement for APA Life Assurance Limited for the year ended 31 December 2020.

INSURANCE INDUSTRY REVIEW & REGULATORY CHANGES

Kenya's insurance industry faces a challenging short-term outlook in 2021. The ongoing COVID-19 pandemic and associated economic disruption, both domestic and in terms of external trade, has negatively impacted the country's economic growth, and led to higher unemployment rates and pressure on both corporate and household spending. We now forecast recovering growth in both the life and non-life insurance sectors in 2021. The market is expected to remain on a growth trend over the medium term and will benefit from initiatives by providers to broaden the reach of insurance through increased use of digital sales and service channels as well as greater diversity in terms of product ranges.

The effects of the COVID-19 pandemic will be felt by the insurance industry and its customers well into 2021 as consumers and businesses continue to face economic challenges, according to a new survey. Insurance customers will also expect insurers to offer digital tools that make it easier to conduct business. The financial and economic challenges brought forth by COVID-19 will continue to impact consumers and businesses, potentially leading to profitability impacts for insurance carriers down the road. Looking at the next 12 months, consumer survey indicates respondents are primarily concerned about being able to pay for their auto insurance bill (44%), followed by their car payment (26%), mortgage payment (23%) and life insurance bill (22%).

Factors such as rising unemployment and varying financial impacts may be contributing to this trend, and it will be imperative for insurers to be able to identify which customers are facing COVID-19 hardship to strengthen engagement. Consumers and businesses expect insurers to have a greater understanding of their individualized needs in light of shifting behaviours and preferences.

There have been limited changes from a regulatory standpoint in 2020, however we have seen a number of trends taking place which could have a significant impact on the business model and operating environment for insurers in 2021 and beyond; these are digital transformation and data, operational resilience and workforce transformation, financial resilience, and evolution regulation among others.

The regulator continues to refine existing regulations and expand into new areas such as the creation of innovation room for market players and other financial institutions (through a sandbox) and insuretech supervision. Meanwhile, recent regulatory actions send a clear message that insurers can anticipate higher levels of accountability and enforcement moving forward.

"To enhance our customer experience and tap into emerging markets and opportunities APA has embraced technological and digital transformation."

Catherine Karimi
Chief Executive Officer

CHIEF EXECUTIVE OFFICER'S STATEMENT *(continued)*

INSURANCE INDUSTRY REVIEW & REGULATORY CHANGES *(continued)*

Data remains a key focus, with both privacy laws and increases in pandemic-related digital customer engagement requiring insurers to increase focus on data governance. There continues to be a heavy focus on the ability to operationalize core risk management and compliance frameworks, principles, and requirements within a firm's operating model and culture. All these regulatory trends are expected to have a major impact on the insurance industry over the next 24 months, and require close monitoring and action from leadership.

DIGITAL TRANSFORMATION – ''APOLLO NIRVANA''

The unpredictable environment that lies ahead indicates consumers and businesses will increasingly rely on and choose insurers offering online resources and tools that can best meet their needs, particularly as digital adoption continues to grow their businesses.

To enhance our customer experience and tap into emerging markets and opportunities APA has embraced technological and digital transformation. We are monitoring and keeping tab on our transformational digital journey under the hashtag 'Apollo Nirvana' our new digital strategy with more apps being developed to ease the process and bring better customer experience. We aim to be the market digital leader in the next three years. The overarching vision for Nirvana is "Insuring happiness with seamless protection for all customers, at their fingertips". The strategy is in the right track and management together with support of the board are excited about the progress.

Nirvana initiative successfully built the Digital Factory, one of a kind in its class in the sector. We have clearly mapped the key initial areas of focus for digital transformation. While it's in its early stages of developments such as coming up with innovative life products, the ultimate goal is to make the group a leader in the digital space, "Insuring Happiness with seamless protection for all customers, at their fingertips" a vision that continues to inspire us and put fire in our bellies daily. We continue to create excitement for the board, management, staff, intermediaries and all stakeholders as they support this ambitious business transformation journey.

COMPANY'S PERFORMANCE

Against the back-drop of continued economic challenges coupled with the COVID-19 pandemic, I am pleased to see our key indicators performing well. 2020 was a very busy year that focused on expansion of our ordinary life business and strengthening our investments to deliver high and sustainable returns to all stakeholders. We focused on improving investments and underwriting processes of the group life business for better profitability. We saw some of these efforts bearing fruits with our pension returns remaining above market average and group life business remaining profitable.

Our ordinary life business continues to have evolving challenges registering a 40% (2019: 20%) growth which was lower than expected. We continue to focus on improved sales retention, innovation and pursue new markets in this line of business. We also experienced a growth of 34% in group life gross written premiums amidst our deliberate strategy to focus on profitability and new markets. We had gains in the microinsurance and credit life space with revenue growth experienced in the year. Our Pension lines did not perform better as expected due to challenges in the new market brought by COVID-19, slow growth of economy and increased unemployment through retrenchment as some businesses shrunk while others closed indefinitely. However, our investment performed commendably well with a consistent two-digit rate of interest return declaration to our deposit administration policyholders. Overall, we continued to maintain our profitability margins due to continuous effort on strictly manage underwriting practices and cost controls. In line with our strategy of diversified investment that give stable streams of income we continue to give better investment results. We shall continue to strive towards the excellence of profitability to ensure our stakeholders benefit from these efforts.

While these numbers are an important measure of our achievement we believe success goes beyond them. Customer value and experience are indisputably amongst our key success metrics. We continue to engage with our customers more than before through our digital channels and more during the hard times brought by the COVID-19 pandemic. We aim to turn customer experience into a competitive differentiator. Riding on our robust IT system, we are increasing our focus on customer engagement; improving customer experience at every interaction and exploring mechanisms to settle our claims faster and more efficiently.

CHIEF EXECUTIVE OFFICER'S STATEMENT *(continued)*

COMPANY'S PERFORMANCE *(continued)*

Developing and nurturing our people is also a core element of our success. We strive and continue to enhance employee experience and engagement as well as our corporate culture. We are continuously monitoring our employee engagement score to further support this element of success and are actively encouraging our employees to embrace a learning mind set and acquire new knowledge and skills. We continue to support our staff during the COVID-19 where we saw a number working from home while others enjoyed well subsidized friendly personalised transport system to help them minimise interactions thus mitigating the spread of the virus. We continue to actively drive innovation to accelerate growth, improve services and products that we offer to our customers, as well as improve the productivity and quality of our business.

CORPORATE SOCIAL RESPONSIBILITY

At APA we understand that we have a responsibility to our society and we have made Corporate Social Responsibility (CSR) an integral part of our business culture. To underline our deep commitment to making a difference in people's lives, we are guided by existing policy and we continue to commit to a substantial budgetary allocation each year to CSR initiatives through the APA Apollo Foundation. Our objective remains to support sustainable projects that uplift the standards of communities that we partner with for support.

In 2020, in the wake of COVID-19, we partnered with several reputable welfare organisations to support disadvantaged families through the provision of essential services dubbed as Home Care Package where our staff were also involved in various initiatives providing food stuffs. We were able to provide food to more than 10,000 families during the year.

APPRECIATION

The contributions of APA's various stakeholders have ensured that continued strong performance is achieved. These are none other than our business partners, intermediaries and customers. I would like to thank you all for your continued support and loyalty, which have been instrumental in reinforcing APA's position as the financial services provider to reckon with in the Kenyan insurance market.

I also thank all our staff across the country who continue to show dedication and provide superior service to our customers. I would also like to acknowledge with appreciation my colleagues in the management and the Board of Directors for their diligence, guidance and support that has ensured that we achieve superior and excellent results during the year.

CATHERINE KARIMI
CHIEF EXECUTIVE OFFICER
16 MARCH 2021

HAPPINESS IS...
...SHARING A LONG, FULFILLED LIFE WITH A STRONG, HEALTHY FAMILY.
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CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

Good corporate governance is key to the integrity of corporations, financial institutions and markets and is central to the health of our economies and their stability. Corporate governance plays a leading role in determining how corporations and their boards and management are directed, controlled and held to account. Corporate governance therefore encompasses the systems, practices and procedures by which an individual corporation regulates itself in order to remain competitive, ethical, sustainable and fair.

The board of APA Life Assurance Limited follows principles of openness, integrity and accountability in its stewardship of the Company's affairs. It recognizes the developing nature of corporate governance and assesses the Company's compliance with generally accepted corporate governance practice on a regular basis. The role of the board is to ensure compliance by focusing on and providing the Company's overall strategic direction and policy-making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The board is also responsible for the overall system of internal control and for reviewing its effectiveness. The controls are designed to safeguard the Company's assets and also ensure the reliability of financial information. A senior management team, comprising directors and senior managers meet regularly to consider issues of operational and strategic importance to the Company.

Below are the key features of the existing corporate governance practices within APA Life Assurance Limited:

1 BOARD OF DIRECTORS

The board of directors consists of seven non-executive directors of whom three directors are independent. All of the directors have been appointed in accordance with the provisions of the Insurance Act and the Corporate Governance Guidelines issued by the Insurance Regulatory Authority. The Chairman of the board is an independent non-executive director. The Board is responsible for setting the direction of the Company through the establishment of strategic objectives, key policies and the approval of budgets. It monitors the implementation of strategies and policies through a structured approach to reporting by executive management and consequent accountability.

The directors are actively involved in and bring strong independent judgment on board deliberations and discussions. These directors have a wide range of knowledge and experience of local and international markets that is applied to the formulation of strategic objectives and decision making.

All directors have access to the advice and services of the company secretary who also sits in every committee and board meetings and are entitled to obtain independent professional advice on Company affairs at the Company's expense.

2 COMMITTEES OF THE BOARD

The Board has constituted various Board Committees. The board and committees draws on the expertise of consultants, experts and service providers as may be required from time to time.

Each Board Committee has a Charter which contains provisions relating to their powers, membership and duties.

The Board Committees are as follows:

- Investment Committee
- Audit and Risk Committee
- Information Communication Technology Committee and;
- Remuneration Committee

CORPORATE GOVERNANCE STATEMENT *(continued)*

3 INTERNAL CONTROL

The Company has implemented and maintains internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard and maintain accountability of the Company's assets. Such controls are based on established policies and procedures and are implemented by trained personnel with appropriate segregation of duties. The effectiveness of the system of internal controls is monitored regularly through operational meetings.

4 RELATED PARTY TRANSACTIONS

The related party transactions with the Company during the year ended 31 December 2020 are detailed under note 34 of the annual report and financial statements. The remuneration for directors consists of fees and sitting allowances for their services in connection with the committee and board meetings.

5 SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES

The board is conscious of the Company's social and environmental responsibilities. Particular attention is given to projects with a long term positive impact to the society and the environment. These include provision of clean drinking water and sponsorship of children education. The Company encourages staff to participate and actively support their various causes.

6 GOING CONCERN

The directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

RICHARD M. ASHLEY

Chairman

16 March 2021

ASHOK SHAH

Director

16 March 2021

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

The directors submit their report together with the audited financial statements for the year ended 31 December 2020 which disclose the state of affairs of APA Life Assurance Limited (the "Company").

BUSINESS REVIEW

The principal activity of the Company is the transaction of long-term assurance and deposit administration business.

