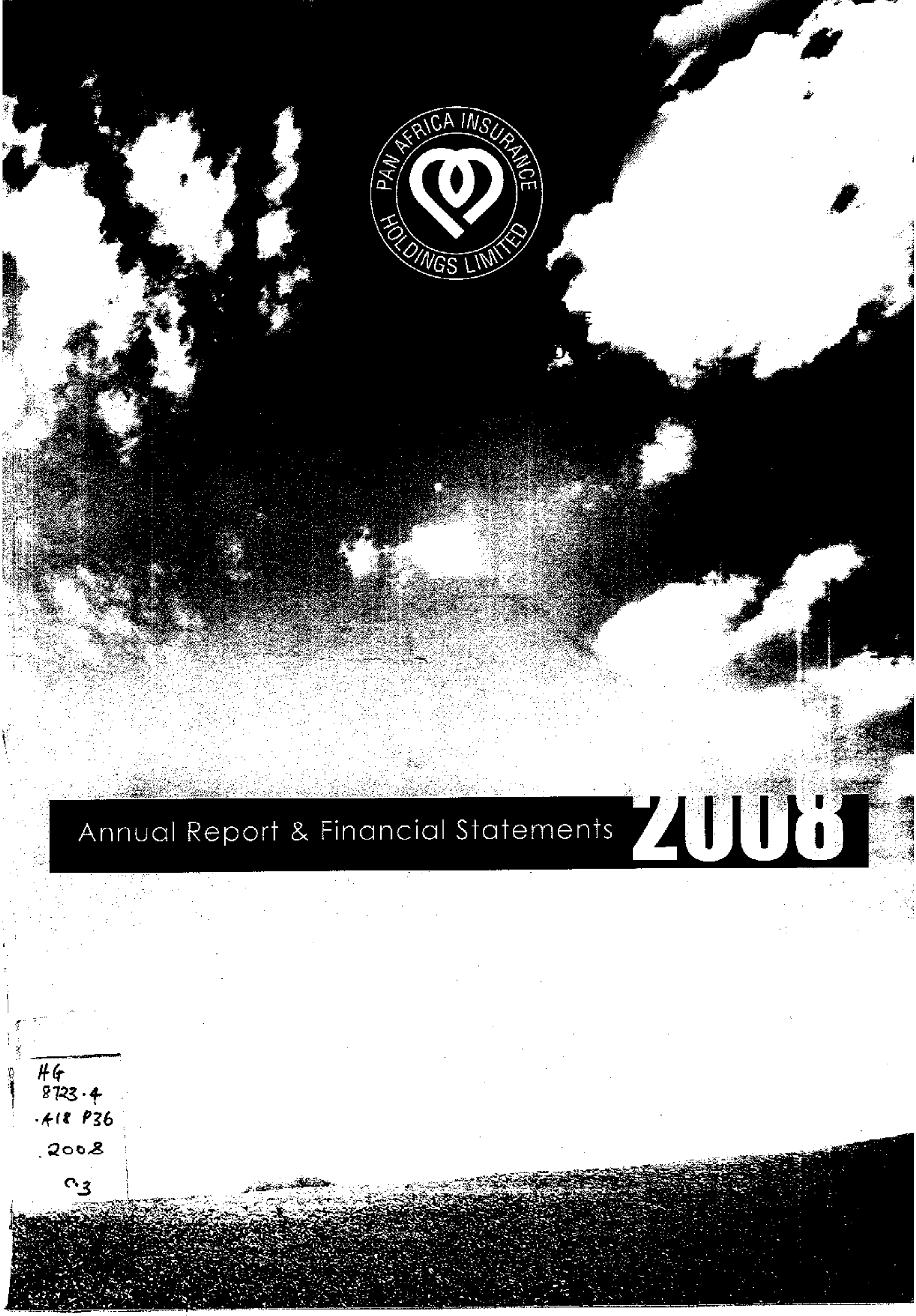

PAN AFRICA INSURANCE HOLDINGS LIMITED

Annual Report & Financial Statements 2008

About us, Vision & Mission

About us

Today, our sixty three year heritage has stamped a significant footprint in the Kenyan market, with a branch presence in all the major towns throughout Kenya supported by a large agency force.

We pioneered the introduction of Individual and Group Life products without the HIV/AIDS exclusion and were the first Company to offer life insurance without the necessity of a medical test, which underpins Pan Africa Life's anti-discriminatory policy.

Pan Africa Life remains the only life insurer in Kenya with an entire portfolio of individual life business that pays all claims, irrespective of the cause of death, where death falls outside the prescribed waiting period.

We have a solid capital base, drawing experience and technical expertise from our strategic partnership with Sanlam Ltd, the second largest Financial Services Group in Africa. The company also has over 644,000 lives covered, market share of over 21% of the Life business in Kenya, staff complement of 105 permanent employees and 500 Agency staff.

We pride ourselves in being the first company to actively market and distribute unit-linked life assurance products in the Kenyan market. True to tradition, we continue to show fresh thinking, as is evident with the launch of new life insurance products such as the Flexi range of products (FlexiSaver, FlexiEducator and FlexiAnnuity).

Our Vision

To be the provider of choice in insurance and the creation of wealth in Kenya and the Region.

Our Mission

We create and secure wealth for the changing needs of our customers and other stakeholders.

We achieve this through continuous provision of:

- Innovative and affordable client solutions that improve their quality of life;
- Superior returns to our investors that ensure growth from one generation to the next;
- A conducive work environment that promotes creativity, self expression and personal development;
- Support and involvement in community activities that enhance *"a sense for life"*

Contact Details

Head Office

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	0722 206900/1
	0733 418807
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Branch	Details
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Embu	Barclays Bank Building, Kenyatta Highway P.O. Box 1804, 60100 Embu Tel: 068 30789 embu@pan-africa.com
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Nyeri	Gatemu Building P.O. Box 618, 10100 Nyeri Tel: 061 2030204 nyeri@pan-africa.com
Thika	Thika Arcade, Kenyatta Highway P.O. Box 1144, 01000 Thika Tel: 067 31408/22123 thika@pan africa.com
Voi Office:	Poter House Voi - Mombasa Highway Tel: 0729 211175
Westlands	School Lane, Whitefieldplace, 2nd Floor P.O. Box 44041, 00100 Nairobi Tel: 020 2349677-8/4440336 westlands@pan-africa.com
Nyahururu	Mbaria House P.O. Box 2241, 20300 Nyahururu

Administration

Executive Committee		
Tom Gitogo	BSC (Eng), MBA, ACA (UK), CPS (K), CPA (K)	Chief Executive Officer
Stephen Kamanda	MBA, BA, FCCA (UK), ICSA (UK)	General Manager - Finance & Administration
James Muiruri	BSc (Hons), ACII, AIIK, ACIArb, ACS	General Manager - Corporate Business
Joseph Wamwea	MBA, BSc (Hons), Dip CS, Unix ACE, CISA, Dip FM	General Manager - ICT and Operations
Jane Ntutu	BSc	General Manager - Sales and Marketing
Catherine Olaka	BA (Hons), MBA, HND HRM (IPM)	Human Resources Manager
Emma Wachira	LLB, CPS (K)	Company Secretary/Chief Legal Officer

Senior Managers		
Luke Magambo	BSc, CPA(K), CPS, Dip IMIS	Finance
Martin Nzomo	MBA, FCII, ACI Arb	Corporate Business
Linda Were	BSc Actuarial	Operations
Francis Ogwel	BA	Marketing - Western Region
Pius Kitela	BSc	Marketing - Eastern Region
Lucy Munjuga	BSc, CPA (K)	Finance
Mercy Kabangi	BA (Hons)	Public Relations
Gwen Njiru	IBA (Marketing)	Business Development
Samson Mwangi	BSc	Regional Administration

Unit Managers		
Ibrahim Odhiambo	BA (Hons), DIP CII	Corporate Business
Margaret Nyambura	Bed, HND HRM (IPM)	Customer Service Back Office
Shifrine Simwa	BA, FLMI, ACS, UND	Customer Service Front Office
David Muchungu	BCOM CPA (K)	Finance
Nelson Kabau	BSc	Actuarial
Rita Waweru	Dip CS	Information Systems Technology
Samuel Kuyoh	LLB	Premium Administration
William Kariithi	BSc	Premium Administration
Samuel Mbaabu		Special Projects
Priscilla Thuo		Quality Compliance
James Dome	BA	New Business
Martin Omido	BSc	Information Systems Technology
Sarah Maweu		Finance
Lucy Ndegwa	BA (Hons), MA	Training Manager

Sales Managers		
Joseph Aketch		Eldoret
Purity Makena		Embu
Edwin Ahenda.		Kisii
Luke Oluoch		Kisumu
Peter Mbugua		Machakos
Anderson Riungu	BA Dip - Sales& Marketing (ICM)	Meru
Kennedy Kiema		Mombasa
Terry Amina		Nakuru
George Runyora	Bed	Nyeri
John Muchiri		Thika
John Mbindyo		Nairobi Mega
Jennifer Tsimbiri	Bed	City Centre
Angeline Muchiri		Westlands
Benson Muli	BA	Voi
Sospeter Kimani		Nyahururu
Joseph Njuguna	BS Dip - Sales and Marketing (KIM)	Naivasha

40. RISK MANAGEMENT (Continued)

(x) Insurance risk (Continued)

Claims risk (Continued)

The tables below provide an analysis of the Group's exposure to the value of benefits insured in respect of non-participating life business as well as the annuity payable per policy in respect of non-participating annuities:

Value of benefits insured: non-participating life business

	Number of lives		Before reinsurance		After reinsurance	
	2008	2007	2008	2007	2008	2007
Kshs '000						
0 - 500	280,044	305,368	183,033	153,865	179,209	150,650
500 - 1000	50,603	7,360	618,207	583,696	600,177	566,673
1 000 - 5000	80,694	41,779	1,687,129	1,079,156	1,057,726	676,564
5 000 - 8000	402	156	6,053,744	3,602,308	3,860,953	2,297,477
>8000	457	247	9,086,433	6,021,862	5,891,032	3,904,171
	412,200	354,910	17,628,546	11,440,887	11,589,097	7,595,535

Non-participating annuity payable per annum per life insured

	Number of lives		Before reinsurance		After reinsurance	
	2008	2007	2008	2007	2008	2007
Kshs '000						
0 - 20	0	0	0	0	0	0
20 - 40	0	0	0	0	0	0
40 - 60	1	0	52,644	0	52,644	0
60 - 80	4	0	274,128	0	274,128	0
80 - 100	1	0	83,064	0	83,064	0
>100	50	0	21,400,140	0	21,400,140	0
	56	0	21,809,976	0	21,809,976	0

y) Capital adequacy risk

Refer to the capital management section on page 40 for details on the management of the Group's capital base.

All subsidiaries of Pan Africa Insurance Holdings Limited were adequately capitalised, with CAR covered by the excess of assets over liabilities.

40. RISK MANAGEMENT (Continued)

(x) Insurance risk (Continued)

Claims risk (Continued)

The table below summarises the effect on the valuation of other non-participating life business, for possible changes in mortality and morbidity, lapse, expense and investment return assumptions.

		Assumption changes				
	Base value	Investment returns -1%	Expenses +10%	Expense inflation +1%	Lapse & Surrender rates +10%	Mortality & Morbidity +10%
	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000
Year ended 31 December 2008						
Non-participating life business:						
Individual business	186,688	186,688	186,688	186,688	186,688	186,688
Employee benefits business	759,990	759,990	759,990	759,990	759,990	759,990
Total policy liability	946,678	946,678	946,678	946,678	946,678	946,678
Year ended 31 December 2007						
Non-participating life business						
Individual business	597 829	597 829	597 829	597 829	597 829	597 829
Employee benefits business	-	-	-	-	-	-
Total policy liability	597 829	597 829	597 829	597 829	597 829	597 829

The above sensitivities are after taking into account the re-rating of premiums but before the impact of reinsurance. The impact of reinsurance is not material for the disclosed sensitivities.

Concentration risk

The Group writes a diverse mix of business, and continually monitors this risk and the opportunities for mitigating actions through reinsurance. The Group's life insurance businesses are focused on different market segments, resulting in a mix of individual and institutional clients, as well as entry-level, middle market and high net worth clients.

40. RISK MANAGEMENT (Continued)

x) Insurance risk (Continued)

Quarterly full actuarial valuations and the Group's regular profit reporting process assist in the timely identification of experience variances. The following policies and practices are used by the Group as part of its underwriting strategy to mitigate underwriting risk:

Policies and practices: underwriting strategy	
i)	All long-term insurance product additions and alterations are required to pass through the approval framework that forms part of the life insurance business' governance process. The statutory actuaries approve the policy conditions and premium rates of new and revised products;
ii)	Specific testing for HIV/Aids is carried out in all cases where the applications for risk cover exceed a set limit. Product pricing and reserving policies also include specific allowance for the risk of HIV/ Aids;
iii)	Applications for risk cover are reviewed by experienced underwriters and evaluated against established standards. Retention limits are applied to limit the exposure per individual life;
iv)	Appropriate income replacement levels apply to disability insurance;
v)	The experience of reinsurers is used where necessary for the rating of substandard risks;
vi)	The risk premiums for Group risk business and some of the in-force individual risk business can be adjusted within 12 months should claims experience deteriorate to the extent that such an adjustment is considered necessary.
vii)	Risk profits are determined on a regular basis; and
viii)	Regular investigations into mortality and morbidity experience are conducted to ensure that corrective action, for example rerating of premiums, is taken where necessary.

Persistency risk

Distribution models are used by the Group to identify high-risk clients. Client relationship management programmes are aimed at managing client expectations and relationships to reduce lapse, surrender and paid-up rates. The design of insurance products excludes material lapse, surrender and paid-up value guarantees, subject to regulatory constraints, to limit financial loss at surrender. Persistency experience is monitored to ensure that negative experience is timeously identified and corrective action taken. The Group's reserving policy is based on the statutory required Net Premium Method which ensures that adequate provision is made for lapses, surrenders and paid-up policies.

Expense risk

Expenses are managed through the Group's budgeting process and continuous monitoring of actual expenses versus budgeted is conducted and reported on.

Claims risk

The risk that Pan Africa Insurance Holdings Limited may pay fraudulent claims (claims risk) is mitigated by employing highly trained client service staff to ensure that fraudulent claims are identified and investigated thoroughly. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks. The Sanlam forensic investigation team also advises on improvements to internal control systems.

41. RISK MANAGEMENT (Continued)

w) Liquidity risk (Continued)

Liquidity risk – policyholder solutions (Continued)

Maturity profile (Continued)

Year ended 31 December 2007:

	1 Year	1-5 Years	5 Years	Open ended	Total
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Insurance contracts	161,601	1,100,405	1,659,708	315,210	3,236,924
Investment contracts	-	-	-	293,372	293,372
Total policy liabilities	161,601	1,100,405	1,659,708	608,582	3,530,296
Properties	-	-	-	224,000	224,000
Equities and similar securities	-	-	-	837,288	837,288
Public sector stocks and loans	270,837	685,627	743,041	-	1,699,505
Commercial paper and corporate bonds	41,069	-	-	-	41,069
Mortgages and policy loans	9,632	45,976	44,870	304,011	404,489
Cash, deposits and similar securities	931,961	-	-	-	931,961
Long-term reinsurance assets	57,737	-	-	-	57,737
Net working capital	(665,353)	-	-	-	(665,753)
Total policyholder assets	645,883	731,603	787,911	1,365,299	3,530,296

x) Insurance risk

Insurance risk arises from the writing of other non-participating life business, as these products are valued prospectively and therefore expose the long-term required capital to risk if actual experience differs from that which is assumed. The Group is however also exposed to persistency risk in respect of other policyholder solutions and insurance risk in respect of universal life solutions.

Underwriting risk

The Group manages underwriting risk through;

- Its product development process and underwriting policy to prevent anti-selection and ensure appropriate premium rates (loadings) for substandard risks;
- Adequate reinsurance arrangements to limit exposure per individual and manage concentration of risks;
- Claims handling policy; and
- Adequate pricing and reserving.

41. RISK MANAGEMENT *(Continued)*

Maximum exposure to credit risk

The life insurance businesses' maximum exposure to credit risk is equivalent to the amounts recognised in the balance sheet, as there are no financial guarantees provided to parties outside the Group, nor are there any loan commitments provided that are irrevocable over the life of the facility (nor revocable only in adverse circumstances).

The credit quality of each class of financial asset that is neither past due nor impaired, has been assessed as acceptable within the parameters used to measure and monitor credit risk, as described above. There are no assets that would have been past due or impaired, had the terms not been renegotiated.

w) *Liquidity risk*

Liquidity risk – policyholder solutions

Stable, reversionary bonus and participating annuity business (smoothed-bonus business)

These policyholder solutions do not expose the Group to significant liquidity risks. Expected cash flows are taken into account in determining the investment guidelines and asset spread of the portfolios. Limits are also placed on the exposure to illiquid investments.

Guarantee plans

Other policyholder business

Policyholder portfolios supporting linked and market-related business, participating annuities and other non-participating life business are invested in appropriate assets, taking into account expected cash outflows.

