Expanding our Horizons

British American
With you every step of the way

British-American Investments Company (Kenya) Limited
Annual Report and Financial Statements 2009

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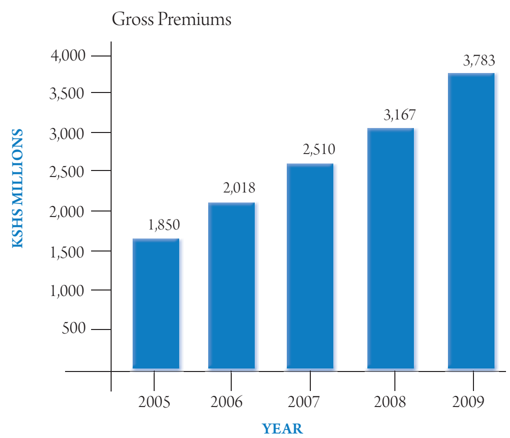
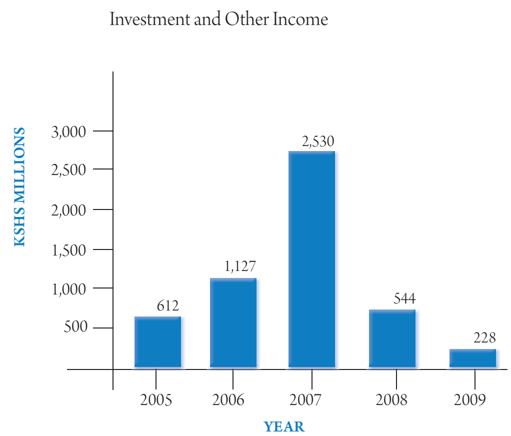
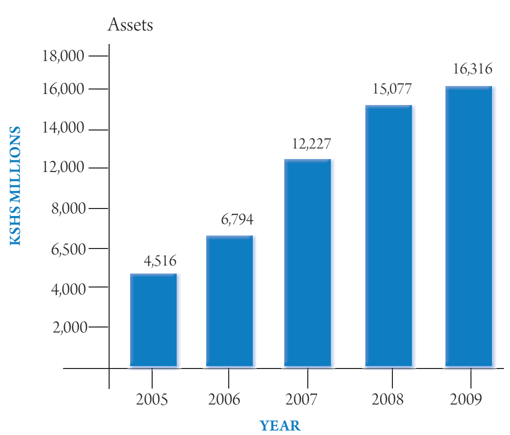
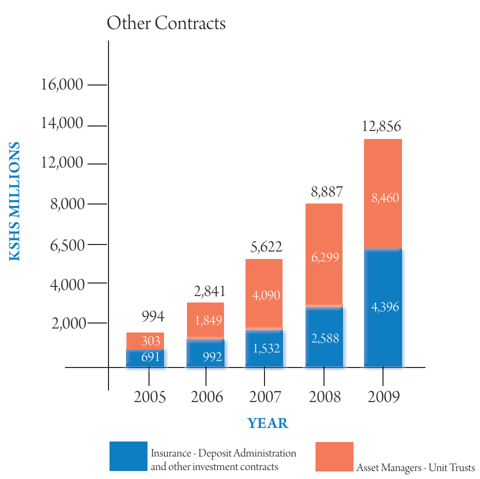
FIVE YEARS FINANCIAL HIGHLIGHTS









AN EXCITING JOURNEY UNFOLDS

Our story began in 1920, when the British-American Company Limited was incorporated in Nassau, NP Bahamas. The origin of the company's name has been the subject of speculation. One theory is that the original majority shareholder, Mr. A. M. Dupont, also held controlling interest in a Miami-based insurance company that had "British-American" in its name.

After establishing its insurance foundations in the Bahamas, the company adopted a strategy in the post-war years to expand internationally focusing on British Commonwealth territories and set its sights on Africa during the nineteen sixties.

British-American Insurance Company (Kenya)Limited commenced operations in Kenya in 1965 when the first branch office was opened in Nairobi. A local company was incorporated in 1980 following a government directive that all branches of foreign owned insurance companies should be incorporated locally. The insurance company has evolved from a home service based company to its current status as a leading composite insurer providing all classes of insurance.

In 1997 the foreign held equity was acquired by British-American Insurance Co. (Mtius) Limited as part of a regionalisation strategy of the British-American group. In 2004, British-American Investments Company (Kenya) Limited was established as an investment holding company and assumed control of British-American Insurance Company (Kenya) Limited and the newly formed investments advisory and assets management company, British-American Assets Managers Limited.

In 2006 a further rationalisation of the equity ownership of the group saw the majority of shares passing to Kenyan investors, with British-American Insurance Co. (Mtius) Limited remaining as a key strategic partner.

OUR VISION

"To be the most trusted financial services company"

OUR MISSION

"To delight our customers with outstanding financial services."

OUR VALUES

British-American Insurance Company (Kenya) Limited believes in an organisation whose people embrace the following values:

- Mutual Respect
- Innovate, Challenge and Implement
- Accountability
- Integrity

OUR NAME AND BRAND

Taken in its simplest definition, it is easy to see why our name British-American has stood the test of time. The word "British" represents solidity, traditionalism and tenacity; "American" denotes market aggressiveness, technology and knowhow.

OUTLOOK

Our rich heritage is the corner stone of our future.
We believe that our great past will lead us to a great future.

OUR BRAND POSITIONING

"Our great Past will lead us to a great Future"

OUR OPERATING PRINCIPLES

Outstanding leadership, Professionalism, Synergy, Operational Excellence.

"It is my pleasure to present the Annual Report and Financial Statements for British–American Investments Company (Kenya) Limited for the financial year 2009."

The Group comprises an investment holding Company, British-American Investments Company (Kenya) Limited, and two wholly owned operating subsidiaries British-American Insurance Company (Kenya) Limited and British-American Asset Managers Limited. British-American Insurance Company (Kenya) Limited underwrites all classes of life and non-life insurance risks as defined by the Insurance Act except for aviation, bond investment and industrial life assurance. It is regulated by the Insurance Regulatory Authority (IRA). British-American Asset Managers Limited provides investment advisory and fund management services to retail and institutional investors and is regulated by the Capital Markets Authority (CMA). The Group also owns stakes of 11.47% in Equity Bank Limited and 10.01% in Housing Finance Company of Kenya Limited which are both listed on the Main Investment Board in the Nairobi Stock Exchange.

REVIEW OF BUSINESS ENVIRONMENT

The business environment in 2009 was challenging due to subdued economic activity which resulted in a lacklustre performance of the equity markets. During the year, the economy experienced several key setbacks: the worst drought in a decade which resulted in lower agricultural production, oil and food price increases, and the secondary impact of the global financial crisis and the resultant global slowdown. Despite these shocks, the economy registered a modest recovery, with an estimated growth in GDP of 2.5% compared to 1.7% achieved in 2008.

The Nairobi Stock Exchange (NSE) registered a performance of -7.8%, on account of bearish investor sentiment that prevailed at the bourse during most of the year. The bond market was active during the year with Shs 110.6 billion worth of government bonds and Shs 566.6 million worth of corporate bonds transacted over the period.

The government announced a USD 300 million (Shs 22 billion) fiscal stimulus package in the 2009/2010 fiscal year budget. The strong implementation of the stimulus package should provide support for enhanced economic growth in 2010 and beyond. The overall inflation rate declined substantially to below 5% at the end of 2009, from 19.5% at the end of 2008, providing indications of the strong macroeconomic policies implemented by the Government. In October 2009, the Kenya National Bureau of Statistics revised its methodology for computing inflation to correct the upward bias due to food price inflation, and to align the computation approach with international best practice.

Short term interest rates decreased with the 91-day Treasury bill falling to 6.612% at the close of the year from 8.530% at the beginning of the year, while the 182-day Treasury bill rate dropped from 9.061% to 7.245% during the same period.

FINANCIAL SECTOR DEVELOPMENTS

During the year, the Ministry of Finance increased the capital requirements for insurance companies. Under the new guidelines, composite insurance companies are required to raise minimum capital to Shs 450 million by June of 2010. While this capital is still low compared to international levels, it will help to strengthen the capital base of all institutions in the insurance industry enabling them to withstand significant shocks. The British-American Group is already capitalised above the regulatory minimum with adequate capital to support planned business growth.

Other key legislation changes in the year include limitation of any single shareholding in an insurance company to 25% with effect from December 2010 and introduction of tax levy on management expenses incurred above those limits prescribed under the Insurance Act. The Association of Kenya Insurers is taking up the industry's concerns on these new legislations with the government and we are hopeful that the position of the industry will be understood and acted upon favourably.

The Kenya insurance industry premium grew to Shs 55 billion from Shs 48 billion. The short term business component was over Shs 36 billion whilst the long term component was just over Shs.18 billion. Insurance penetration was 2.69% with life insurance penetration at barely above 0.8%.

There is a huge growth potential for the insurance market in Kenya and this capacity is juxtaposed against a programme of political and other reforms that the government is implementing, aimed at creating a stable and prosperous nation. The combination promises massive large potential for the people of Kenya and the business community in the country and the whole region.

We express our appreciation for the Insurance Regulatory Authority's drive to increase the penetration of insurance through enabling and promoting micro insurance initiatives. It is only a matter of time before Kenya experiences significant success in micro insurance judging from the interest that this subject has elicited from the market. It will be critical however for the Government to increase insurance awareness through sensitisation campaigns and through a review of the insurance offerings that would most contribute to raising the living standards of Kenyans and broadening the scope of minimum insurance requirements.

We acknowledge the support the Fund Management industry continues to receive from the Government in provision of appropriate tax incentives and in enhancing awareness of Collective Investment Schemes and the industry in general.

We salute the infrastructural improvements and the investments in the energy sector throughout the country. These will contribute to driving down the cost of doing business in Kenya. We also acknowledge the embrace by the Government of the role of the private sector and Public Private Partnerships (PPPs). Such an approach is sure to pay dividends for all concerned particularly as Kenya enters a year of critical constitutional reforms in 2010.

PERFORMANCE REVIEW

Owing to the subdued economic environment and the negative performance of the Nairobi Stock Exchange, the Group made a loss before tax of Shs 334 million as compared to a profit before tax of Shs 340 million in 2008. This adverse performance was the result of unrealised losses on equity investments amounting to Shs 574 million in 2009 compared to unrealised profits of Shs 509 million included in the 2008 results. This outcome is a reflection of the poor performance of the Stock Market during the year.

The Group's gross income increased from Shs 3.3 billion to Shs 3.9 billion during the year, an admirable growth of 18% despite the challenging external environment. Total operating costs were up 33% to Shs 1,223 million reflecting the Group's investment in its human capital, infrastructure and technology in support of the planned growth.

Total assets under management grew from Shs 22.0 billion as at 31 December 2008 to Shs 25 billion as at 31 December 2009.

The insurance business registered a respectable 19% growth in gross earned premium income from Shs 3.2 billion to Shs 3.8 billion during the year.

Assets under management (AUM) in the investment advisory and fund management business grew to Shs 8.5 billion up from Shs 6.3 billion in 2008.

DIVIDEND

The Board of Directors is recommending a dividend for the year of Shs 4 per share which is the same as 2008.

FUTURE OUTLOOK

Global GDP in 2010 is projected to grow at 4% according to the International Monetary Fund (IMF), as a result of the extraordinary fiscal support which forestalled another Great Depression. We remain optimistic that concerted efforts by developed economies to restore the global financial system back to robust health will yield positive results. The group remains committed to build a long term, sustainable business in Kenya.

Untapped potential stands to be realized for the country as a whole from the ongoing programme of reforms and through restored investor confidence. The Group will continue to work closely with other industry players to engage government on common industry issues.

ACKNOWLEDGEMENT

We have enjoyed tremendous support and goodwill from all our esteemed customers, strategic alliance partners, business associates and the regulators. We greatly value and appreciate this support and trust that we can continue to count on it in the future. On our part we undertake to reciprocate this support and confidence by exceeding your expectations and delivering the brand promise.

Last but by no means least; I would like to express my gratitude to my fellow directors for their wise counsel and to all our staff and financial advisors for their hard work, loyalty and commitment.

Thank you.

J. Nicholas Ashford-Hodges

Chairman

9 April 2010

"Our role as corporate office is to add value to the business units and shared service units by aligning them to create synergy."

The global financial meltdown that began in 2008 and continued into 2009, coupled with the effects of the political violence following the country's disputed general elections in December 2007 had a profound negative impact on the performance of British-American Investments Company (Kenya) Limited.

The crisis spread to all sectors of the economy in particular agriculture, tourism, and manufacturing exacerbating the already serious unemployment problem and causing a sharp reduction in personal disposable incomes. During this challenging period, we reviewed our strategies to ensure they were aligned to the environment and our Vision to be the most trusted financial services company. We resolved to expand our horizons by increasing the scope of our products and services in existing and new markets.

GROUP FINANCIAL PERFOMANCE

The performance of the Group was mixed. The Group achieved a commendable performance by growing the top line in 2009. Gross premium income and fund management fees grew by 18% from Shs 3.3 billion in 2008 to Shs 3.9 billion in 2009. However due to the poor performance of the Nairobi Stock Exchange, which registered a decline of 34% during the year, the investment income from our equity portfolio investment registered a negative performance thereby occasioning a significant unrealized loss of Shs 574 million. Consequently, the Group registered a consolidated loss before tax of Shs 334 million against a profit of Shs 340 million in 2008.

The insurance company distinguished itself by weathering the difficult environment and registered an impressive performance. Gross premium income was Shs 3.8 billion while profit before tax rose to Shs 504 million a growth of 19% and 35% over 2008 respectively. General insurance and group life premiums in particular registered impressive growth rates on the back of the success of the strategic alliances that the group has developed. Claims in both classes of insurance however shot up dampening what would otherwise have been an outstanding performance.

In contrast to the insurance company, the asset management company registered a decline of 23% in its revenue from Shs 154 million in 2008 to Shs 118 million in 2009 and a loss after tax of Shs 26 million during the year. The drop in revenue was due to lower sales of equity and balanced funds on account of the bear market in the NSE. Nonetheless, assets under management grew to Shs 8.4 billion.

The Group' assets grew by 8% from Shs 15.0 billion in 2008 to Shs 16.3 billion.

ONE COMPANY, ONE BRAND ARCHITECTURE

Our role as corporate office is to add value to the business units and shared service units by aligning them to create synergy.

In the first quarter of 2009, a brand audit identified the need for the creation of a unified and cohesive culture across the business units. Therefore a strategic decision was made to harmonize the Vision, Mission and Values of the business units leading to the One Company One Brand initiative whose key objective is to integrate the diverse businesses around a single British-American Brand promoting common values, vision and culture. This decision has required a new brand architecture which seeks to shift from a product driven strategy to a customer relationship strategy that emphasizes total solutions for our insurance and investment advisory customers thus meeting their needs for financial protection and capital accumulation.