RESULTS

	2020 Shs' 000	2019 Shs' 000
Profit before income tax	49,580	78,989
Income tax credit / (expense)	4,692	(10,124)
Profit for the year	54,272	68,865
Other comprehensive income / (loss)	1,083	(447)
Total comprehensive income	**55,355**	**68,418**

DIVIDEND

The total comprehensive income for the year amounting to Shs 55,355,000 (2019: Shs 68,418,000) has been added to statutory reserves and retained earnings. The directors do not recommend payment of dividends (2019: Nil).

DIRECTORS

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

DISCLOSURE TO AUDITORS

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

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

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

TERMS OF APPOINTMENT OF AUDITORS

PricewaterhouseCoopers LLP were in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015. Their term shall come to an end in the next Annual General Meeting and they are not eligible for the reappointment having completed the mandatory maximum seven years allowed under the Kenyan Insurance Regulations guidelines.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

BY ORDER OF THE BOARD

SECRETARY

16 March 2021

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

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

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

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

ii. selecting suitable accounting policies and then apply them consistently; and

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

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

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Board of Directors on 16 March 2021 and signed on its behalf by:

RICHARD M. ASHLEY
Chairman

ASHOK SHAH
Director

CORPORATE SOCIAL RESPONSIBILITY

APA APOLLO FOUNDATION - A YEAR IN REVIEW 2020

Guided by the belief that every life has equal value, The APA Apollo Foundation works to help people lead healthy, productive lives. The Foundation focuses on improving people's environment and providing them with the chance to increase the quality of their life. It seeks to ensure that people, especially those with the fewest resources - have access to the opportunities they need to succeed in life.

Established in 2006 as the Group's social arm, the Foundation approach now mirrors the Sustainable Development Goals (SDGs) which aim to help end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. The SDGs are the blueprint to achieve a better and more sustainable future for all.

By supporting sustainable projects, that uplift the standards of communities that we partner with, the Foundation uses the resources to improve conditions and create change.

The Foundation is committed to all 17 SDGs but seeks to make substantive impact in six main areas;

- Zero Hunger
- Quality Education
- Good Health and Well Being
- Clean Water & Sanitation
- Reduce Inequalities
- Climate Action

Our contribution to the SDGs in 2020 is provided in the ensuing table

2 ZERO HUNGER

SDG TARGET

End hunger, achieve food security and improve nutrition and promote sustainable agriculture

RESULT

• Care Package - Shs 15 million cumulative disbursement

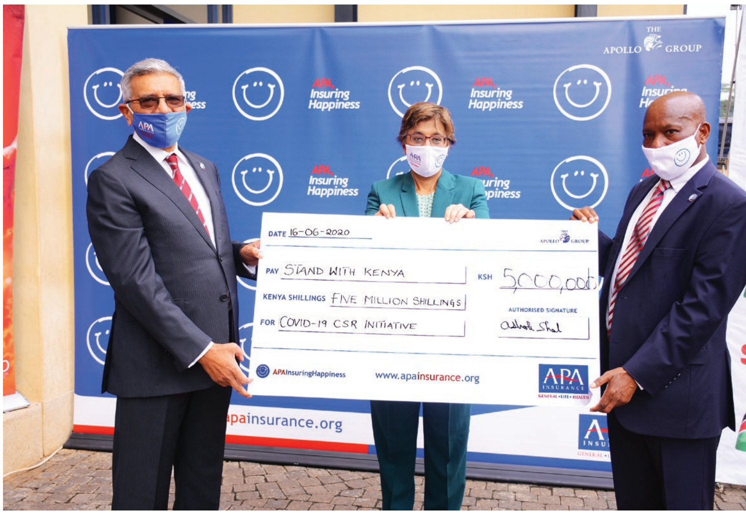
One of many ripple effects of the Covid-19 pandemic was the number of people facing food insecurity. Jackie Janmohamed established Care Package in March 2020 to support and protect vulnerable people and ensure food security in Kenya due to the COVID-19 pandemic.

The Apollo Foundation worked with Care Package and the 'Stand With Kenya' initiative to deliver food, face masks and sanitization items to those in need.

Care Package, in conjunction with the 'Stand With Kenya' campaign, assisted over 15,000 families with food, face masks and sanitisation items during 2020.

• Care Package Mombasa

The Director of APA Insurance in partnership with AMS Insurance Brokers donated care packages for both children and adults who live in the Old Town, Mombasa. The care packages contained essential food items and where distributed to over two hundred families.



Ashok Shah, Apollo Group CEO (left) and Daniel Ndonye, Chairman, Apollo Investments (right) present a cheque for Ksh 5 million to Jackie Janmohamed, Founder, Care Package (centre) for the Stand for Kenya campaign.

AMS directors receiving masks from Shashi Shah (right), Director, APA Insurance.

CORPORATE SOCIAL RESPONSIBILITY *(continued)*

• Care Package Kisumu

Flash floods in April 2020 displaced at least 1,000 people in Nyando, Kisumu County. Residents affected by the floods which spread into the villages and marooned houses, causing massive destruction of property.

The Kisumu APA Insurance Branch donated over 500 care packages to the affected residents who were camping at the Ombaka and Ogenya evacuation centres.

From left Area Chief Kisumu county receiving care packages from Shilpa Thakra -APA Kisumu branch manager.

SDG TARGET

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Catherine Karimi, APA Life CEO (left), handing over masks to Cheleta Primary School students with their headmistress Mary Kimani (right).

RESULT

• Cheleta Primary - Shs 10 million cumulative

The APA Foundation bursary scheme was created to educate the top achieving boy and girl from Cheleta Primary School, whose students come from Githongoro, an underprivileged area of Nairobi. Since its inception in 2007, 14 students have benefited from the bursary and transition from primary school, to secondary school, to collage, a career and beyond.

Cheleta Primary has now transformed from a bottom of the table public school to a reputable institution with above average transition rates to secondary school. Students experiencing poverty can access, at every stage, the skills development, support and relationships necessary to thrive in education and the workforce.

CORPORATE SOCIAL RESPONSIBILITY *(continued)*

SDG TARGET

Ensure healthy lives and promote wellbeing for all at all ages

RESULT

• APA Foundation Dental Hospital - Shs 15 million

The Jalaram Medical Centre in Parklands assists all who require medical care at no cost. The APA Apollo Foundation donated Shs 15 million to build a new dental wing for the hospital. The donation aims to provide dental care and spread oral health awareness to people experiencing economic hardship.

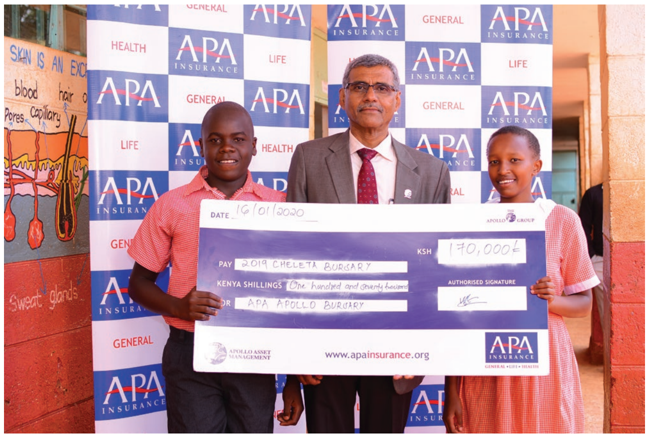
APA Apollo Foundation dental wing at the Jalaram Hospital

• Runda Youth Sports Association (RYSA) Sponsorship - Shs 600,000

The Foundation donated the new strip, football boots and balls worth Shs 600 000 to The Runda Youth Sports Association (RYSA).

The APA Apollo Foundation has been the main sponsor for the RYSA since 2007. The RYSA mission is to enhance youth potential thought sports, education, health and environment. It runs mainly sports activities in the urban slum areas of Githogoro and Huruma villages near Runda Estate, Nairobi. Around 500 youth participate in RYSA activities annually.

The Foundation sponsorship includes the fees for RYSA to participate in the league and provides football kits, transport to matches and team allowances. It has also donated furniture for the cafeteria, internships and job opportunities.



Vinod Bharatan, APA Insurance CEO, handing over a cheque to the best boy Elvis Chizima and the best girl, Mary Waweru from Chelata primary school

SDG TARGET

Ensure availability and sustainable management of water and sanitation for all

RESULT

• Environments Conservation & Water Harvesting - Shs 40 million

During 2020 the Foundation completed two sand dam projects one in Kithuia and the other in Masii Ward, Mwala Sub-County, Machakos.

The Foundation's water projects involve Environment Conservation and Water Harvesting through construction of sand dams, water tanks and shallow wells. Since 2009, the Foundation has constructed over 28 water projects in various counties in Kenya.

The projects lead to improved water supplies, food production, income sources and improved health status for the community members.

APA Staff at a dam building event

CORPORATE SOCIAL RESPONSIBILITY *(continued)*

SDG TARGET

Reduce inequality within and among countries

RESULT

- **Family and Civil Division, Milimani Law Courts, Nairobi - Shs 50,000**

Children's face masks and hand sanitizers were distributed to the children who attend the Family & Civil Division, Milimani Law Courts, Nairobi.

In addition over 1000 face masks where distributed to several children's homes in Nairobi

Catherine Karimi, APA Life CEO (left), handing over masks to Cheleta Primary School headmistress, Mary Kimani (right).

SDG TARGET

Take urgent action to combat climate change and its impacts.

The Foundation's commitment to protecting and conserving the environment is core and to date, the Foundation has successfully planted over 40,000 trees

In partnership with Egerton University, the Foundation has created the Ngongogeri Park and every year we plant seedlings with the APA staff and Egerton students. We are also the key partners and sponsors in the annual Run for Mau marathon.

Through the APA Apollo Foundation sand dam projects, the Foundation encourages the benefiting communities to plant trees along the river beds to help curb soil erosion, provide food as well as beautifying the landscape. A minimum of ten trees is allocated for planting and maintenance to each household that benefit from the sand dam.

The Foundation has also partnered with 'Friends of Karura' and 'Nairobi Greenline Project' to plant trees in both the Karura forest and Nairobi National park in an effort to curb urban encroachment.

APA staff at a recent tree planting session.

HAPPINESS IS...

...BOUNCING BACK STRONG AND HEALTHY EVERY TIME THE WORLD PUNCHES YOU.

Happiness is...

...Leaning on the strength of hundreds as you move closer to your goals.

REPORT OF THE CONSULTING ACTUARY TO THE MEMBERS OF APA LIFE ASSURANCE LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2020

I have conducted an actuarial valuation of the insurer's insurance liabilities as at 31 December 2020.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Insurance Act Cap 487 of the Laws of Kenya. Those principles require that prudent principles for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

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

In my opinion, the insurer's insurance liabilities of the Company were adequate as at 31 December 2020.