The following table summarises the overall maturity profile of the policyholder business:

Year ended 31 December 2008:

	1 Year	1-5 Years	>5 Years	Open ended	Total
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Insurance contracts	337,297	1,423,143	1,579,656	353,471	3,693,567
Investment contracts				352,405	352,405
Total policy liabilities	337,297	1,423,143	1,579,656	705,876	4,045,972
Properties	-	-	-	374,500	374,500
Equities and similar securities	-	-	-	1,010,170	1,010,170
Public sector stocks and loans	400,032	895,334	1,223,881	-	2,519,247
Commercial paper and corporate bonds	-	201,868	-	-	201,868
Mortgages and policy loans	19,255	71,347	177,506		268,108
Cash, deposits and similar securities	903,664	-	-	-	903,664
Long-term reinsurance assets	30,630	-	-	-	30,630
Net working capital	(1,262,215)				(1,262,215)
Total policyholder assets	91,366	1,168,549	1,401,387	1,384,670	4,045,972

41. RISK MANAGEMENT (Continued)

t) Market risk – sensitivities

Sensitivities that illustrate the effect of changes in investment return assumptions on the value of in-force (VIF) business are disclosed in the embedded value report. The change in VIF relative to the base value is an indication of how the present value of future after-tax profits (including the allowance for the cost of capital at risk) are impacted based on these assumptions.

If investment return (and inflation) assumptions were to decrease by 1%, coupled with a 1% decrease in risk discount rates, and with bonus rates changing commensurately, the impact on the present value of future after-tax profits would be a decrease of KShs. 21.4 million (2007: decrease of KShs. 25.3 million).

u) Credit risk – policyholder solutions & capital

Pan Africa Insurance Holdings Limited recognises that a sound credit risk policy is essential to minimise the effect on the Group as a result of loss due to a major corporate failure and the possible systemic risk such a failure could lead to. The Pan Africa Insurance Holdings Limited Investment Risk Policy and Strategy has been established for this purpose. Credit risk occurs due to trading, investment, structured transactions and lending activities. These activities in the Group are conducted mostly by Sanlam Investment Management (SIM) in terms of the investment guidelines granted to them by the Investment Committee. The Board of SIM has delegated responsibility for credit risk management to the Central Credit Committee.

The governance structures ensure that an appropriate credit culture and environment is maintained, such that no transactions are concluded outside areas of competence, nor without following normal procedures. This credit culture is the product of a formal credit risk strategy and credit risk policy.

The credit risk strategy stipulates the parameters for approval of credit applications, such as: economic sector; risk concentration; maximum exposure per obligor, group, and industry; geographical location; product type; currency; maturity, anticipated profitability or excess spread; economic capital limits; and cyclical aspects of the economy.

All facilities are reviewed on at least an annual basis by the appropriate approval authority. Where possible, Pan Africa Insurance Holdings Limited interest is protected by obtaining acceptable security. Covenants are also stipulated in the loan agreements, specifying actions that are agreed to.

In addition to the above measures, the portfolios are also managed in terms of the investment guidelines of the life insurance operations, which place limits in terms of the lowest credit quality that may be included in a portfolio, the average credit quality of instruments in a portfolio as well as limits on concentration risk.

The Group is also exposed to credit risk in respect of its working capital assets. The following are some of the main credit risk management actions:

- Unacceptable concentrations of credit risk to groups of counter-parties, business sectors and product types are avoided by dealing with a variety of major banks and spreading debtors and loans among a number of major industries, customers and geographic areas.
- Long-term insurance business debtors are secured by the underlying value of the unpaid policy benefits in terms of the policy contract.
- Exposure to external financial institutions concerning deposits and similar transactions is monitored against approved limits.

v) Reinsurance risk

Pan Africa Insurance Holdings Limited makes use of reinsurance to:

- Access underwriting expertise;
- Access product opportunities;
- Enable it to underwrite risks greater than its own risk appetite; and
- Protect its mortality/risk book against catastrophes.

The use of reinsurance exposes the Group to credit risk. The counterparty risks of reinsurers are managed under the Group's credit risk framework. The Group's reinsurance arrangements include proportionate, excess and catastrophe coverage. All risk exposures in excess of specified monetary limits are reinsured. Catastrophe insurance is in place for single-event disasters. Credit risk in respect of reinsurance is managed by placing the Group's reinsurance only with subsidiaries of companies that have high international or similar credit ratings.

41. RISK MANAGEMENT *(Continued)*

Equity & interest rate risk

The capital is invested in equities and interest-bearing instruments that are valued at fair value and are therefore susceptible to market fluctuations. Investments in listed subsidiaries are reflected at net asset value based on the market value of the underlying investments.

Currency risk

The exposure of the capital to currency risk is for the purpose of seeking international diversification of investments.

Property risk

The capital portfolio has limited exposure to investment properties and accordingly the related property risk. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

Credit risk

The amount that best represents the company's maximum exposure to credit risk at 31 December 2008 is made up as follows:

	2008	2007
	KShs.'000	KShs.'000
Financial Instruments	3,871,841	3,555,596
Current income tax recoverable	23,292	23,293
Reassurers' share of technical provisions and reserves	30,630	50,900
Receivables arising out of reassurance arrangements	6,837	
Receivables arising out of direct insurance arrangements	220,072	113,607
Short term deposits with financial institutions	830,417	1,054,350
Cash and cash equivalents	73,247	62,670
	5,049,499	4,867,253

No collateral is held for any of the above assets. All trade receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

All receivables arising out of direct insurance arrangement are neither past due nor impaired.

Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices, *principally investment securities not held for the account of unit-linked business.*

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each sector and market and careful and planned use of financial instruments.

The Group has no significant concentration of price risk.

41. RISK MANAGEMENT (Continued)

Market risk – policyholder solutions (Continued)

Equity risk is borne by policyholders to the extent that the after-tax and after-cost investment return is declared as bonuses. The capital portfolio is however exposed to some equity risk as an under performance in equity markets may result in an under funded position that will require financial support by the capital portfolio. The Group manages this risk through an appropriate investment policy. Actuarial committee oversees the investment policy for the various smoothed-bonus portfolios. The aim is to find the optimum balance between high investment returns (to be able to declare competitive bonus rates) and stable investment returns given the need to meet guaranteed benefits and to support the granting of stable bonus rates. The requirements for the investment management of each portfolio are set out in investment guidelines, which cover, inter alia, the following:

- Limitations on exposure to volatile assets;
- The benchmarks for the performance measurement of each asset class and limits on deviations from these benchmarks;
- Credit risk limits;
- Limits on asset concentration – with regard to strategic investments, the exposure of policyholders' portfolios to these investments is based on portfolio investment considerations and restricted with reference to a specific counter's weight in the benchmark portfolio;
- Limits on exposure to some particular types of assets, such as unlisted equities, property and hedge funds; and
- Regulatory constraints.

Feedback on the investment policy and its implementation and the performance of the smoothed-bonus portfolios is provided quarterly to the Pan Africa Insurance Holdings Limited Board.

p) Interest rate risk

Linked and market-related business

The life business is exposed to interest rate risk to the extent that guaranteed minimum benefits at death or maturity are provided. Refer to equity risk in note 40 (s) below for the management of market risk in respect of these policies.

Stable, reversionary bonus and participating annuity business (smoothed-bonus business).

The life business is exposed to interest rate risk to the extent that changes in interest rates result in negative stabilisation reserves that cannot be eliminated through the smoothed-bonus management action philosophy. In these circumstances the life insurance businesses will have to provide support to the policyholders' portfolios.

Guarantee plans

Our Flexisaver and FlexiEducator policies provide for guaranteed maturity amounts. The life insurance business is therefore exposed to interest rate risk, if the assets backing these liabilities do not provide a comparable yield to the guaranteed value.

Interest rate risk is managed by matching the liabilities with assets that have similar investment return profiles as the liabilities.

q) Currency risk

The majority of currency exposure within the policyholder portfolios results from offshore assets held in respect of linked and smoothed bonus business. Offshore exposure within these portfolios is desirable from a diversification perspective. To mitigate exposure to foreign currency denominated investments, the investment committee meets on a quarterly basis to consider movements in currency fluctuations and take alternate decisions to either realise the profits or minimise loss.

r) Property risk

The majority of the investment properties are held in respect of market-related and non-participating policyholder business as well as smoothed-bonus business. Refer to Equity Risk above for a description on how the risks associated with these types of business are managed.

s) Market risk

Capital

Comprehensive measures and limits are in place to control the exposure of the life insurance businesses' capital to market risk. Continuous monitoring takes place to ensure that appropriate assets are held in support of the capital and investment return targets. Limits are applied in respect of the exposure to asset classes and individual counters.

41. RISK MANAGEMENT (Continued)

- The Group's strategic direction and success is discussed and evaluated at an annual strategic session of the Pan Africa Insurance Holdings Limited Board as well as at the scheduled Board meetings during the year;
- As part of the annual budgeting process, the Group businesses present their strategic plans and budgets to the Pan Africa Insurance Holdings Limited Executive Committee, who ensures that the businesses' strategies are aligned with the overall Group strategy; and
- The Pan Africa Insurance Holdings Limited Executive Committee, which includes the chief executive of the various Group businesses, meets on a regular basis to discuss, among others, the achievement of the businesses' and Group's strategies. Any strategic issues are identified at these meetings and corrective actions are immediately implemented.

n) Risk management - life insurance

The Group's life insurance business is exposed to financial risk through the design of some policyholder solutions, and in respect of the value of the businesses' capital. Non-participating policyholder solutions and those that provide investment guarantees, such as market-related business, stable and reversionary bonus business and non-participating annuity business, expose the life insurance businesses to financial risk. Other business, such as linked policies (where the value of policy benefits is directly linked to the fair value of the supporting assets) does not expose the life insurance business to financial risk as this risk is assumed by the policyholder. The life insurance business' capital is invested in financial instruments and properties, which also exposes the businesses to financial risk, in the form of market, property, credit and liquidity risk. The management of these risks is described below.

o) Market risk – policyholder solutions

Equity risk

Linked and market-related business

Linked and market-related business relates to contracts where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. Policyholders carry the full market risk in respect of linked business. Market-related policies however, provide for guaranteed minimum benefits at death or maturity, and therefore expose the life insurance business to market risk.

The risk relating to guaranteed minimum benefits is managed by appropriate investment policies, determined by the Actuarial committee, and by adjusting the level of guarantees for new policies to prevailing market conditions. These investment policies are then reflected in the investment guidelines for the policyholder portfolios. Pan Africa Insurance Holdings Limited does not include a specific provision for investment guarantees as the guarantees are already provided for in the pricing of the products i.e. the premium payable already includes a provision for guarantees.

Stable, reversionary bonus and participating annuity business (smoothed-bonus business).

These policies provide for the payment of an after-tax and after-cost investment return to the policyholder, in the form of bonuses. The use of bonuses is a mechanism to smooth returns to policyholders in order to reduce the effects of volatile investment performance, and bonus rates are determined in line with the product design, policyholder reasonable expectations, affordability and the approved bonus philosophy. Any returns not yet distributed are retained in a bonus stabilisation reserve, for future distribution to policyholders. In the event of adverse investment performance, this reserve may become negative. Negative bonus stabilisation reserves are allowed for in the valuation of these liabilities to the extent that the shortfall is expected to be recovered by declaring lower bonuses in the subsequent three years. The funding level of portfolios is bolstered through loans from shareholders in instances where negative stabilisation reserves will not be eliminated by these management actions. At year end, all stable and reversionary bonus business portfolios had a funding level in excess of 79%.

41. RISK MANAGEMENT (Continued)

h) Compliance risk

Laws and regulations:

The Group considers compliance with applicable laws, industry regulations and codes an integral part of doing business. The Group compliance function facilitates the management of compliance through the analysis of statutory and regulatory requirements, and monitoring the implementation and execution thereof.

Compliance with Investment mandates:

The Investment Committee reviews compliance to Investment mandates on a quarterly basis. When a possible breach is detected, the fund manager is requested to confirm whether a breach has taken place, to explain the reason for the breach and indicate when it will be rectified (which is expected to be as soon as possible). Further action may be taken, depending on the type of breach. The detailed results of the mandate monitoring process are discussed with the Fund Managers on a monthly basis.

i) Fraud risk

The Group recognises that financial crime and unlawful conduct are in conflict with the principles of ethical behaviour, as set out in the Group' code of ethics, and undermines the organisational integrity of the Group. The financial crime combating policy for the Pan Africa Insurance Holdings Limited group is designed to counter the threat of financial crime and unlawful conduct. A zero-tolerance approach is applied in combating financial crime and all offenders will be prosecuted. The forensic services function at Group level oversees the prevention, detection and investigation of incidents of unlawful conduct that are of such a nature that they may have an impact on the Group.

The head of each business unit is responsible for the implementation of the policy in his or her respective business and is accountable to the Group Chief Executive and the Board of Pan Africa Insurance Holdings Limited. Quarterly reports are submitted by Group Forensic Services to the Group Audit Committee on the incidence of financial crime and unlawful conduct in the Group and on measures taken to prevent, detect, investigate and deal with such conduct.

j) Taxation risk

The risk is addressed through clear contracting to ensure that policy contracts entitle policyholders to after-tax returns, where applicable. The Group's internal tax resources monitor the impact of changes in tax legislation, participate in discussions with the tax legislator to comment on changes in legislation and are involved in the development of new products. External tax advice is obtained as required.

k) Reputational risk

Actions with a potential reputational impact are escalated to the appropriate level of senior management. The Audit committee and board of directors are involved as required. Events with an industry-wide reputational impact are addressed through industry representative groups.

l) Legislation risk

Legislation risk is mitigated by ensuring that the Group has dedicated personnel that are involved in and therefore informed of relevant developments in legislation. The Group takes a pro-active approach in investigating and formulating views on all applicable issues facing the financial services industry. The risk is also managed as far as possible through clear contracting. The Group monitors and influences events to the extent possible by participation in discussions with legislators, directly and through industry organisations.

m) Strategic risk

The Group's governance structure and various monitoring tools in place ensure that any events that affect the achievement of the Group's strategy are escalated and addressed at the earliest opportunity. The Board has no tolerance for any breach of guidance.

Group strategy is addressed on a continuous basis at various forums within the Group, the most important of which are:

41. RISK MANAGEMENT (Continued)

d) Risk management

Operational risk

The Group mitigates this risk through its culture and values, a comprehensive system of internal controls, internal audit, forensic and compliance functions and other measures such as back-up facilities, contingency planning and insurance. The initiation of transactions and their administration is conducted on the basis of the segregation of duties, designed to ensure the correctness, completeness and validity of all transactions.

The management of risks associated with human resources is addressed in the Corporate Governance Report.

The following functionaries assist in mitigating operational risk:

Internal audit

A board-approved internal audit charter governs internal audit activity within the Group. A regular risk-focused review of internal control and risk management systems is carried out, and has unrestricted access to the Chairman of the Committee and the Pan Africa Insurance Holdings Board. The authority, resources, scope of work and effectiveness of the functions are reviewed regularly.

External audit

The Group's external auditors are Ernst & Young. The report of the independent auditors for the year under review is in a separate section of this annual report. The external auditors provide an independent assessment of systems of internal financial control and express an independent opinion on the annual financial statements. Non-audit services rendered by the external auditors are strictly governed by a Group policy in this regard.

External consultants

Sanlam Risk Management Unit performs an annual review of the Group's risk management processes. The purpose of this review is to continuously identify potential areas for improved risk management in line with developing international best practice.

e) Information and technology risk

The "Group Information and Technology (IT) Risk Management Policy" is authorised and ratified by the Group Executive Committee. It stipulates the role of the Information and IT Risk manager that each business is responsible for appointing. Furthermore, it provides a framework of IT risk management, the methods of reporting, assessment and action, appropriate documentation and management of all risk-related IT incidents that have occurred, timing of communication and liaison with other functions in the Group.

Reliance on and the continuous availability of IT systems and processes are inherent to the nature of the Group's operations. An important objective of the Group Information and Technology Risk Management Policy is accordingly to ensure that the Group's IT resources and platforms are maintained and developed in line with changes in the Group's businesses environment and requirements, and that proper back-up processes and disaster recovery measures are in place.

f) Going concern / business continuity risk

The Board regularly considers and records the facts and assumptions on which it relies to conclude that Pan Africa Group Entities will continue as a going concern. Reflecting on the year under review, the directors considered a number of facts and circumstances and are of the opinion that adequate resources exist to continue business in the foreseeable future and that Pan Africa Group Entities will remain a going concern in the year ahead. The Board's statement to this effect is also contained in the statement on the responsibility of directors in the annual financial statements.

g) Legal risk

During the development stage of any new product and for material transactions entered into by the Group, the legal resources of the Group monitor the drafting of the contract documents to ensure that rights and obligations of all parties are clearly set out. The Group seeks to minimise uncertainties through continuous consultation with internal and external legal advisers, to understand the nature of risks and to ensure that transactions are appropriately structured and documented.