We also needed to create teamwork across the business units. Accordingly, the previous separate financial advisors in the insurance and asset management companies were combined into one sales force that promotes the cross selling of the full range of products and services thus providing a more complete solution to our customers. The acronyms "Britak and BAAM" have been discontinued. We also redesigned our logo to give it a more contemporary look.

Other synergy enhancing initiatives include a review of the internal business processes to create economies of scale by sharing the systems, facilities and staff in critical support processes.

STAFF TRAINING AND DEVELOPMENT

During the 2009 financial year, the Group continued to invest in staff training and development. The programme included comprehensive training of staff in the areas of cross-selling insurance and investment services. The Group Managing Director and the managing directors of the Insurance and Asset Management companies attended "The Effective Director" (TOD) course run by Strathmore University, Nairobi and 3 other managers attended a Micro-insurance seminar in Dakar, Senegal. In May 2009, we took our top performing financial advisors on an International Convention in Kuala Lumpur Malaysia and Dubai. The company has also continued to encourage employees to pursue their further academic and professional qualifications relevant to their career. A large number of employees are pursuing MBA degrees in the local universities while others are pursuing professional insurance, investment and accounting qualifications such as LOMA, CII, CFA, CPA, etc. Company sponsorship is usually through reimbursement of expenses which include tuition and examination fees incurred during the study.

BALANCED SCORECARD

During the year we adopted the Balanced Scorecard as a tool for the creation and enhancement of corporate synergies and performance management. Staff have been trained on the methodology and each member has developed their own scorecard against which their performance will be evaluated in 2010.

EMPOWERING LOCAL COMMUNITIES

British-American believes in principles of sustainable development through community driven initiatives. In the year 2009, British American supported diversified causes. Our approach to corporate social responsibility is broad, covering areas such as environmental conservation, employee relations and community involvement. We act ethically and with integrity as we contribute to economic well-being in the communities we operate in. We make it a priority to provide our employees with a diverse and supportive workplace as we partner with external organizations to ensure resilient communities. Over the years we have supported Rhino Ark, an initiative that has built a fence around the Aberdare Conservation Area in order to conserve its water catchement area, forest and wildlife and to protect local farmers from threats to thier life and property from that wildlife.

In 2009 British-American members of staff were involved in several initiatives. They participated in a blood donation campaign organized by the Blood Link Foundation an organization that seeks to replenish depleting blood banks in the country. The staff members were also involved in the Mater Heart Run which is an event that raises money for a fund that helps children with cardiac problems to get the surgery that they need in order to live a normal and healthy life. The staff were also involved in the Standard Chartered Nairobi Marathon, which raises money to operate on children with trachoma and eye diseases.

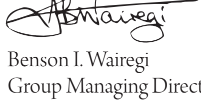
British American also organized and furnished a canteen with a comfortable eating area for the members of staff of the Kenya Episcopal Conference in Nairobi. The company also supported the Mwea Classic Marathon, which was organized to raise money for the youth in Mwea, Kirinyaga District by empowering them through sports and education.

Through a number of golf tournaments, the members of staff were able to raise money for various church initiatives, for orphaned and disadvantaged children as well as environmental issues.

FUTURE OUTLOOK

The future outlook for the Kenyan economy looks bright. The onset of the rains ended the drought and power rationing that ravaged the country last year and has raised agricultural production. Massive investment in infrastructural works, particularly roads and the fiber optic cable together with the fiscal stimulus package undertaken by the government will have a significant impact on economic growth. The prospects of enacting a new constitution which has eluded the country for the past 20 years look very good. These developments have raised expectations for a higher GDP growth, which analysts have estimated at 4% in 2010 and sets the stage for longer term economic growth and political stability.

In conclusion it would appear that the worst of the global recession is behind us and the Kenyan economy is set for a strong recovery. This augurs well for implementation of our strategy of Expanding our Horizons in the financial services industry.



Benson I. Wairegi
Group Managing Director

BOARD OF DIRECTORS

J. NICHOLAS ASHFORD-HODGES CHAIRMAN
Mr. Hodges, who was appointed a Director of the Board in 2002, is a Fellow of the Institute of Chartered Accountants in England and Wales and holds an Honours degree in Engineering Science from Oxford University. As well as being President of British-American (UK) Limited, a representative office in the UK for the British-American group of companies, Mr. Ashford-Hodges is Vice Chairman of British-American Investment Company (Mtius) Limited and Director of several other Boards and sub-committees of the British-American Group in Mauritius and Malta where he also chairs GlobalCapital plc, which is listed on the Malta Stock Exchange.

BENSON I. WAIREGI GROUP MANAGING DIRECTOR
Mr. Wairegi is the Vice Chairman of Equity Bank Limited, Chairman of Kenyatta University Council and a Director of Housing Finance Company of Kenya Limited. He is also a member of the board of trustees of the Insurance Training and Education Trust (ITET) and a former Chairman of the Association of Kenya Insurers (AKI). Mr. Wairegi holds a Master of Business Administration degree and Bachelor of Commerce (Accounting Option) degree from The University of Nairobi and is a Certified Public Accountant – CPA (K).

JAMES N. MWANGI MBS
Dr. Mwangi has wide experience in the banking industry spanning over 18 years. He is the Chief Executive Officer & Managing Director of Equity Bank Limited. Dr. Mwangi holds an Honorary Doctorate in Business Administration (Honorius Causa), from Kenya Methodist University, Doctor of Humane Letters (Honorius Causa) from Kenyatta University, and Doctor of Entrepreneurship from Jomo Kenyatta University of Agriculture and Technology. He is also the holder of a Bachelor of Commerce degree (Accounting Option) from the University of Nairobi and is a Certified Public Accountant (CPA (K). Dr. Mwangi is a graduate of Advanced Management Programme (Strathmore- IESE Business School, Barcelona Spain).

SALEEM R. BEEBEEJAUN
Mr. Beebeejaun is the Chief Executive Officer of British American Investment Co. (Mtius) Limited and was appointed a Director of the Board in 2003. He is also the Chairman of BAI Co. (Mtius) Limited and a member of several other boards and sub-committees of the British-American Group in Mauritius and Malta. He is a former president of hte Mauritius Insurers Assosiation. Mr.Beebeejuan is a fellow of the Chartered Institute of Insurance. He is also a graduate of the Advanced Management Programme (Harvard Business School) and also has been appointed Honorary Consul of Malaysia in the Republic of Mauritius.

JIMNAH M. MBARU EBS
Mr. Mbaru is the Chairman of Dyer and Blair Investment Bank Limited and the Chairman of National Cereals and Produce Board and Jitegemee Trust among others. He is also a Director of several other financial and non financial institutions. As an internationally renowned investment banker, he has made immense contribution towards development in Africa. Some of his contributions are evident in the roles he has played in developing the capital markets in the continent through serving as a Chairman of The African Stock Exchange Association. Mr. Mbaru holds a Master of Business Administration from IMD formerly IMEDE in Lausanne,Switzerland, a Bachelor of Commerce degree and a Bachelor of Laws degree both from the University of Nairobi.

PETER K. MUNGA EBS
Mr. Munga is the Chairman of Equity Bank Limited, Chairman of National Oil Corporation (NOCK), Chairman of Micro-Enterprise Support Programme Trust (MESPT) and a director of Rockefeller Foundation and Equatorial Nut Processors. He is an enterprising businessman and runs the Pioneer Group of Schools. He is a Certified Public Secretary with vast experience in both public and private sector management and holds a diploma in Human Resources and Financial Management. Mr. Munga is a retired Deputy Secretary.

British-American Investments Company (Kenya) Limited (the "Company") and her subsidiaries (together the "Group") continues to be a responsible corporate citizen with a Board of Directors that is committed to upholding high standards of corporate governance by applying the principles of integrity and accountability to all stakeholders.

The Board of Directors normally meets at least once every quarter and is chaired by a non-executive Chairman. The Board comprises one executive and five non-executive Directors who have a wide range of skills and experience and who each bring independent judgement and considerable knowledge to the Board discussion.

The Board has a formal schedule of matters reserved for it. The Directors receive appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance and governance matters.

Ultimately, the Board determines the Group's strategic objectives, values, key policies and procedures in accordance with best practice. It is responsible for establishing and maintaining the overall internal controls of financial, operational and compliance functions as well as monitoring performance of the executive management.

The Board has delegated the authority for day-to-day management of the Group to the Group Managing Director. However, it retains overall responsibility for the Group's financial performance, compliance with laws and regulations, monitoring and operations as well as ensuring competent management of the business.

BOARD COMMITTEES

The Board is responsible for the management of the Group. It has delegated the detailed discussions on audit, investments, risk and compliance, compensation and nomination to five sub-committees which have specific and detailed terms of reference as summarised below

AUDIT COMMITTEE

The members of the Audit Committee are;

Mr. Jimnah M. Mbaru - Chairman
Mr. Peter K. Munga
Mr. Saleem R. Beebeejaun.

The Audit Committee meets twice a year and is chaired by a non-executive director. Its primary responsibilities are (a) to monitor and strengthen the effectiveness of internal and external audit functions, as well as underlying information and internal control systems (b) to review and recommend to the Board all published financial information issued by the Company.

The Audit Committee regularly reviews the internal controls and the effectiveness of financial and operational reporting through the internal audit function and ensures that the function is independent, adequately resourced and well equipped to carry out their duties.

The Audit Committee is responsible for ensuring that financial statements give a true and fair view of Group's state of affairs. The members ensure that the Group keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Group. The committee is also charged with the responsibility of safeguarding the Group's assets.

The Audit Committee reports to the Board on a quarterly basis and continually evaluates the ability of the Group to continue as a going concern. The Group Head of Internal Audit acts as the secretary of the committee and senior management regularly attend the committee meetings.

INVESTMENTS COMMITTEE

The Investments Committee meets as frequently as required, but at least once every quarter. Its primary responsibility is to determine the Group's investment strategy and policy. It also monitors the performance of the Group's investment portfolio and scrutinises ad hoc investment proposals before submission to the Board. The committee monitors the performance of the appointed investment managers through quarterly reports from managers.

The members of the Investment Committee are;

Dr. James N. Mwangi - Chairman
Mr. Jimnah M. Mbaru
Mr. Saleem R. Beebeejaun
Mr Benson I. Wairegi

To enhance its performance the investment committee has further constituted, a **Property Committee** whose responsibility is to provide oversight on the real estate development projects undertaken by the Group as well as drive the strategy of the Group with regard to real estate developments.

The members of the Property Committee are:

Mr Jimnah M. Mbaru - Chairman
Mr Peter K. Munga
Mr Benson I. Wairegi

RISK AND COMPLIANCE COMMITTEE

The Committee meets four times a year with the primary duty of monitoring the Group's compliance with the relevant laws and regulations and reviewing management's implementation and maintenance of appropriate systems, procedures and Codes of Conduct in accordance with the Group's policy guidelines regarding identification, analysis, mitigation and control of risks.

The members of the Risk and Compliance Committee are:

Mr. Peter K. Munga - Chairman
Mr. Saleem R. Beebeejaun
Mr. Benson I. Wairegi

COMPENSATION COMMITTEE

This committee meets at least twice a year. Its primary role is to appraise the performance of senior management and determine their remuneration. It also recommends the sitting allowance for non-executive directors.

The members of the Compensation Committee are:

Mr. J. Nicholas Ashford-Hodges - Chairman
Mr. Peter K. Munga
Dr. James N. Mwangi

NOMINATION COMMITTEE

The Nomination Committee's role is to review and consider proposals for the appointment of new directors and senior management. The members of the Nomination Committee are:

Mr. J. Nicholas Ashford-Hodges - Chairman
Mr. Jimnah M. Mbaru.

BOARD COMPOSITION AND REVIEW OF ATTENDANCE

Names of the board members together with an analysis of board subcommittee members are as detailed in the table below. During the period to 31 December 2009, there were four main board meetings and five board subcommittee meetings.

BOARD SUB COMMITTEES

Board members	Main	Audit Board	Risk	Investment	Comp-ensation	Total meetings held	Total attended	%age attendance
Meetings Held	4	2	3	3	3	15	15	
Ashford-Hodges	4	N/A	N/A	N/A	3	7	7	100
Peter K Munga	3	1	2	N/A	2	12	8	67
Jimnah Mbaru	2	-	N/A	2	N/A	9	4	44
Benson L Wairegi	4	N/A	3	3	3	13	13	100
James M. Mwangi	3	N/A	N/A	1	1	10	5	50
Saleem R. Beebeejaun	4	2	2	2	N/A	12	10	83

REMUNERATION OF THE DIRECTORS

In determining the remuneration of the Directors, the demands and requirements made of the Directors in relation to the Group's business and the availability of the Directors to consult on ad hoc basis are considered.

Apart from the executive directors, no other director or party related to a Director has a service contract or receives compensation from the Group. Sitting allowances to the Directors are only paid subject to attendance at the Board/Committee meetings.

The emolument and fees paid to Directors are disclosed in note 41.

PROFESSIONAL ADVICE

In order to carry out its responsibilities in an independent and objective manner, the Board seeks professional counsel from among others;

Actuaries:

- Mr. P.C. Falconer of QED Actuaries and Consultants Pty acts as the insurance company's statutory actuary responsible for independently examining the financial soundness of the company. The actuary reports independently and directly to the Board.

- Mr R. Leiser-Banks of Triangle Actuarial Services provides actuarial services in regard to the British-American Group employee pension scheme.

Tax advisors:

PricewaterhouseCoopers are the Group's independent tax advisors. They liaise with management to ensure that the Group optimises its tax position and complies with all tax laws and regulations.

Our Corporate Social Responsibility (CSR) policy is geared towards improving our stakeholder's social, economic and environmental wellbeing. The policy manages their relationships and interests so as to add value and enhance the Group's positive impact on the society.

The Group recognizes that it has a social responsibility duty that goes beyond legal compliance. Implementation of this responsibility is therefore embedded in the Group's policies and working culture. They include;

Canteen handover to Kenya Episcopal Conference

Donating furniture to Azhar Shariff Community School in Kisauni, Mombasa

British-American is fully committed to ensuring the interests of its clients, employees and shareholders through practices of Corporate Social Investment. British-American believes in principles of sustainable development through community driven initiatives. It also supports various institutions and partners who have the same goal of developing the communities it operates in. The organization is always keen on basing its decisions on social consequences of its activities and not only on profits, dividends or other financial factors. It recognizes the importance of approaching corporate social investment in a coordinated and committed manner.

The firm supports a number of national and local charities with both time and money. The firm provides time and advice free of charge to local groups and organizations as well as providing work placements for local students and support for educational establishments. In consultation with the partners, shareholders and employees, the program is comprised of:

- Community work
- Financial literacy
- Environmental work
- Ethical policy

British-American seeks to use community support and initiatives as a way to create a cohesive staff environment as well as advocate for staff involvement. In the year 2009, British American was involved in a myriad of initiatives that supported various causes as well as supporting various partners in their initiatives.