GILES T WAUGH, FASSA, FIA

INDEPENDENT ACTUARIAL CONSULTANT

16 March 2021

pwc

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

FOR THE YEAR ENDED 31 DECEMBER 2020

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of APA Life Assurance Limited (the Company) set out on pages 36 to 78 which comprise the statement of financial position at 31 December 2020, the statements of comprehensive income, changes in equity, and cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

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

Basis for opinion

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

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

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

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Valuation of insurance contract liabilities Insurance contract liabilities as disclosed in financial statements comprise outstanding claims, incurred but not reported ("IBNR") liabilities in the short-term and policyholder liabilities as disclosed under note 26. The Company's valuation of liabilities involves the selection of appropriate assumptions in relation to mortality, morbidity, lapses and interest rates. Changes in these assumptions can lead to significant variations in actuarial liabilities in the financial statements. The methodology used can also have a material impact on the valuation of the liabilities. We considered the valuation of insurance contract liabilities as a key audit matter because a change in the assumptions used in the valuation could have a material impact on the value of the liabilities in the financial statements. Significant reserving assumptions as disclosed in Notes 3 and 26 of are made in the determination of the liabilities.	We evaluated the competence, capabilities and objectivity of the company's Statutory Actuary involved in the estimation of the insurance contract liabilities and assessed the related internal controls over financial reporting. We traced the policyholder valuation input data and on a sample basis policyholder information used in the valuation model back to information contained in the administration and accounting systems. We assessed the methodology and assumptions used by the appointed actuary to compute the policyholder liabilities and assessed the valuation methods used against generally accepted actuarial practice and entity-specific historical information. We checked that the policyholder liabilities reported in the financial statements were consistent with the results of the independent actuarial valuation and that adequate disclosures had been made in the financial statements.

pwc

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF APA LIFE ASSURANCE LIMITED *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *(continued)*

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 and will not express any form of assurance conclusion thereon.

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the 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 misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

pwc

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF APA LIFE ASSURANCE LIMITED *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *(continued)*

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

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the 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 Kenyan Companies Act, 2015

Report of the directors

In our opinion the information given in the report of the directors on page 24 is consistent with the financial statements.

PricewaterhouseCoopers

CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

16 MARCH 2021

CPA BERNICE KIMACIA, PRACTISING CERTIFICATE NO. 1457.

SIGNING PARTNER RESPONSIBLE FOR THE INDEPENDENT AUDIT

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Long term business	Share holders' funds Total	2020	Long term business	Share holders' funds Total	2019
INCOME		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Gross premium income earned	5	1,226,692	-	1,226,692	908,570	-	908,570
Reinsurance premium ceded		(526,831)	-	(526,831)	(418,067)	-	(418,067)
Net earned premium		699,861	-	699,861	490,503	-	490,503
Investment income	6	547,772	73,953	621,725	564,172	70,932	635,104
Commissions earned		122,851	-	122,851	95,847	-	95,847
Total income		**1,370,484**	**73,953**	**1,444,437**	**1,150,522**	**70,932**	**1,221,454**
OUTGO							
Claims and policyholders' benefits	7	(907,143)	-	(907,143)	(706,958)	-	(706,958)
Operating and other expenses	8	(259,344)	(15,059)	(274,403)	(239,094)	(10,805)	(249,899)
Commissions payable		(206,164)	-	(206,164)	(185,827)	-	(185,827)
Total claims and expenses		**(1,372,651)**	**(15,059)**	**(1,387,710)**	**(1,131,879)**	**(10,805)**	**(1,142,684)**
Operating (loss) /profit before finance cost & income tax expense		**(2,167)**	**58,894**	**56,727**	**18,643**	**60,127**	**78,770**
Impairment charge		(707)	249	(458)	6,785	959	7,744
Finance costs	10	(6,689)	-	(6,689)	(7,525)	-	(7,525)
Total Impairment and Finance cost		(7,396)	249	(7,147)	(740)	959	219
(Loss) / profit before income tax expense		**(9,563)**	**59,143**	**49,580**	**17,903**	**61,086**	**78,989**
Income tax expense	11(a)	4,692	4,692	(10,124)	-	(10,124)	(10,124)
(Loss) / Profit after tax for the year		**(4,871)**	**59,143**	**54,272**	**7,779**	**61,086**	**68,865**
Other comprehensive income; net of tax							
Items that may not be reclassified subsequently to profit or loss:							
-fair value gain / (loss) on unquoted equities	17	988	95	1,083	(447)	-	(447)
Total other comprehensive income/(loss) for the year		**(3,883)**	**59,238**	**55,355**	**7,332**	**61,086**	**68,418**
Appropriated as follows:							
-To retained earnings		-	59,238	59,238	-	61,086	61,086
-To statutory reserves		(3,883)	-	(3,883)	7,332	-	7,332
Total comprehensive (loss) / income		**(3,883)**	**59,238**	**55,355**	**7,332**	**61,086**	**68,418**

The notes on pages 40 to 78 form an intergral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020

Assets	Notes	2020 Shs'000	2019 Shs'000
Motor vehicle and equipment	12	10,653	13,276
Intangible asset- Work In Progress	13	26,880	-
Right-of-use assets	14	43,779	54,723
Investment properties	15	155,000	155,000
Quoted equity investments – fair value through profit or loss	16	135,596	335,699
Unquoted equity investments	17	8,193	7,110
Life policy loans		2,960	2,691
Other loans receivables		13,078	14,481
Investment in unit trusts		37,535	35,923
Reinsurers' share of insurance liabilities	18	186,090	52,688
Receivables arising from direct insurance arrangements		94,411	83,500
Current income tax	11(b)	17,800	17,104
Other receivables	19	45,513	64,488
Government securities - at amortized cost	20(a)	2,179,048	2,237,690
Government securities – fair value through profit or loss	20(b)	2,806,827	1,759,529
Commercial paper and corporate bonds	21	70,280	130,079
Deposits with financial institutions	22	826,393	956,232
Cash and bank balances		99,519	29,655
Total assets		**6,759,555**	**5,949,868**
Equity and Reserves			
Share capital	23	700,000	700,000
Retained earnings	24	(101,365)	(165,962)
Total shareholders' funds		598,635	534,038
Longterm business reserve	25	73,637	82,879
Total equity and reserves		**672,272**	**616,917**
Liabilities			
Insurance contract liabilities	26	1,336,061	1,007,593
Payables under deposit administration contracts	28	4,544,553	4,099,594
Payables arising from reinsurance arrangements		1,916	24,534
Other payables	29	128,546	112,974
Deferred income tax	30	23,857	28,549
Lease liabilities	33	52,350	59,707
Total liabilities		**6,087,283**	**5,332,951**
Total equity and liabilities		**6,759,555**	**5,949,868**

The financial statements on pages 36 to 78 were approved and authorised for issue by the board of directors on 16 March 2021 and were signed on its behalf by:

RICHARD M. ASHLEY
Chairman

ASHOK SHAH
Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share Capital	Retained Earnings	Shareholder Funds	Longterm business reserve	Total Shareholder Fund
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Balance as at 1 January 2019	**700,000**	**(194,646)**	505,354	43,145	548,499
Total comprehensive income for the year	-	61,086	61,086	7,332	68,418
Transfer from retained earnings to statutory reserve	-	(32,402)	(32,402)	32,402	-
Balance as at 31 December 2019	**700,000**	**(165,962)**	**534,038**	**82,879**	**616,917**
Balance as at 1 January 2020	**700,000**	**(165,962)**	**534,038**	**82,879**	**616,917**
Total comprehensive income for the year	-	59,238	59,238	(3,883)	55,355
Transfer to retained earnings from statutory reserve (net)	-	5,359	5,359	(5,359)	-
Balance as at 31 December 2020	**700,000**	**(101,365)**	**598,635**	**73,637**	**672,272**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 Shs'000	2019 Shs'000
Cash flows from operating activities			
Cash generated from of operations	31 (a)	109,396	68,328
Interest paid on lease liabilities	33	6,689	7,525
Interest received		598,618	524,601
Income tax paid	11 (b)	(696)	(2,310)
Net cash inflow from operating activities		**714,007**	**598,144**
Cash flows from investing activities			
Purchase of equipment	12	(2,082)	(1,447)
Proceeds from sale of motor vehicle		-	1,000
Purchase of intangible assets	13	(26,880)	-
Proceeds from disposal of quoted equities		259,648	50,750
Purchase of quoted equities	16	(113,795)	(109,960)
Net investment in unit link trusts		1,612	(5,540)
Net loans advanced		1,403	(6,236)
Net policy loans recovered		(269)	377
Net investment in corporate bonds		59,886	54,776
Net placement in deposit with financial institutions		63,415	252,175
Net investment in government securities		(937,882)	(649,737)
Net cash outflow from investing activities		**(694,944)**	**(413,842)**
Cash flows from financing activities			
Payments of principal portion of the lease liability	33	(14,046)	(13,486)
Net cash outflow from financing activities		(14,046)	(13,486)
Increase in cash and cash equivalents		**5,017**	**170,817**
Movement in cash and cash equivalents :			
At start of year		642,833	472,016
Increase		**5,017**	**170,817**
At end of year	**31 (b)**	**647,850**	**642,833**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1 GENERAL INFORMATION
APA Life Assurance Limited is a limited liability company incorporated in Kenya under the Kenyan Companies Act and domiciled in Kenya. The parent company, which is the ultimate holding company is Apollo Investments Limited which is incorporated in Kenya. The address of its registered office is 07 Apollo Centre, Ring Road Parklands, Westlands, Nairobi.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation
The company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS)

(i) Basis of measurement
The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the company using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

(ii) Use of estimates
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the company financial statements are disclosed in note 1(t).

b) Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company
The following standards and interpretations have been applied by the Company for the first time for the financial reporting year commencing on or after 1 January 2020 and they did not have a significant impact on the financial statements impact on the Company.

Amendment to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors'.

These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:

- use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policy and disclosures *(continued)*

(i) New and amended standards adopted by the Company *(continued)*

Amendment to IFRS 16 Leases

Covid-19-Related Rent Concessions

During the year, the International Accounting Standards Board issued an amendment to IFRS 16 - Covid-19-Related Rent Concessions. In accordance with the provisions of the amendment, the Company is not required to assess whether a COVID-19-related rent concession that meets all of the following conditions is a lease modification:

a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b) any reduction in lease payments affects only payments due on or before 30 June 2021; and

c) there is no substantive change to other terms and conditions of the lease.

The Company accounts for such COVID-19-related rent concession as a variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs.

The Company has applied the practical expedient to all property leases that meet the conditions of the IFRS 16 amendment.

In accordance with the transitional provisions provided in the amendment, the comparative information for 2019 was not restated and continued to be reported under the previous accounting policies in accordance with the lease modification principles in IFRS 16.

Impact on profit and loss and lease liabilities for the year

The Company considers rent concessions in form of rent holidays as variable lease payments and has presented them in operating expenses.

The amount recognised in the Company's Profit or loss to reflect changes in lease payments that arise from rent concessions is;

	Shs '000
Expense reduction	1,568
Lease liability reduction	1,568

(ii) New standards and interpretations not yet adopted by the Company

Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current

Published in January 2020 and effective for annual periods beginning on or after 1 January 2022).

The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).

Annual improvements cycle 2018 -2020 (published in May 2020 and effective for annual periods beginning on or after 1 January 2022).

These amendments include minor changes to:

IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Changes in accounting policy and disclosures *(continued)*

(ii) New and amended standards not yet adopted by the Company *(continued)*

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, with the exception of IFRS 17, they do not expect that there will be a significant impact on the Company's financial statements. There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on near future transactions

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(c) Revenue recognition

(i) Revenue

For long term insurance business, premiums are recognised as revenue when they become payable by the policyholder. For single premium business, revenue is recognised on the date on which the policy is effective. Premiums are shown before deduction of commission. Long term business relates to the underwriting of risks relating to death of an insured person, and includes contracts subject to the payment of premiums for a term dependent on the termination or continuance of the life of an insured person

(ii) Other income

Commissions receivable are recognised as income in the period in which they are earned.