Notes to the Financial Statements *Continued*

For The Year Ended 31 December 2008

41. RISK MANAGEMENT (Continued)

c) Risk Types

The Group is exposed to the following main risks:

	Risk type	Description	Potential significant impact
General Risks	Operational	Operational risk is the risk that there is a loss as a result of inadequate or failed internal processes, people or systems and external events. Operational risk includes:	All Group businesses
		Information and technology risk: the risk of obsolescence of infrastructure, deficiency in integration, failures/inadequacies in systems/networks and the loss of accuracy, confidentiality, availability and integrity of data.	
		Going concern/business continuity risk: the risk that inadequate processes, people, financial controls and resources exist to continue business in the foreseeable future.	
		Legal risk: the risk that the Group will be exposed to contractual obligations which have not been provided for.	
		Compliance risk: the risk of not complying with laws and regulations, as well as investment management mandates.	
		Fraud risk: the risk of financial crime and unlawful conduct occurring within the Group.	
	Taxation	Taxation risk is the risk of financial loss due to changes in tax legislation that result in the actual tax on shareholders' fund earnings being higher than expected, with a corresponding reduction in return on Group Embedded Value; or the actual policyholder tax being higher than that assumed in the determination of premium rates and guaranteed policy benefits.	All Group businesses
	Reputational	Reputational risk is the risk that the actions of a business (e.g. the treatment of clients, employment equity and social responsibility) harm its reputation and brand.	All Group businesses
	Legislation	Legislation risk is the risk that unanticipated new acts or regulations will result in the need to change business practices that may lead to financial loss.	All Group businesses
	Strategic	Strategic risk is the risk that the Group's strategy is inappropriate or that the Group is unable to implement its strategy.	All Group businesses
Financial And Business-Specific Risks	Market	Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market: Market risk includes:	Life insurance Capital markets Short-term insurance
		Equity risk: the risk that the value of a financial instrument will fluctuate as a result of changes in equity prices.	
		Interest rate risk: the risk that the value of an unmatched financial instrument will fluctuate as a result of changes in interest rates and the risk that mismatch losses will be incurred in respect of a matched asset/liability position following changes in interest rates.	
		Currency risk: the risk that the Kenya Shillings value of a financial instrument or liability will fluctuate owing to changes in foreign exchange rates.	
		Property risk: the risk that the value of investment properties will fluctuate as a result as a of changes in the enviroment.	Life insurance
	Credit	Credit risk arises from the inability or unwillingness of a counterparty to a financial instrument to discharge its contractual obligations. Credit risk includes:	Life insurance Capital markets Short-term insurance
		Reinsurance risk: concentration risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings.	
	Liquidity	Liquidity risk is the risk relating to the difficulty/inability to accessing/raising funds to meet commitments associated with financial instruments or policy contracts.	Life insurance Capital markets
	Insurance	Insurance risk includes:	Life insurance Short term insurance
		Underwriting risk: the risk that the actual experience relating to mortality, disability and medical risks will deviate negatively from the expected experience used in the pricing of solutions and valuation of policy liabilities.	
		Persistency risk: the risk of financial loss due to negative lapse, surrender and paid-up experience.	
		Expense risk: the risk of loss due to actual expense experience being worse than that assumed in premium rates and the valuation of policy liabilities.	
		Concentration risk: the risk of financial loss due to having written large proportions of business with policyholders of the same/similar risk profile.	
	Capital adequacy	Capital adequacy risk is the risk that there are insufficient assets to provide for variations in actual future experience, worse than that which has been assumed in the valuation bases.	Life insurance

41. RISK MANAGEMENT (Continued)

(i) Opportunity: managing risk on the upside as an "offensive" function; focusing on actions taken by management to increase the probability of success and decrease the probability of failure.

(ii) Hazard: managing risk on the downside as a "defensive" function; focusing on the prevention or mitigation of actions that can generate losses; and

(iii) Uncertainty: managing the uncertainty associated with risk, focusing on achieving overall financial performance that falls within a defined acceptable range.

Process

Each business has a documented process that links into the business's normal management process and includes:

- Strategic organisational and risk management context:
    - o Strategic context (defining the business's strengths, weaknesses, opportunities and threats relative to its environment),
    - o Organisational context (understanding the business's goals, strategies, capabilities and values),
    - o Risk management context (setting of scope and boundaries),
- Developing risk evaluation criteria, defining a logical framework for risk identification, establishing a risk identification process, analysing the risks identified, evaluating the risks against established risk criteria, deciding on the appropriate action and communication, with the aim of continuous management and improvement.

41. RISK MANAGEMENT (Continued)

b) Group risk policies and guidelines

All risks are managed in terms of the policies and guidelines of the Board and its committees. Some of the main policies are:

(i) The Group Strategic Risk Management (SRM);

(ii) Group Risk Escalation Policy (REP);

(iii) Group Business Continuity Policy (BCP);

(iv) Group Information and Information Technology (I & IT) Risk Management Policy (ITRMP); and

(v) Group Investment Policy

SRM, REP, BCP and ITRMP policies were developed by Sanlam Group Risk Management and have been implemented by all Group businesses. The maturity of the implementation within the Group does, however, vary from business to business due to different cost/ benefit scenarios, complexity of risks and the degree of risk integration. At the quarterly Pan Africa Insurance Holdings Limited Board, risk management reports are tabled that must also indicate the extent of compliance with the Sanlam Risk Management Policy.

The aim of the Group Escalation Policy is to ensure that key risks and risk events in any business in the Group are reported to the appropriate governance level. The Group Business Continuity Policy ensures that effective vertical and horizontal recovery abilities, consistent with business priorities, exist across the Group, to deal with disasters and related contingencies. The Pan Africa Insurance Holdings Limited Group Strategic Risk Management is briefly summarised below:

Pan Africa Insurance Holdings Limited Group Strategic Risk Management

Definition

SRM is a high level over-arching approach to ensure that:

(i) All risks which could jeopardise or enhance achievement of the Group's strategic goals are identified;

(ii) Appropriate structures, policies, procedures and practices are in place to manage these risks;

(iii) Sufficient organisational resources are applied to, and corporate culture is fully supportive of, the effective implementation of these structures, policies, procedures and practices;

(iv) The organisation's risks are indeed being managed in accordance with the foregoing; and

(v) The impact of strategic decisions on the risk-adjusted return on Group Embedded Value is considered by way of appropriate modelling techniques prior to such decisions being implemented.

Objective

The primary objective of SRM is to optimise the Group's risk-adjusted return on Group Embedded Value.

Philosophy

SRM is achieved by:

(i) Applying a decentralised philosophy, in that the individual businesses are responsible for the identification of risks in their business and to apply appropriate risk management. Only significant risks are escalated to the Pan Africa Insurance Holdings Limited Group level, in accordance with the Group Risk Escalation Policy (mentioned above). This policy guides the businesses to assess the impact of the risk (on a scale of insignificant to catastrophic), type of risk (on a scale of unlikely to already occurred/ highly probable), and accordingly to determine the role players to whom the risk should be reported (from the Risk Officer of the business to the chairman of the Audit and Risk Committee).

(ii) Implementing maximum loss limits, by using measures such as "value at risk", long-term solvency requirements, capital adequacy requirements and sensitivities on return on embedded value/value of new business; and

(iii) Clearly defining and documenting the business's risk appetite, being the degree of uncertainty that a business is willing to accept in pursuit of its goals, and describing it both qualitatively and quantitatively.

Risk is inherent in doing business, and includes all of the uncertain consequences of business activities that could prevent Pan Africa Insurance Holdings Limited from achieving its strategic goals. Pan Africa Insurance Holdings Limited SRM process is aimed at managing three elements of risk:

41. RISK MANAGEMENT (Continued)

A number of other risk monitoring mechanisms are operating within the Group as part of the overall risk management structure. The most important of these are illustrated in the following table.

OTHER RISK MONITORING MECHANISMS

Capital Management
Reviews and oversees the management of the Group's capital base

Asset and Liability Match
Determines appropriate investment policies and guidelines for policyholder portfolios where guarantees are provided

Compliance
Facilitates management of compliance through analysis of statutory and regulatory requirements, and monitoring implementation and execution thereof

Group Risk Forum
Aids co-ordination and transfer of knowledge between businesses and the Group, and assists Group Risk Management in identifying risks requiring escalation to the Pan Africa Insurance Holdings Limited Board

Non-listed Assets
The Audit Committee reviews and approves the valuation of all unlisted assets in the Group for recommendation to the Pan Africa Insurance Holdings Limited Board

General Manager - Finance
Ensures that sound financial practices are followed, adequate and accurate reporting occurs, and financial statement risk is minimised

Actuarial
Monitors and reports on key risks affecting the life insurance operations. Determines capital requirements of the life insurance operations and the potential impact of strategic decisions thereon, by using appropriate modelling techniques

Group Legal and Secretarial
Reviews and reports on corporate governance practices and structures. Reports on applicable legal and compliance matters

Sanlam Forensics
Investigates and reports on fraud and illegal behaviour in businesses

Investment Committee
Determines and monitors appropriate investment strategies for policyholder solutions

IT Risk Management
Manages and reports Group-wide IT risks

Risk Officer
Assists business management in their implementation of the Group risk management process, and to monitor the business' entire risk profile

Internal Audit
Assists the Pan Africa Insurance Holdings Limited Board and management by monitoring the adequacy and effectiveness of risk management in business

Notes to the Financial Statements *Continued*

For The Year Ended 31 December 2008

40. CAPITAL MANAGEMENT (Continued)

The Group continues to improve and further develop its capital management models and processes in line with international best practice and the current significant international developments surrounding solvency and capital requirements (for example the Solvency II initiative in the European Union).

Other Group operations

The performance measurement of other Group operations is based on the return achieved on the fair value of the businesses. Risk adjusted return targets are set for the businesses to ensure that each business' return target takes cognisance of the inherent risks in the business. This approach ensures that the management teams are focused on operational strategies that will optimise the return on fair value, thereby contributing to the Group's main objective of optimising return on Group Embedded Value.

Audit Committee

The Audit Committee is responsible for reviewing and overseeing the management of the Group's capital base in terms of the specific strategies approved by the Board.

c) Discretionary capital

Any capital in excess of requirements, and not optimally utilised, is identified on a continuous basis. The pursuit of structural growth initiatives has been set as the preferred application of Group capital, subject to such initiatives yielding the applicable hurdle rate and being complementary to or in support of Group strategy. Any discretionary capital not being efficiently redeployed will be returned to shareholders in the most effective form.

41. RISK MANAGEMENT

a) Governance structure

In terms of the Group's overall governance structure, the meetings of the Pan Africa Insurance Holdings Limited, Pan Africa Life Assurance Limited and PA Securities Limited are combined to improve the flow of information and to increase the efficiency of the Boards. The agenda of the Board focuses on Group strategy, capital management, accounting policies, financial results, dividend policy, human resource development and corporate governance, CMA and NSE requirements. The Pan Africa Life Assurance Board is responsible for statutory matters across all Pan Africa Insurance Holdings Limited businesses as well as monitoring operational efficiency and risk issues throughout the Group.

The Group operates within a decentralised business model. In terms of this philosophy, the Pan Africa Insurance Holdings Limited Board sets the Group risk management policies and frameworks while the individual businesses take responsibility for all operational and risk-related matters on a business level, within the limits set by these policies and frameworks. The following diagram generically depicts the flow of risk management information from the individual businesses to the Pan Africa Insurance Holdings Limited Board.

40. CAPITAL MANAGEMENT

The effective management of Pan Africa Insurance Holdings Limited capital base is an essential component of meeting the Group's strategic objective of maximising shareholder value. The capital value used by the Group as the primary performance measurement base is the Group Embedded Value, as reported on pages 40 to 43. The Group Embedded Value is the aggregate of the following components:

(i) The embedded value of covered business, which comprises the long-term required capital supporting these operations and their net value of in-force business; refer embedded value report on page 40.

(ii) The fair value of other Group operations, which includes the land and property development, capital markets and short-term insurance.

The management of the Group's capital base requires a continuous review of optimal capital levels, including the use of alternative sources of funding, to maximise return on Group Embedded Value. The Group has an integrated capital and risk management approach. The amount of capital required by the various businesses is directly linked to their exposure to financial and operational risks. Risk management is accordingly an important component of effective capital management.

a) Capital allocation methodology

Group businesses are each allocated an optimal level of capital and are measured against appropriate return hurdles.

The following methodology is used to determine the allocation of long-term required capital to the covered business:

The level and nature of the supporting capital is determined by minimum regulatory capital requirements as well as economic, risk and growth considerations. Regulatory capital must comply with specific requirements of the Insurance Act and Kenya Companies Act. A deterministic modelling process is used to determine the long-term required capital levels.

The fair value of other Group operations includes the working capital allocated to the respective operations. The Group's approach to ensure appropriate working capital levels is two fold:

(i) The Group dividend policy is based on the annual declaration of all discretionary capital that is not required for normal operations or expansion; and

(ii) Performance targets are set for other Group operations based on an expected return on the fair value of the businesses, equal to their internal hurdle rates. This ensures that all non-productive working capital is declared as a dividend to the Group.

b) Required Capital

Long-term required capital – covered business

The Group's covered business requires significantly higher levels of allocated capital than the other Group operations. The optimisation of long-term required capital is accordingly a primary focus area of the Group's capital management philosophy given the significant potential to enhance shareholder value.

The following main strategies are used to achieve this objective:

(i) Appropriate matching of assets and liabilities for policyholder solutions. This is especially important for long-duration policyholder solutions that expose the Group to interest rate risk, e.g. non-participating annuities, but also for participating business where asset/liability matching and investment strategy have a direct impact on capital requirements.

(ii) Managing the impact of new business on capital requirements by limiting volumes of capital-intensive new business per business.

(iii) The asset mix of the long-term required capital also impacts on the overall capital requirement. An increased exposure to interest-bearing instruments reduces the volatility of the capital base and accordingly also the capital requirement. The expected investment return on these instruments are however lower than equity with a potential negative impact on the return on Group Embedded Value. There is accordingly a trade-off between lower capital levels and the return on capital. The Group's stochastic capital model is used to determine the optimal asset mix that will ensure the highest return on capital.

(iv) Certain of the Group's investments in other Group operations qualify, to a varying degree, to be utilised as regulatory capital for the covered business. Maximum capital efficiency can therefore be achieved by optimising the level of such investments held in the life companies' regulatory capital.

39. RELATED PARTY TRANSACTIONS (Continued)

(c) Key management compensation

	2008	2007
	KShs.'000	KShs.'000
Salaries and other short-term employment benefits	79,838	74,796
Long term benefits incentive	9,500	9,800
Termination benefits	15,190	-
Post-employment benefits	12,312	9,467
	116,840	94,063

(d) Directors' remuneration

Other emoluments (included in (e) above)	31,024	30,900
Directors' fees	4,993	6,646

(e) Directors' pension

The Company does not cater for any director's pension.

(f) Investment in associates

No guarantees or collateral were provided to the associates.

(g) Net transactions between related parties

The following are net transactions between related parties relating to net payments made on behalf of these companies.