The members of staff were involved in a blood donation organized by the blood link foundation that seeks to replenish depleting blood banks in the country. The staff members were also involved in the Mater Heart run which is a run that raises money for a fund that helps children with cardiac problems to get the surgery that they need in order to survive. The organization's staff were also involved in the Standard Chartered Nairobi Marathon, which raises money to operate on children with trachoma and eye diseases.

British American organized and created a canteen with a comfortable eating area for the members of staff of the Kenya Episcopal Conference. This created a comfortable environment for the members of staff to eat and interact with each other.

Through various golf tournaments, the members of staff were able to raise money for various church initiatives as well as for various orphaned and disadvantaged children as well as environmental issues. The organization also lent its support to the Mwea Classic marathon, which was organized to raise money for the youth by empowering them through sport and education.

STATEMENT OF CORPORATE SOCIAL RESPONSIBILITY CONT

EMPLOYEE WELFARE

Talent and performance management

One of the strategic priorities of the Group is to have an empowered, motivated and productive workforce. We have policies in place to ensure that training and development is at the forefront and employees attend technical, functional, managerial and leadership courses to enhance their professional knowledge, hone their leadership capabilities and have a well-balanced life. Future managers are developed through mentoring and coaching programs.

To entrench a high performance culture among employees, the Group continues to have a performance based remuneration structure. In line with this, the Group is now using the Balanced Scoredcard methodology that translates and breaks down the overall organization strategies to objectives for each employee and this ensures that all staff are engaged and aligned with the strategy. The remuneration is benchmarked annually with market comparators to remain competitive.

SOCIAL RESPONSIBILITY ACTIVITIES

Donating computer hardware to Mother's Mercy Children's Home

Staff members participate in the British-American blood drive

Employee Wellbeing

In our effort to manage HIV &AIDs in the workplace, we continue to implement the HIV& AIDS policy that supports the employees infected or affected through provision of Medical care and counseling. The Group has further partnered with a counselor/psychologist to offer workplace counseling to staff and this has enhanced a state of overall wellbeing.

The Occupational Health and Safety program has been implemented starting with setting up of a committee to oversee its implementation. To enhance our internal communication, the Group has set up a HR Customer care desk which manages all internal communication and feedback from employees in a centralized manner.

Employee Social Environment

The Group has continued to hold events that promote the one company culture. New company values were rolled out and all staff underwent an engagement program. Brand architects and champions were selected and taken through the values of the company in depth and all staff attended an event at Rolf's place for the launch of our new look brand, vision, mission and values.

The Social committee which manages the social activities organized several events some of which are an Expedition to the Aberdares and quarterly Friday drink – ups which have different themes that further engage the employees creativity and relaxation. The company also participated in the Association of Kenya Insurers games.

British-American team full of energy during the Mater Heart Run

Clockwise: Members of staff slot in their puzzle to create the new British-American identity. The Brand Champions work hard to create their bridge in a team building effort. The newly crowned Brand Architects proudly show off their mettle!

GROUP MANAGEMENT TEAM

Front
Arthur M. Chege *Group ICT Manager*
Benson I. Wairegi *Group Managing Director*
Peter N. Muiruri *Group Internal Audit Manager*
Paul K. Gacheru *Group Chief Accountant*

Back
Rose W. Lutta *Group Marketing & Corporate Affairs Manager*
Nancy K. Kiruki *Group Head of Legal & HR*
Julius Githinji *Internal Audit Manager*
Gladys M. Karuri *Group Chief Financial Officer*
Jacqueline Nyaguthii *Property Manager*

ASSET MANAGEMENT TEAM

Front

***Dominic Kiarie** Managing Director*
***Maina K. Wacieni** Portfolio Manager*
***Kuria Ndonye** Business Development Manager*
***Onchera Maiko** General Manager, Investments*

Back

***Anne Kibebe** Fund Services Manager*
***Joyce Gitau** Business Development Manager*
***Janet W. Waweru** Chief Accountant*
***Duncan Wanjohi** Manager, Business Systems*

INSURANCE MANAGEMENT TEAM

Front

Stephen O. Wandera *Managing Director*
Muthoga Ngera *General Manager, Agency Operations*
David N. Kuria *General Manager, Group Life & Pensions*
Jane W. Gikonyo *HR Manager*
Ambrose N. Dabani *Chief Operating Officer*

Back

Edward M. Gachoya *Sales Training Manager*
Kennedy B. Aosa *General Manager, General Insurance*
Abigail K. Simiyu *Underwritting & Claims Manager*
Solomon Kituyi *Business Systems Manager*

Front

***Titus M. Ndeti** Pension Administration Manager*
***Michael W. Mwangi** Customer Service Manager*
***John K. Githinji** Sales Manager, General Insurance*
***Kwameh N. Anyona** Group Life & Pensions Manager*
***Reuben W. Kibiru** Chief Accountant*

Back

***Margaret W. Kathanga** Sales Manager, Medical*
***James K. Irungu** Micro Insurance Manager*
***Rose W. Wakiria** Sales Manager, Group Life & Pensions*
***Lucy N. Kariuki** Procurement Manager*
***Johnstone K. Mitei** Risk Acceptance Manager*

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 December 2009 which disclose the state of affairs of the Company and the Group.

PRINCIPAL ACTIVITIES

The Group is a holding and investment company and the principal activities of the subsidiaries are detailed in note 1.

RESULTS AND DIVIDEND

Loss for the year of Shs 421,123,000 (2008: Profit of Shs 242,567,000) has been deducted from retained earnings.
The directors recommend the payment of a dividend of Shs 120 million (2008: Shs 120 million)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks, including underwriting risk, credit risk and the effects of changes in debt and equity market prices, and interest rates. The Group's overall risk management programme focuses on the identification and management of risks and the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The Group's risk management policies include the 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 reinsures. Investment policies are in place which help manage liquidity and seek to maximise return within an acceptable level of interest rate risk. Further, the internal audit and compliance function helps to monitor that these policies are followed.

The Group's risk management objectives and policies are detailed in note 3.

DIRECTORS

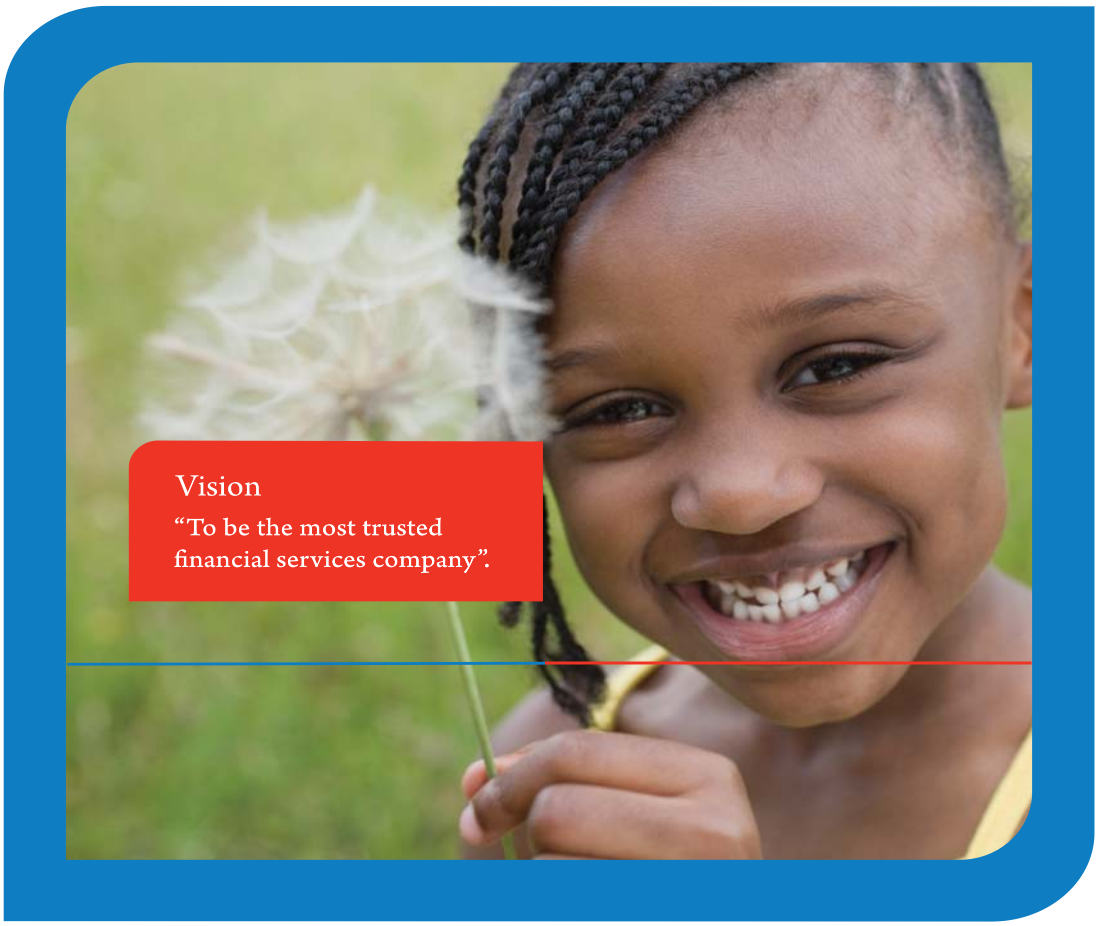
The directors who held office during the year and to the date of this report were:

J. Nicholas Ashford-Hodges Chairman
Benson I. Wairegi
James N. Mwangi
Peter K. Munga
Jimnah M. Mbaru
Saleem R. Beebeejaun

AUDITOR

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

Nancy Kiruki
SECRETARY
9 April 2010



The Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the Group as at the end of the financial year and of the Groups' profit or loss. It also requires the directors to ensure that the Group keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Group. They are also responsible for safeguarding the assets of the Group.

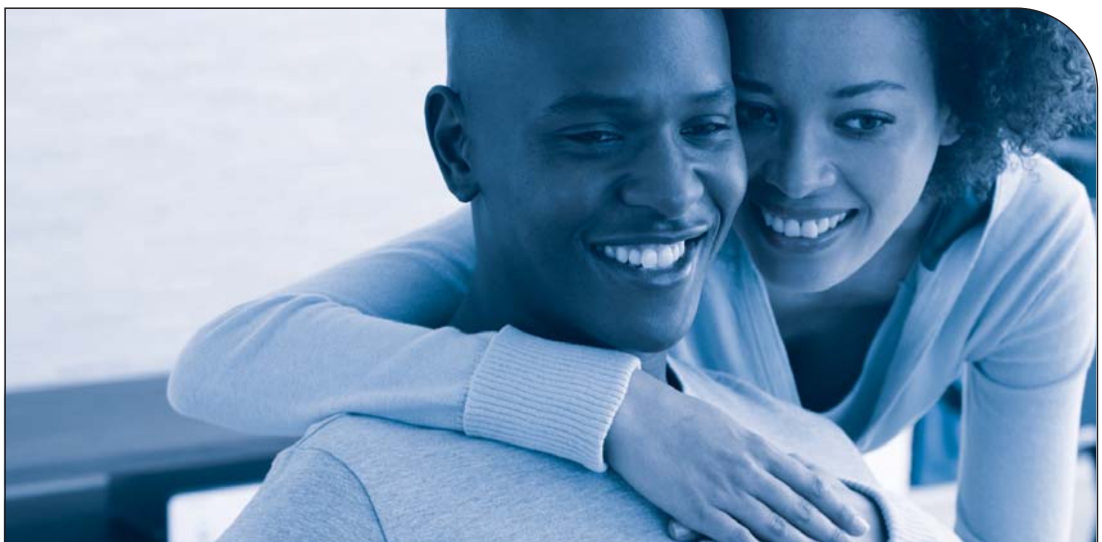
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the company and of its loss in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the directors to indicate that the Company and its subsidiaries will not remain a going concern for at least twelve months from the date of this statement.

Chairman

Director

9 April 2010



Mission

"To delight our customers with outstanding financial services".

British-American is committed to providing clients with great service and competent financial expertise to help them meet their financial goals.

REPORT OF THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of British-American Investment Company (Kenya) Limited set out on pages 23 to 56. These financial statements comprise the balance sheet at 31 December 2009, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion the accompanying financial statements give a true and fair view of the state of the Group's financial affairs and of the Company as at 31 December 2009 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

REPORT ON OTHER LEGAL REQUIREMENTS

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters.
We confirm that:

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
- the company's balance sheet and profit and loss account are in agreement with the books of account.