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

Dividends receivable are recognised as income in the period in which the right to receive payment is established.

Rental income from operating leases is recognised on a straight line basis over the term of the lease.

(d) Claims incurred

Claims and policyholders' benefits payable comprise claims paid in the year and changes in the provision for insurance contract liabilities. Claims are recorded as an expense when they are incurred. Claims arising on maturing policies are recognised when the claims become due for payment. Death claims are accounted for on notification while surrenders are accounted for on payment.

(e) Deposit administration contracts

The Company administers the funds of a number of retirement benefit schemes. The Company's liabilities in relation to these schemes have been treated as payables in the statement of financial position. The liabilities with respect to the deposit administration contracts are determined by the Consulting Actuary on an annual basis.

(f) Insurance contract liabilities

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did occur.

Insurance contract liabilities represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the end of the reporting period, but not settled at that date. Insurance contract liabilities are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims intimated but not paid. Insurance contract liabilities are not discounted.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Reinsurance

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums on reinsurance assumed are recognised as income in the same manner as they would be if the reinsurance were considered direct business. Premiums ceded and claims reimbursed are presented on a gross basis in profit and loss and statement of financial position as appropriate. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recognised in the profit or loss.

The Company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

(h) Equipment

All equipment are initially recorded at cost less depreciation and any accumulated impairment losses. The useful lives used in determining depreciation charge are:

Computer equipment	3 years
Motor vehicles	4 years
Furniture fittings and equipment	8 years

The residual values of items of equipment and their estimated useful lives are reviewed at the reporting date and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts.

(i) Intangible assets – Computer software

Intangible assets comprise of computer software costs which are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated to write off the cost of computer software on a straight line basis over its estimated useful life of five years.

(j) Investment properties

Investment properties comprises land and buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined at the reporting date by valuation experts with experience and knowledge of the locations where the properties are located. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Investment properties are not subject to depreciation. Changes in their carrying amount between end of reporting periods are dealt with, through profit or loss for the year. Upon disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss for the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Financial Instruments

The Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value through either OCI or through profit or loss, and
- Those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the collateral terms of the cash flows

For assets measured at fair value, gains and losses will be recorded in profit or loss. For investments in unquoted equity instruments that are not held for trading, the Company has made an irrevocable election at the time of initial recognition to account for them at fair value through other comprehensive income (FVOCI).

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

i. Recognition and derecognition

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

ii. Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Company classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- **FVTPL:** Assets that do not meet the criteria for amortised cost are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss.

Equity instruments

The Company subsequently measures quoted equity investments at fair value. Changes in the fair value of financial assets at FVTPL are recognised in other gains/ (losses) in the statement of profit or loss as applicable.

The Company's subsequently measures all equity investments at fair value through profit or loss, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Companys policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversals of impairment losses) are not reported separately from other changes in fair values. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Company's right to receive payment is established.

Gains and losses on equity investments at FVPL are included in the "Net trading income" line in the statement of profit or loss

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Financial Instruments *(continued)*

iii. Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on 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. This includes listed equity securities and quoted debt instruments on major exchanges (NSE). The quoted market price used for financial assets held by the Company is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

For example, a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the statement of financial position.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety: Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Company at the end of the reporting period during which the change occurred.

iv. Impairment

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

IFRS 9 replaced the previous 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The new impairment model applies to the following financial instruments that are not measured at FVTPL or FVTOCI:

- Government securities measured at amortised cost
- Receivables arising from reinsurance arrangements
- Other receivables.
- Loans receivable
- Corporate bonds and commercial paper;
- Deposits with financial institutions; and
- Cash and bank balances.

No impairment loss is recognised on equity investments and financial assets measured at FVTPL. The Company recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Financial Instruments *(continued)*

iv. Impairment *(continued)*

The Company will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- Debt instruments that are determined to have low credit risk at the reporting date. The Company will consider a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade' and investments in Government securities; and
- Other financial instruments (other than trade receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for receivables arising from reinsurance arrangements and other receivables will always be measured at an amount equal to lifetime ECLs. The impairment requirements of IFRS 9 require management judgement, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

assessing whether the credit risk of an instrument has increased significantly since initial recognition; and Incorporating forward-looking information into the measurement of ECLs.

Measurement of expected credit losses

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive;
- Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

i. Significant financial difficulty of the issuer or the borrower;

ii. A breach of contract - e.g. a default or past-due event;

iii. A lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;

iv. It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

v. The disappearance of an active market for that financial asset because of financial difficulties; or

vi. The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

Expected credit losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).

ECL = PD x LGD x EAD

In applying the IFRS 9 impairment requirements, the Company follows the general approach method.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Financial Instruments *(continued)*

Definition of the general approach

Under the general approach, at each reporting date, the Group determines whether the financial asset is in one of three stages in order to determine both the amount of ECL to recognise as well as how interest income should be recognised.

- **Stage 1 -** where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, the Group will recognise 12 month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.

- **Stage 2** - where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2, the Group will recognise lifetime ECL but interest income will continue to be recognised on a gross basis.

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

The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss.

Definition of default

The Company will consider a financial asset to be in default when:

The counterparty or borrower is unlikely to pay their credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or

- The counterparty or borrower is more than 90 days past due on any material credit obligation to the Company and 2 years for receivables arising from reinsurance arrangements. This will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Company; or
- In assessing whether the counterparty or borrower is in default, the Company considers indicators that are:
- Qualitative: e.g. Breach of covenant and other indicators of financial distress;
- Quantitative: eg. Overdue status and non-payment of another obligation of the same issuer to the Company; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances to reflect changes in circumstances.

Significant increase in credit risk (SIICR)

When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company 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, expert credit assessment and forward-looking information.

The Company primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:
- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Financial Instruments *(continued)*

Significant increase in credit risk (SIICR) *(continued)*

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month and lifetime ECL measurements.

Measurement of ECL

The key inputs into the measurement of ECL are the term structures of the following variables:

- Probability of Default
- Loss given default (LGD); and
- Exposure at default (EAD).

To determine lifetime and 12-month PDs, the Company uses the PD tables supplied by S&P based on the default history of obligors with the same credit rating. The Company adopts the same approach for unrated investments by mapping its internal risk grades to the equivalent external credit ratings. The PDs are recalibrated based on current bond yields and CDS prices, and adjusted to reflect forward-looking information. Changes in the rating for a counterparty or exposure lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by mortgage property, loan-to-¬value ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, which include:

- instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity; industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. When ECL are measured using parameters based on collective modelling, a significant input into the measurement of ECL is the external benchmark information that the Company uses to derive the default rates of its portfolios.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency').The financial statements are presented in Kenya shillings rounded to the nearest thousand ("Shs"), which is the Company's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss within finance income or costs'. All other foreign exchange gains and losses are presented in the statement of profit or loss within other (losses)/gains.

(m) Employee entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date. The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

(n) Leases

The Company as a lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less). For any short term leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease and variable lease payments
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Leases *(continued)*

The Company as a lessee *(continued)*

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever there are any changes in lease terms.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

The Company as lessor

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate the consideration under the contract to each component.

(o) Income tax expense

Income tax expense is the aggregate amount charged/(credited) in respect of current income tax and deferred income tax in determining the profit or loss for the year. Tax is recognised in the profit or loss except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax asset

Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit nor loss. Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the related deferred income tax asset is realized or the deferred tax liability is settled.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Retirement benefit obligations

The Company operates a defined contribution scheme for its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded from contributions from both the Company and employees. Contributions are determined by the rules of the scheme.

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

(q) Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the year in which the dividends are approved by the shareholders.

(r) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received over and above the par value of the shares issued are classified as 'share premium' in equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Shares are classified as equity when there is no obligation to transfer cash or other assets.

(s) Long-term business reserves

The long term business reserves comprise of unappropriated actuarial surpluses (i.e. statutory reserves) and Bonus Stabilization Reserve whose distribution is subject to restrictions imposed by the Insurance Act and recommendations of Independent Consulting Actuary. The Act restricts the amounts of surpluses of the long-term business available for distribution to shareholders to 30% of the accumulated surplus of the long term insurance business.

(t) Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical judgments in applying the Company's accounting policies

The key areas of judgment in applying the Company's accounting policies are dealt with as follows:

Future benefit payments from long-term insurance contracts

The estimation of future benefit payments from long-term insurance contracts is one of the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company. Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on standard mortality tables that reflect historical mortality experience. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS could result in future mortality being significantly worse than in the past for the age Company's in which the Company has significant exposure to mortality risk.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Critical accounting judgements and key sources of estimation uncertainty *(continued)*

(i) Critical judgments in applying the Company's accounting policies *(continued)*

Future benefit payments from long-term insurance contracts (continued)

However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Company is exposed to longevity risk. For contracts without fixed terms and with discretionary participation in profits, it is assumed that the Company will be able to increase mortality risk charges in future years in line with emerging mortality experience. Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. The average estimated rate of investment return is 12.00% p.a. (2019: 11.83% p.a)

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Valuation of long-term insurance contract liabilities

The table below summarises details of the risk margins applied in the actuarial valuation of long term insurance contracts.

	Risk Margin Applied	
	31 December 2020	31 December 2019
Mortality	10% increase in mortality for life assurance	10% increase in mortality for life assurance
Longevity	10% decrease in mortality for annuities	10% decrease in mortality for annuities
Morbidity	10% decrease in inception rates and 5% decrease in recovery rates	10% decrease in inception rates and 5% decrease in recovery rates
Lapses	25% increase or decrease in lapses rates depending on which options gives rise to increase in liabilities	25% increase or decrease in lapses rates depending on which options gives rise to increase in liabilities
Interest	10% decrease	10% decrease
Expenses	10% increase	10% increase
Expenses inflation	10% increase in estimated escalation rate	10% increase in estimated escalation rate
Surrenders	10% increase or decrease in surrenders rates depending on which options gives rise to increase in liabilities	10% increase or decrease in surrenders rates depending on which options gives rise to increase in liabilities

Risk Margin Impact

The impact of changes in mortality, longevity, expenses and withdrawals will have the following effect on the value of the actuarial liabilities

	% change	2020 Shs'000	2019 Shs'000
Interest	+10	60,169	75,661
Expenses	+10	14,327	19,388
Mortality	+10	862	1,198
Inflation	+10	3,822	6,909
Withdrawals	-25	924	831

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Valuation of investment property

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

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

Calculation of loss allowances

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

Determining incremental borrowing rate used in the discounting of lease liabilities

The interest rate implicit in the lease is basically the internal rate of return on all payments or receipts related to the lease in question. For both the lessee and the lessor the interest rate implicit in the lease is the discount rate at which:

i. The sum of the present value of

- a) the lease payments and
- b) the unguaranteed residual value equals

ii. The sum of

- a) the fair value of the underlying asset and
- b) any initial direct costs of the lessor.

The interest rate implicit in the lease depends on the initial fair value of the underlying asset, and the lessor's expectation of the residual value of the asset at the end of the lease. This information is mostly with the lessor.