	2008	2007
	KShs.'000	KShs.'000
African Life Assurance Company Limited	(452)	7,985
SIM (K) Limited	16,687	26,185
Hubris Holdings Limited	2,212	(439)

(h) Particulars of the Group principal undertakings are shown below:

	Country of incorporation and domicile	Primary business operation	% Held
Pan Africa Life Assurance Limited	Kenya	Life insurance	100
PA Securities Limited	Kenya	Investment	100
Mae Properties Limited	Kenya	Investment in Properties (dormant)	100
Chem Chemi Mineral Water Limited	Kenya	Dealing with bottled water (dormant)	100

39. RELATED PARTY TRANSACTIONS

		Company		Group	
(a)	Amounts due from related parties:	2008	2007	2008	2007
		KShs.'000	KShs.'000	KShs.'000	KShs.'000
	Parent				
	Sanlam Limited	-	-	-	553
	Hubris Holdings Limited	-	-	427	2,639
	Associates				
	APA Insurance Limited	-	-	-	1,141
	Runda Water Limited	16	16	-	16
	Subsidiary				
	PA Securities Limited	28,612	27,400	-	-
		28,628	27,416	427	4,298
(b)	Amounts due to related parties:				
	Parent				
	Sanlam Limited	-	-	5,212	5,664
	Subsidiary				
	Pan Africa Life Assurance Limited	39,111	226,498	-	-
	Mae Properties Limited	62,627	62,627	-	-
	Sister Company				
	SIM (K) Limited	-	1,167	5,875	25,959
	Associates				
	Runda Water Limited	-	-	-	1,913
		101,738	290,292	11,087	33,536

38. CASH GENERATED FROM OPERATIONS (Continued)

(b) Year ended 31 December 2007

		Investments		
	Long term Insurance	General Business	Property Development	Group
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Cash flow from operations				
Profit before tax	159,458	41,120	(15,584)	184,994
Adjustments for:				
Profit on disposal of property and equipment (note 11d)	(1,290)			(1,290)
Interest income	(198,520)	(22,188)	(19,363)	(240,071)
Fair value (gains)/losses:				
Investment property	(13,500)	(2,000)		(15,500)
Quoted shares	(106,433)	(657)	(12,198)	(119,288)
Treasury bonds	(44,321)			(44,321)
Corporate Bonds & Commercial paper	(2,673)			(2,673)
Depreciation and armortisation (note 13)	22,039	183	95	22,316
Share of results of associated company before income tax	-	1,259	(294)	965
Changes in working capital:				
Receivable from direct insurance arrangements	(60,313)			(60,313)
Receivable from direct reinsurance arrangements	(15,329)		-	(15,329)
Other receivables	9,684	11,481	83,898	105,063
Land and development	-		(7,907)	(7,907)
Actuarial value of policyholder liabilities	834,936		-	834,936
Payable under deposit administration contracts	63,715			63,715
Technical provisions	19,724			19,724
Payable under direct reinsurance arrangements	26,418			26,418
Other payables and accrued expenses	136,502	(14,961)	20,580	142,121
Cash generated from operations	830,097	14,237	49,227	893,561

38. CASH GENERATED FROM OPERATIONS

(a) Year ended 31 December 2008

	Long term Insurance KShs.'000	Investments General Business KShs.'000	Property Development KShs.'000	Group KShs.'000
Cash flow from operations				
Profit before tax	214,083	(183,091)	(47,361)	(16,369)
Adjustments for:				
Investment income	(308,056)	(10,430)	(4,255)	(322,741)
Rental Income	(23,449)			(23,449)
Fair value (gains)/losses:				
Investment property (note 19)	(116,729)			(116,729)
Quoted sahres	175,041	45,631	1,049	221,721
Treasury bonds	21,290		(854)	20,436
Corporate bonds and commercial paper	-		(2,728)	(2,728)
Depreciation & amortization (note 13)	27,240	145	79	27,464
Profit on disposal of property and equipment (note 11d)	(1,112)			(1,112)
Share of results of associated company before income tax	-	133,178	525	133,703
	(11,692)	(14,567)	(53,545)	(79,804)
Changes in working capital:				
Receivables from direct insurance arrangements	(144,272)			(144,272)
Receivables from reinsurance arrangements	27,107			27,107
Other receivables	215,718	(20,373)	5,887	201,232
Land and development			(40,793)	(40,793)
Actuarial value of policyholders liabilities	456,643			456,643
Payables under deposit admin contracts	59,032			59,032
Payable under direct reinsurance arrangements	(24,024)			(24,024)
Technical provisions	(18,241)			(18,241)
Other payables and accrued expenses	(197,108)	8,009	(143,261)	(332,360)
Cash generated from operations	363,163	(26,931)	(231,712)	104,520

34. EARNINGS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share computation.

	2008	2007
	KShs.'000	KShs.'000
Net (loss)/profit attributable to ordinary shareholders for basic and diluted earnings	(95,999)	146,990

	2008	2007
	Thousands	Thousands
Weighted average number of ordinary shares for basic earnings per share		
	48,000	48,000
Basic earnings per ordinary share KShs.	(2)	3
Diluted earnings per ordinary share KShs.	(2)	3

There have been no other transactions involving ordinary shares between the reporting date and date of completion of these financial statements.

35. CONTINGENT LIABILITIES- GROUP

The Group companies are defendants to legal proceedings filed against them by third parties. Unverified claims have also been placed against the former Pan Africa Insurance Company Limited (See note 31). The directors are of the opinion that the outcome of these proceedings and claims will not have a material impact on the financial position of the Group.

The Group operates in the insurance industry and is subject to legal proceeding in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings (including litigations), the directors are of the opinion that the results of the Group, having sought the advice of the Groups legal counsel will not have a material effect on its results and financial position.

The Group is also subject to insurance solvency regulations in all the territories where it operates and has complied with all these solvency regulations. There are no contingencies associated with the Group's compliance or lack of compliance with such regulations.

36. CAPITAL COMMITMENTS - GROUP

The Group has no capital commitments as at balance sheet date. The Group has entered into commercial property leases inrespect of its investment property portfolio, including the Group's unutilised office buildings. Leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

	2008	2007
	KShs.'000	KShs.'000
Property and equipment	-	-
Operating lease commitments		
The future minimum lease payments under non-cancellable operating leases are as follows:		
Not later than 1 year	6,475	5,269
Later than 1 year but not later than 5 years	20,447	23,005
	26,922	28,274

37. DIVIDENDS PAID AND PROPOSED

Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2007: KShs.1.60 (2006: KShs.1.44)	76,800	69,120
Total dividends paid in the year	76,800	69,120
Proposed for approval as at 31 December (not recognised as a liability before approval at the AGM)		
Final dividend for 2008: Nil (2007: KShs.1.60)	Nil	76,800

Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non residents.

33. PRIOR YEAR ADJUSTMENTS

a) Year ended 31 December 2007

The prior year adjustment arose from restatement of the associate's reported earnings for the year 2006. Amounts re ported in the financial statements have been restated as follows:

	As reported at 01 January 2007 KShs.'000	Adjustment KShs.'000	As restated at 01 January 2007 KShs.'000
Assets			
Investment in associate	675,821	(18,516)	657,305
Deferred tax	6,068	(6,068)	-
Share capital and reserves			
Retained earnings	769,134	(24,584)	744,550
Transfer from life funds	(53,684)	(170,322)	(224,006)
Statutory fund	-	170,322	170,322
Income Statement			
Share of results of associated company	320,974	(2,760)	318,214
Income tax charge	(3,672)	(21,824)	(25,496)
Earning per ordinary share			
Basic/diluted earnings per share	8.87		8.87

b) Year ended 31 December 2008

The prior year adjustment arose from restatement of the associate's reported earnings, property and equipment, premium debtors' write off and current income tax for the year 2007. Amounts reported in the financial statements have been restated as follows:

	As reported at 01 January 2008 KShs.'000	Adjustment KShs.'000	As restated at 01 January 2008 KShs.'000
Assets			
Property and equipment (cost)	143,269	(278)	142,991
Other payables	734,066	876	734,942
Receivables out of direct insurance	151,400	(37,793)	113,607
Current income tax	-	(38,004)	(38,004)
Share capital and reserves			
Retained earnings	700,968	(208)	700,760
Transfer from life funds	(170,322)	(38,004)	(208,326)
Statutory fund	292,172	(37,793)	254,373
Revaluation reserve	10,936	(663)	10,273
Income statement			
Share of results of associated company	(152)	(813)	(965)
Income tax charge	-	(38,004)	(38,004)
Earning per ordinary share			
Basic/diluted earnings per share	4.19	1.16	3.06

31. PROVISIONS

	2008	2007
	KShs.'000	KShs.'000
Provision for outstanding claims on discontinued operations	67,381	53,381
Provision for guarantees on discontinued operations	43,904	43,904
	111,285	97,285
The movement in the provisions is as follows:		
At 01 January	97, 285	97,285
Additions	14,000	-
At 31 December	111,285	97,285

32. OTHER PAYABLES

	Company		Group	
	2008	2007	2008	2007
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Rent deposits	-	-	-	18,504
Amount due to related parties(note 39)	101,738	290,292	11;087	33,536
Warranties	-	-	28,018	28,018
Unclaimed dividends	43,412	25,839	43,412	25,839
Other payables and accruals	91,038	63,409	432,125	530,886
	236,188	379,540	514,642	636,783

30. GROUP DEFERRED INCOME TAX

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2007: 30%). The movement on the deferred income tax account is as follows:

	2008	2007
	KShs. '000	KShs.'000
At 01 January	-	-
Deferred tax charge (note 15)	28,930	-
At end of year	28,930	-

Deferred income tax assets and liabilities and deferred income tax charge/(credit) in the income statement are attributable to the following items:

	At start of year	Charge/ (credit) to Income statement	At end of year
	KShs.'000	KShs.'000	KShs.'000
Property and equipment	(6,946)	1,814	(5,132)
Investment property fair value gains	(3,900)	41,729	37,829
Quoted shares – fair value gain	107,134	(96,108)	11,026
Provisions	(108,151)	3,464	(104,657)
Tax losses carried forward	(769,629)	636,910	(132,719)
	(781,492)	587,809	(193,683)
Pan Africa Life Assurance Limited	629,193	(629,193)	-
PA Securities Limited	35,273	90,896	126,169
Mae Properties Limited	3,234	-	3,234
Pan Africa Insurance Holdings Limited	113,792	(78,442)	35,350
Deferred income tax not recognised	781,492	(616,739)	164,753
Deferred income tax on the balance sheet	-	(28,930)	(28,930)

b. Company deferred income tax

Plant and equipment	(2)	-	(2)
Provisions	(1,189)	-	(1,189)
Tax losses carried forward	(32,983)	(1)	(32,984)
	(34,175)	(1)	(34,175)
Deferred income tax not recognised	34,175	1	34,175
Deferred income tax on the balance sheet	-	-	-

Deferred income tax not recognised is in respect of tax loss carried forward as it is probable that the temporary differences will not reverse in the foreseeable future.

28. INSURANCE CONTRACT LIABILITIES (Continued)

Year ended 31 December 2008

KShs. '000

	< 1 year	1-5 years	>5 years	open ended	Total
Linked and market-related liabilities	44,013	550,747	1,176,488	-	1,771,248
Reversionary bonus policies	109,274	524,563	341,804	-	975,641
Other non-participating liabilities	184,009	347,833	61,364	353,472	946,678
Total insurance policies	337,296	1,423,143	1,579,656	353,472	3,693,567

Year ended 31 December 2007

KShs. '000

	< 1 year	1-5 years	>5 years	open ended	Total
Linked and market-related liabilities	90,790	261,138	1,167,890	-	1,519,818
Reversionary bonus policies	61,832	540,211	457,712	59,523	1,119,278
Other non-participating liabilities	8,979	299,056	34,106	255,687	597,828
Total insurance policies	161,601	1,100,405	1,659,708	315,210	3,236,924

29. INTEREST AND BONUS DECLARATION

Investment contracts

The liabilities of the company in respect of funds managed under deposit administration contracts are shown inclusive of interest accumulated to 31 December. Interest was declared and credited to the customer accounts at a weighted average rate of 10% (2007: 11%).

Insurance contracts

The insurance contract liabilities are shown gross of bonus declaration. Bonus to with profit policies was declared and credited as follows:

	2008	2007
Revisionary bonus	2.5%	2.5%
Terminal bonus	2.5%	2.5%

Revisionary bonus vest immediately while terminal bonus vest after 8 years or earlier on maturity.

28. INSURANCE CONTRACT LIABILITIES

	2008			2007		
	Total	Insurance Contracts	Investment Contracts	Total	Insurance Contracts	Investment Contracts
	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000
Net premium	2,396,674	2,318,094	78,580	1,892,326	1,833,671	58,655
Gross	2,588,612	2,510,032	78,580	2,129,089	2,070,434	58,655
Reinsurance	(191,938)	(191,938)	-	(236,763)	(236,763)	-
Investment income (net)	236,630	236,261	369	443,546	420,497	23,049
Investment Income	299,708	296,765	2,943	494,201	465,708	28,493
Investment expenses	(63,078)	(60,504)	(2,574)	(50,655)	(45,211)	(5,444)
Total Income	2,633,304	2,554,355	78,949	2,335,872	2,254,168	81,704
Out go	(2,117,628)	(2,097,712)	(19,916)	(1,450,455)	(1,445,448)	(5,007)
Benefit payment	(1,089,048)	(1,069,131)	(19,916)	(474,513)	(469,549)	(4,964)
Expenses	(858,905)	(858,905)	-	(839,492)	(839,449)	(43)
Income statement	(169,676)	(169,676)	-	(136,450)	(136,450)	-
Increase in the fund	515,676	456,643	59,033	885,417	808,720	76,697
Policy loan revaluation				26,222	26,222	
Fund at the beginning of the year	3,530,296	3,236,924	293,372	2,618,657	2,401,982	216,675
Fund at the end of the year	4,045,972	3,693,567	352,405	3,530,296	3,236,924	293,372

Maturity analysis of investment policy contracts

Year ended 31 December 2008

KShs. '000

	< 1 year	1-5 years	>5 years	open ended	Total
Linked and market-related liabilities	-	-		352,405	352,405
Total investment policies	-	-	-	352,405	352,405

Year ended 31 December 2007

KShs. '000

	< 1 year	1-5 years	>5 years	open ended	Total
Linked and market-related liabilities	-	-	-	293,372	293,372
Total investment policies	-	-	-	293,372	293,372

Maturity analysis of insurance contracts

26. WEIGHTED AVERAGE EFFECTIVE INTEREST RATE

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

	2008	2007
	%	%
Treasury bills	9	7
Treasury bonds	13	11
Mortgage loans and commercial papers	9	6
Short term deposits with financial institutions	9	6
Policy loans	14	14

27. OTHER RECEIVABLES

	Company		Group	
	2008	2007	2008	2007
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Debtors and prepayments	2,718	2,098	32,329	65,227
Amounts due from related parties (note 39)	28,628	27,416	427	4,349
Rent outstanding	-	-	5,962	8,847
Plot debtors	6,798	14,949	6,798	14,949
Impairment of plot debtors	(3,131)	(3,131)	(3,131)	(3,131)
Reclassification to investment property	-		(10,271)	-
Other non-current assets	432	-	38,376	8,728
At 31 December	35,445	41,332	70,490	98,969

The carrying amounts disclosed above reasonably approximate fair value at balance sheet date.

23. TRANSFER TO LIFE FUNDS

During 2001, the directors authorised a total transfer of KShs. 297,001,000 from shareholders' funds to the individual life fund to finance an actuarial deficit arising from new business strain and the write down of certain investment properties The directors with the advice of the statutory actuary recommend a transfer of KShs. 169,000,000 for the year ended 31 December 2008.

24. STATUTORY FUND

The statutory fund represents a reserve maintained within the long term insurance business and represents unallocated surpluses from previous actuarial valuations as required by section 46(5) of the Insurance Act. Transfers from this fund to the income statement and the statutory funds are made upon recommendation of the actuary. This movement has been shown on page 48.

25. MORTGAGE LOANS

	2008 KShs. '000	2007 KShs. '000
Group:		
At 01 January	126,994	104,122
Accrued interest	9,557	6,026
Loans advanced	33,641	39,278
Loan repayments	(23,442)	(22,432)
At 31 December	146,750	126,994
Impairment:		
At 01 January	5,752	5,752
Charge for the year	4,440	-
At 31 December	10,192	5,752
At 31 December (note 20d)	136,558	121,242
Maturity profile of mortgage loans		
Loans maturing:		
Within 1 year	5,971	18,485
In 1-5 years	21,235	60,780
After 5 years	119,544	47,729
	146,750	126,994
Loans at:		
Market rate	15,517	14,447
Concessionary rate	22,095	23,669
Staff loans	109,138	88,878
	146,750	126,994

These loans are carried at amortized cost. None of the above loans have had their terms renegotiated. The collateral on the mortgage loans amounted to KShs. 441,050,000 (2007: KShs. 410,630,000).

20. FINANCIAL INSTRUMENTS (continued)

d. Loans and receivables

	2008	2007
	KShs.'000	KShs.'000
Policy loans	131,550	304,011
Mortgage loans (note 25) 5971	136,558	121,242
Other receivables (note 27)	70,490	98,969
Total Loans and receivables	338,598	524,222

Refer to note 26 for effective interest rates

e. Available for sale

Available for sale investments comprise a shareholding of 17.5% in Sanlam Investment Management Kenya Limited (SIM (K)). SIM (K) is registered in Kenya and its core business is fund management. The Shareholding was acquired at the beginning of the year. This equity instruments does not have a quoted market price in an active market, its fair value cannot be reliably measured and has thus been measured at cost.

	2008	2007
	KShs.'000	KShs.'000
Total available for sale assets	3,827	-

21. CASH AND CASH EQUIVALENTS

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

a. Group

	2008	2007
	KShs.'000	KShs.'000
Cash and bank balances	73,247	62,670
Short term deposits with financial institutions	830,417	1,054,350
	903,664	1,117,020

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group. All deposits are subject to an average variable interest rate of 4.8% (2007: 4.3%). The carrying amounts disclosed above reasonably approximate fair value at balance sheet date.

b. Company	2008	2007
	KShs.'000	KShs.'000
Cash and bank balances	7,661	18,303
Deposits with financial institutions	19,259	77,915
	26,920	96,218

	Ordinary shares KShs.'000	Ordinary shares KShs.'000
22. SHARE CAPITAL		
At start and end of year	240,000	240,000

The total number of authorised ordinary shares is 100,000,000, with a par value of KShs. 5 per share. There are 48,000,000 shares in issue with a par value of KShs. 5 per share. All issued shares are fully paid.