PricewaterhouseCoopers

Certified Public Accountants
12 May 2010
Nairobi

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	2009 Shs'000	2008 Shs'000
Gross earned premiums	5	3,782,606	3,167,289
Less: reinsurance premium ceded		(504,552)	(376,378)
Fund management fees		118,404	153,683
Net earned premiums and management fee		**3,396,458**	**2,944,594**
Investment income	6	196,169	509,137
Commissions earned		176,739	196,611
Other income	7	32,135	35,105
Net income		**3,801,501**	**3,685,447**
Claims and policy holder benefits payable		2,134,171	1,718,322
Less: amount recoverable from reinsures		(160,676)	(156,268)
Net claims and policyholder benefits payable	8	**1,973,495**	**1,562,054**
Operating and other expenses	9	1,222,876	921,790
Commissions payable		939,464	861,536
Expenses and commissions payable		**2,162,340**	**1,783,326**
(Loss) / profit before income tax		**(334,334)**	**340,067**
Income tax expense	11	(86,789)	(97,500)
(Loss) / profit for the year after tax		**(421,123)**	**242,567**
Basic and diluted earnings per share (Shs)	13(ii)	(14.04)	8.09

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2009 Shs'000	2008 Shs'000
(Losses)/profit for the year		(421,123)	242,567
Gains on revaluation of land and buildings	15	32,755	9,598
(Losses)/gains on revaluation of available-for-sale financial assets	18(ii)	(731,999)	576,445
Total other comprehensive (loss) / income		(699,244)	586,043
Total comprehensive (loss)/income for the year		**(1,120,367)**	**828,610**

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 2009

	Notes	2009 Shs'000	2008 Shs'000
CAPITAL EMPLOYED			
Share capital	14	150,000	150,000
Other reserves	12	3,207,206	3,728,524
Retained earnings		1,729,892	2,448,941
Proposed dividends	13	120,000	120,000
Shareholders funds		**5,207,098**	**6,447,465**
REPRESENTED BY:			
Property and equipment	15	520,933	428,423
Intangible assets	16	78,098	64,725
Investment property	17	1,092,785	844,115
Available for sale quoted investments	18(ii)	3,282,105	3,991,729
Financial assets at fair value through profit and loss:			
- quoted ordinary shares	18(i)	4,608,842	4,971,225
- government securities	24(i)	523,561	648,913
- unit trusts	25	2,122,003	926,914
Government securities held to maturity	24(ii)	1,573,543	754,461
Corporate bond		287,848	104,223
Mortgage loans	19	659,877	713,347
Loans to policy holders	20	357,789	362,962
Receivables arising out of reinsurance arrangements		54,090	48,016
Receivables arising out of direct insurance arrangements	3(b)	196,757	198,090
Reinsures' share of technical provisions and reserves	21	275,956	203,291
Receivables from related parties	41	33,060	48,796
Deferred acquisition costs	22	52,941	34,660
Deferred income tax	36	22,662	6,246
Current income tax receivable		13,785	-
Other receivables	23	159,492	196,101
Deposits with financial institutions	39	206,640	421,448
Cash and bank balances	39	193,040	109,971
Total assets		**16,315,807**	**15,077,656**
LIABILITIES			
Insurance contract liabilities	27	4,950,516	4,493,616
Amount payable under deposit administration contracts	33	2,754,617	1,840,841
Liabilities under investment contracts	32	1,640,902	747,582
Unearned premium	35	567,373	388,508
Creditors arising from reinsurance arrangements		17,334	2,438
Retirement benefit liability	43	35,433	23,707
Bank loan	34	747,618	777,416
Other payables	37	283,764	289,787
Dividends payable		60,000	-
Overdraft	39	51,152	61,334
Current income tax payable		-	4,962
Total liabilities		**11,108,709**	**8,630,190**
Net assets		**5,207,098**	**6,447,466**

The financial statements on pages 23 to 56 were approved for issue by the board of directors on 9 April 2010 and signed on its behalf by:

Chairman

Director

COMPANY BALANCE SHEET

	Notes	2009 Shs'000	2008 Shs'000
CAPITAL EMPLOYED			
Share capital	14	150,000	150,000
Retained earnings		1,223,625	1,979,338
Proposed dividend		120,000	120,000
Shareholders' funds		**1,493,625**	**2,249,338**
REPRESENTED BY:			
Assets			
Property and equipment	15	4,784	5,007
Intangible assets	16	197	-
Investment in subsidiary companies	42	560,000	480,000
Loan to subsidiary companies	41	-	50,000
Financial assets at fair value through profit and loss	18(i)	2,354,048	3,217,968
Receivables from related parties		20,900	-
Other receivables	23	-	830
Deposit with financial institutions		5,873	32,000
Cash and bank balances		2,077	192
Total assets		**2,947,879**	**3,785,997**
LIABILITIES			
Bank loan	34	747,618	777,416
Amounts due to related parties	41	640,505	744,794
Dividends payable		60,000	-
Other payables	37	6,131	14,449
Total liabilities		**1,454,254**	**1,536,659**
Net assets		**1,493,625**	**2,249,338**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
Year ended 31 December 2008						
At start of year		150,000	3,106,964	2,361,891	120,000	5,738,855
Total comprehensive income for the period						
Profit for the year		-	-	242,567	-	242,567
Other comprehensive income:						
Gains on revaluation of land and buildings	15	-	9,598	-	-	9,598
Fair value gains on available-for-sale financial assets	18(ii)	-	576,445	-	-	576,445
Transfer to other reserves	12	-	35,517	(35,517)	-	-
Total other comprehensive income			**621,560**	**(35,517)**	**-**	**586,043**
Total comprehensive income for the year		**-**	**621,560**	**207,050**	**-**	**828,610**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends:						
- Final for 2007		-	-	-	(120,000)	(120,000)
- Proposed final for 2008	13	-	-	(120,000)	120,000	-
Total contributions by and distributions to owners		-	-	(120,000)	-	(120,000)
At end of year		**150,000**	**3,728,524**	**2,448,941**	**120,000**	**6,447,465**
Year ended 31 December 2009						
At start of year		150,000	3,728,524	2,448,941	120,000	6,447,465
Total comprehensive loss for the year		-	-	(421,122)	-	(421,122)
Other comprehensive income:						
Gains on revaluation of land and buildings	15	-	32,755	-	-	32,755
Fair value losses on available-for-sale financial assets	18(ii)	-	(731,999)	-	-	(731,999)
Transfer to other reserves	12	-	177,926	(177,926)	-	-
Total other comprehensive loss		**-**	**(521,318)**	**(177,926)**	**-**	**(699,244)**
Total comprehensive loss for the year		**-**	**(521,318)**	**(599,049)**	**-**	**(1,120,367)**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends:						
- Final for 2008	13	-	-	-	(120,000)	(120,000)
- Proposed final for 2009		-	-	(120,000)	120,000	-
Total contributions by and distributions to owners		-	-	(120,000)	-	(120,000)
At end of year		**150,000**	**3,207,206**	**1,729,892**	**120,000**	**5,207,098**

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008	Notes	Share capital Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
At start of year		150,000	1,866,770	120,000	2,136,770
Comprehensive income for the year					
Profit for the year		-	232,568	-	232,568
Total comprehensive income		-	232,568	-	232,568
Transactions with owners, recorded directly in equity		-	-	-	-
Contributions by and distributions to owners					
DIVIDENDS:					
- Final for 2007		-	-	(120,000)	(120,000)
- Proposed final for 2008	13	-	(120,000)	120,000	-
Total contributions by and distributions to owners		-	(120,000)	-	(120,000)
At end of year		**150,000**	**1,979,338**	**120,000**	**2,249,338**
Year ended 31 December 2009					
At start of year		150,000	1,979,338	120,000	2,249,338
Comprehensive loss for the year					
Loss for the year		-	(635,713)	-	(635,713)
Total comprehensive loss		-	(635,713)	-	(635,713)
Transactions with owners, recorded directly in equity		-	-	-	-
Contributions by and distributions to owners					
DIVIDENDS:					
- Final for 2008		-	-	(120,000)	(120,000)
- Proposed final for 2009	13	-	(120,000)	120,000	-
Total contributions by and distributions to owners		-	(120,000)	-	(120,000)
At end of year		**150,000**	**1,223,625**	**120,000**	**1,493,625**

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2009 Shs'000	2008 Shs'000
Operating activities			
Cash generated from operations	40	1,940,227	1,297,537
Income tax paid		(105,534)	(117,317)
Net cash from operating activities		**1,834,693**	**1,180,220**
Investing activities			
Purchase of property and equipment	15	(91,559)	(27,022)
Purchase of intangible assets	16	(32,303)	(24,127)
(Purchase)/sale of investment property	17	(85,565)	43,196
Net investment in government securities at fair value through profit and loss		125,352	87,000
Investment in government securities held to maturity		(819,082)	(427,003)
Investment in unit trusts		(1,075,136)	(679,740)
Purchase of corporate bond		(183,625)	(102,214)
Purchase of quoted shares	18	(305,377)	(1,067,551)
Net mortgage loans repaid	19	34,155	52,239
Proceeds from disposal of equity investments		66,744	65,991
Net investment in loans to policyholders	20	5,173	(63,614)
Investment in non-current assets held for sale		-	6,558
Dividend received		188,442	119,357
Rent and interest received		406,742	633,308
Net cash used in investing activities		**(1,766,039)**	**(1,383,622)**
Cash flows from financing activities			
Loan (repayment) / received	34	(130,211)	611,000
Dividends paid		(60,000)	(120,000)
Net cash (used in) / generated from financial activities		**(190,211)**	**491,000**
(Decrease) / increase in cash and cash equivalents		(121,557)	287,598
Movement in cash and cash equivalents			
At start of year	39	470,085	182,487
(Decrease) / increase		**(121,557)**	**287,598**
At end of year	**39**	**348,528**	**470,085**

1. GENERAL INFORMATION

British-American Investments Company (Kenya) Limited is incorporated in Kenya under the Companies Act as a private limited liability Company, and is domiciled in Kenya. The address of its registered office is:

Britak Centre,
Junction of Mara and Ragati Roads,
Upper Hill, Nairobi.

The Group comprises three entities: British-American Investments Company (Kenya) Limited (BAICL), which is the holding Company; British-American Insurance Company (Kenya) Limited and British-American Asset Managers Limited. The insurance company underwrites all classes of life and non-life insurance risks as defined by the Insurance Act, with the exception of aviation, bond investment and industrial life assurance. It also issues investment contracts to provide its customers with asset management solutions for their savings and retirement needs. The asset management company's principal activity is the provision of investment advisory and fund management services, and is subject to the provisions of the Kenyan Capital Markets Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Changes in accounting policy and disclosures

(i) Amendments to existing standards adopted by the Company

IAS 1 (revised), 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income.

As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard.

The change in accounting policy will only impact presentation of primary statements. IFRS 7 'Financial Instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures and no significant impact on the Company.

(ii) Standards, amendments and interpretations to existing standards effective in 2009 but not relevant.

IFRS 8, 'Operating segments' – effective 1 January 2009. IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. It is relevant for entities whose debt or equity instruments are traded in a public market or files financial statements with a securities commission for the purpose of issuing any class of instruments in a public market. IFRS 2 (amendment), 'Share-based payment' – effective from 1 January 2009. It clarifies that investing conditions are service conditions and performance conditions only.

All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. IAS 23 (amendment), 'Borrowing costs' – effective from 1 January 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset.

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company.

Two revised standards (IFRS 3 – Business combinations and IAS 27 – Consolidated and separate financial statements) and numerous amendments to existing standards and new interpretations have been published and will be effective for the Company's accounting periods including IFRS 9 beginning on or after 1 January 2010, but the Company has not early adopted any of them.

The Directors have assessed the relevance of the new standards, interpretations, and amendments to existing standards with respect to the Company's operations and concluded that they will not have a significant impact on the Company's financial statements.

(b) Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The consolidated financial statements incorporate the financial statements of British American Investments Company (Kenya) Limited and its wholly owned subsidiaries, British American Insurance Company (Kenya) Limited and British-American Asset Managers Limited made up to 31 December

(c) Insurance contracts

i) Classification

The Group 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 Group 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 not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. See accounting policy for these contracts under 2(e). Insurance contracts and investment contracts are classified into two main categories, depending on the duration of risk and as per the provisions of the Insurance Act.

a) Long term insurance business

Includes insurance business of all or any of the following classes, namely, life assurance business (ordinary life and Group life), superannuating business, industrial life assurance business and bond investment business and business incidental to any such class of business. Life assurance business means the business of, or in relation to, the issuing of, or the undertaking of liability to pay money on death (not being death by accident or in specified sickness only) or on the happening of any contingency dependent on the termination or continuance of human life (either with or without provision for a benefit under a continuous disability insurance contract), and include a contract which is subject to the payment of premiums for term dependent on the termination or continuance of human life and any contract securing the grant of an annuity for a term dependent upon human life; Superannuating business means life assurance business, being business of, or in relation to, the issuing of or the undertaking of liability under superannuating, Group life and permanent health insurance policy.

b) General insurance business

Means insurance business of any class or classes not being long term insurance business. Classes of General Insurance Include Aviation insurance, Engineering insurance, Fire insurance – domestic risks, Fire insurance – industrial and commercial risks, Liability insurance, Marine insurance, Motor insurance – private vehicles , Motor insurance – commercial vehicles, Personal accident insurance, Theft insurance ,Workmen's Compensation and Employer's Liability insurance and Miscellaneous insurance (i.e. class of business not included under those listed above)

Motor insurance business means the business of affecting and carrying out contracts of insurance against loss of, or damage to, or arising out of or in connection with the use of, motor vehicles, inclusive of third party risks but exclusive of transit risks. Personal Accident business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class or becoming incapacitated in consequence of disease or of disease of a specified class. It also includes business of effecting and carrying out contracts of insurance against risk of persons insured incurring medical expenses.

Fire insurance business means the business of affecting and carrying out contracts of insurance, otherwise than incidental to some other class of insurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business.

ii) Recognition and measurement

a) Premium income

For long term insurance business, premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission. For general insurance business, Premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the un expired terms of policies in force at the balance sheet date, and is computed using the 365ths method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

b) Claims

For long term insurance business, benefits are recorded as an expense when they are incurred. Claims arising on maturing policies are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for on payment. A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions.

Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of un expired insurance risk of the contracts in-force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid. The liabilities are recalculated at each balance sheet date using the assumptions established at inception of the contracts.

For general insurance business, claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the balance sheet date, but not settled at that date. Outstanding claims 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 incurred but not reported ("IBNR"). Outstanding claims are not discounted.

c) Commissions payable and deferred acquisition costs ("DAC")

A proportion of commissions' payable is deferred and amortised over the period in which the related premium is earned. Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the year end.

d) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss as part of claims incurred.

As set out in (b) above, long-term insurance contracts are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

e) Reinsurance contracts held

Contracts entered into by the Group with reinsures under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsures, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsures are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

These processes are described in Note 2(j).

f) Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets. These processes are described in Note 2(j).

g) Salvage and subrogation reimbursements

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

(d) Revenue recognition

i) Insurance premium revenue

The revenue recognition policy relating to insurance contracts is set out under note (c) above

ii) Commissions

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

iii) Rendering of services

Revenue arising from asset management and other related services offered by the Group recognised in the accounting period in which the services are rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument.

These services comprise the activity of trading financial assets in order to reproduce the contractual returns that the Group's customers expect to receive from their investments. Such activities generate revenue that is recognised by reference to the stage of completion of the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts. For practical purposes, the Group recognises these fees on a straight-line basis over the estimated life of the contract.

Certain upfront payments received for asset management services ('front-end fees') are deferred and amortised in proportion to the stage of completion of the service for which they were paid. The Group charges its customers for asset management and other related services using the following different approaches: Front-end fees are charged to the client on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis; and Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period; fees charged at the end of the period are accrued as a receivable that is offset against the financial liability when charged to the customer.

iv) Interest income

Interest income for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, is recognized within 'investment income' (Note 6) In the income statement using the effective interest rate method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

v) Dividend income

Dividend income for equities is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

(e) Investment contracts

The Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate). The investment contracts include funds administered for a number of retirement benefit schemes. Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial assets (these contracts are also known as unit-linked investment contracts) and are designated at inception as at fair value through profit or loss. The Group designates these investment contracts to be measured at fair value through profit and loss because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. See Note 2 (i) for the financial assets backing these liabilities.

The best evidence of the fair value of these financial liabilities at initial recognition is the transaction price (i.e. the fair value received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profit on day 1.

The Group has not recognised any profit on initial measurement of these investment contracts because the difference is attributed to the prepayment liability recognised for the future investment management services that the Group will render to each contract holder. The Group's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data. The fair value of financial liabilities for investment contracts without fixed terms is determined using the current unit values in which the contractual benefits are denominated. These unit values reflect the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability. The fair value of the financial liabilities is obtained by multiplying the number of units attributed to each contract holder at the balance sheet date by the unit value for the same date.