Lack of information available to the Company, makes it difficult to determine the interest rate implicit in the lease because the Interest rate implicit in the lease is a Company-specific measure – specific to the lessor. Notwithstanding the Company has adopted an incremental borrowing rate.

The lessee's incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Given the above factors and that the Company has no recent borrowing experience, an interest assumption based on 4% above the current CBR rate currently at 8.5% has been adopted as its incremental borrowing rate.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty

Impairment losses

At the reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings for a forward-looking scenario for each type of product / market and associated ECL; and
- Establishing groups of similar assets for the purposes of measuring ECL.

If the PD rates on the financial assets had been 5% higher or lower as at 31 December 2020, the loss allowance would have been Shs 0.4 million higher/lower.

Equipment

Critical estimates are made by the Company's directors, in determining depreciation rates and useful lives for equipment.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of risks, including insurance risk, financial risk, credit risk, and the effects of changes in property values, debt and equity market prices, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the identification and management of risks and seeks to minimize potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place which help manage liquidity, and seek to maximize return within an acceptable level of interest rate risk. The Company manages key risks as follows:

4.1 Insurance risk management

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

The Company has developed its insurance underwriting and investment strategy to diversify the type of risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical, local and type of industry covered.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

4.1 Insurance risk management *(continued)*

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. It manages these positions within an asset-liability management (ALM) framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The Company produces regular reports at portfolio, legal entity and asset and liability class level that are circulated to the Company's key management personnel. The principal technique of the Company's ALM framework is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. Separate portfolios of assets are maintained for with-profit business, non-linked non-profit business, and unit-linked business. For the purposes of the ALM framework, the Company does not manage the fund for future appropriations as a liability. The Company's ALM is also integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities. The Company does not use hedge accounting.

The Company has not changed the processes used to manage its risks from previous periods. The notes below explain how insurance risks are managed using the categories utilized in the Company's ALM framework.

Under certain contracts, the Company has offered guaranteed annuity options. In determining the value of these options, estimates have been made as to the percentage of contract holders that will exercise them. There is not enough historical information available on which to base these estimates.

The table below shows the contractual timing of undiscounted cash flows arising from assets and liabilities included in the company's ALM framework for management of long term insurance contracts as at 31 December 2020.

	Total	No stated maturity	0-1 year	1-5 years	>5 years
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Financial assets					
Debt securities:					
-Government bonds and treasury bills fixed rate					
- at amortized cost	4,327,023	-	77,020	908,743	3,341,260
- at fair value	5,267,724		68,140	860,142	4,339,442
Commercial paper and corporate bonds	70,280		70,280		
Equity securities:					
- Listed	135,596	135,596	-	-	-
- Unlisted	8,193	8,193	-	-	-
Investment in unit trusts	4,250	-	4,250	-	-
Life policy loans, other loans and reinsurance share of liabilities	202,128	186,090	2,960	13,078	-
Receivables arising from direct insurance arrangements	94,411	-	94,411	-	-
Right-of-use assets	43,779	-	13,215	30,564	-
Other receivables	45,513	-	45,513	-	-
Cash and cash equivalents	959,197	-	959,197	-	-
Total	**11,158,094**	**329,879**	**1,334,986**	**1,812,527**	**7,680,702**
Liabilities:					
Insurance contracts	1,336,061	-	1,336,061	-	-
Payables arising from reinsurance arrangements	1,916	-	1,916	-	-
Payables under deposit administration	4,544,553	-	4,544,553	-	-
Lease liability	52,350	-	12,420	39,930	-
Other liabilities	128,546	-	128,546	-	-
Total	**6,063,426**	**-**	**6,023,496**	**39,930**	**-**
Difference in contractual cash flows	**5,094,668**	**329,879**	**(4,688,510)**	**1,772,597**	**7,680,702**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

4.1 Insurance risk management *(continued)*

The table below shows the contractual timing of discounted cash flows arising from assets and liabilities included in the company's Asset Liability Management framework for management of long term insurance contracts movement as at 31 December 2019.

	Total	No stated maturity	0-1 year	1-5 years	>5 years
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Financial assets					
Debt securities:					
-Government bonds and					
treasury bills fixed rate					
- at amortized cost	4,618,141	-	3,482,270	1,069,981	65,890
- at fair value	3,645,330	-	78,515	567,298	2,999,517
Commercial paper and corporate bonds	143,817	-	87,821	55,996	-
Equity securities:					
- Listed	335,699	335,699	-	-	-
- Unlisted	7,110	7,110	-	-	-
Investment in unit trusts	5,717	-	5,717	-	-
Life policy loans, other loans and reinsurance share of liabilities	69,860	52,688	2,691	14,481	-
Receivables arising from direct insurance arrangements	83,500	-	83,500	-	-
Right-of-use assets	54,723	-	14,036	40,687	-
Other receivables	64,520	-	64,520	-	-
Cash and cash equivalents	1,016,063	-	1,016,063	-	-
Total	**10,044,480**	**395,497**	**4,835,133**	**1,748,443**	**3,065,407**
Liabilities:					
Insurance contracts	1,007,593	-	1,007,593	-	-
Payables arising from reinsurance arrangements	24,533	-	24,533	-	-
Payables under deposit insurance contracts	4,099,594	-	4,099,594	-	-
Lease liability	59,707	-	11,104	48,603	
Other liabilities	112,975	-	112,973	-	-
Total	**5,304,402**	**-**	**5,255,797**	**48,603**	**-**
Difference in contractual cash flows	**4,740,078**	**(395,497)**	**420,664**	**1,699,840**	**3,065,407**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

4.1 Insurance risk management *(continued)*

Long-term insurance contracts

(a) Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as AIDS, TB and a human form of avian flu) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

At present, these risks do not vary significantly in relation to the location of the risk insured by the Company. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The table below presents the concentration of insured benefits across five bands of insured benefits per individual life assured. The benefit insured figures are shown gross and net of the reinsurance contracts described above. At year-end, none of these insurance contracts had triggered a recovery under the reinsurance held by the Company.

These tables do not include annuity contracts, for which a separate analysis is reported further below.

	Total Benefits Insured		
Benefits assured per life assured at the end of 2020	**Before Reinsurance**		**After Reinsurance**
All amounts in KSh'000	**Shs '000**	**%**	**Shs '000**
0-500	74,613	19%	74,613
500-1,000	28,392	7%	28,392
1,000-3,000	88,525	23%	58,919
3,000-5,000	46,224	12%	15,000
5,000-10,000	100,754	26%	17,500
Above 10,000	53,542	13%	4,000
Total	**392,050**	**100%**	**198,424**

	Total Benefits Insured		
Benefits assured per life assured at the end of 2019	**Before Reinsurance**		**After Reinsurance**
All amounts in KSh'000	**Shs '000**	**%**	**Shs '000**
0-500	107,392	28%	107,392
500-1,000	20,304	5%	20,304
1,000-3,000	105,108	27%	59,595
3,000-5,000	64,371	17%	17,500
5,000-10,000	35,538	9%	6,000
Above 10,000	55,905	14%	4,000
Total	**388,618**	**100%**	**214,791**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

4.1 Insurance risk management *(continued)*

Long-term insurance contracts *(continued)*

(a) Frequency and severity of claims *(continued)*

The following tables for annuity insurance contracts illustrates the concentration of risk based on five bands that group these contracts in relation to the amount payable per annum as if the annuity were in payment at the year end. The Company does not hold any reinsurance contracts against the liabilities carried for these contracts.

Annuity payable in Shs per annum per life insured at the end of 2020

All amounts in KSh'000

0-50	466	1%
51-100	3816	6%
101-200	12,269	20%
201-500	27,310	45%
501-1,000	10,703	18%
Over 1,000	6,584	10%
Total	61,148	100%

Annuity payable in Shs per annum per life insured at the end of 2019

All amounts in KSh'000

0-50	464	1%
51-100	3822	6%
101-200	10,752	18%
201-500	20,354	34%
501-1,000	17,197	29%
Over 1,000	7,274	12%
Total	59,863	100%

4.2 Financial risk management

The Company is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

4.2 Financial risk management *(continued)*

(a) Market risks

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk. Insurance and non-profit investment contracts have benefit payments that are fixed and guaranteed at the inception of the contract. The financial component of these benefits is usually a guaranteed fixed interest rate (for the insurance contracts, this rate may apply to maturity and/ or death benefits) and hence the company's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable.

The Company monitors interest rate risk by calculating the mean duration of the investment portfolio and of the liabilities to policyholders under insurance and investment contracts. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using best estimates of mortality and voluntary terminations. This is calculated in a consistent manner with the prior year. Any gap between the mean duration of the assets and the estimated mean duration of the liabilities is minimised by means of buying and selling fixed interest securities of different durations.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For the guaranteed element of liabilities under with-profits contracts, changes in interest rate will not cause a change to the amount of the liability because their carrying amounts are not affected by the level of market interest rates. However, the with profits element of the liabilities is directly affected by changes in the level of interest rates to the extent that they affect the carrying amount of the assets held in the with-profits funds.

The Company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios.

Interest bearing securities represent 91% (2018: 91%) of total investments. If interest rates in market indices had increased / decreased by a further 5%, with all other variables held constant, and all the company's investments moving according to the historical correlation with the index, income would increase / decrease by Shs 30.8 million (2018: Shs 27.32 million).

(ii) Equity price risk

The Company is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets available for sale. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the Nairobi Stock Exchange.

The Company has a defined investment policy which sets limits on the Company's exposure to equities both in aggregate terms and by geography, industry and counterparty. This policy of diversification is used to manage the company's price risk arising from its investments in equity securities. Investment management meetings are held daily. At these meetings, senior investment managers meet to discuss investment return and concentration across the company.

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes to market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Listed equities securities represent 95% (2019: 98%) of total equity investments. If equity market indices had increased / decreased by a further 5%, with all other variables held constant, and all the company's equity investments moving according to the historical correlation with the index, equity would increase / decrease by Shs 16.1million (2018: Shs 11.1 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

4.2 Financial risk management *(continued)*

(a) Market risks *(continued)*

(iii) Currency risk

Foreign currency exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Company primarily transacts in the Kenya shilling and its assets and liabilities are denominated in the same currency. The company is therefore not exposed to currency risk.

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risk are:

- reinsurers' share of insurance liabilities and reserves;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- amounts due from corporate bond issuers and
- amount held with financial institutions - under cash and cash equivalents

The Company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or companies of counterparties and to geographical and industry segments. Such risks are subject to regular review. Limits on the level of credit risk by category and territory are approved quarterly by the board of directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company of its liability as the primary insurer. If a reinsurer fails to pay a claim, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy.

Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs. Internal audit makes regular reviews to assess the degree of compliance with the company's procedures on credit. Exposures to individual policyholders and groups of policyholders are within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders or homogenous groups of policyholders, a financial analysis is carried out by the management.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

4.2 Financial risk management *(continued)*

(b) Credit risk *(continued)*

The Company's assets bearing credit risk are for the period 31 December 2020 summarized below:

	Gross carrying amounts 2020 Shs '000	Provision of Impairments Shs '000	Net of impairment provision 2020 Shs '000	2019 Shs '000
Investment in unit trusts	4,250	-	4,250	5,717
Government securities	4,988,056	(2,181)	4,985,875	3,997,219
Reinsurers share of insurance liabilities	187,200	(1,110)	186,090	52,688
Receivables arising from direct insurance arrangements	100,011	(5,600)	94,411	83,500
Life policy & other loans	16,047	(9)	16,038	17,172
Other receivables	45,513	-	45,513	64,518
Corporate bonds and commercial paper	70,324	(44)	70,280	130,079
Deposits with financial institutions	866,148	(6,470)	859,678	986,438
Cash and bank	99,619	(100)	99,519	29,625
Total assets bearing credit risk	6,377,168	(15,514)	6,361,654	5,366,956

The Company's assets bearing credit risk are for the period 31 December 2019 summarized below:

	Gross carrying amounts 2019 Shs '000	Provision of Impairments Shs '000	Net of impairment provision 2019 Shs '000	2018 Shs '000
Investment in unit trusts	5,717	-	5,717	11,257
Government securities	3,999,459	(2,240)	3,997,219	3,313,858
Reinsurers share of insurance liabilities	53,002	(314)	52,688	103,882
Receivables arising from direct insurance arrangements	87,760	(4,260)	83,500	109,823
Life policy & other loans	17,181	(9)	17,172	11,312
Other receivables	64,518	-	64,518	60,923
Corporate bonds and commercial paper	130,210	(131)	130,079	184,855
Deposits with financial institutions	994,511	(8,073)	986,438	1,031,841
Cash and bank	29,655	(30)	29,625	65,151
Total assets bearing credit risk	5,382,013	(15,057)	5,366,956	4,892,902

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

4.2 Financial risk management *(continued)*

(b) Credit risk *(continued)*

The concentration of credit risk is substantially unchanged compared to prior year. No credit limits were exceeded during the period. The amounts that are past due and not impaired are as shown below:

	2020 Shs '000	2019 Shs '000
Receivables arising from direct insurance arrangements	94,411	83,500
Life policy & other loans	16,038	17,172
Other receivables	45,513	64,488
Total assets past due but not impaired	155,962	165,160

The assets reported above include Shs 4.3 million (2019: Shs 5.7 million) related to the assets backing unit linked contracts. The holders of these contracts bear the credit risk arising from these assets. The assets above also include assets held in the with-profits funds where the company is able to transfer part of the credit risk arising from these assets to holders of with-profits investment and insurance contracts to the extent that the future level of discretionary bonuses can be reduced to absorb any associated credit losses (as well as losses arising from all other financial risks). During the year, there was no financial assets that were impaired.

(c) Liquidity risk

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations as they fall due. The primary liquidity risk of the Company is the obligation to pay claims to policyholders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The board sets limit on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

(d) Unit-linked contracts

For unit-linked contracts, the Company matches all the liabilities with assets in the portfolio in which the unit prices are based. There is therefore no interest, price, currency or credit risk for the Company on these contracts

4.3 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

4.3 Fair value hierarchy *(continued)*

	Level 1	Level 2	Level 3	Total
31 December 2020	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Fair value through profit and loss				
- Government securities	2,806,827	-	-	2,806,827
- Quoted equities	135,596	-	-	135,596
- Unquoted equities	-	8,192	-	8,192
Total	**2,942,423**	**8,192**	**-**	**2,950,615**
31 December 2019				
Available for sale				
- Government securities	1,759,529	-	-	1,759,529
- Quoted equities	335,699	-	-	335,699
- Unquoted equities	-	7,110	-	7,110
Total	**2,095,228**	**7,110**	**-**	**2,102,338**

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the company is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily Nairobi Securities Exchange ("NSE") equity investments and government bonds classified as available for sale.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of 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.

Specific valuation techniques used to value financial instruments include

- Quoted market prices or dealer quotes for similar instruments
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There was no movement in level 3 during the year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

The following table presents the company's financial assets and liabilities classified under various categories, measured and carried at fair value at 31 December 2019 and 31 December 2020. The values are as represented in the statement of financial position.

As at 31st December 2020	Held to maturity Shs'000	Loans and receivables Shs'000	FVTPL Shs'000	Total carrying amount Shs'000	Fair values Shs'000
Assets					
Quoted equities	-	-	135,596	135,596	135,596
Unquoted investments			8,193	8,193	8,193
Investments in Government securities	2,179,048	-	2,806,827	4,985,875	4,985,875
Reinsurance share of liabilities	-	186,090	-	186,090	186,090
Receivable arising from direct insurance arrangements	-	94,411	-	94,411	94,411
Commercial Paper & Corporate Bonds	70,280	-	-	70,280	70,280
Investment in Unit Trust	-	-	4,250	4,250	4,250
Life policy loans	-	2,960	-	2,960	2,960
Other loans receivables	-	13,078	-	13,078	
Other receivables	-	58,592	-	58,592	58,592
Right-of-use assets	43,779	-	-	-	43,779
Cash and short term deposits	-	718,007	-	718,007	718,007
Total assets	**2,293,107**	**1,073,138**	**2,959,866**	**6,277,332**	**6,308,033**
Liabilities					
Insurance contract liabilities	1,336,061	-	-	1,336,061	1,336,061
Payable under deposit administration contracts	4,544,553	-	-	4,544,553	4,544,553
Payable arising from reinsurance arrangement	-	1,916	-	1,916	1,916
Lease liabilities	52,350	-	-	-	52,350
Other payables and accruals	-	128,546	-	128,546	128,546
Total Liabilities	**5,932,964**	**130,462**	**-**	**6,011,076**	**6,063,426**
As at 31st December 2019					
Assets					
Quoted equities for various companies	-	-	335,699	335,699	335,699
Unquoted investments	-	-	7,110	7,110	7,110
Investments in Government securities	2,237,690	-	1,759,529	3,997,219	3,997,219
Reinsurance share of liabilities	-	52,688	-	52,688	52,688
Receivable arising from direct insurance arrangements	-	83,500	-	83,500	83,500
Commercial Paper & Corporate Bonds	130,079	-	-	130,079	130,079
Investment in Unit Trusts	-	-	5,717	5,717	5,717
Life policy loans	-	2,691	-	2,691	2,691
Other loans receivables	-	14,481	-	14,181	-
Other receivables	-	64,518	-	64,518	64,518
Right-of-use assets	54,723	-	-	-	54,723
Cash and short term deposits	-	1,016,063	-	1,016,063	1,016,063
Total assets	**2,422,492**	**1,233,941**	**2,108,055**	**5,709,465**	**5,750,007**
Liabilities					
Insurance contract liabilities	1,007,593	-	-	1,007,593	1,007,593
Payable under deposit administration contracts	4,099,594	-	-	4,099,594	4,099,594
Payable arising from reinsurance arrangement	-	24,533	-	24,533	24,533
Lease Liabilities	59,707	-	-	-	59,707
Other Payables and accruals	-	112,974	-	112,974	112,974
Total Liabilities	**5,166,894**	**137,507**	**-**	**5,244,694**	**5,304,401**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

4.4 Capital risk management

The Company maintains an efficient capital structure from a combination of equity shareholders' funds and borrowings, consistent with the company's risk profile and the regulatory and market requirements of its business.

The Company is subject to a number of regulatory capital tests and also employ a number of realistic tests to allocate capital and manage risk.

In reporting the Company's financial strength, capital and solvency is measured using the regulations prescribed by the Insurance Regulatory Authority (IRA). These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the company.

The Company's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth; and
- to manage exposures to movement in exchange rate

An important aspect of the Company's overall capital management process is the setting of target risk-adjusted rates of return for individual business units, which are aligned to performance objectives and ensure that the Company is focused on the creation of value for shareholders.

The Company has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital. The Company manages as capital all items that are eligible to be treated as capital for regulatory purposes.

The Company is regulated by the Insurance Regulatory Authority in Kenya and as such, is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities.

The Kenya Insurance regulatory authority has also introduced Risk Based Capital model which will result in risk based approach to supervision. In line with risk based methodology, IRA has developed a Risk Based Capital (RBC) model, which is aimed at introducing capital requirements that are commensurate to the levels of risk being undertaken, and provide appropriate incentives for good risk management. The RBC model is a factor based model that computes the capital requirement based on four risk segments: insurance, market, credit and operational risk.

The new capital requirement (Risk Based Capital) were introduced in the Finance Act, 2015. Insurance companies are required to hold paid up capital by the 30th June 2020; the higher of: -

i. Shs 400 million; or

ii. risk based capital determined by the Insurance Regulatory Authority (IRA) from time to time; or

iii. 5% of the liabilities of the life business for the financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

4.4 Capital risk management *(continued)*

The Capital Adequacy ratio of the Company as at 31 December 2020 and 2019 is illustrated below.

	2020 Shs'000	2019 Shs '000
Available Capital	634,739	603,642
Required Capital	400,000	400,000
Capital Adequacy Ratio	159%	151%
Minimum Required Capital Adequacy Ratio	100%	100%

5 GROSS EARNED PREMIUM INCOME

The Company is organised into two main divisions, ordinary life and group life business. The premium income of the Company is analysed between the main classes of business as shown below:

Class of business	2020 Shs'000	2019 Shs '000
Ordinary life	208,657	148,664
Group life	1,018,035	759,906
Total	**1,226,692**	**908,570**

6 INVESTMENT INCOME

	Long-term business Shs '000	Shareholders' funds Shs '000	2020 Total Shs'000	2019 Shs '000
Interest from government securities	468,201	66,929	535,130	433,340
Bank deposit interest	51,872	2,284	54,156	74,804
Interest on Floating Note	9,333	-	9,333	16,457
Rental income from investment properties	8,813	-	8,813	11,541
Dividends received from equity investments	8,566	-	8,566	14,598
Income from unit trusts held	3,079	-	3,079	-
Fair value gains/ (losses) on quoted equities	(12,858)	-	(12,858)	45,958
Fair value gains from government securities	43,465	4,740	48,205	15,259
(Loss) /gain on sale of quoted equities	(41,392)	-	(41,392)	7,833
Gain on sale of government securities	2,563	-	2,563	11,277
Gain on sale of motor vehicle	-	-	-	1,000
Other income	6,130	-	6,130	3,037
Total	**547,772**	**73,953**	**621,725**	**635,104**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

7 CLAIMS AND POLICYHOLDERS BENEFITS PAYABLE

	2020 Shs'000	2019 Shs '000
Life and death claims	236,866	202,673
Surrenders and annuity payments	67,525	65,083
Maturities benefits	31,941	25,943
Increase in actuarial value of insurance contract liabilities	159,185	35,935
Interest declared on deposit administration contracts (Note 28)	411,626	377,324
Total	**907,143**	**706,958**

8 OPERATING AND OTHER EXPENSES

	Long term business Shs '000	Shareholders' funds Shs '000	2020 Total Shs '000	2019 Shs '000
Employee benefit expense (Note 9)	152,190	-	152,190	148,241
Auditors' remuneration	2,828	-	2,828	3,060
Directors emoluments – fees	5,372	-	5,372	5,232
Depreciation (Note 12)	-	4,611	4,611	5,079
Amortization (Note 13)	-	-	-	5,183
Repairs and maintenance expenditure	6,021	-	6,021	10,978
Right of use of asset -depreciation (Note 14)	10,944	-	10,944	10,945
Operating lease rentals	2,690	-	2,690	4,583
Advertising and promotion	18,515	-	18,515	10,425
Professional fees	8,059	-	8,059	2,703
Business levies and taxes	9,051	10,448	19,499	4,988
Insurances costs	10,993	-	10,993	10,891
Travelling, motor vehicle and accommodation	2,826	-	2,826	2,303
License and subscriptions	1,996	-	1,996	1,827
Training and seminars	617	-	617	1,892
Communication	3,960	-	3,960	3,758
Printing & stationery	1,650	-	1,650	1,729
Other board expenses	1,172	-	1,172	2,277
Other expenses	20,460	-	20,460	13,805
Total	**259,344**	**15,059**	**274,403**	**249,899**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