20. FINANCIAL INSTRUMENTS

The Groups financial instruments other than derivative financial instruments are summarised by categories as follows:

	2008 KShs.'000	2007 KShs.'000
Financial assets at fair value through profit or loss (note b)	3,036,894	2,799,823
Held-to-maturity financial assets (note c)	492,523	231,551
Loans and receivables (note d)	338,598	524,222
Available for sale (note e)	3,827	-
Total financial instruments	**3,871,842**	**3,555,596**

a. Maturity profile of financial instruments

	< 1 year KShs. '000	1 - 5 years KShs. '000	> 5 years KShs. '000	Open ended KShs. '000	Total KShs. '000
31 December 2008					
Public sector stocks and loans	400,032	895,334	1,223,881	-	2,519,247
Loans and receivables	70,490	268,108	-	-	338,598
Equity securities	-	-	-	1,010,170	1,010,170
Available for sale	-	-	-	3,827	3,827
	470,522	1,163,442	1,223,881	1,013,997	3,871,842
31 December 2007					
Public sector stocks and loans	336,353	808,825	777,729	-	1,922,907
Loans and receivables	418,202	36,848	52,052	17,120	524,222
Equity securities	-		-	1,108,467	1,108,467
	754,555	845,673	829,781	1,125,587	3,555,596

b. financial assets at fair value through profit or loss

	2008 KShs.'000	2007 KShs.'000
Equity securities	1,010,170	1,108,467
Government debt securities (note	1,824,857	1,643,398
Commercial paper	201,867	47,958
Total financial assets at fair value through profit or loss	3,036,894	2,799,823

Refer to note 26 for effective interest rates

c. held-to-maturity financial assets

Held-to-maturity investments comprise Government bonds held under lien in favor of Commissioner of Insurance. The group has the positive intention and ability to hold until maturity.

	2008 KShs.'000	2007 KShs.'000
Government Bonds under lien	492,523	231,551
Total Held-to-maturity financial assets	**492,523**	**231,551**

Refer to note 26 for effective interest rates

18. (b) COMPANY PROPERTY AND EQUIPMENT

At 31 December 2008	Furniture and equipment	Total
Cost:	KShs.'000	KShs.'000
At 01 January	560	560
Additions	-	-
At 31 December	560	560
Accumulated depreciation:		
At 01 January	314	314
Charge for the year	78	78
At 31 December	392	392
Net book value:		
At 31 December 2008	168	168
At 31 December 2007		
Cost:		
At 01 January	560	560
Additions	-	-
At 31 December	560	560
Accumulated depreciation:		
At 01 January	219	219
Charge for the year	95	95
At 31 December	314	314
Net book value:		
At 31 December 2007	246	246

19. INVESTMENT PROPERTY

	Company		Group	
	2008	2007	2008	2007
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
At 01 January	6,000	6,000	234,500	439,000
Reclassification from property and equipment	-	-	13,000	-
Reclassification from other receivables	-	-	10,271	-
Fair value gain	-	-	116,729	15,500
Disposals	-	-	-	(220,000)
At 31 December	6,000	6,000	374,500	234,500

Investment properties are stated at fair value, which has been determined based on valuations performed by Lloyd Masika Limited and Knight Frank Limited as at 31 December 2008. Lloyd Masika and Knight Frank Limited are industry specialists in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. Valuations are performed on an annual basis and the fair value gains and losses are recorded within the income statement. The Group entered into operating leases for its investment properties. The rental income arising during the year and the expenses arising in respect of such properties during the year is disclosed in note11. The fair valuation basis takes into account the existing use and the tenancies and also considers the normal lease structure for similar buildings.

18. (a) GROUP PROPERTY AND EQUIPMENT

Year ended 31 December 2008

Cost /valuation:	Buildings KShs.'000	Motor vehicle KShs.'000	Furniture, fittings and equipment KShs.'000	Total KShs.'000
At 01 January	15,084	10,396	117,789	143,269
Prior adjustment (note 33)	-		(278)	(278)
Restated	15,084	10,396	117,511	142,991
Additions	-	4,530	37,910	42,440
Disposals	-	(6,200)	-	(6,200)
Reclassification to investment property	(15,084)	-	-	(15,084)
At 31 December	-	8,726	155,421	164,147
Accumulated depreciation:				
At 01 January	2,084	8,401	72,637	83,122
Charge for the year	-	2,749	21,097	23,846
Disposals	-	(5,942)	-	(5,942)
Reclassification to investment property	(2,084)	-	-	(2,084)
At 31 December	-	5,208	93,734	(98,942)
Net book value:				
At 31 December	-	3,518	61,687	65,205

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs 51,833,178(2007: KShs. 43,422,990) which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 12,161,703(2007: KShs. 8,006,508). No borrowing costs have been capitalised in the additions to property and equipment. None of the above assets was pledged as security for liabilities.

Year ended 31 December 2007

Cost /valuation:	Buildings KShs.'000	Motor vehicle KShs.'000	Furniture, fittings and equipment KShs.'000	Total KShs.'000
At 01 January	12,819	13,428	102,886	129,133
Additions	-	-	14,927	14,927
Revaluations	2,265	-	-	2,265
Reclassification to investment property	-	(3,032)	(24)	(3,056)
At 31 December	15,084	10,396	117,789	143,269
Accumulated depreciation:				
At 01 January	2,084	8,792	55,371	66,247
Charge for the year	256	2,641	17,268	20,165
Revaluations	(256)	-	-	(256)
Reclassification to investment property	-	(3,032)	(2)	(3,034)
At 31 December	2,084	8,401	72,637	83,122
Net book value:				
At 31 December	13,000	1,995	45,152	60,147

16. GROUP INTANGIBLE ASSETS (SOFTWARE)

	2008 KShs. '000	2007 KShs. '000
Cost:		
At 01 January	10,515	7,437
Additions	6,570	3,078
At 31 December	17,085	10,515
Accumulated depreciation		
At 01 January	5,227	3,076
Charge for the year	3,618	2,151
At 31 December	8,845	5,227
Net book value	8,240	5,289

17. INVESTMENTS

a) investments in subsidiaries - Company	Shareholding	2008 KShs.'000	.2007 KShs.'000
Pan Africa Life Assurance Limited	100%	331,203	331,203
PA Securities Limited	100%	679,009	679,009
		1,010,212	1,010,212

b) investments in associates	Company		Group	
	2008 KShs. '000	2007 KShs. '000	2008 KShs.'000	2007 KShs.'000
Share of associates' balance sheet				
Current assets	10,203	11,124	483,419	441,582
Non-current assets	2,312	2,704	1,509,416	1,367,224
Current liabilities	(4,059)	(3,836)	(83,450)	(53,438)
Non-current liabilities	(1,145)	(2,156)	(1,401,227)	(1,106,620)
Net assets	7,311	7,836	508,158	648,748
Share of associates' revenue and profit				
Revenue	6,066	5,713	131,237	21,933
Profit	(525)	294	(133,703)	(965)
Carrying amount of investments:	7,311	7,836	508,158	648,748

Investments comprise	Principal activity	2008 Shareholding	2007 Shareholding
APA Insurance Limited	General Insurance	39.97%	39.97%
Runda Water Limited	Water distribution	24.90%	24.90%

APA Insurance limited and Runda Water Limited are private entities incorporated in Kenya and are not listed on any public exchange and there are no published price quotations for the fair value of these investments. The reporting date and reporting year of APA Insurance Limited and Runda Water Limited is the same as the Group and both use uniform accounting policies except as follows: APA Insurance adopted IAS 39 (amended) that permitted equity instruments to be reclassified from financial instruments through profit or loss to held for trading. The Group policy is to classify equity instruments as financial instruments through profit or loss. Consequently the group modified the results of the associate to conform with Group policy as required by IAS 28.

13. OPERATING EXPENSES	2008 KShs. '000	2007 KShs. '000
Commission	385,471	399,073
Administration	473,434	440,376
	858,905	839,449
Other expenses include:		
Staff costs(note 14)	237,572	217,591
Amortisation and (note 16)	3,618	2,151
Depreciation (note18)	23,846	20,165
Fees for managerial and administrative services:	10,409	9,305
Auditor's remuneration	2,272	2,970
Tax audit	4,318	1,114
Legal	1,349	2,751
Actuarial	2,470	2,470
Repairs and maintenance	3,366	1,903
Impairment provision on mortgage loans	-	677
Premium tax and stamp duty	23,266	19,038

14. STAFF COSTS		
Staff costs include the following:		
Retirement benefit costs	33,371	12,237
Staff Bonus	30,000	41,000
Long Term retention scheme (LTRS)	12,165	14,250
Social security benefit costs	507	412
Other expenses	161,529	149,692
	237,572	217,591

Staff are entitled to a bonus which is based on preset performance parameters on an annual basis. The full cost of the bonus is expensed in the year in which it is earned. Long term retention schemes exist for qualifying staff. The annual LTRS expense is based on the growth of the value of inforce. The LTRS is an independent private trust registered under the trustees (perpetual succession) Act Cap 164 with independent trustees. The trust is independent of Group.

15. INCOME TAX	2008 KShs.'000	2007 KShs.'000
Current income tax	50,700	38,004
Deferred income tax(note 30)	28,930	-
Current year tax charge	79,630	38,004
Share of associates' tax	10,572	2,536
	90,202	40,540

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

Reconciliation of taxation expense to tax based on accounting profit:-	2008 KShs.'000	2007 KShs.'000
Profit before income tax	(5,796)	186,717
Tax calculated at a statutory rate of 30%	(1,739)	56,015
Tax effect of		
Income not subject to tax	(87,551)	(225,082)
Expenses not deductible for tax	61,222	91,565
Deferred income tax asset not recognised	78,768	158,444
Prior year adjustments	-	(42,938)
Income tax charge	50,700	38,004

11. INVESTMENT RETURN (Continued)

b. Realised gains	Investing activity		Operating activity	
	2008	2007	2008	2007
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Realised gains/(loss) - equity securities	22,978	265,889	83,627	(67,468)
c. Fair value gains and losses				
Treasury bonds	856	-	(21,290)	44,321
Investment properties fair value gain/(loss) (note 19)	18,729	2,000	98,000	13,500
Financial assets fair value (loss)/gains	(69,209)	(237,343)	(258,667)	158,210
Corporate bonds and commercial papers	-	-	-	2,673
	(49,626)	(235,343)	(181,957)	218,704
d. Other revenue				
Profit Commission	-	-	-	17,752
Sale of plots	-	10,150	-	-
(Loss)/gain on disposal	-	(8,943)	1,112	1,290
Miscellaneous	-	231	-	-
Debt recovery	-	22,000	-	-
	-	23,438	1,112	19,042

12. POLICYHOLDER BENEFITS

	2008	2007
	KShs.'000	KShs.'000
Gross death and disability claims	509,173	328,991
Maturity and survival benefits	241,065	196,886
Policy surrenders	424,235	66,708
Interest declared to deposit administration funds	368	23,006
Gross benefits and claims paid	1,174,841	615,591
Change in actuarial value of insurance contract liabilities	456,643	808,719
Claims ceded to reinsurers	(105,710)	(146,042)
Net benefits and claims paid	1,525,774	1,278,268

9. GROSS PREMIUM INCOME

The principal activity of the Group is the underwriting of long-term insurance business as defined by the Insurance Act. Premium income can be analysed between the two main classes as follows:

	2008	2007
New business	KShs.'000	KShs.'000
Recurring		
Individual life	230,834	181,510
Group business	106,742	125,845
Single premiums		
Individual life	73,778	29,393
Group business	590,818	551,301
Total new business	1,002,172	888,049
Renewal recurring		
Individual life	1,197,833	1,007,588
Group business	310,027	174,796
Total renewal premium income	1,507,860	1,182,384
Total premium income	2,510,032	2,070,433

10. FEES AND COMMISSION INCOME

	2008	2007
	KShs.'000	KShs.'000
Fees	7,332	5,107
Commission receivable	43,774	53,908
	51,106	59,015

11. INVESTMENT RETURN

a. Investment income

	Investing activity		Operating activity	
	2008	2007	2008	2007
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Interest from government securities	33,684	35,620	164,480	156,354
Interest from bank deposits	6,602	13,219	115,583	56,658
Interest from loans	2,340	1,106	20,511	18,209
Dividends from listed companies	5,720	-	18,854	13,675
Rental income	-	9,927	23,449	(8,481)
Investment expenses	-	-	(60,504)	(45,211)
Investment income	48,346	59,872	282,373	191,204

8. BUSINESS SEGMENT INFORMATION (Continued)

Year ended 31 December 2007	Ordinary life business KShs'000	Group life business KShs'000	Total KShs'000
Gross premiums	1,218,491	851,942	2,070,433
Reinsurance	(25,266)	(211,497)	(236,763)
Net premiums	1,193,225	640,445	1,833,670
Investment income	296,903	68,544	365,447
Commissions earned	7,690	51,325	59,015
Other income (including fees)	5,107	13,935	19,042
Total income	1,502,925	774,249	2,277,174
Policyholders' benefits:			
Life and health claims	(145,548)	(305,123)	(450,671)
Surrenders and annuity payments	(140,282)	(496)	(140,778)
Policyholder bonuses and interest	(278)	(23,006)	(23,284)
Claims handling expenses	(858)	-	(858)
Change in actuarial value of policyholder benefits	(641,219)	(167,500)	(808,719)
Less: amounts recoverable from reinsurers	-	146,042	146,042
Net claims and policyholder benefits payable	(928,185)	(350,083)	(1,278,268)
Operating and other expenses	(397,042)	(43,334)	(440,376)
Commissions payable	(240,077)	(158,996)	(399,073)
Total expenses	(1,565,304)	(552,413)	(2,117,717)
(Loss)/profit before income tax	(62,379)	221,836	159,457
Income tax expense	(38,004)	-	(38,004)
(Loss)/profit for the year	(100,383)	221,836	121,453
Life funds at the end of the year comprise amounts attributable to:			
Policy holders			
Actuarial liabilities	2,830,622	406,302	3,236,924
Deposit administration funds	-		293,372
	2,830,622	406,302	3,530,296

8. BUSINESS SEGMENT INFORMATION (Continued)

The long term insurance business is further analyzed as follows:

Year ended 31 December 2008	Ordinary life business KShs'000	Group life business KShs'000	Total KShs'000
Gross premiums	1,502,445	1,007,587	2,510,032
Reinsurance	(10,008)	(181,930)	(191,938)
Net premiums	1,492,437	825,657	2,318,094
Investment income	199,619	28,835	228,454
Commissions earned		43,744	43,744
Other income (including fees)	8,481	(5)	8,476
Total income	**1,700,537**	**898,231**	**2,598,768**
Policyholders' benefits:			
Life and health claims	(30,092)	(467,345)	(497,437)
Surrenders and annuity payments	(676,205)	-	(676,205)
Policyholder bonuses and interest	-	-	-
Claims handling expenses	(1,204)	-	(1,204)
Change in actuarial value of policyholder benefits	(102,949)	(353,689)	(456,638)
Less: amounts recoverable from reinsurers	-	105,710	105,710
Net claims and policyholder benefits payable	**(810,450)**	**(715,324)**	**(1,525,774)**
Operating and other expenses	(418,599)	(54,835)	(473,434)
Commissions payable	(249,881)	(135,590)	(385,471)
Total expenses	**(1,478,930)**	**(905,749)**	**(2,384,679)**
(Loss)/profit before income tax	221,607	(7,518)	214,089
Income tax expense	(79,631)	-	(79,631)
(Loss)/profit for the year	**141,976**	**(7,518)**	**134,458**
Life funds at the end of the year comprise amounts attributable to:			
Policy holders			
Actuarial liabilities	2,933,577	759,990	3,693,567
Deposit administration funds	-	-	352,405
	2,933,577	759,990	4,045,972

8. BUSINESS SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and services and has three reportable operating segments as follows:

- The life insurance segment, which is the core activity of the Group, offers a wide range of assurance products, unitised products, pension schemes and mortgage products.
- The non-life insurance segment, through the Group's subsidiary – APA Insurance, comprises general insurance. General insurance products offered include motor, household, commercial and business interruption insurance. Non-life healthcare contracts provide medical cover to policyholders.
- The property development segment involved in the development and sale of properties.

No operating segments have been aggregated to form the above reportable operating segments.

Segment performance is evaluated based on profit or loss which in certain respects is measured differently from profit or loss in the consolidated financial statements. Where any inter-segment transactions occurred, transfer prices between operation segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between business segments which have then been eliminated on consolidation.

Year ended 31 December 2008	Long term Insurance KShs.'000	Investments General Business KShs.'000	Property development KShs.'000	Elimination on consolidation KShs.'000	Group KShs.'000
Gross premium income	2,510,032	-	-		2,510,032
Net premium income	2,318,094	-	-		2,318,094
Other income					
Investment income	280,674	(31,302)	5,471		254,843
Share of associate's profit	-	(133,178)	(525)		(133,703)
Segment inflows	2,598,768	(164,480)	4,946		2,439,234
Segment outflows	(2,384,679)	(18,615)	(52,308)		(2,455,603)
Profit before income tax	214,089	(183,095)	(47,363)		(16,369)
Income tax expense	(79,630)	-	-		(79,630)
Net profit for the year	134,459	(183,095)	(47,363)		(95,999)
Segment assets	5,113,614	921,804	189,853	(131,143)	6,094,128
Segment liabilities	4,532,529	270,610	236,187	(131,143)	4,908,193
Capital expenditure	42,440		-		42,440
Depreciation	27,240	145	79		27,464
Year ended 31 December 2007					
Gross premium income	2,070,433	-	-		2,070,433
Net premium income	1,833,670	-	-		1,833,670
Other income					
Investment income	365,447	34,681	22,097		422,225
Miscellaneous income	78,057	13,232	10,204		101,493
Share of associate's profit	-	(1,259)	294		(965)
Segment inflows	2,277,174	46,654	32,595		2,356,423
Segment outflows	(2,117,717)	(5,533)	(48,179)		(2,171,429)
Profit before income tax	159,457	41,121	(15,584)		184,994
Income tax expense	(38,004)	-	-		(38,004)
Net profit for the year	121,453	41,121	(15,584)		146,990
Segment assets	4,510,470	1,170,046	330,161	(147,008)	5,863,669
Segment liabilities	4,177,469	248,235	223,461	(147,008)	4,502,158
Capital expenditure	18,005	-	-		18,005
Depreciation	22,316	-	-		22,316

ah) **Critical accounting estimates and judgements**

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.