When the investment contract has an embedded put or surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable. For investment contracts with fixed and guaranteed terms, the amortised cost basis is used. In this case, the liability is initially measured at its fair value less transaction costs that are incremental and directly attributable to the acquisition or issue of the contract.

Subsequent measurement of investment contracts at amortised cost uses the effective interest method. This method requires the determination of an interest rate (the effective interest rate) that exactly discounts to the net carrying amount of the financial liability, the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period if the holder has the option to redeem the instrument earlier than maturity.

The Group re-estimates at each reporting date the expected future cash flows and recalculates the carrying amount of the financial liability by computing the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognised as income or expense in the income statement.

(f) Property and equipment

All property and equipment are stated at historical cost less depreciation. Depreciation is calculated on the straight line basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

Buildings	40 years
Leasehold improvements	10 years
Motor vehicles	5 years
Computer equipment	5 years
Furniture, fixtures, and fittings	5 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred. Property and equipment are reviewed annually for impairment. 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 and are taken into account in determining operating profit. Buildings are revalued on an annual basis with the change credited/debited to revaluation reserves in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserves.

On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

(g) Intangible assets

Costs that are directly associated with identifiable and unique software products that will generate economic benefits beyond one year, are recognised as intangible assets. These assets are amortised using the straight-line method over a period of seven years. Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

(h) Investment property

Buildings, or part of a building, (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation and which are not occupied by the Group are classified as investment property. Investment property is treated as a long term investment and is carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are included in other operating income in the profit and loss account. Land held under operating lease is classified and accounted for as investment property if and only if the property meets the definition of an investment property.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

(i) Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity financial assets; and available-for-sale assets. Management determines the appropriate classification of its financial assets at initial recognition.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Financial assets are designated at fair value through profit or loss when:

- doing so significantly reduces or eliminates a measurement inconsistency; or
- they form part of a Group of financial assets that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

ii) Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those classified as held for trading and those that the Group on initial recognition designates as at fair value through profit and loss; (b) those that the Group upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

iii) Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the Group to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale.

iv) Available-for-sale

Available-for-sale investments are those non-derivative financial assets that are not classified under any of categories (i) to (iii) above.Regular way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs, for all financial assets except those carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Loans, advances and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in the profit and loss account in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit or loss account. However, interest calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Group's right to receive payment is established.

Fair values of quoted investments in active markets are based on current bid prices. Fair values for unlisted equity securities are estimated using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

(j) Impairment of financial assets

The Group assessets at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated. Objective evidence that a financial asset or Group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a) significant financial difficulty of the borrower;
b) a breach of contract, such as default or delinquency in interest or principal repayments;
c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Group would not otherwise consider;
d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable

decrease in the estimated future cash flows from a Group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including: - adverse changes in the payment status of borrowers in the Group; or - national or local economic conditions that correlate with defaults on the assets in the Group.

The estimated period between a losses occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between 6 months and 12 months.

i)Assets carried at amortised cost

The Group first assessets whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are Grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for Groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a Group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statements.

ii) Assets carried at fair value

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for availablefor- sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

(k) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the renegotiated terms apply in determining whether the asset is considered to be past due.

(l) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(m)Translation of foreign currencies

Transactions in foreign currencies during the year are converted into the functional currency, Kenya Shillings, at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the income statement in the year in which they arise.

(n) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at amortised cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(o) Employee benefits

The Group has established a contributory final salary defined benefit plan covering substantially all its employees, including agents. The plan is funded under a Trust, and the principal asset held by the Trustees is a deposit administration policy issued by the Group. Plan liabilities and costs are established by independent actuaries using the Projected Unit Credit Method. The plan is fully valued at least every two years. Actuarial gains and losses are recognised (over the expected average remaining working lives of the employees participating in the plan) to the extent that the net cumulative unrecognised actuarial gain or loss at the end of the previous year exceeds the limit established by IAS 19.

Effective January 1, 2006, the Group established a defined contribution section as a supplementary scheme to the existing plan. Existing members were given the irrevocable option of (a) remaining in the defined benefit section and continuing to accrue benefits, or (b) participating in the defined contribution section with effect from January 1, 2006, and relinquishing prior defined benefit entitlement in return for a "conversion value" transferred from the defined benefit section into the defined contribution section. The costs associated with the defined contribution section are separately identified and included in the staff costs. The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(p) Income tax expense

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax.Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation. Deferred income tax is provided in full, 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. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss, it is not accounted for.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income 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 the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings.

(r) Dividends

Dividends payable to the Group's shareholders are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

3. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks, including underwriting risk, liquidity risk, credit risk and the effects of changes in debt and equity market prices, and interest rates. The Group's overall risk management programme focuses on the identification and management of risks and the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The Group's risk management policies include the 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 reinsures. Investment policies are in place which help manage liquidity and seek to maximise return within an acceptable level of interest rate risk. Further, the internal audit function helps to monitor that these policies are followed.

(a) Insurance risk

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 Group 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 about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio.

The Group has developed its insurance underwriting strategy to diversify the type of insurance 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 location and type of industry covered.

The following tables disclose the concentration of insurance risk by the class of business in which the contract holder operates analyses by the maximum insured loss limit included in the terms of the policy

YEAR ENDED 31 DECEMBER 2009

CLASS OF BUSINESS		MAXIMUM INSURED LOSS			
General Insurance business		Shs 0m- Shs 15m Shs'000	Shs 15m- 250m Shs'000	Sh 250m 1000m Shs'000	Total Shs'000
Motor	Gross	2,383,340	1,443,278	1,376,077	5,202,695
	Net	2,383,340	1,429,278	1,376,077	5,188,695
Fire	Gross	7,041,731	16,590,869	39,319,484	62,952,084
	Net	7,034,601	6,282,114	894,638	14,211,353
Personal accident	Gross	1,961,601	3,229,805	464,250	5,655,656
	Net	1,874,469	558,170	52,242	2,484,881
Other	Gross	4,953,229	7,784,121	11,007,882	23,745,232
	Net	4,318,515	1,942,768	460,642	6,721,925
Long term business					
Ordinary Life	Gross	16,973,195	45,000	-	17,018,195
	Net	14,691,936	2,000	-	14,693,936
Group life	Gross	186,641,203	17,499,225	-	204,140,428
	Net	94,367,291	927,000	-	95,294,291
	Gross	**219,954,299**	**46,592,298**	**52,167,693**	**318,714,290**
Total	**Net**	**124,670,152**	**11,141,330**	**2,783,599**	**138,595,081**

YEAR ENDED 31 DECEMBER 2008

CLASS OF BUSINESS		MAXIMUM INSURED LOSS			
General Insurance business		Shs 0m- Shs 15m Shs'000	Shs 15m- 250m Shs'000	Sh 250m 1000m Shs'000	Total Shs'000
Motor	Gross	3,386,041	872,265	959,852	5,218,158
	Net	3,386,106	872,265	959,852	5,218,223
Fire	Gross	6,828,825	13,228,390	27,341,743	47,398,958
	Net	6,664,843	4,140,471	669,720	11,475,034
Personal accident	Gross	2,190,844	1,767,443	661,000	4,619,287
	Net	2,086,571	501,212	96,002	2,683,785
Other	Gross	5,104,956	6,603,771	1,941,861	13,650,588
	Net	4,204,159	1,240,422	68,980	5,513,561
Long term business					
Ordinary Life	Gross	13,117,513	35,000	-	13,152,513
	Net	9,981,645	2,000	-	9,983,645
Group life	Gross	93,547,602	9,674,654	-	103,222,256
	Net	60,646,845	1,103,587	-	61,750,432
	Gross	**124,175,781**	**32,181,523**	**30,904,456**	**187,261,760**
Total	**Net**	**86,970,169**	**7,859,957**	**1,794,554**	**96,624,680**

The concentration by sector of maximum insured loss at the end of the year is broadly consistent with prior years.

(b) Credit risk

The Group takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss to the Group by failing to pay amounts in full when due. Credit risk is an important risk for the Group's business: management therefore carefully manages the exposure to credit risk. Credit exposures arise from;

- Investment activities;
- Reinsures' share of insurance liabilities;
- Amounts due from reinsures in respect of claims already paid;
- Amounts due from insurance contract holders; and
- Amounts due from insurance intermediaries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or Groups of borrowers. Such risks are monitored on a revolving basis and subject to annual or more frequent review.

The exposure to any one borrower is further restricted by sub-limits. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateraland corporate and personal guarantees.

MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD

	2009 Shs'000	2008 Shs'000
Government securities held for trading	523,561	648,912
Government securities held to maturity	1,573,543	754,461
Corporate bond	287,848	104,223
Unit trusts	2,122,003	926,914
Mortgage loans	659,877	713,347
Loans to policy holders	357,789	362,953
Receivable arising out of reinsurance arrangements	54,090	48,016
Receivables out of direct insurance arrangements	196,757	198,090
Reinsures' share of insurance contract liabilities	275,957	203,291
Receivables from related parties	33,060	48,796
Other receivables	151,506	208,688
Deposits with financial institutions	206,640	421,448
Cash balances	192,870	109,831
	6,635,501	**4,748,970**

COMPANY

	2009 Shs'000	2008 Shs'000
Loan to subsidiary company	-	50,000
Receivables from related parties	20,900	-
Other receivables	-	830
Deposits with financial institutions	5,873	32,000
Cash balances	2,067	192
	28,840	**83,022**

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2009 and 2008, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet.

As shown above, 26% of the total maximum exposure is derived from government securities (2008: 27%). In the opinion of the directors there is no other significant concentration of the credit risk at year end.

Mortgage loans of Shs 659,877,000 (2008: Shs 713,347,000) are secured by collateral in the form of charges over land and building and or plant and machinery or corporate guarantees. Policy loans of Shs 357,789,000 (2008: Shs 362,962,000) are secured by the surrender value of the policies. Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from mortgage loans and debt securities based on the following:

- the Group exercises stringent controls over the granting of new loans
- 97% (2008: 96%) of the mortgages portfolio are neither past due nor impaired
- 100% (2008:100%) of the mortgages portfolio are backed by collateral
- 51% (2008: 42%) of the investments in debt securities are government securities.

FINANCIAL ASSETS THAT ARE PAST DUE OR IMPAIRED

GROUP

Mortgage loans are summarised as follows:	2009 Shs '000	2008 Shs '000
Neither past due nor impaired	637,019	696,051
Past due but not impaired	22,858	17,296
Impaired	25,073	5,758
Gross	**684,950**	**719,105**
Less: provision for impairment	(25,073)	(5,758)
Net	**659,877**	**713,347**

Movement in the provision account	2009 Shs 000	2008 Shs 000
At 1 January	5,758	5,042
Increase	19,315	716
As 31 December	**25,073**	**5,758**

MORTGAGE LOANS PAST DUE BUT NOT IMPAIRED

Loans and advances less than 180 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2009 Shs 000	2008 Shs 000
Past due up to 30 days	4,999	1,499
Past due 31 – 60 days	3,937	1,494
Past due 61 – 180 days	13,922	14,303
Total	**22,858**	**17,296**

MORTGAGE LOANS INDIVIDUALLY IMPAIRED

Mortgages are considered impaired if they fall in arrears for more than six months or other information becomes available which indicates that the borrower will not be able to meet their obligation

As at 31 December 2009, there is no repossessed collateral and no renegotiated loans.

Receivables out of direct insurance arrangements:

	2009 Shs '000	2008 Shs '000
Past due but not impaired	196,757	198,090
Impaired	2,507	4,883
Gross	**199,264**	**202,973**
Less: provision for impairment	(2,507)	(4,883)
Net	**196,757**	**198,090**
Movements in the provision account :		
At 1 January	4,883	3,463
Increase	1,623	3,806
Write-offs	(3,999)	(2,386)
At 31 December	**2,507**	**4,883**

Premium debtors that are past due but not impaired

Premium debtors less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The amounts for debtors that were past due but not impaired were as follows:

	2009 Shs '000	2008 Shs '000
Past due 1 – 60 days	92,138	124,441
Past due 61 – 90 days	23,182	15,566
Over 90 days	81,437	58,083
Total	**196,757**	**198,090**

PREMIUM DEBTORS INDIVIDUALLY IMPAIRED

Premium debtors are considered impaired if they fall in arrears for more than 90 days or other information becomes available that indicates that the debt may not be collected. The total gross amount of impaired receivables is owed by brokers.
Other than the above, there are no other financial assets are either past due or impaired.

(c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities as they fall due. The Group is exposed to daily calls on its available cash resources from maturing policy, claims and calls on cash settled contingencies. The finance department monitors liquidity on a daily basis.

The table below presents the cash flows payable by the Group under liabilities by the remaining contractual maturities (other than insurance and investment contract liabilities which are based on expected maturities) at the balance sheet date. All figures are in thousands of Kenya Shillings.