9 EMPLOYEE BENEFIT EXPENSE

	Long term business Shs '000	Shareholders' funds Shs '000	2020 Total Shs '000	2019 Shs '000
Salaries and wages	128,865	-	128,865	126,174
Social security benefit costs	288	-	288	288
Retirement benefit costs	23,037	-	23,037	21,779
Total	**152,190**	**-**	**152,190**	**148,241**

The Company had 57 employees as at 31 December 2020 (2019: 57)

10 FINANCE COST

	2020 Shs '000	2019 Shs '000
Interest expense on lease liabilities	6,689	7,525

11 INCOME TAX EXPENSE

	Long-term business Shs '000	Shareholders' funds Shs '000	2020 Total Shs '000	2019 Shs '000
(a) Income tax expense				
Current income tax	-	-	-	-
Deferred income (credit) / charge (Note 30)	(4,692)	-	(4,692)	10,124
Income tax (credit) / expense	(4,692)	-	(4,692)	10,124
Reconciliation of current income tax:				
(Loss) /profit before tax	(2,874)	59,143	56,269	78,989
Income tax calculated at a tax rate of 30%, (2019: 30%)	(862)	17,743	16,881	23,697
Effect of income not subject to tax	862	(13,856)	(12,994)	(11,103)
Effect of expenses not deductible for tax	(10,500)	8,221	(2,279)	(2,873)
Effect on transfers to/(from) shareholders	10,500	(12,108)	(1,608)	(9,721)
Income tax expense	-	-	-	-

(b) Current tax receivable	2020 Shs '000	2019 Shs '000
At 1 January	17,104	14,794
Tax paid during the year	696	2,310
Current taxation charge (Note 11(a))	-	-
At 31 December	17,800	17,104

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

12 MOTOR VEHICLES AND EQUIPMENTS

	Motor vehicle Shs'000	Computers Shs'000	Furniture, fittings & equipment Shs'000	Total Shs'000
At 1 January 2019	11,006	23,841	21,418	56,265
Additions	-	509	938	1,447
Disposal	(2,000)	-	-	(2,000)
At 31 December 2019	9,006	24,350	22,356	55,712
At 1 January 2020	9,006	24,350	22,356	55,712
Additions	-	1,764	318	2,082
Disposal	-	(106)	-	(106)
At 31 December 2020	9,006	26,008	22,674	57,688
Depreciation:				
At 1 January 2019	6,249	21,486	11,622	39,357
Charge for the year	1,269	1,757	2,053	5,079
Disposal	(2,000)	-	-	(2,000)
At 31 December 2019	5,518	23,243	13,675	42,436
At 1 January 2020	5,518	23,243	13,675	42,436
Charge for the year	1,269	1,233	2,109	4,611
Disposal	-	(12)	-	(12)
At 31 December 2020	6,787	24,464	15,784	47,035
Net Book Value:				
At 31 December 2020	**2,219**	**1,544**	**6,890**	**10,653**
At 31 December 2019	**3,488**	**1,107**	**8,681**	**13,276**

13 INTANGIBLE ASSET – WORK IN PROGRESS

	2020 Shs '000	2019 Shs '000
At 1 January	-	5,183
Additions	26,880	-
Amortization	-	(5,183)
At 31 December	26,880	-

These costs relate to development of application and USSD code for a disruptive life product to be sold digitally for all-inclusive customers. This is expected to be completed and rolled out in 2021.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

14 RIGHT OF USE ASSETS

	2020 Shs '000	2019 Shs '000
At 1 January	54,723	65,668
Amortization	(10,944)	(10,945)
At 31 December	43,779	54,723

The leases of offices are typically for period of 6 years, with an option to renew. The leases contain no restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

In the statement of cash flows, the amount for payments for right-of-use assets represents:

	2020 Shs '000	2019 Shs '000
1 January	54,723	65,668
Less: amounts financed through leases	(54,723)	(65,668)
Cash flow	-	-

Amounts recognized in profit and loss

	2020 Shs '000	2019 Shs '000
Depreciation expense on right-of-use assets	10,944	10,945
Interest expense on lease liabilities (Note 10)	6,689	7,525
Total	17,633	18,470

15 INVESTMENT PROPERTIES

	2020 Shs '000	2019 Shs '000
At 1 January	155,000	155,000
At 31 December	155,000	155,000

Investment properties were last revalued on 31 December 2020, by Axis Real Estate Limited, independent valuers, on the basis of open market value for existing use. The table below analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (1evel 3).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

15 INVESTMENT PROPERTIES *(continued)*

	Level 1	Level 2	Level 3	Total
At 31 December 2020	Shs'000	Shs'000	Shs'000	Shs'000
Investment property	-	155,000	-	155,000
At 31 December 2019				
Investment property	-	155,000	-	155,000

Valuation technique used to derive level 2 fair values
Level 2 fair value of land and building has been derived using the discounted cash flow approach.

Sensitivity analysis
The gross annual rent and yield are the significant unobservable inputs used in the valuation of investment properties. The effect of changes in gross annual rental and yield will have the following effect on the fair value of investment property;

	% change	2020	2019
		Shs'000	Shs'000
Gross annual rent	10%	10,618	13,395
Gross annual rent	-10%	8,687	10,960
Yield	0.5%	823	1,039
Yield	-0.5%	745	941

16 QUOTED EQUITY INVESTMENTS
a) Fair value through profit or loss quoted equity securities

	2020	2019
	Shs '000	Shs '000
At 1 January	335,699	222,700
Additions	113,795	109,959
Disposals	(301,040)	(42,918)
Fair value (losses)/ gains	(12,858)	45,958
At 31 December	135,596	335,699

17 UNQUOTED EQUITY INVESTMENTS
Fair value through other comprehensive income (OCI)

Long-term business	Long-term business	Shareholders' funds	2020	2019
	Shs '000	Shs '000	Shs '000	Shs '000
At 1 January	5,799	1,311	7,110	7,557
Fair value gains /(losses)	988	95	1,083	(447)
At 31 December	6,787	1,406	8,193	7,110

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

18 REINSURERS' SHARE OF INSURANCE LIABILITIES

	2020 Shs'000	2019 Shs'000
At 31 December (Note 27)	187,200	53,002
-Less: Provision for impairment	(1,110)	(314)
At 31 December	186,090	52,688

Amounts due from reinsurers in respect of claims outstanding or other receivables due with the Company on contracts that are reinsured are included as reinsurers' share of liabilities in the statement of financial position.

19 OTHER RECEIVABLES

	2020 Shs'000	2019 Shs'000
Prepayments and deposits	13,404	14,365
Staff loans and secured advances	13,746	9,947
Agents advances and other loans	6,477	8,663
Rent receivables	2,199	2,959
Accrued dividend income	3,108	6,208
Proceeds receivable from disposal of shares	-	16,013
Others	6,579	6,333
At 31 December	45,513	64,488

The carrying value of the above receivables approximates their fair values.

20 GOVERNMENT SECURITIES

(a) Government Securities - at amortized cost	2020 Shs'000	2019 Shs'000
Treasury bills and bonds maturing:		
- In 1 year	72,699	61,688
- In 1- 5 years	944,251	714,581
- After 5 years	1,164,279	1,463,661
- Less: Provision for impairment	(2,181)	(2,240)
Total	2,179,048	2,237,690

(b) Government Securities-at fair value through profit or loss		
At 1 January	1,759,529	770,804
Purchases	1,578,293	1,542,088
Disposal	(506,695)	-
Maturity	(72,505)	(568,622)
Fair value gains	48,205	15,259
Total	2,806,827	1,759,529

The treasury bonds include bonds held under lien as required by Insurance Act with a carrying value of Shs 382million (2019: Shs 382million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

21 COMMERCIAL PAPER & CORPORATE BONDS

	2020 Shs' 000	2019 Shs'000
Commercial paper and bonds held to maturity:		
- In 1 -5 years	70,324	130,210
- Less: Provision for impairment	(44)	(131)
Total	70,280	130,079

22 DEPOSITS WITH FINANCIAL INSTITUTIONS

Held to maturity:		
- Within 90 days	548,331	613,178
- Within 1 year	284,532	351,127
-Less: Provision for impairment	(6,470)	(8,073)
Total	826,393	956,232

Weighted average effective interest rates are disclosed under note 35.

23 SHARE CAPITAL

	Number of Shares	Shs'000
Balance at 1 January 2019, 1 January 2020 and 31 December 2020	7,000,000	700,000

The total authorized number of ordinary shares is 7,000,000 with a par value of Shs 100. All shares are fully issued and paid up.

24 RETAINED EARNINGS

The retained earnings / (deficits) represent profits (losses) from shareholders' funds and transfers of accumulated surpluses / (deficits) from the long-term insurance business net of tax. Movement in the retained earnings is shown in the statement of changes in equity.

25 LONGTERM BUSINESS RESERVES

The long term business reserves comprise of unappropriated actuarial surpluses (statutory reserves) of KShs 55,670,103 and Bonus Stabilisation Reserve of KShs 17,967,000 whose distribution is subject to restrictions imposed by the Insurance Act and recommendations of Independent Consulting Actuary. The Act restricts the amounts of surpluses of the long-term business available for distribution to shareholders to 30% of the accumulated surplus of the long term insurance business. The movement in the statutory reserve is shown in the statement of changes in equity.

26 INSURANCE CONTRACT LIABILITIES

	2020 Shs'000	2019 Shs'000
Long term insurance contracts at 31 December		
- claims reported and claims handling expenses	280,263	110,980
- actuarial liabilities with respect to contracts in force	1,055,798	896,613
Total	1,336,061	1,007,593

Insurance contract liabilities comprises gross claims reported, claims handling expenses and actuarial liabilities with respect to all contracts in force for ordinary (including unit linked policies) and group life business.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

27 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	1,007,593	(53,002)	954,591	1,039,706	(104,662)	935,044
Cash paid for claims settled in the year	(427,348)	193,626	(233,722)	(388,618)	173,027	(215,591)
Total	580,245	140,624	720,869	651,088	68,365	719,453
(Decrease) /increase in liabilities arising						
- from prior year claims	421,085	(266,552)	154,533	251,757	(69,621)	182,136
- from current year claims	334,731	(61,272)	273,459	104,748	(51,746)	53,002
Total increase in liabilities	755,816	(327,824)	427,992	356,505	(121,367)	235,138
Total	1,336,061	(187,200)	1,148,861	1,007,593	(53,002)	954,591
Notified claims	280,263	(187,200)	93,063	110,981	(53,002)	57,979
Actuarial value of life contract liabilities	1,055,798	-	1,055,798	896,612	-	896,612
Total at the end of year	1,336,061	(187,200)	1,148,861	1,007,593	(53,002)	954,591

28 AMOUNTS PAYABLE UNDER DEPOSIT ADMINISTRATION CONTRACTS

Liabilities due under deposit administration contracts are recorded at amortized cost. Movements in amounts payable under deposit administration contracts during the year are as shown below. The liabilities are shown inclusive of interest accumulated to 31 December. Interest was declared and credited to the customer accounts at a weighted average rate of 10%, (2019:10.50%).