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These factors could include:

i) Critical accounting estimates and assumptions

a) Valuation of investment contract liabilities

Critical assumptions are made by the actuary in determining the present value of actuarial liabilities. These assumptions are set out in accounting policy (e) above.

The liability for life insurance contracts is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group base mortality and morbidity on standard industry and Euroland mortality tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation adjustments if appropriate.

Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure.

b) Property and equipment

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment. The rates used are set out in accounting policy (j) above.

c) Income taxes

i) The Group is subject to income taxes under the Kenya Income Tax Act. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and the deferred tax provisions in the period in which such determination is made.

ii) Critical judgements in applying the entity's accounting policies

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

a) The classification of financial assets and leases

b) Whether assets are impaired

c) Whether land and buildings meet the criteria to be classified as investment property

ai) **Events after the balance sheet date**

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the balance sheet date. Events that are indicative of conditions that arose after the balance sheet date are disclosed, but do not result in an adjustment of the financial statements themselves.

estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

The recoverable amount for the life insurance business has been determined based on a fair value less costs to sell calculation. The calculation requires the Group to make an estimate of the total of the adjusted net worth of the life insurance business plus the value of in-force covered business. This calculation is derived from the embedded value principles developed by the Euroland Institute of Actuaries. New business contribution represents the present value of projected future distributable profits generated from business written in a period. Growth and discount rates used are suitable rates which reflect the risks of the underlying cash flows.

Associates

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investments in associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognises this amount in the income statement.

ac) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the loss is recorded in the income statement.

The Group first assesses 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 it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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. The impairment assessment is performed at each balance sheet date.

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, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

ad) Sales taxes and premium taxes

Revenues, expenses and assets are recognised net of the amount of sales taxes and premium taxes except:

- when the sales or premium tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable, and receivables and payables that are stated with the amount of sales or premium tax included. Outstanding net amounts of sales or premium tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

ae) Provisions

General Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounting using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

af) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents consist of cash at bank and in hand and short term deposits with Financial institutions with an original maturity of three months or less.

ag) Revaluation reserve

This represents the Group's share of the associate's revaluation reserve emanating from revaluations of certain assets.

with the Kenyan Income Tax Act. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred Income tax

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 nor loss, it is not accounted for. Deferred income tax is determined using tax rates 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.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

w) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until approved at a general meeting of the shareholders. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

x) Comparatives

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year.

y) Risk and capital management

The Group has adopted IFRS 7 Financial Instruments:

Disclosures and the revised IAS 1:- Presentation of Financial statements. Note 39 details the Capital Management Policy while Note 41 details the nature and extent of risks arising from financial instruments and the approach the Group has adopted to mitigate these risks.

z) Deferred acquisition cost

Incremental costs directly attributable to the acquisition of investment contracts with investment management services are capitalized to a Defered acquisition cost(DAC) asset if they are separately identifiable, can be measured reliably and its probable that they will be recovered. DAC are amortized in the income statement over the term of the contracts as the related services are rendered and revenue recognized, which varies from year to year depending on the outstanding term of the contracts in force. The DAC asset is tested for impairment bi annually and written down when it is not expected to be fully recovered.

For the period to the end of the year, no DAC asset has been recognized since the incremental costs cannot be separately identified and measured reliably.

aa) Expenses

i) Expenses are recognised in the income statement when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means in effect that recognition of an increase in liabilities or a decrease in an asset (for example the accrual of employee entitlements or the depreciation of equipment).

ii) When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined expenses are recognised in the income statement on the basis of systematic and rational allocation procedures. This is often necessary in recognising the equipment associated with the using up of assets such as property, plant and equipment in such cases the expense is referred to as a depreciation or amortisation. These allocation procedures are intended to recognise expenses in the accounting periods in which the economic benefits associated with these items are consumed or expire.

iii) An expense is recognised immediately in the income statement when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the balance sheet as an asset.

ab) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Impairment losses of continuing operations are recognised in the income statement in those expenses categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previous impairment loss is reversed only if there has been a change in the

q) **Bad and doubtful debts**

Policy receivables are lapsed when premiums have been in arrears for three cumulative months. Bad debts are written off when all possible measures have been taken without success.

r) **Insurance contract liabilities**

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included.

A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Group.

Adjustments to the liabilities at each reporting date are recorded in the income statement. Profits originated from margins of adverse deviations on run-off contracts, are recognised in the income statement over the life of the contract, whereas losses are fully recognised in the income statement during the first year of run-off. The liability is derecognised when the contract expires, is discharged or is cancelled.

s) **Net asset value attributable to unit-holders**

Unit trusts in which the Group has a percentage holding in excess of 50% have been consolidated. This liability is referred to as 'net asset value attributable to unit-holders'.

These liabilities are designated at fair value through profit or loss. Fair value is measured at current unit values, which reflect fair values of underlying assets of the fund.

These liabilities are derecognised when the related contracts are settled or disposed of.

t) **Employee entitlements**

i) Retirement benefit obligations

The Group operates a defined contribution retirement benefit scheme for qualifying employees. The Group and all its employees also contribute to the National Social Security Fund which is also a defined contribution scheme. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group's contributions to the defined contribution schemes are charged to the income statement in the year to which they relate.

Cash settled non-share entitlements

The Group has a long-term retirement benefit scheme that is separately administered by Trustees under a legal entity registered with the Retirement Benefits Authority (RBA). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay qualifying employees the benefits due to them on vestation. The amount expensed each year is based on the increase in value of inforce (VIF) and charged directly to the income statement on approval by the Board of directors. The Group has no claim whatsoever on the amounts that have not vested as this is redistributed to the existing qualifying members.

Bonus

Staff are entitled to a bonus which is based on preset performance parameters on an annual basis. The full cost of the bonus is expensed in the year in which it is earned.

ii) Other entitlements

The estimated monetary liability for employees accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

u) **Other financial liabilities and insurance payables**

Other financial liabilities are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

Financial liabilities and insurance payables are derecognised when the obligation under the liability is discharged, cancelled or expired. When the existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

v) **Taxes**

Current Income tax

Income tax expense is the aggregate of the charge to the income statement 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

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses 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 deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Due from loans and advances to customers

For amounts due from loans and advances to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, 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 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 expected credit losses that have not yet been incurred).

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 income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

m) Translation of foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the income statement.

n) Accounting for leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to income on a straight-line basis over the period of the lease.

o) Land and development

Land and development, comprising plots held for resale, is stated at the lower of cost and net realisable value. The cost of land and development includes infrastructure costs incurred in respect of unsold plots, which are deferred and released to income as the land is sold.

p) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in (m) have been met.

use, the specific software. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful live of intangible asset are assessed to be finite. These costs are amortised over their estimated useful lives (three to five years).

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

l) **Financial instruments**

The Group classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates such designation at every reporting date:

i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit and loss include financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realised gain and loss are recognised in the income statement.

Financial assets at fair value through profit or loss comprise quoted shares, government securities, commercial paper and corporate bonds.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are disclosed on the face of the balance sheet.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

iii) Held–to-maturity investments

Held–to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group has the positive intention and ability to hold to maturity. Held-to-maturity investments comprise bonds on lien. Purchases and sales of investments are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

iv) Available – for – sale investments

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. They include investment in un - quoted shares. These investments are initially recorded at fair value. Where equity instruments do not have a quoted market price in an active market and whose fair value cannot be reliably measured the instruments have been measured at cost.

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

h) Policyholder benefits

Policyholder benefits incurred comprise benefits paid in the year and changes in the provision for insurance contract liabilities. Benefits paid represent all payments made during the year, whether arising from events during that or earlier years. Insurance contract liabilities represent the estimated ultimate cost of settling all benefits accruing to policyholders and are discounted to the present value.

i) Deposit administration contracts

The Group administers the funds of a number of retirement benefit schemes. The liability of the group to the schemes is included in the balance sheet.

j) Property and equipment

All categories of property and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at market value, based on valuations by external independent valuers. All other property and equipment is stated at historical cost less accumulated depreciation and accumulated impairments.

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 group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the income statement.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost or revalued amount to their residual values over their estimated useful lives, as follows:

Buildings	-	Over the unexpired lease period
Equipment and Motor vehicles	-	3-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property and equipment 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

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.

k) Investment property

Buildings, or part of a building, and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation and are not occupied by the Group are classified as investment property. Investment property is initially measured at cost, including transaction costs. Subsequently investment property is carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are included in investment income in the income statement.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is charged or credited to the income statement.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring its accounting policies in line with the Group.

d) **Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

e) **Income recognition**

Gross premiums

Gross recurring premiums on life and investment contracts recognised as revenue when payable by the policyholder. For single premium business revenue is recognised on the date on which the policy is effective.

Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the balance sheet date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance premiums

Gross reinsurance premiums on life and investment contracts are recognised as an expense when payable or on the date on which the policy is effective.

Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the balance sheet date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Fees and commission income

Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods then they are deferred and recognised over those future periods.

Investment income

Interest income is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

Investment income also includes dividends when the right to receive payment is established.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease terms.

f) **Benefits, claims and expenses recognition**

Gross benefits and claims

Gross benefits and claims for life insurance contracts and for investment contracts include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims as well as changes in the gross valuation of insurance and investment contract liabilities. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

g) **Reinsurance**

The Group cedes insurance risk in the normal course of business for all of its businesses.

Reinsurance assets represent balances due from reinsurance

- IAS 39 Financial Instruments: Recognition and Measurement: Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- IAS 40 Investment Property: Revision of the scope such that property under construction or development for future use as an investment property, is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under a lease is the valuation obtained increased by any recognised liability.
- IAS 41 Agriculture: Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term 'point-of-sale costs' with 'costs to sell'.

IFRIC interpretations not yet effective

- IFRIC 13 Customer Loyalty Programmes: IFRIC 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.
- IFRIC 15 Agreement for the Construction of Real Estate: IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statement because the Group does not conduct such activity.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation: IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group expects that this interpretation will have no impact on the consolidated financial statements as it has no Investments in Foreign Operation.
- IFRIC 17 Distribution of non cash assets to owners: IFRIC 17 was issued in July 2008 and becomes effective for financial years beginning on or after 1 July 2009. The interpretation is to be applied prospectively. IFRIC 17 provides guidance on how an entity should account for distributions of assets other than cash (non-cash assets) as dividends to its owners, including situations where an entity may also give its owners a choice of receiving either non-cash assets or a cash alternative. The Group expects that this interpretation will have no impact on the consolidated financial statements.

c) Consolidation

The consolidated financial statements comprise the financial statements of the Group as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

Investments in subsidiaries in the Group financial statements are carried at cost less any impairment losses recognised.

i) 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.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of pre-acquisition movements in reserves is conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. The Group currently does not have share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications as a result of this amendment.

- IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements - The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such a transaction will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. The Group does not intend to take advantage of this possibility.
- IAS 1 Revised Presentation of Financial Statements - the revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating the effects of this revision, but has not early adopted.
- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation - These amendments were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

Improvements to IFRSs

In May 2008 Improvements to IFRS's were issued. There are separate transitional provisions for each standard. None of these amendments are expected to have a material effect on the Group. The Group has not early adopted the following amendments:

- IFRS 7 Financial Instruments: Disclosures: Removal of the reference to 'total interest income' as a component of finance costs.
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors: Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- IAS 10 Events after the Reporting Period: Clarification that dividends declared after the end of the reporting period are not obligations.
- IAS 16 Property, Plant and Equipment: Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.
- IAS18 Revenue: Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- IAS 19 Employee Benefits: Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- IAS 27 Consolidated and Separate Financial Statements: When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- IAS 29 Financial Reporting in Hyperinflationary Economies: Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- IAS 34 Interim Financial Reporting: Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.

7. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These 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 financial statements are presented in the functional currency, Kenya Shillings (KShs.) rounded to the nearest one thousand, and prepared under the historical cost convention, as modified by the carrying of certain property and equipment, investment property and certain investments at fair value, impaired assets at their recoverable amounts and actuarially determined liabilities at their present value. 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 group's accounting policies.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

b) Adoption of new and revised standards

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any material effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

- IAS 23 Borrowing costs. The revision requires capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Previously the Standard also permitted such costs to be expensed as incurred and this was the Group's previous accounting policy. The adoption of this interpretation has had no impact on the financial position or performance of the Group.
- IAS 39 - Financial instruments: Recognition and Measurements. The amendment allows reclassifications of certain financial instruments out of the fair value through profit or loss category under certain conditions. In order to comply with the Group policy, the Group opted not to take advantage of this amendment, which APA Insurance, an associate of the Group adopted.
- IFRS 7- Financial Instruments: Disclosures. Due to amendment in IAS 39 above, there was a requirement for additional disclosures about the situations in which any such reclassifications were made, and the effects on the financial statements.
- IFRS 8 Operating Segments. This Standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting.
- IFRIC 12 – Service Concession Arrangements. This interpretation sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements.
- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset. Minimum Funding Requirements and their Interaction. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. As the Group's defined benefit scheme is currently in deficit the adoption of this interpretation has had no impact on the financial position or performance of the Group.

Standards issued but not yet effective

The following amendment to an existing standards and new standards and interpretations will be mandatory for the company's accounting periods beginning on or after 1 January 2009, but which the Group has not early adopted:

- IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements - The amendments to IFRS 1 allow an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendments to IAS 27 require all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.
- IFRS 2 Share-based Payment (Amendments) - This amendment to IFRS 2 Share-based payments was issued in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other

Group Cash Flow Statement

For The Year Ended 31 December 2007

Year ended 31 December 2007

	Note	Long term insurance KShs.'000	Investments general business KShs.'000	Property development KShs.'000	Group KShs.'000
Operating activities					
Cash generated from operations	38(b)	830,097	14,237	49,227	893,561
Interest income		198,520	22,188	19,363	240,071
Net cash from/(used in) operating activities		1,028,617	36,425	68,590	1,133,632
Investing activities:					
Purchase of property and equipment	18(b)	(14,530)	(19)	(378)	(14,927)
Purchase of quoted shares		(434,938)	(194,568)	(107,254)	(738,760)
Purchase of government securities		(518,142)	(38,617)	(146,860)	(703,619)
Purchase of commercial paper		153;985			153,985
Mortgage loans advanced		(39,278)			(39,278)
Repayments of mortgage loans	25	9,634	6,771		16,405
Net policy loans advanced		(105,370)			(105,370)
Proceeds from the sale of government securities		209,237	37,061		246,298
Proceeds from disposal of property and equipment		1,312	220,000		221,312
Proceeds from disposal of quoted shares		573,637	16,981	83,039	673,657
Dividend received from associate		-	8,394		8,394
Purchase of software		(3,078)	-	-	(3,078)
Net cash from/(used in) investing activities		(167,531)	56,003	(171,453)	(282,981)
Financing Activities:					
Dividends paid/received from subsidiary		(243,317)	(12,000)	255,317	-
Dividends paid		-	-	(69,120)	(69,120)
Net cash from/(used in) financing activities		(243,317)	(12,000)	186,197	(69,120)
(Decrease)/increase in cash and cash equivalents		617,769	80,428	83,334	781,531
Movement in cash and cash equivalents					
At the start of the year		314,192	8,412	12,885	335,589
(Decrease)/increase in cash and cash equivalents		617,769	80,428	83,334	781,531
At end of year	21	931,961	88,840	96,219	1,117,020

Group Cash Flow Statement

For The Year Ended 31 December 2008

Year ended 31 December 2008

	Note	Long term insurance KShs.'000	Investments general business KShs.'000	Property development KShs.'000	Group KShs.'000
Operating activities					
Cash generated from operations	38(a)	363,163	(26,931)	(231,712)	104,520
Investing activities					
Interest income		308,056	10,430	4,255	322,741
Rental income		23,449			23,449
Purchase of property and equipment	18(a)	(42,440)			(42,440)
Purchase of quoted shares		(597,208)	(118,962)		(716,170)
Purchase of government securities		(516,075)	(1,892)	105,810	(412,157)
Purchase of commercial paper		(108,392)	(56,099)		(164,491)
Mortgage loans advanced	25	(33,641)			(33,641)
Repayment of mortgage loans		12,479	1,406		13,885
Net policy loans advanced		172,621			172,621
Proceeds from disposal of property and equipment		2,000			2,000
Proceeds from disposal of quoted shares		422,362	113,571	56,569	592,502
Dividend received from associate		-	7,195		7,195
Purchase of software		(6,570)	-	-	(6,570)
Net cash from investing activities		(363,359)	(44,351)	166,634	(241,076)
Financing activities:					
Transfer to shareholders' fund		(53,684)			(53,684)
Transfer from subsidiary				53,684	53,684
Dividends received				18,894	18,894
Dividends paid		-	(18,894)	(76,800)	(95,694)
Net cash used in financing activities		(53,684)	(18,894)	(4,222)	(76,800)
Decrease in cash and cash equivalents		(53,880)	(90,176)	(69,300)	(213,356)
Cash at start of the year		931,961	88,840	96,219	1,117,020
At end of year	21	878,081	(1,336)	26,919	903,664