GROUP

At 31 December 2009	0 - 4 months Shs'000	5-12 months Shs'000	1-5 years Shs'000	Over 5 years Shs'000	Total Shs'000
Liabilities					
Insurance contract liabilities	279,784	1,163,020	1,194,611	2,313,101	4,950,516
Amounts payable under deposit administration contracts	540,000	127,000	1,001,000	1,086,617	2,754,617
Liabilities under investment contracts	65,739	85,602	967,961	521,600	1,640,902
Creditors arising out of reinsurance arrangements	17,334	-	-	-	17,334
Bank loan	-	-	119,162	628,456	747,618
Dividends payable	-	60,000	-	-	60,000
Retirement benefit liability	-	35,433	-	-	35,433
Other payables	109,699	66,111	107,954	-	283,764
Overdraft	50,696	456	-	-	51,152
Total financial liabilities (at contractual maturity dates other than insurance contracts liabilities which are based on expected maturity dates)	1,063,252	1,537,622	3,390,688	4,549,774	10,541,336
Available for sale quoted investments	3,282,105	-	-	-	3,282,105
Investments at fair value through profit and loss:					
- quoted investments	4,608,842	-	-	-	4,608,842
- government securities	86,705	86,975	273,031	76,850	523,561
- Unit trusts	-	-	36,898	2,085,105	2,122,003
Government securities held to maturity	57,744	4,920	344,854	1,166,025	1,573,543
Corporate bond	62,650	-	132,429	92,769	287,848
Mortgage loans	7,413	2,865	19,803	629,796	659,877
Loans to policyholders	18,236	55,045	283,951	557	357,789
Receivables arising out of reinsurance arrangements	54,090	-	-	-	54,090
Receivables arising out of direct insurance arrangements	-	196,757	-	-	196,757
Reinsures' share of insurance liabilities	11,249	32,293	91,184	141,231	275,957
Loans and receivables from related parties	33,060	-	-	-	33,060
Other receivables	10,106	42,457	101,789	5,140	159,492
Deposits with financial institutions	206,640	-	-	-	206,640
Cash and bank balances	193,040	-	-	-	193,040
Total financial assets (expected maturity dates)	**8,631,880**	**421,312**	**1,283,939**	**4,197,473**	**14,534,604**

GROUP

At 31 December 2008	0 - 4 months Shs'000	5-12 months Shs'000	1-5 years Shs'000	Over 5 years Shs'000	Total Shs'000
Liabilities					
Insurance contract liabilities	324,662	932,028	2,631,608	605,317	4,493,615
Amounts payable under group deposit administration contracts	109,147	200,831	886,277	644,586	1,840,841
Liabilities under investment contracts	41,208	56,438	649,936	-	747,582
Creditors arising out of reinsurance arrangements	2,438	-	-	-	2,438
Bank loan	35,775	-	741,641	-	777,416
Other payables	213,905	50,456	25,426	-	289,787
Overdraft	-	61,334	-	-	61,334
Total financial liabilities (expected maturity dates)	**727,135**	**1,301,087**	**4,934,888**	**1,249,903**	**8,213,013**
Available for sale quoted shares investments	3,991,729	-	-	-	3,991,729
Investments at fair value through profit and loss:					
- quoted investments	4,971,225	-	-	-	4,971,225
- government securities	-	95,635	144,963	408,314	648,912
- Unit trusts	-	-	34,103	892,811	926,914
Government securities held to maturity	-	-	265,227	489,234	754,461
Corporate bond	-	-	586	103,637	104,223
Mortgage loans	-	12,863	91,480	609,004	713,347
Loans to policyholders	18,500	55,841	288,056	565	362,962
Receivables arising out of reinsurance arrangements	48,016	-	-	-	48,016
Receivables arising out of direct insurance arrangements	-	198,090	-	-	198,090
Reinsurers' share of insurance liabilities	8,318	23,879	67,425	103,669	203,291
Loans and receivables from related parties	48,796	-	-	-	48,796
Other receivables	95,142	29,565	56,674	14,720	196,101
Deposits with financial institutions	421,448	-	-	-	421,448
Cash and bank balances	109,971	-	-	-	109,971
Total financial assets (expected maturity dates)	**9,713,145**	**415,873**	**948,514**	**2,621,954**	**13,699,486**

Liquidity risk cont.
COMPANY

At 31 December 2009	0 – 4 months	5-12 months	1-5 years	Totals
Company Liabilities				
Bank loan	-	119,162	628,456	747,618
Due to related parties	-	-	640,505	640,505
Dividend payable	-	60,000	-	60,000
Other payables	-	6,131	-	6,131
Total financial liabilities (expected maturity dates)	**-**	**185,293**	**1,268,961**	**1,454,254**

At 31 December 2008	0 – 4 months	5-12 months	1-5 years	Totals
Company Liabilities				
Bank loan	35,775	-	738,866	774,641
Due to related parties	-	-	744,794	744,794
Other payables	-	14,448	-	14,448
Total financial liabilities (expected maturity dates)	**35,775**	**14,448**	**1,483,660**	**1,533,883**

(d) Market risk

i) Price risk

The Group is exposed to equity securities price risk because of investments in quoted shares classified either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity and debt securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Group.

At 31 December 2009, if the NSE Index had increased/decreased by 15% (2008: 15%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation to the index, consolidated post tax profit for the year would have been Shs 691,320,274 (2008: Shs 567,678,708) higher/lower, and the other reserves would have been 492,315,495 (2008: 595,315,313) higher/lower.

The concentration on equities in general and on specific counters is closely monitored. As at 31 December 2009, the group held shares in Equity Bank Limited amounting to Shs 6,092,613,000 (2008: Shs 7,429,067,760) or 37% (2008: 49%) of the total assets.

(ii) Cash flow and fair value interest rate risk

The Group's interest bearing assets are quoted corporate bonds, mortgages, staff loans; inter company loans and policy loans all of which are at fixed rate. The Group also has borrowings at fixed rates. No limits are placed on the ratio of variable rate borrowing to fixed rate borrowing.

At 31 December 2009, if interest rates on government securities classified as financial assets at fair value through profit and loss had been 1% higher/lower with all other variables held constant, post tax profit for the year would have been Shs 1,407,278 (2009: Shs 1,672,799) higher/lower mainly as a result of increase or decrease in the fair value of the government securities.

(iii) Foreign exchange risk

The Group has no material exposure to foreign exchange risk.

(e) Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue toprovide returns for shareholdersand benefits for other stakeholders;
- To maintain a strong capital base to support the development of its business.
- To provide an adequate return to shareholders by pricing insurance and investment contractscommensurately with the level of risk.
- To comply with the capital requirements set by the Insurance Act.
- To comply with the capital requirements of the Capital Markets Authority.

Capital adequacy and use of regulatory capital are monitored regularly by management. The capital requirement for insurance companies in Kenya was revised in 2007. Existing composite insurance companies are required to increase their capital to Shs 450 million by 2010. The insurance subsidiary, British-American Insurance Company (Kenya) Limited has met this requirement.

In addition to the capital requirements, the insurance subsidiary is subject to solvency requirements by Insurance Regulatory Authority. These solvency requirements involve application of a formula that limits various assets by distribution of investment exposure to any single counter party, nature of asset etc. The Company had met the required solvency margins at 31 December 2009. The long term business however enjoys a solvency surplus in excess of Shs 3 billion if such restrictions are not applied.

The table below summarises regulatory capital requirements and the capital maintained by insurance subsidiary at 31 December

	Regulatory requirement Shs'000	2009 Maintained by the Company Shs'000	Regulatory requirement Shs'000	2008 Maintained by the Company Shs '000
Capital at 31 December	450,000	480,000	300,000	450,000
Solvency margin	575,318	1,120,904	410,532	329,453

The asset management subsidiary, British-American Asset Managers Limited, files the required information with the Capital Markets Authority on a quarterly basis. The Capital Markets Authority requires that the company maintains the following capital:

- Minimum share capital of Shs 10 million; and
- Working capital should not fall below the higher of 20% of the required minimum share capital of Shs 10million or 3 times the average monthly operating costs.

The table below summarises regulatory capital requirements and the capital maintained by the asset management subsidiary, at 31 December:

	Regulatory requirement	2009 Maintained by the Company	Regulatory requirement	2008 Maintained by the Company
Capital at 31 December	10,000	47,764	10,000	23,947
Working capital at 31 December	37,517	46,484	29,797	38,008

The asset management subsidiary converted the long term loan held as at 31st December 2008 of Shs 50 million to share capital during the year.

(f) Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2009.

Fair value estimation

GROUP

2009	Level 1 Shs'000	Level 2 Shs'000	Total balance Shs'000
Assets			
Financial assets at fair value through profit or loss			
- Equity securities	4,608,842	-	4,608,842
- Government securities	-	523,561	523,561
- Unit trust	-	2,122,003	2,122,003
Available-for-sale equity investments	3,282,105	-	3,282,105
Total assets	**7,890,947**	**2,645,564**	**10,536,511**

GROUP

2008	Level 1 Shs'000	Level 2 Shs'000	Total balance Shs'000
Assets			
Financial assets at fair value through profit or loss			
- Equity securities	4,971,225	-	4,971,225
- Government securities	-	648,913	648,913
- Unit trust	-	926,914	926,914
Available-for-sale equity investments	3,991,729	-	3,991,729
Total assets	**8,962,954**	**1,575,827**	**10,538,781**

Fair value estimation cont.

COMPANY

2009	Level 1 Shs'000
Assets	
Financial assets at fair value through profit or loss	2,354,048

COMPANY

2008	Level 1 Shs'000
Assets	
Financial assets at fair value through profit or loss	3,217,968

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 group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily NSE equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, government bonds and investments in asset trusts) is determined by using valuation techniques. These valuation techniques maximise 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.

The fair value of financial instruments that are not traded in an active market (for example, unquoted equity investments and unit trusts) is determined by using valuation techniques. These valuation techniques maximise 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 government securities is based on a yield curve which is based on trades ofequivalent bonds in the Nairobi stock exchange.
- The fair value of unit trusts is based on the computed net share in each fund which is based onapplying the market value of underlying investments to units held.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for theremaining financial instruments.

Note that all of the resulting fair value estimates are included in level 2. There were no transfers into or out of level 3 during the period.
The Group had no level 3 financial instruments as at 31 December 2009 & 2008.

Fair values of financial assets and liabilities
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the balance sheet date. The fair value of government securities held-to-maturity at 31 December 2009 is estimated at Shs 1,613,858,952 (2008: Shs 733,270,000) compared to their carrying value of Shs 1,573,542,822 (2008: Shs 754,468,000) while that of mortgage loans and policy loans are Shs 659,877,000 (2008: Shs 713,347,000) and Shs 357,789,000 (2008: Shs 362,962,000) respectively.

The fair value of the Group's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates.

4. CRITICAL JUDGMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the process of applying the Group's accounting policies, management made judgements in determining:

- actuarial liabilities (Note 31)
- classification of financial assets
- whether land and building meet criteria to be classified as investment property
- Whether assets are impaired.

Estimates and judgements are continually evaluated and are based on historical experience and other factors,
including experience of future events that are believed to be reasonable under the circumstances.

Fair value estimation
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.
The key source of estimation uncertainty is the mortality rates, future interest rates, future expenses, tax and inflation.

5. GROSS EARNED PREMIUM

The income of the Group can be analysed between the main classes of business as shown below:

GROUP

	2009 Shs'000	2008 Shs'000
Long term insurance business:		
Ordinary life	1,912,873	1,872,727
Group life	588,977	475,247
	2, 501,850	**2,347,974**
Short term insurance business:		
Motor	433,735	189,993
Fire	110,203	88,776
Marine	81,409	67,154
Personal accident and medical	521,800	392,599
Other	133,609	80,793
	1,280,756	819,315
Total long term and short term	**3,782,606**	**3,167,289**

6. INVESTMENT INCOME

Interest from government securities	184,890	115,023
Bank deposit interest	30,235	25,781
Other interest receivable	150,718	156,070
Rental income from investment properties	55,326	46,582
Fair value gains on investment properties (Note 17)	163,105	175,326
Dividends receivable from equity investments	188,442	119,357
Realised gains on government securities at fair value through profit and loss	1,208	15,606
Realised losses on quoted investments at fair value through profit and loss	(4,507)	-
Realised gains on sale of non-current assets held for sale	1,350	6,558
Fair value losses on financial assets at fair value through profit and loss	(574,598)	(151,166)
	196,169	**509,137**

7. OTHER INCOME

Fee income		
- arising on long term insurance contracts	948	3,939
- arising on short term insurance contract	264	8,585
- arising on deposit administration	10,066	13,780
Other miscellaneous	20,857	8,801
	32,135	**35,105**

8. NET CLAIMS AND POLICYHOLDER BENEFITS PAYABLE

Long term business		
Insurance contracts with fixed and guaranteed terms		
- death, maturity and surrender benefits	590,766	539,214
- bonuses	429,764	406,865
- interest on deposit administration and other contracts	189,091	99,938
- increase in policyholder liabilities	199,745	250,419
Less: reinsures' share	(65,057)	(51,535)
	1,344,309	**1,244,901**
Short term business		
Claims payable by principal class of business:		
- Motor	360,022	133,748
- Fire	31,535	17,575
- Personal accident and medical	201,174	218,057
- Marine	38,945	17,749
- Other	93,130	34,757
Less : reinsures' share	(95,620)	(104,733)
	629,186	**317,153**
Total long term and short term	**1,973,495**	**1,562,054**

9. OPERATING AND OTHER EXPENSES

GROUP

	2009 Shs'000	2008 Shs'000
Staff costs (Note 10)	472,441	403,811
Auditor's remuneration	5,295	5,084
Depreciation on leasehold improvements and equipment	30,585	31,278
Amortisation of intangible assets	20,028	15,127
Provision for impairments on receivables	922	5,195
Repairs and maintenance expenditure	42,108	34,315
Other	651,497	426,980
	1,222,876	**921,790**

10. STAFF COSTS

Staff costs include the following:

Salaries and wages	400,798	332,508
Retirement benefits costs		
- defined contribution scheme	59,287	34,111
- defined benefit scheme	11,726	36,646
- Social security benefits costs	630	546
	472,441	**403,811**

The number of persons employed by the Group at the year-end was 254 (2008: 230).

11. INCOME TAX EXPENSE GROUP

Income tax expense	**86,789**	**97,500**

The Group's current tax charge is computed in accordance with income tax rules applicable to thesubsidiaries. Deferred tax losses in the funds management business has however been providedfor since the recovery of those losses is reasonably certain in the foreseeable future. A reconciliationof the tax charge is shown below. The income not subject to tax is mainly unrealised gains, whichforms the bulk of the Company's investment income. The current year's tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory income tax rates as follows:

(Loss) / profit before tax	**(334,334)**	**340,067**
Tax calculated at a tax rate of 30%	(100,300)	102,020
Add / (Less):		
Tax effect of (loss) / income not subject to tax	117,490	(33,342)
Overprovision of deferred tax for prior year	(4,204)	-
Tax effect of expenses not deductible for tax purposes	73,803	28,822
Tax charge	**86,789**	**97,500**

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	2009			2008		
	Before tax Shs'000	Tax (charge) credit Shs'000	After tax Shs'000	Before tax Shs'000	Tax (charge) credit Shs'000	After tax Shs'000
Fair value gains/(losses):						
– Building	32,755	-	32,755	9,598	-	9,598
– Available-for-sale						
financial assets	**(731,999)**	**-**	**(731,999)**	**576,445**	**-**	**576,445**
Other comprehensive income	**(699,244)**	**-**	**(699,244)**	**586,043**	**-**	**586,043**
Current tax	-	-	-	-	-	-
Deferred tax	-	-	-	-	-	-
	-	**-**	**-**	**-**	**-**	**-**

12. OTHER RESERVES

Other reserves include fair value reserves arising from revaluation of assets carried as available for sale, revaluation reserves on property and general reserves which are undistributed retained earnings all for the long term business. General reserves represent accumulated surpluses from the life fund whose distribution is subject to the restrictions imposed by the Kenyan Insurance Act. The Insurance Act limits the amounts of surpluses of the life business available for distribution to shareholders to 30% of the accumulated surplus of the life business.