	2020	2019
	Shs'000	Shs'000
At 1 January	4,099,594	3,497,314
Pension fund deposits received	538,787	609,152
Pension fund withdrawals	(505,454)	(384,196)
Interest payable to policyholders	411,626	377,324
At 31 December	4,544,553	4,099,594

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29 OTHER PAYABLES

	2020 Shs 000	2019 Shs 000
Due to related companies (Note 34)	16,527	8,070
Accrued expenses	46,157	40,607
Rental deposits	370	810
Trade creditors	-	6,404
Premium deposits	54,457	49,235
Other liabilities	11,035	7,848
At 31 December	128,546	112,974

30 DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted tax rate of 30% (2019: 30%). The movement on the deferred income tax account is as follows

	2020 Shs'000	2019 Shs'000
At 1 January	28,549	18,425
(Credit) /charge to profit or loss (Note 11 (a))	(4,692)	10,124
At 31 December	23,857	28,549

Deferred tax movement is made up as follows:

Movement in unappropriated surplus /(deficit)		
At 1 January	(95,167)	61,421
At 31 December	(79,529)	(95,167)
Movement of the surplus during the year	15,638	(33,746)
Deferred income tax charged/ (credit) at 30% (2019: 30%)	4,692	(10,124)
At 31 December	4,692	(10,124)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

31 (a) NOTES TO THE STATEMENT OF CASH FLOWS

		2020	2019
Reconciliation of profit before taxation to cash generated from operations:	Notes	Shs'000	Shs'000
Profit before income tax		**49,580**	**78,989**
Adjustments for:			
Interest income	6	(598,618)	(524,601)
Profit on sale of quoted equities	6	41,392	(7,833)
Profit on sale of government securities	6	(2,563)	-
Fair value (gain)/loss on quoted equities	6	12,858	(45,958)
Fair value gain on government securities	6	(48,205)	(15,259)
Depreciation charge	12	4,611	5,079
Amortization charge	13	-	5,183
Depreciation of right-of-use assets	14	10,944	10,945
Gain from sale of fixed assets		-	(1,000)
Expected credit loss charge		458	(7,744)
Changes in:			
- technical provisions		639,228	621,361
- payables arising from reinsurance arrangements		(22,617)	(61,948)
- other payables		15,570	(11,644)
- other receivables		6,757	22,758
Cash inflows from operations		109,396	68,328

(b) CASH AND CASH EQUIVALENTS

		2020	2019
For the purposes of the cash flow statement, cash and cash equivalents comprise the following:			
Cash and bank balances		99,519	29,655
Deposits with financial institutions maturing within 90 days (Note 22)		548,331	613,178
Total		647,850	642,833

32 CONTINGENT LIABILITIES

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of insurance business. At the reporting date, there was no litigation that the company was aware of. The directors are of the opinion that any litigation that may arise from this source will not have a material effect on the financial position or profits of the Company.

In 2020, a tax assessment for principal tax of Shs33,745,125 relating to prior periods, has since been reviewed and an agreement reached where the Company settled Shs10,448,224. A waiver application for interest and penalties has been made for Shs8,553,464. No provision has been made in these financial statements for these amounts as the Company considers it has adequate grounds to obtain full waiver.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

33 LEASE LIABILITIES

	2020 Shs'000	2019 Shs'000
1 January	59,707	65,668
Lease payments	(14,046)	(13,486)
Interest on lease (Note 10)	6,689	7,525
Balance at 31 December	52,350	59,707

The lease liability is calculated as the present value of the outstanding rentals discounted using the incremental borrowing rate. The Company does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's financial function.

34 RELATED PARTIES

In the normal course of business, insurance policies are sold to related parties at terms and conditions similar to those offered to major clients. The Company is a wholly owned subsidiary of Apollo Investments Limited, also incorporated in Kenya. Apollo Holdings Limited, Apollo Asset Management Company Limited, Gordon Court Limited and APA Insurance Limited are related to APA Life Assurance Limited through common shareholdings and directorships.

Outstanding balances with related parties	2020 Shs'000	2019 Shs'000
(i) Due to related parties (Note 29)		
Due to Gordon Court Limited	74	317
Due to Apollo Asset Management Limited	7,042	7,145
Due to APA Insurance Limited	9,411	608
Total	16,527	8,070
(ii) Related party transactions		
Apollo Asset Management Company Limited		
Fees for asset management	29,482	28,341
Gordon Court Company Limited		
Office rent	8,231	9,254
APA Insurance Limited		
Contributions received for pension scheme	94,940	95,803
Premium received for group life assurance	7,788	9,830
Premium paid for general insurance business	8,996	9,339
(iii) Key management and directors' compensation		
Directors' fees	5,232	5,232
Other remuneration	23,611	22,771
Key management compensation	66,442	64,507
Total	95,285	92,510

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

35 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

The following table summarises the company's weighted average effective interest rates realized during the year on the principal interest-bearing investments:

	2020	2019
	%	%
Government securities	12.22	12.33
Deposits with financial institutions	9.44	9.85
Commercial paper and corporate bonds	13.21	13.30
Other loans receivables (non-staff)	14.00	14.00

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SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2020

REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2020

INCOME	Ordinary Life business Shs' 000	Group Life business Shs' 000	Other Shs' 000	Total 2020 Shs' 000	2019 Shs' 000
Gross earned premium	208,657	1,018,035	-	1,226,692	908,570
Reinsurance premiums ceded	(843)	(525,988)	-	(526,831)	(418,067)
Net earned premium	**207,814**	**492,047**	**-**	**699,861**	**490,503**
Investment income	31,032	62,568	454,172	547,772	564,172
Commission earned	354	122,497	-	122,851	95,847
Total income	**239,200**	**677,112**	**454,172**	**1,370,484**	**1,150,522**
OUTGO					
Claims and policy holder benefit					
Life and death claims	(2,720)	(234,146)	-	(236,866)	(202,673)
Surrenders and annuity payments	(926)	(67,525)	-	(68,451)	(65,082)
Maturities	(31,015)	-	-	(31,015)	(25,944)
Increase in insurance contract liabilities	(60,496)	(98,689)	-	(159,185)	(35,935)
Interest on deposit administration policyholders	-	-	(411,626)	(411,626)	(377,324)
Net claims and policyholder benefits payable	**(95,157)**	**(400,360)**	**(411,626)**	**(907,143)**	**(706,958)**
Expenses					
Operating and other expenses	(107,215)	(121,212)	(38,313)	(266,740)	(239,835)
Commissions payable	(70,575)	(130,622)	(4,967)	(206,164)	(185,826)
Total expenses and commissions	**(177,790)**	**(251,834)**	**(43,280)**	**(472,904)**	**(425,661)**
Profit/ (loss) the year before income tax expense	(33,747)	24,918	(734)	(9,563)	17,903
Income tax expense	(375)	867	4,200	4,692	(10,124)
Profit/(loss) for the year after tax	**(34,122)**	**25,785**	**3,466**	**(4,871)**	**7,779**

The above supplementary information was approved by the board of directors on 16 March 2021 and signed on its behalf by:

RICHARD M. ASHLEY
Chairman

ASHOK SHAH
Director

THE APOLLO GROUP

Head Office
APA Insurance Limited,
Apollo Centre, 07 Ring Road, Parklands,
P.O. Box 30065 -00100, Nairobi.
Tel: +254 (0) 20 286 2000
E-mail: info@apainsurance.org
Website: www.apainsurance.org

Branch Offices

City Centre
3rd Floor, ABSA Plaza (formerly Barclays),
Loita Street.
Tel: +254 (0) 20 286 2000
E-mail: info@apainsurance.org

Nakuru
Ground Floor, Giddo Plaza,
George Morara Road.
Tel: +254 (0) 51 221 3412/6
E-mail: apa.nakuru@apainsurance.org

Mombasa
Ground Floor, Apollo House, Moi Avenue.
Tel: +254 (0) 20 286 2400
E-mail: apa.mombasa@apainsurance.org

Kisumu
Ground Floor, Tuff Foam Mall,
Jomo Kenyatta Highway.
Tel: +254 (0) 20 216 2908
E-mail: apa.kisumu@apainsurance.org

Naivasha
1st Floor, Eagle Centre, Mbaria Kaniu Road.
Tel: +254 (0) 50 202 0086
E-mail: apa.naivasha@apainsurance.org

Eldoret
1st Floor, Zion Mall, Uganda Road.
Tel: +254 (0) 53 203 0937
E-mail: apa.eldoret@apainsurance.org

Thika
5th Floor, Zuri Centre, Kenyatta Highway.
Tel: +254 (0) 67 222 197
E-mail: apa.thika@apainsurance.org

Meru
2nd Floor, Hart Towers, off Meru Highway.
Tel: +254 (0) 64 313 1821/3
E-mail: apa.meru@apainsurance.org

Nyeri
1st Floor, Peak Business Centre,
off Kenyatta Highway.
Tel: +254 (0) 61 203 0332
E-mail: apa.nyeri@apainsurance.org

Embu
1st Floor, Ganga Building, Kenyatta Highway.
Tel: +254 (0) 68 223 0103
E-mail: apa.embu@apainsurance.org

Kisii
2nd Floor Mocha Place, Kisii-Kisumu Road.
Tel: +254 (0) 58 203 1773
E-mail: apa.kisii@apainsurance.org

Machakos
ABC Imani Plaza, Ngei Road.
Tel: +254 (0) 44 21455
E-mail: apa.machakos@apainsurance.org

Group Companies

APA Life Assurance Limited
Apollo Centre, 07 Ring Road, Parklands,
P.O. Box 30389-00100, Nairobi.
Tel: +254 (0) 20 364 1000
E-mail: info@apalife.co.ke
Website: www.apalife.co.ke

APA Insurance (Uganda) Limited
5th Floor, AHA Towers, 7 Lourdel Road,
P.O. Box 756, Nakasero, Kampala.
Tel: +256 200 907 003 | +256 200 907 004
E-mail: apa.uganda@apainsurance.org

Branches: Mbarara, Mbale, Jinja & Mukono

Apollo Asset Management Company Limited
Apollo Centre, Ring Road, Parklands,
P.O. Box 30389-00100, Nairobi.
Tel: +254 (0) 20 364 1000
E-mail: assetmanagement@apollo.co.ke
Website: www.apolloassetmanagement.co.ke

Gordon Court Limited
Apollo Centre, Ring Road, Parklands,
P.O. Box 30389-00100, Nairobi.
Tel: +254 020 364 1900
E-mail: info@apollocentre.org
Website: www.apollocentre.org

Associate Company

Reliance Insurance Company (Tanzania) Limited
3rd & 4th Floors Reliance House,
Plot No. 356, United Nations Road, Upanga,
P.O. Box 9826, Dar es Salaam.
Tel: +255 (22) 212 0088-90
E-mail: insure@reliance.co.tz

Regulated by the Insurance Regulatory Authority (IRA)