Company Statement of Changes in Equity

For The Year Ended 31 December 2008

Year ended 31 December 2007

	Share capital KShs.'000	Share premium KShs.'000	Transfer life fund KShs.'000	Retained earnings KShs.'000	Total KShs.'000
At start of the year before transfer to life fund	240,000	364,431	(297,001)	708,461	1,015,891
Transfer from life funds	-	-	72,995	-	72,995
Loss for the year	-	-	-	(3,584)	(3,584)
Final dividends paid for 2006 (note 37)	-	-	-	(69,120)	(69,120)
	240,000	364,431	(224,006)	635,757	1,016,182

Year ended 31 December 2008

	Share capital KShs.'000	Share premium KShs.'000	Transfer life fund KShs.'000	Retained earnings KShs.'000	Total KShs.'000
At start of the year before transfer to life fund	240,000	364,431	(224,006)	635,757	1,016,182
Prior year adjustment (note 33b)	-	-	-	(813)	(813)
At 01 January - restated	240,000	364,431	(224,006)	634,944	1,015,369
Transfer from life funds	-	-	53,684	-	53,684
Loss for the year	-	-	-	(28,375)	(28,375)
Final dividends paid for 2007 (note 37)	-	-	-	(76,800)	(76,800)
	240,000	364,431	(170,322)	529,769	963,878

Group Statement of Changes in Equity

For The Year Ended 31 December 2008

Year ended 31 December 2007

	Share capital KShs.'000	Share premium KShs.'000	Transfer life fund KShs.'000	Revaluation reserve KShs.'000	Retained earnings KShs.'000	Statutory fund KShs.'000	Total KShs.'000
At 01 January – As previously reported	240,000	364,431	(53,684)	7,436	769,134	-	1,327,317
Prior year adjustment (note 33a)	-	-	(208,326)	(663)	(24,792)	132,523	(101,258)
At 01 January - restated	240,000	364,431	(262,010)	6,773	744,342	132,523	1,226,059
Profit for the year	-	-	-	-	201,072	-	201,072
Transfer to shareholders' fund	-	-	53,684	-	(53,684)		-
Transfer to statutory fund	-	-	-	-	(121,850)	121,850	-
Revaluation of buildings	-	-	-	2,521	-	-	2,521
Share of associates revaluation gain on freehold land and buildings	-	-	-	979	-	-	979
Final dividends paid for 2006 (note 37)	-	-	-	-	(69,120)	-	(69,120)
At 31 December	240,000	364,431	(208,326)	10,273	700,760	254,373	1,361,511

Year ended 31 December 2008

	Share capital KShs.'000	Share premium KShs.'000	Transfer life fund KShs.'000	Revaluation reserve KShs.'000	Retained earnings KShs.'000	Statutory fund KShs.'000	Total KShs.'000
At 01 January – As previously reported	240,000	364,431	(170,322)	10,936	700,968	292,172	1,438,185
Prior year adjustment (note 33b)	-	-	(38,004)	(663)	(208)	(37,799)	(76,674)
At 01 January - restated	240,000	364,431	(208,326)	10,273	700,760	254,373	1,361,511
Loss for the year	-	-	-	-	(95,999)		(95,999)
Transfer to statutory fund	-	-	-	-	(134,458)	134,458	-
Revaluation of buildings	-	-	-	(3,885)	-	-	(3,885)
Share of associates revaluation gain on freehold land and buildings	-	-	-	1,118	-	-	1,118
Final dividends paid for 2007 (note 37)	-	-	-	-	(76,800)	-	(76,800)
At 31 December	240,000	364,431	(208,326)	7,506	393,504	388,831	1,185,946

Company Balance Sheet

For The Year Ended 31 December 2008

	Note	2008	Restated 2007
		KShs.'000	KShs.'000
Assets			
Investment in subsidiaries	17	1,010,212	1,010,212
Investment in associates	17	7,311	7,836
Property and equipment	18(b)	168	246
Investment property	19	6,000	6,000
Land and development		88,525	47,732
Current income tax		13,680	13,680
Financial instruments:			
Financial assets at fair value through profit or loss		7,978	171,653
Available for sale		3,827	-
Other receivables		35,445	41,332
Short term deposits with financial institutions	21	19,259	77,915
Cash and cash equivalents	21	7,661	18,303
Total Assets		1,200,066	1,394,909
Shareholders' Equity and Liabilities			
Capital employed			
Share capital	22	240,000	240,000
Share premium		364,431	364,431
Retained earnings		529,769	634,944
Transfer to life funds	23	(170,322)	(224,006)
Shareholders' Funds		963,878	1,015,369
Liabilities			
Other payables	32	236,188	379,540
Total Shareholders' Equity and Liabilities		1,200,066	1,394,909

The financial statements on pages 44 - 98 were approved by the Board of Directors on 16 March 2009 and signed on its behalf by:

John P N Simba
Chairman

16 March 2009

Tom Gitogo
Chief Executive

16 March 2009

Group Balance Sheet

For The Year Ended 31 December 2008

	Note	2008 KShs.'000	Restated 2007 KShs.'000
Assets			
Intangible assets	16	8,240	5,289
Investments in associates	17	508,158	648,748
Property and equipment	18(a)	65,205	60,147
Investment property	19	374,500	234,500
Financial Instruments			
Held-to-maturity financial assets Non current	20	492,523	231,551
Loans and receivables 5,971+70,490+400,032	20	338,598	524,222
Financial assets at fair value through profit or loss	20	3,036,894	2,799,823
Available for sale Current Assets 1,407,277	20	3,827	-
Land and development		88,525	47,732
Current income tax recoverable		23,293	23,293
Reassurers' share of technical provisions and reserves		30,629	50,900
Receivables arising out of reassurance arrangements		-	6,837
Receivables arising out of direct insurance arrangements		220,073	113,607
Short term deposits with financial institutions	21	830,417	1,054,350
Cash and cash equivalents	21	73,247	62,670
Total Assets		6,094,129	5,863,669
Shareholders' Equity and Liabilities			
Capital employed			
Share capital	22	240,000	240,000
Share premium		364,431	364,431
Revaluation surplus		7,506	10,273
Retained earnings		393,504	700,760
Transfer to life funds	23	(208,326)	(208,326)
General fund	24	388,831	254,373
Shareholders' Funds		1,185,946	1,361,511
Liabilities Current Liab			
Insurance contract liabilities 44,012	28	3,693,567	3,236,924
Amounts payable under deposit administration contracts 109,274	28	352,405	293,372
Claims reported and claims handling expenses 184,009		117,427	135,668
Creditors arising from reassurance arrangements		39,227	63,248
Current income tax 1,013,923		50,700	38,004
Deferred tax	30	28,930	-
Provisions	31	111,285	97,285
Other payables	32	514,642	636,783
Total Liabilities		4,908,183	4,502,158
Total Shareholders' Equity and Liabilities		6,094,129	5,863,669

The financial statements on pages 44 - 98 were approved by the Board of Directors on 16 March 2009 and signed on its behalf by:

John P N Simba
Chairman

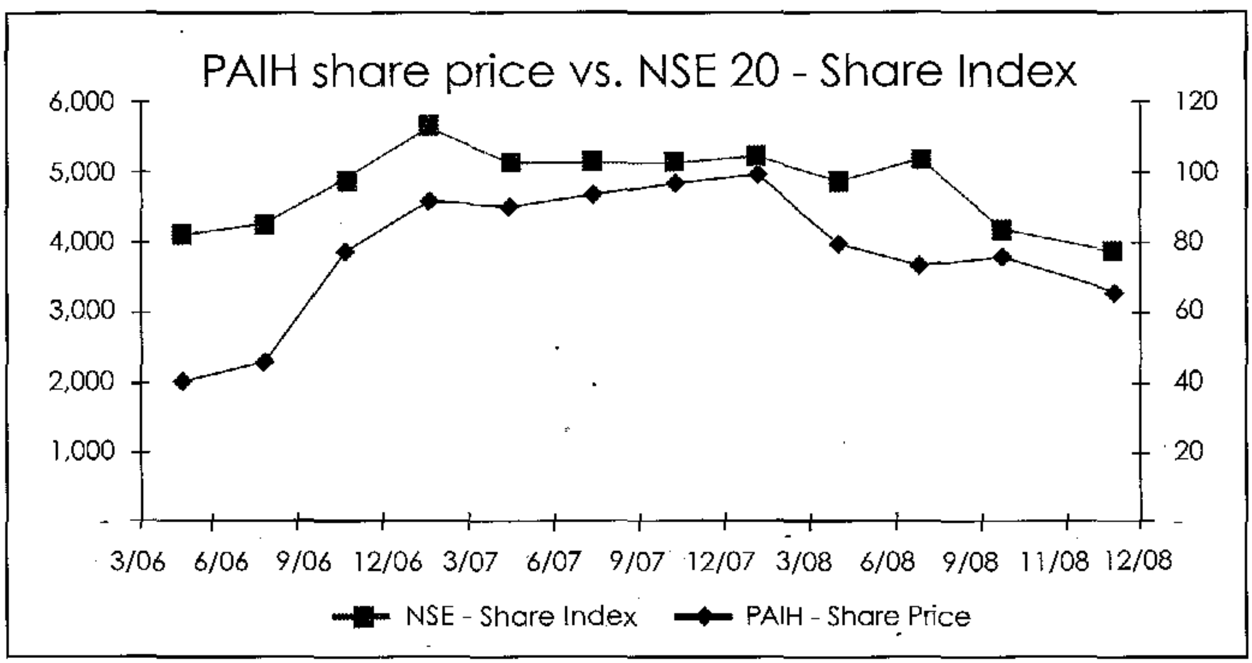
16 March 2009

Tom Gitogo
Chief Executive

16 March 2009

Company Income Statement
For The Year Ended 31 December 2008

	2008	2007
	KShs.'000	KShs.'000
Income		
Investment income	4,473	22,097
Income from associated companies	(525)	294
Dividends received from subsidiary	18,894	12,000
Other income	998	10,204
	23,840	44,595
Operating expenses	(52,215)	(48,179)
Loss before income tax	(28,375)	(3,584)
Income tax	-	-
Loss for the year	(28,375)	(3,584)



Group Income Statement
For The Year Ended 31 December 2008

	Note	2008	Restated 2007
		KShs.'000	KShs.'000
Results from operating activities			
Gross premiums	9	2,510,032	2,070,433
Premiums ceded to reinsurers		(191,938)	(236,763)
Net premiums		**2,318,094**	**1,833,670**
Fees and commission income	10	51,106	59,015
Investment income	11(a)	282,373	191,204
Realised gains/(loss)	11(b)	83,627	(67,468)
Fair value gains and losses	11(c)	(181,957)	218,704
Other operating revenue	11(d)	1,112	19,042
Other revenue		**236,261**	**420,497**
Total revenue		**2,554,355**	**2,254,167**
Gross benefits and claims paid	12	(1,174,841)	(615,591)
Claims ceded to reinsurers	12	105,710	146,042
Gross change in contract liabilities	12	(456,643)	(808,719)
Net benefits and claims paid	12	**(1,525,774)**	**(1,278,268)**
Other operating and administrative expenses	13	(858,905)	(839,449)
Total benefits, claims and other expenses		**(2,384,679)**	**(2,117,717)**
Profit from operating activities		**169,676**	**136,450**
Results from investing activities			
Investment income	11(a)	48,346	59,872
Realised gains	11(b)	22,978	265,889
Fair value gains and losses	11(c)	(49,626)	(235,343)
Other operating revenue	11(d)	-	23,438
Share of loss of associate		(133,703)	(965)
Total revenue		(112,003)	112,891
Investment expenses		**(74,042)**	**(64,347)**
(Loss)/Profit from investing activities		**(186,045)**	**48,544**
(Loss)/Profit before tax		**(16,369)**	**184,994**
Income tax expense	15	(79,630)	(38,004)
(Loss)/Profit for the year		**(95,999)**	**146,990**
(Loss)/Earnings per share			
Basic (loss)/earnings per ordinary share (KShs.)	33	(1.99)	3.03
Diluted (loss)/earnings per ordinary share (KShs.)		(1.99)	3.03

6. Sensitivities

This section illustrates the effect of different assumptions on the value of in-force business net of cost of capital. The effect of assumption changes in the Net Premium valuation has been included in the value of in-force business. For each sensitivity illustrated all other assumptions have been left unchanged.

	Value of in force KShs.'000	% change over base
Values as at 31 December 2008	1,091,858	
Policy discontinuance rate increases by 10% e.g. from 10% to 11%	1,091,517	-0.0%
Future expense increases by 10%	1,026,139	-6.0%
Expense inflation increases by 1% e.g. from 10% to 11%	1,083,332	-0.8%
Mortality and morbidity experience increases by 10%	1,066,899	-2.3%
Investment returns decrease by 1% e.g. from 10% to 9%	1,039,239	-4.8%
Premium increase take-up rate decreases by 10% e.g. from 90% to 81%	1,087,833	-0.4%
The sensitivity of the value of new business is as follows:		
Value of one year's new business as at 31 December 2007	101,051	
Policy discontinuance rate increases by 10% e.g. from 10% to 11%	99,290	-1.7%
Future expense increases by 10%	83,800	-17.0%
Expense inflation increases by 1% e.g. from 10% to 11%	98,979	-2.0%
Mortality and morbidity experience increases by 10%	75,128	-25.6%
Investment returns decrease by 1% e.g. from 10% to 9%	90,319	-10.6%
Premium increase take-up rate decreases by 10% e.g. from 90% to 81%	99,584	-1.4%
Increase in non-commission acquisition expenses by 10%	77,370	-23.4%

Assumed Management Action

Mortality charges have been assumed to change in line with the costs of providing benefits.

Giles T Waugh MA, FIA, FASSA, ASA

Statutory Actuary,

Fellow of the Institute of Actuaries

16 March 2009

4. Sensitivity to the Risk Discount Rate

The risk discount rate appropriate to an investor will vary depending on the investor's own requirements, tax position and perception of the risks associated with the realisation of the future profits of the Group. The sensitivity of the embedded value to the risk discount rate is set out below:

Risk Discount Rate	15.12%	16.12%	17.12%
	KShs '000	KShs '000	KShs '000
Shareholders' net assets	1,907,421	1,907,421	1,907,421
Value of in-force business	1,118,216	1,091,858	1,064,013
Embedded value	3,025,637	2,999,279	2,971,434
Value of one year's new business at valuation date	111,148	101,051	91,475

5. Assumptions

The assumptions used in the calculation of the embedded value are based on the Group's best estimate of future experience

The main assumptions used are as follows:

a) Economic Assumptions

The main economic assumptions (p.a.) used are as follows:

	2008	2007
	% p.a	% p.a
Risk Discount Rate	16.12	15.00
Overall investment return (pre tax)	11.95	11.10
Expense Inflation rate	8.12	8.00

b) Mortality Rates

The assumptions for future mortality rates are based on the results of recent experience investigations conducted by the company. Allowance has been made for expected future AIDS mortality using a table derived for the Kenyan experience.

c) Expenses

The maintenance expense assumption is based on the results of recently conducted internal expense investigations.

d) Premium Escalations

The embedded value of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business. The value of new business includes the expected value of future premium increases resulting from premium indexation arrangements on new business written during the year to 31 December 2008.

e) Persistency / Surrender Basis

The assumptions for lapse and surrender rates are based on the results of recent experience investigations conducted by the company.

f) Tax

Allowance was made for the current life office taxation basis.

Embedded Value Report *Continued*

For The Year Ended 31 December 2008

Embedded value earnings

The Embedded value earnings are derived as follows:

	As at 31 Dec 2008 KShs. '000	Restated As at 31Dec 2007 KShs. '000
Embedded value at end of year	2,999,279	2,898,661
Embedded value at beginning of year	(2,898,661)	(2,554,396)
Change in embedded value	100,618	344,265
Dividends paid and new capital	76,800	69,120
European Embedded Value Methodology Change	-	(22,990)
Embedded value earnings	**177,418**	**390,395**
These earnings can be analysed as follows:		
Adjustment to fair value of subsidiary	276,300	-
Roll forward	245,609	191,510
Investment return on free assets	44,412	23,007
Expected return on life business in force	201,197	168,503
Change over the period	(344,491)	198,885
Value of new business at end of year	103,952	250,812
Value of new business at point of sale	133,684	233,883
Tax on value of new business	(40,105)	-
Expected return on new business to end of year	10,373	16,929
Changes in assumptions and methodology	27,240	(29,973)
Change in Tax Treatment of Reserves	(165,036)	-
Experience variations	(66,717)	(60,728)
Cost of CAR	(14,687)	-
Increase in NAV for other subsidiaries	(229,243)	38,774
Total earnings	177,418	390,395

3. Value of New Business

The value of new business represents the value of projected profits at the point of sale arising from new policies sold during the year to 31 December 2007, accumulated to the end of the year at the risk discount rate.