	Fair value reserve Shs '000	Revaluation reserve Shs '000	General reserves Shs '000	Total Shs '000
Balance at 1 January 2008	3,085,418	21,546	-	3,106,964
Revaluation gain on building	-	9,598	-	9,598
Revaluation gain on available for sale quoted investments (Note 18(ii))	576,445	-	-	576,445
Transfer from retained earnings	-	-	35,517	35,517
Balance at 31 December 2008	**3,661,863**	**31,144**	**35,517**	**3,728,524**
Balance at 1 January 2009	3,661,863	31,144	35,517	3,728,524
Revaluation gain on building	-	32,755	-	32,755
Revaluation gain on available for sale quoted investments(Note 18(ii))	(731,999)	-	-	(731,999)
Transfer from retained earnings	-	-	177,926	177,926
Balance at 31 December 2009	**2,929,864**	**63,899**	**213,443**	**3,207,206**

13. DIVIDENDS AND EARNINGS PER SHARE

(i) Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. At the annual general meeting held on 9 April 2010, a final dividend in respect of the year ended 31 December 2009 of Shs 4 per share (2008: Shs 4) amounting to a total of Shs 120,000,000 was proposed. (2008: Shs 120,000,000).
Payment of dividends is subject to withholding tax at the rate of either 5% or 10%, depending on the residence of the individual shareholders.

(ii) Earnings per share

Basic earnings per share have been calculated by dividing the net profit for the year by the number of ordinary shares.

There were no potentially dilutive shares as at 31 December 2009 or 31 December 2008.

	2009	2008
(Loss) / profit attributed to equity holders (Shs thousands)	(421,123)	242,567
Weighted number of ordinary shares in issue (Thousands)	30,000	30,000
Basic and diluted earnings per share (Shs)	**(14.04)**	**8.09**

14. SHARE CAPITAL

	Number of shares Shs'000	Ordinary shares Shs'000
Authorised, issued and fully paid:		
Balance at 1 January and 31 December 2008 and 2009 (Shs5 per share)	30,000	150,000

15. PROPERTY AND EQUIPMENT

GROUP

	Buildings & Lands Shs'000	Leasehold improve-ments Shs'000	Motor vehicles Shs'000	Furniture fixtures Shs'000	computer & fittings equipments Shs'000	Total Shs'000
Year ended 31 December 2009						
Cost or valuation						
At start of year	327,545	154,592	22,488	95,839	52,754	653,218
Reclassification	-	(121)	-	-	-	(121)
Additions	-	3,803	-	55,786	31,970	91,559
Disposals	-	-	(5,632)	-	-	(5,632)
Valuation	32,755	-	-	-	-	32,755
At end of year	**360,300**	**158,274**	**16,856**	**151,625**	**84,724**	**771,779**
Depreciation						
At start of year	4,799	107,785	10,268	66,086	35,857	224,795
Charge for the year	(4,799)	9,854	3,277	13,219	10,132	31,683
Disposal	-	-	(5,632)	-	-	(5,632)
At end of year	**-**	**117,639**	**7,913**	**79,305**	**45,989**	**250,846**
Net book amount						
At 1 January 2009	322,746	46,807	12,220	29,753	16,897	428,423
At 31 December 2009	**360,300**	**40,635**	**8,943**	**72,320**	**38,735**	**520,933**

15. PROPERTY AND EQUIPMENT CONT.

GROUP

	Buildings & Lands Shs'000	Leasehold improve-ments Shs'000	Motor vehicles Shs'000	Furniture fixtures Shs'000	computer & fittings equipments Shs'000	Total Shs'000
Year ended 31 December 2008						
Cost or valuation						
At start of year	159,973	113,453	17,309	137,241	103,282	531,258
Transfer from investment property (Note 17)	157,974	-	-	-	-	157,974
Reclassification	-	16,663	-	(16,663)	-	-
Additions	-	2,873	5,179	11,975	6,995	27,022
Disposals	-	21,603	-	(36,714)	(57,523)	(72,634)
Valuation	9,598	-	-	-	-	9,598
At end of year	**327,545**	**154,592**	**22,488**	**95,839**	**52,754**	**653,218**
Depreciation						
At start of year	-	76,069	7,760	94,647	89,335	267,811
Charge for the year	4,799	9,673	2,508	9,701	4,596	31,277
Reclassification from other fixed assets	-	22,043	-	(38,262)	(58,074)	(74,293)
At end of year	**4,799**	**107,785**	**10,268**	**66,086**	**35,857**	**224,795**
Net book amount						
At 1 January 2008	159,973	37,384	9,549	42,594	13,947	263,447
At 31 December 2008	**322,746**	**46,807**	**12,220**	**29,753**	**16,897**	**428,423**

COMPANY

	Motor vehicles Shs'000	Furniture fixtures & fitting Shs'000	computer equipement Shs'000	Total Shs'000
Year ended 31 December 2009				
Cost or valuation				
At start of year	5,179	-	-	5,179
Additions	-	607	269	876
At end of year	**5,179**	**607**	**269**	**6,055**
Depreciation				
At start of year	172	-	-	172
Charge for the year	1,036	26	37	1,099
At end of year	**1,208**	**26**	**37**	**1,271**
Net book amount				
At 1 January 2009	5,007	-	-	5,007
At 31 December 2009	**3,971**	**581**	**232**	**4,784**
Year ended 31 December 2008				
Cost or valuation				
At start of year	-	-	-	-
Additions	5,179	-	-	5,179
At end of year	**5,179**	**-**	**-**	**5,179**
Depreciation				
At start of year	-			
Charge for the year	172	-	-	172
At end of year	**172**	**-**	**-**	**172**
Depreciation				
Net book amount				
At 1 January 2008	-	-	-	-
At 31 December 2008	**5,007**	**-**	**-**	**5,007**

In the opinion of the directors, there is no impairment of leasehold improvements and equipment. The valuation of buildings was carried out by independent, registered professional valuers, GIMCO Limited, on 31 December 2009 in an open market basis. The carrying amount of the building would have been Shs 136,500,000 (2008: Shs 138,427,000) had it been carried out under the cost model.

16. INTANGIBLE ASSETS GROUP COMPANY

	GROUP		COMPANY
	2009	2008	2009
	Shs'000	Shs'000	Shs'000
Computer and software costs			
At the start of year	64,725	55,725	-
Additions	32,303	24,127	197
Amortisation	(18,930)	(15,127)	-
At end of year	**78,098**	**64,725**	**197**
Cost	190,115	155,694	197
Accumulated amortisation	(112,017)	(90,969)	-
Net book amount	**78,098**	**64,725**	**197**

17. INVESTMENT PROPERTY

		GROUP
	2009	2008
	Shs'000	Shs'000
At start of year	844,115	869,958
Additions	85,565	8,804
Transfer to property and equipment (Note 15)	-	(157,974)
Disposal	-	(52,000)
Fair value gains	163,105	175,327
At end of year	**1,092,785**	**844,115**

The valuation exercise was carried out by Gimco Limited, registered professional valuers on 31 December 2009. Investment property is valued on an open market basis.

18. QUOTED INVESTMENTS

(i) At fair value through profit and loss

		GROUP		COMPANY
	2009	2008	2009	2008
	Shs '000	Shs '000	Shs '000	Shs '000
At start of year	4,971,225	4,184,008	3,217,968	2,483,356
Additions	274,067	1,030,064	-	649,579
Disposals	(62,316)	(50,385)	(334,982)	-
Fair value (losses)/gains	(574,134)	(192,462)	(528,938)	85,033
At end of year	**4,608,842**	**4,971,225**	**2,354,048**	**3,217,968**

(ii) Available for sale

		GROUP
	2009	2008
	Shs '000	Shs '000
At start of year	3,991,729	3,377,797
Additions	31,310	37,487
Disposals	(8,935)	-
Fair value (losses) /gains	(731,999)	576,445
At end of year	**3,282,105**	**3,991,729**

19. MORTGAGE LOANS

		GROUP
	2009	2008
	Shs'000	Shs'000
At start of year	719,105	771,344
Loans advanced	71,097	95,023
Loan repayment	(105,252)	(147,262)
Less:	684,950	719,105
Provision for impairment losses	(25,073)	(5,758)
At end of year	**659,877**	**713,347**
Lending commitments:		
Mortgage loans approved by directors but not advanced as at 31 December	**7,420**	**24,800**

Mortgage loans to related parties are disclosed in note 41

20. LOANS TO POLICYHOLDERS

	GROUP 2009 Shs'000	2008 Shs'000
At start of year	362,962	299,348
Loans advanced	238,422	142,682
Surrenders	(124,981)	-
Loan repayments	(118,614)	(79,068)
At end of year	**357,789**	**362,962**

21. REINSURERS' SHARE OF INSURANCE LIABILITIES

	2009	2008
Reinsurers' share of:		
- notified claims outstanding – long term	26,512	29,949
- notified claims outstanding – short term (Note 30)	151,816	89,403
- unearned premium (Note 35)	82,703	77,148
- claims incurred but not reported (Note 30)	14,925	6,791
	275,956	**203,291**

Amounts due from reinsures in respect of claims already paid by the Group on contracts that are reinsured are included in receivables arising out of reinsurance arrangements on thebalance sheet.

22. DEFERRED ACQUISITION COSTS

	GROUP 2009 Shs'000	2008 Shs'000
At start of year	34,660	19,182
Net increase	18,281	15,478
At end of year	**52,941**	**34,660**

Deferred acquisition costs represent a proportion of acquisition costs that relates to policies that are in force at year-end. The basis of deferral is explained in note 2(c).

23. OTHER RECEIVABLES

	GROUP 2009 Shs'000	2008 Shs'000	COMPANY 2009 Shs'000	2008 Shs'000
Staff and agents loans	107,062	117,293	-	-
Dues from managed funds	8,988	10,922	-	-
Prepayments	13,027	28,319	-	-
Other receivables	30,415	39,567	-	830
	159,492	**196,101**	**-**	**830**

24. GOVERNMENT SECURITIES

	GROUP 2009 Shs'000	2008 Shs'000
(i) At fair value through profit and loss		
Treasury bills and bonds maturing		
- Within 1 year	173,680	34,184
- In 1 – 5 years	273,031	52,940
- After 5 years	76,850	561,789
	523,561	**648,913**
Treasury bills and bonds movement		
- At start	648,912	735,912
- Additions	69,500	50,328
- Fair value gains / (losses)	13,502	(6,584)
- Disposals and maturities	(208,353)	(130,743)
	523,561	**648,913**
(ii) Investment held to maturity		
At start of year	754,461	327,458
Additions	829,082	428,767
Maturities	(10,000)	(1,764)
	1,573,543	**754,461**

25. UNIT TRUSTS

	GROUP 2009 Shs'000	2008 Shs'000
At start of year	926,914	397,729
Additions	1,075,136	679,740
Fair value gains/ (losses)	119,953	(150,555)
	2,122,003	**926,914**

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

26. WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

The following table summarises the weighted average effective interest rates at the year end on the principal interest-bearing investments:

	GROUP 2009 %	2008 %
Mortgage loans	13.12	13.48
Policy loans	14.50	14.5
Government securities	11.16	10.74
Deposits with financial institutions	8.37	8.39
Corporate bond	11.71	10.9

Deposits with financial institutions have an average maturity of 3 months (2008: 3 months)

27. INSURANCE CONTRACT LIABILITIES

	GROUP 2009 Shs'000	2008 Shs'000
Long term insurance contracts		
- claims reported and claims handling expenses	142,880	146,231
- actuarial value of long term liabilities (Note 31)	4,257,668	4,057,923
Total – long term	**4,400,548**	**4,204,154**
Short term non-life insurance contracts		
- claims reported and claims handling expenses	431,832	238,791
- claims incurred but not reported (Note 28)	118,136	50,671
Total – short term (Notes 28)	**549,968**	**289,462**
Total gross insurance liabilities	**4,950,516**	**4,493,616**

Movements in insurance liabilities and reinsurance assets are shown in note 30.

28. SHORT TERM NON-LIFE INSURANCE CONTRACTS LIABILITIES

The Group uses chain-ladder techniques to estimate the ultimate cost of claims and the IBNR provision. Chain ladder techniques are used as they are an appropriate technique for mature classes of business that have a relatively stable development pattern. This involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern.

The selected development factors are then applied to cumulative claims data for each accident year that is not fully developed to produce an estimated ultimate claims cost for each accident year.

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The table below illustrates how the Group's estimate of total claims outstanding for each accident year has changed at successive year ends.

Accident year	2005 Shs'000	2006 Shs'000	2007 Shs'000	2008 Shs'000	2009 Shs'000	Total Shs'000
Estimate of ultimate claims costs:						
– at end of accident year	198,213	236,213	249,607	376,624	469,746	1,530,403
– one year later	232,530	263,638	297,986	453,452	-	1,247,606
– two years later	251,870	265,699	302,040	-	-	819,609
– three years later	269,716	279,251	-	-	-	548,967
– four years later	271,294	-	-	-	-	217,294
Current estimate of cumulative claims	271,294	279,251	302,040	453,452	469,746	1,775,783
Add: Incurred but not reported	-	-	-	-	118,136	118,136
Add: Liability in respect of prior years	-	-	-	-	-	30,064
Less: Cumulative payments to date	(233,184)	(245,080)	(265,597)	(411,481)	(218,674)	(1,374,016)
Liability included in the balance sheet	**38,110**	**34,171**	**36,443**	**41,971**	**369,208**	**549,967**

29. LONG TERM INSURANCE CONTRACT LIABILITIES

The Group determines its liabilities on long term insurance contracts based on assumptions in relationto future deaths, voluntary terminations, investment returns and administration expenses. A margin for risk and uncertainty is added to these assumptions. The liabilities are determined on the advice of the consulting actuary and actuarial valuations carried out on an annual basis. As at 31 December 2009, the valuation showed a surplus of Shs 3,375 million (2008: Shs 3,878 million).

VALUATION ASSUMPTIONS

The latest actuarial valuation of the life fund was carried out as at 31 December 2009 by QED Actuaries and Consultants (Pty) Limited, consulting actuaries, using the net premium valuation method as required by the Insurance Act. Significant valuation assumptions are summarised below. The assumptions did not change in 2009:

a) Mortality

The Group uses table A49/52 as a base table of standard mortality. Statistical methods are used to adjust the rates reflected on the table based on the Group's experience. For contracts insuring survivorship, an allowance is made for future mortality improvements made on trends identified in the data.

b) Persistency

Statistical methods are used to determine an appropriate persistency rate, with reference to the Company's experience over the most recent five years. An allowance is then made for any trends in the data to arrive at a best estimate of future persistency rates.

c) Investment returns

A weighted average rate of investment return is derived with reference to the portfolio that backs the liabilities. For the current valuation, the rate of return assumed was 4% (2008: 4%)

d) Expenses, tax and inflation

The current level of expenses is taken to be an appropriate expense base. Expense inflation is assumed to be 10% (2008: 10%). It has been assumed that the current tax legislation and rates continue unaltered.

30. MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

Short term insurance business

	2009			2008		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Notified claims	238,791	89,403	149,388	153,225	69,869	83,356
Incurred but not reported	50,671	6,791	43,880	62,261	24,948	37,313
Total at beginning of year	**289,462**	**96,194**	**193,268**	**215,486**	**94,817**	**120,669**
Cash paid for claims settled in year	(535,129)	(86,099)	(449,030)	(349,287)	(104,733)	(244,554)
Increase in liabilities:						
- arising from current year claims	636,027	75,258	560,769	333,317	86,497	246,820
- arising from prior year claims	159,608	81,388	78,220	89,946	19,613	70,333
Total at end of year	**549,968**	**166,741**	**383,227**	**289,462**	**96,194**	**193,268**
Notified claims	431,832	151,816	280,016	238,791	89,403	149,388
Incurred but not reported	118,136	14,925	103,211	50,671	6,791	43,880
Total at the end of year	**549,968**	**166,741**	**383,227**	**289,462**	**96,194**	**193,268**

31. ACTUARIAL VALUE OF LONG TERM LIABILITIES

	2009			2008		
	Ordinary life	Group life	Total	Total Ordinary	Group Life	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	
At beginning of year	3,710,660	96,844	3,807,504	3,710,660	96,844	3,807,504
Policyholder bonuses and interest	(429,763)	-	(429,763)	(406,865)	-	(406,865)
Surrenders and annuity payments	(297,984)	-	(297,984)	(227,569)	-	(227,569)
Increase in the period (net)	982,249	195,662	1,177,911	817,850	67,003	884,853
At end of year	**3,965,162**	**292,506**	**4,257,668**	**3,894,076**	**163,847**	**4,057,923**

32. LIABILITIES UNDER INVESTMENT CONTRACTS

	GROUP	
	2009	2008
	Shs'000	Shs'000
At start of the year 1 January	747,582	267,235
Net investments	1,045,136	666,882
Liabilities released for payments:		
Surrenders	(199,488)	(3,002)
Fair value loss on investment	47,672	(183,533)
At 31 December	**1,640,902**	**747,582**

For the unit linked investment contracts, the benefits offered are based on the return of equities and debt securities. The maturity value of the financial liabilities is determined by the fair value of the linked assets. There will be no difference between the carrying amount and the maturity amount at maturity date.

33. AMOUNTS PAYABLE UNDER DEPOSIT ADMINISTRATION CONTRACTS

Deposit administration contracts are recorded at amortised cost. Movements in amounts payable under deposit administration contracts during the year were 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 9% for the year (2008: 6%).

	GROUP	
	2009	2008
	Shs'000	Shs'000
At 1 January	1,840,841	1,264,923
Pension fund deposits received	901,688	595,390
Surrender and annuities paid	(183,842)	(109,194)
Interest payable to policyholders	195,930	89,722
At 31 December	**2,754,617**	**1,840,841**

34. BANK LOAN

The loan is secured by lien on quoted shares at fair value through profit and loss and is repayable in 3 years at 11.5%. The loan was not in default at any time during the year.

GROUP AND COMPANY

	2009	2008
	Shs'000	Shs'000
At 1 January	777,416	122,322
Addition	-	611,000
Repayment	(130,211)	-
Interest payable	100,413	44,094
At 31 December	**747,618**	**777,416**

35. UNEARNED PREMIUM

Unearned premium represents the liability for short term business contracts where the Group's obligations are not expired at the year end. Movement in the reserve is shown below:

	GROUP					
	2009			2008		
	Insurer's share	Reinsures' share	Gross	Insurer's share	Reinsures' share	Gross
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At beginning of year	311,360	77,148	388,508	137,722	69,777	207,499
Increase in the period (net)	173,310	5,555	178,865	173,638	7,371	181,009
At end of year	**484,670**	**82,703**	**567,373**	**311,360**	**77,148**	**388,508**

36. DEFERRED INCOME TAX

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2008: 30%). The movement on the deferred income tax account and the composition of the unrecognised deferred income tax asset is as follows:

	2009		2008		
	31.12.09	Movement	31.12.08	Movement	1.1.08
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Property and equipment:					
- on historical cost basis	6,871	3,372	3,499	(1,227)	4,726
- on revaluation surpluses	(14,764)	(6,047)	(8,717)	(2,879)	(5,838)
Provisions	408	(2,487)	2,895	7,320	(4,425)
Deferred acquisition costs	(5,484)	(5,484)	-	-	-
Tax losses carried forward					
- British-American Insurance Company (Kenya) Limited	-	-	-	(716,326)	716,326
- British-American Asset Managers Limited	22,662	16,416	6,246	(74)	6,320
Other deductible temporary differences	2,059	-	2,059	15,207	(13,148)
Retirement benefit asset	10,630	3,518	7,112	10,924	(3,812)
Net deferred tax asset	**22,382**	**9,288**	**13,094**	**(687,055)**	**700,149**

Except for the deferred tax relating to British-American Asset Managers Limited, the balance of the net deferred income tax has not been recognised for British-American Insurance Company (Kenya) Limited because the recoverability is in doubt given the current law on taxation of insurance business. There is reasonable certainty as to the realisation of the asset in the foreseeable future for British- American Asset Managers Limited.

37. OTHER PAYABLES

	GROUP		COMPANY	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Accrued expenses	128,028	104,194	6,131	-
Premiums paid in advance	61,866	93,644	-	-
Other liabilities	93,870	91,949	-	14,449
	283,764	**289,787**	**6,131**	**14,449**

38. COMMITMENTS

The commitments as at balance sheet date were Shs 261,618,168 (2008:Nil)

39. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

GROUP

	2009 Shs'000	2008 Shs'000
Cash and bank balances	193,040	109,971
Deposits with financial institutions	206,640	421,448
Treasury bills and bonds maturing within 90 days of the date of acquisition	-	-
Bank overdraft	(51,152)	(61,334)
Total cash and cash equivalents	**348,528**	**470,085**

The weighted average effective interest rate on short-term bank deposits was 8.37% (2008: 8.39%).
The effective interest rate on overdraft was 10.6% (2008: 10.6%) which was the applicable 91 day Treasury Bill rate plus a margin of 2%.

40. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	2009 Shs'000	2008 Shs'000
(Loss)/ profit before tax	(334,334)	340,067
Adjustments for:		
Depreciation of leasehold improvements and equipment(Note 15)	31,683	31,278
Amortisation of intangible assets (Note 16)	18,930	15,127
Investment income	(196,169)	(509,137)
Changes in:		
Receivables arising out of direct insurance arrangements	1,333	40,593
Receivables arising out of reinsurance arrangements	(6,074)	(44,067)
Re-insurers' share of technical provisions and reserves	(72,666)	10,691
Increase in unearned premium reserves	178,865	181,009
Retirement benefit liability	11,726	36,646
Other payables	(6,023)	(28,297)
Receivables from related parties	15,736	(10,384)
Deferred acquisition costs	(18,281)	(15,478)
Other receivables	36,609	2,386
Increase in insurance contract liabilities	456,901	250,419
Actuarial liabilities under investment contract	893,319	480,347
Payable under deposit administration contracts	913,776	575,918
Creditors arising out of reinsurance arrangements	14,896	(59,581)
Cash generated from operations	**1,940,227**	**1,297,537**

41. RELATED PARTY TRANSACTIONS

The ultimate parent Group is British-American Investment Co (Mtius) Limited, a Company registered in the Republic of Mauritius and listed on the Stock Exchange of Mauritius. There are several other companies related to the Group through common shareholdings or directorships. The following transactions were carried out with related parties: A management fee of Shs 18 million (2008: Shs 18 million) was paid to British-American (UK) Limited for consultancy services.

Outstanding balances with related parties
Dues from related parties – Group

	2009 Shs'000	2008 Shs'000
Staff saving and credit societies	3,366	5,051
Secured loan to a director	29,694	43,745
	33,060	**48,796**

41. RELATED PARTY TRANSACTIONS (CONTINUED)

The loan to a director is secured on shares quoted on the stock exchange and is repayable in 3 years at an interest rate of 17%. The value of Equity Bank Limited shares held by the Group at the end of the year amounted to Shs 6,092,613,000 (2008: Shs 7,429,067,760) while those of Housing Finance Limited amounted to 414,317,000 (2008: Shs 334,650,000). The Group has also invested Shs 2,122,003,000 (2008: Shs 926,914,000) in the various British-American unit trust funds.

Shareholder loan to related party - Company	2009	2008
	Shs'000	Shs'000
British-American Asset Managers Limited	-	50,000
Dues to related party – Company		
British-American Insurance Company (Kenya) Limited	640,505	744,794
Due from related party – Company		
British-American Asset Managers Company Limited	20,900	-

The inter-company balances attract interest at 11% (2008: 11%) and this amounted to Shs 72 million (2008: 60 million).

ii) Mortgage loans to directors of the Group		
Loans to directors and their families		
At start of year	137,052	156,766
Loans advanced during the period	26,025	9,490
Loan repayments received	(5,223)	(29,204)
At end of year	**157,854**	**137,052**

The loans to directors, which are secured, were given on commercial terms and at market rates.
Interest charged on the loans to directors amount to Shs 19,825,810 (2008: Shs 26,749,271)

iii) Transactions with related parties		
Gross earned premium		
Equity Bank Limited	800,388	202,011
British-American Asset Managers	1,386	800
Net claims incurred - Equity Bank Limited	162,677	75,573
Interest on related party balances	67,221	68,039
Fair value gains/(losses)		
Equity Bank Limited	(1,359,043)	279,460
Housing Finance Company of Kenya Limited	(13,238)	(191,451)

The Group holds a 11.47% (2008: 11.47%)and 10.01% (2008: 10.01%) stake in Equity Bank Limited and Housing Finance Company of Kenya Limited respectively

Directors' and senior management remuneration – Group		
Directors' fees	3,393	3,413
Director's other remuneration	74,024	39,975
Senior managers' remuneration	111,843	57,837
	189,260	**101,225**

42. INVESTMENT IN SUBSIDIARY COMPANIES - COMPANY

	% holding in equity shares	2009 Shs'000	2008 Shs'000
British-American Insurance Company (Kenya) Limited	100	480,000	450,000
British-American Asset Managers Limited	100	80,000	30,000
		560,000	**480,000**

43. RETIREMENT BENEFIT LIABILITY

The amounts recognised in the balance sheet are determined as follows:

	2009 Shs'000	2008 Shs'000
Present value of funded obligations	188,903	95,687
Fair value of plan assets	(99,569)	(85,437)
Present value of unfunded obligations	89,334	10,250
Unrecognised actuarial gains/(losses)	(53,901)	13,457
Liability in the balance sheet	**35,433**	**23,707**

43. RETIREMENT BENEFIT LIABILITY (CONTINUED)

The movement in the defined benefit obligation over the year was as follows:

	2009 Shs'000	2008 Shs'000
At start of year	95,687	180,609
Current service cost	9,767	4,689
Interest cost	22,532	11,122
Actuarial (gains) / losses	63,187	(98,671)
Benefits paid	(2,270)	(2,062)
At end of year	**188,903**	**95,687**

The movement in the fair value of the plan assets is as follows:

	2009 Shs'000	2008 Shs'000
At start of year	85,437	84,984
Expected return on scheme assets	11,051	10,062
Actuarial (losses)/gains	(2,866)	(12,690)
Employee contributions	8,217	5,143
Benefits paid	(2,270)	(2,062)
At end of year	**99,569**	**85,437**

Plan assets comprise:

	2009 Shs'000	2009 %	2008 Shs'000	2008 %
Equity instruments	36,841	37	33,510	39
Debt instruments	58,746	59	42,294	50
Property	996	1	-	-
Other	2,986	3	9,633	11
	99,569	**100**	**85,437**	**100**

Expected contributions to the plan for the year ending 31 December 2010 are Shs 92,913,000.
The amounts recognised in the profit and loss account for the year are as follows:

	2009 Shs'000	2008 Shs'000
Current service cost	9,767	4,689
Interest cost	22,532	11,325
Expected return on scheme assets	(11,051)	(10,062)
Net actuarial losses recognised in the year	(1,305)	35,837
Contributions received from members	(8,217)	(5,143)
Total, included in employee benefit expense	**11,726**	**36,646**

The actual return on scheme assets was Shs 8,185,000 (2008: Shs 3,402,000).
The principal actuarial assumptions used were as follows:

	2009	2008
- discount rate	12.00%	11.75%
- expected rate of return on scheme assets	12.50%	12.50%
- future salary increases	10.00%	10.00%

Below is a five year summary of the defined benefits scheme assets/liabilities.

	2009 Shs'000	2008 Shs'000	2007 Shs'000	2006 Shs'000	2005 Shs'000
Present value of defined benefit obligation	(188,903)	(95,687)	(180,609)	(82,234)	(121,674)
Fair value of plan assets	95,569	85,437	84,984	73,587	119,313
(Deficit)/surplus in the plan	(93,334)	(10,250)	(95,625)	(8,647)	(2,361)
Experience adjustments on plan liabilities	(68,587)	70,262	93,773	59,893	(17,843)
Experience adjustments on plan assets	(2,866)	(8,672)	(1,684)	10,779	3,436

44. CONTINGENT LIABILITIES

There are some tax matters relating to withholding tax and VAT that are the subject of discussion between the Group, the unit trust industry and Kenya Revenue Authority. The matters arose as a result of divergent interpretation of the laws relating to taxation of unit trusts and the blanket tax exemption certificates issued by Kenya Revenue Authority. As the discussions are ongoing at the time of the issue of the financial statement, the financial effect of the contingent liability cannot be reasonably estimated. The Directors are optimistic about the outcome of the ongoing discussions and are of the opinion that these matters will not have a material effect on the financial position or the profits of the company.

DIRECTORS

Details of directors are presented on page 10.

MANAGEMENT

Benson I Wairegi Bcom, MBA, CPA	Group Managing Director
Gladys M Karuri BA, CPA	Group Chief Financial Officer
Nancy K Kiruki LLB, LLM, CPS	Group Head of Legal & HR & Company Secretary
Paul Gacheru Bcom, CPA	Group Chief Accountant
Peter N Muiruri BEd, MBA, CPA	Group Internal Audit Manager
Arthur M Chege Higher Diploma, MSc, FCKS	Group ICT Manager
Rose Lutta BA,MBA,CIM	Group Marketing & Corporate Affairs Manager
Jacqueline Nyaguthi BA, MA	Property Manager
Julius Githinji BBA, CPA, MDP	Internal Audit Manager

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Kaplan & Stratton, Advocates
Daly & Figgis, Advocates

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QED Actuaries & Consultants (Pty) Ltd
Sandton, South Africa

Triangle Actuarial Services
Wake Forest, North Carolina, USA

BANKERS

Barclays Bank of Kenya Ltd

Equity Bank Ltd

Citibank

Commercial Bank of Africa Ltd

Kenya Commercial Bank Ltd

National Bank of Kenya Ltd

Standard Chartered Bank

Co-operative Bank

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