Value of new business as at 31 December 2008	101,051	250,812
Value at point of sale (gross of tax)	133,684	233,883
Tax on value at point of sale	(40,105)	-
Cost of CAR at point of sale	(2,901)	-
Expected return	10,373	16,929

Embedded Value Report

For The Year Ended 31 December 2008

1. a) Definition of Embedded Value

This report sets out the Group embedded value and the value of new business of Pan Africa Life Assurance Limited. The embedded value represents an estimate of the economic value of the Group excluding the value attributable to future new business. The embedded value comprises:

i. The value of the life Group's shareholders' net assets; plus

ii. The value of the in-force business.

The value of in-force business is the present value of future profits arising from business in force at the valuation date, discounted at the risk discount rate.

b) European Embedded Value Principles (EEV)

Revised embedded value guidance from the Chief Financial Officer's (CFO) Forum's European Embedded Value (EEV) Principles, becomes effective for reporting periods ending on or after 31 December 2008. The methodology and assumptions have been adjusted as follows:

i. The equity risk premium assumption is increased from 2.0% to 3.5%;

ii. The cash gap assumption was changed from bond yield less 2% to bond yield less 1%; and

iii. The cost of capital is based on the higher of minimum statutory Capital Adequacy Requirement (CAR). The internally assessed level of required capital for the Company is now set at 5% of Admitted Liabilities as set out in section 41-1 of the Insurance Act of Kenya less the cost of policyholder bonuses.

	As at 31 Dec 2008 KShs. '000	Restated As at 31Dec 2007 KShs. '000
2. Embedded Value Results		
Group embedded value		
Shareholders' adjusted net assets	1,907,421	1,806,686
Net Value of in-force business	1,091,858	1,091,975
Gross value of in-force business	1,584,613	1,341,314
Tax provision	(475,383)	(246,654)
Cost of CAR	(17,372)	(2,685)
Embedded value	2,999,279	2,898,661

PAN AFRICA LIFE
We have a sense for Life
We strive to improve the taste of life.
We have an insatiable appetite to enhance the flavour of our customers' lives. We are listed on the NSE and have partnered with Sanlam, one of the largest financial services groups in Africa. Our products offer very good value for money.

Report of the Statutory Actuary

For The Year Ended 31 December 2008

Certificate of Solvency in respect of Pan Africa Life Assurance Limited's Life and Pension Policies:

I have conducted a statutory actuarial valuation of the long-term business of Pan Africa Life Assurance Limited as at 31 December 2008.

This valuation has been conducted in accordance with generally accepted actuarial principles and in compliance with the requirements of the Insurance Act. These principles require prudent provision for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies. In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion, the long-term business of the Company was financially sound and the actuarial value of the liabilities in respect of all classes of life insurance and pension fund business did not exceed the amount of the Statutory Insurance Funds as at 31 December 2008.

Giles T Waugh

Statutory Actuary

MA, FIA, FASSA, ASA

Fellow of the Institute of Actuaries

16 March 2009

Report of the Independent Auditors

For The Year Ended 31 December 2008

Report on the Financial Statements

We have audited the accompanying financial statements of Pan Africa Insurance Holdings Limited (the Company) and of its subsidiaries together with the Group's financial statements, set out on pages 44 - 98, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated 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 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 of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an independent opinion on these 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 the audit to obtain reasonable assurance whether the financial statements are free of 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 judgment, 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 Groups 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 audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company and of its subsidiaries as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal and Regulatory Requirements

As required by the Kenyan Companies Act, we report to you, based on our audit, 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 Group and the Company, so far as appears from our examination of those books; and
- The Group's and Company's balance sheets and income statements are in agreement with the books of account.

Ernst & Young

Nairobi

16 March 2009

Statement of Directors' Responsibilities
For The Year Ended 31 December 2008

The Kenyan 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 Group and the Company as at the end of the financial year and of the profits of the Group and the Company for that year. It also requires the directors to ensure that the Group and the Company keep proper accounting records, which disclose with reasonable accuracy, the financial position of the Group and the Company. They are also responsible for safeguarding the assets of the Group and the Company.

The directors accept responsibility for the annual consolidated financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan 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 profits. 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 adequate systems of internal financial control.

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.

John P N Simba	Tom Gitogo
Chairman	Chief Executive
16 March 2009	16 March 2009

Corporate Social Responsibility (CSR)
Continued

do not require medical testing for Insurance cover, which underpins Pan Africa Life's anti-discriminatory policy towards those who are HIV positive.

We have further put in place an anti-discriminatory policy that does not discriminate against those who are HIV positive during our recruitment process.

Valuing the employees

Respect for employees and nurturing their creative talents and expertise contribute immensely to the attainment of organisational objectives. We have in place a staff handbook that articulates an ethical policy, gift policy, code of conduct and sexual harassment policy.

We aim to provide a safe working environment for all our employees by embedding policies that prevent work place harassment and encourage diversity and inclusion in all aspects of employment.

Pan Africa Life staff interact in a congenial office environment.

Mater Heart Run
Staff participation in the "Mater Hospital Heart Run" to raise funds for needy children requiring heart treatment.

Dagoretti Chief's Camp donation
Pan Africa Life CEO, Tom Gitogo, presents the company's donation of foodstuff and clothing to the internally displaced people at Dagoretti Chief's Camp.

Corporate Social Responsibility (CSR)

Supporting the community through corporate social responsibility

The CSR program for Pan Africa proposes activities that resonate with our brand essence 'We have a sense for life'. These activities espouse Pan Africa's commitment to a better quality of life through encouraging best practices in environmental conservation, supporting initiatives in Education and caring for the communities in which we operate. In line with our CSR commitment, we have undertaken the following activities:

'Growing up Green' campaign

We launched the 'Growing up Green' campaign, which is a school based annual children's tree planting programme. This initiative partners with a non-governmental organisation 'Juhudi Children's Club' ingraining simple teachings on environmental conservation to children at an early age in an effort to inculcate a sense of awareness and responsibility towards conserving the environment.

The program was launched at Cheleta primary school, a public school within the Runda area. Young pupils in class one are encouraged to each plant a tree and 'adopt' it by taking care of the seedling throughout their eight years of primary schooling. The activity involves the participation of Pan Africa staff who joins the children and their parents. So far, over 500 indigenous tree seedlings have been planted.

A pupil helps the Pan Africa Life Chief Executive plant an indigenous tree at Cheleta Primary School

Partnership with AIESEC Kenya

AIESEC is the world's largest student-run organisation that provides university students with opportunities to cultivate leadership and entrepreneurial skills and develop a sense of social responsibility. We have partnered with the AIESEC Kenya Chapter by supporting student run fund raising activities. We will continue to engage the student association going forward in supporting those activities that provide a strategic fit with our corporate social responsibility objectives.

Financial Support to needy students

A key focus area in our CSR program is in offering financial support to needy students. This initiative seeks to sponsor bright pupils for secondary school education, covering tuition fees in form of a scholarship that caters for secondary school fees.

Responsible market practices

We continue to deliberately align our operations to be customer focused and we have a compliance department, focusing on the quality of the sale and service to policyholders in an effort to ensure that customers' expectations are always met. Recently, we were applauded in print media for regularly publishing lists of policies whose benefits remained uncollected in an attempt to contact the policyholders.

We have also rolled out 'Customer Service Open Days' throughout our branch network, which are forums through which our staff meet and closely interact with customers, with an aim of receiving and acting on customer feedback through one on one engagement.

Staff engaging with customers.

Supporting HIV/AIDS related causes

Pan Africa Life significantly changed the Insurance industry's view of HIV/AIDS by pioneering Individual and Group Life products without the HIV/AIDS exclusion; additionally, we

Table 8: Shareholder's Profile

Category	Number of Shareholders	Number of Shares	%
Local Corporate	162	32,353,449	67.40
Local Individual	2,515	15,041,071	31.34
Foreign Investors	199	605,480	1.26
TOTAL	2,876	48,000,000	100

Immobilisation of shares

The Central Depository System came into effect on 1 June 2003. The CDS is a computer system that facilitates the holding of shares in electronic accounts created at the offices of the Central Depository and Settlements Corporation Limited, a Group regulated by the Capital Markets Authority. The CDS functions shall include holding jumbo certificates, clearing and settlement for funds and securities, registration with transfer secretaries and corporate actions processing. What this means is that instead of the share registrar processing transfers for shareholders, preparing share certificates and processing dividend cheques, for example, these responsibilities now lie with the CDS. Details of the process of immobilisation and the advantages of this system can be obtained from the Nairobi Stock Exchange website: www.nse.co.ke. The Group commenced operations in February 2005. A progress report on the immobilisation is presented in Table 9 below.

Table 9: Immobilisation Report as at 31 December 2008

Item	Amount (KShs)	%
Group's Share Capital	500,000,000	100.00
Number of Un-Issued Shares	452,000,000	90.40
Total Number of Issued Shares	48,000,000	9.60
Total Number of Shares Immobilised by the CDSC	9,660,933	20.13
Total Number of Non-immobilised Shares	38,339,067	79.87

Going Concern

The Board submits this annual report and audited financial statements for the year ending 31 December 2008. The annual report and audited financial statements present, in the opinion of the directors, a fair, balanced and understandable assessment of the state of the affairs of the Group's position and prospects. The Board reports that the business is a going concern and they have no reason to believe that the Group and its subsidiaries will not be going concerns into the foreseeable future.

John P N Simba	Tom Gitogo
Chairman	Chief Executive
16 March 2009	16 March 2009

Top 10 shareholders in the Group

The top 10 shareholders, based on the Group's Register of Members, as at 31 December 2008 are shown in Table 6 below:

Table 6: Top ten shareholders as at 31 December 2008

	2008	%	2007	%
	Number of Shares		Number of Shares	
Hubris Holdings Limited	24,000,000	50.00	24,000,000	50.00
Baloobhai Patel	8,598,640	17.91	8,598,640	17.91
Kancher Kenya Limited	2,025,028	4.22	2,025,028	4.22
Thammo Holdings Limited	1,709,943	3.56	1,709,943	3.56
APA Insurance Limited	657,669	1.37	380,096	0.79
Cannon Assurance (Kenya) Limited	511,558	1.07	476,700	0.99
Barclays (Kenya) Nominees Ltd A/C 9397	485,069	1.01	728,469	1.52
Olympia Capital Holdings Limited	310,000	0.65	300,000	0.63
Financial Fixtures Limited	287,237	0.60	287,237	0.60
Robert Kamau Willie Ngigi	277,166	0.58	716,666	1.49
TOTAL	38,862,310	80.96	39,222,779	81.71

Distribution of shareholders

The Capital Markets Authority requires the Group to provide information on the distribution of the shareholders based on the number of shares owned and based on their nationality. This information is presented in Tables 7 and 8:

Table 7: Distribution Schedule

	Number of Shareholders	Number of Shares	%
Less than 1,000	1,886	1,095,930	2.28
1,001 - 5,000	712	1,482,734	3.09
5,001 - 10,000	98	778,720	1.62
10,001 - 50,000	129	2,571,447	5.36
50,000 - 100,000	32	1,996,671	4.16
More than 100,000	19	40,074,498	83.49
TOTAL	2,876	48,000,000	100

Corporate Governance Report *Continued*

Sanlam Investment Management Kenya Limited

The Group has significant Investments that need to be managed to ensure optimal returns. Fund management has been outsourced to SIM (K) Ltd. who are one of the leading fund managers in the country. The fund manager reports on a quarterly basis to the Investment committee. Management monitors fund performance on a monthly basis.

SHAREHOLDING

Prevention of Insider Trading

Insider trading is the trading of a corporation's stock or other securities by individuals with potential access to non-public information about the Group. Insider trading occurs when a person has knowledge of the Group's affairs before such information is made available to the public. In compliance with the Nairobi Stock Exchange's regulations to prevent insider trading, the Group's policy is that directors, management, staff members, any of their relatives, or any of the companies / businesses / organisations that they exercise significant influence over are not allowed to deal in the Group's shares during the closed season. The closed season is the period between the end of the Group's reporting period and the publication of results. This occurs at the year-end (between 31 December and 31 March) and the half year-end (30 June and 15 August).

The Company Secretary always advises the directors, management and staff of the closed season to avert any incidences of insider trading.

Disclosure of Information to shareholders

The Board discloses to shareholders the financial position of the Group three times a year: at the annual general meeting, by publication of the half- year results in the English daily newspapers and by publication of the year-end results in the English daily newspapers. The financial position of the Group together with relevant information such as the share price and on the central depository system are made available for viewing on the Group's website – www.pan-africa.com. The share register is kept at the offices of the Group and a computer database stores this information. The Company Secretary is responsible for the share register and responds to correspondence directly from shareholders. The official books of the Group are kept at the head office of the Group and are available for the perusal of shareholders during working hours. The Group publishes the annual report and audited accounts, which are sent out to all shareholders, entitled to attend the annual general meeting.

Pan Africa Insurance Holdings Limited has an authorised share capital of KShs. 500 Million divided into 100 Million shares of KShs. 5/= each. 48 Million shares are currently issued.

Table 5: Director's shareholding as at 31 December 2008

Details of the directors' shareholding in the Group are summarised in Table 5 below.

Table 5: Directors Shareholding as at 31st December 2008

	Name of Director	Shareholding
1	Baloobhai Patel	8,598,640
2	Tom Gitogo (Chief Executive)	10,000
3	John Simba (Chairman)	10,000
4	James Gitoho	4,000

Table 4: Summary of meetings Attended by Directors during the year ended 31 December 2008

	Board	Meetings	Audit	Committee	Investment	Committee	Human	Resources	Investment	Sub-Committee
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	a	b
Margaret Dawes	4	4	4	4	4	4	4	4	7	7
John Simba	4	4	4	4	4	4	4	4	7	7
James Gitoho	4	4	4	4	4	4	4	4	7	6
Tom Gitogo	4	4	4	4	4	4	4	4	7	7
Baloobhai Patel	4	4	4	4	4	4	-	-	7	7
Norman Kelly	4	4	4	4	-	-	-	-	-	-
Robert Dommisse	4	4	4	4	-	-	-	-	-	-

Notes: (a) Number of meetings convened during the year when the director was a member
(b) Number of meetings attended by the director during the year

Management Committees

The Chief Executive has established several committees to assist him in the management of the Group comprising the respective Heads of Department and other senior managers who may be co-opted from time to time. These committees include:

- The Executive Committee (EXCO) that meets weekly to review day to day issues affecting the Group and ensure adherence to Group's policy, procedures and strategy.
- The Management Committee (MANCOM) that meets monthly to review operational issues of the Group, with emphasis on the assessment and monitoring of the institution's operational risks.

PROFESSIONAL ADVISORS

The Board is of the view that to carry on its responsibilities in an independent and impartial fashion it should seek and benefit from professional counsel.

Group Company Secretary

All members of the Board have direct access to the Group Company Secretary who is responsible for ensuring that board procedures, rules and regulations are followed. As the Group Company Secretary is also the Chief Legal Officer, she reports independently and directly to the board on litigious matters affecting the Group and its subsidiaries.

CB Richard Ellis

A significant component of the Investments within the Group comprise of residential and commercial properties. CBRE is responsible for the management of these commercial properties, collection of rent, general repairs and maintenance. CBRE reports independently and directly to the Board at the half year and year end board meeting.

Ernst & Young

Whereas the directors are responsible for preparing the accounts and for presenting a balanced and fair view of the financial position of the Group, Ernst & Young examine and give their opinion on the reasonableness of the financial statements: Ernst & Young report inedependently and directly to the Board at the half year and end year board meetings.

KPMG

KPMG are the group's tax advisors. They were appointed by the Board and liase with management to ensure that the Group optimises its tax position and complies with all tax matters.

Statutory Actuary

Giles Waugh (of Deloitte, South Africa) is the Group's statutory actuary responsible for examining the financial soundness of the Group. He does this by independently valuing the Group's assets and policy liabilities. The statutory actuary reports independently and directly to the Board at board meetings where the half and the end year results are being considered.

Investment Committee

The members of the Investment Committee are as detailed in Table 2 below.

The primary functions of the Investment Committee are: To establish appropriate investment guidelines for the Group; to set investment benchmarks, (for example, recommended percentage compositions of property, equities, cash, bonds etc for the various investment portfolios); to review the actual portfolio compositions against these benchmarks on a quarterly basis; to review the performance of investments and make recommendations where appropriate; to approve the acquisition and disposal of significant investments; to approve capital works on property investments.

Table 2: Investment Committee Membership

	Member	Directorship Status
1	Baloobhai Patel (Chairperson)	Non-Executive Director
2	Norman Kelly	Non-Executive Director
3	Tom Gitogo	Chief Executive
4	James Gitoho	Non-Executive Director
5	John Simba	Non-Executive Director

The Investment Committee has constituted a Sub-Committee which reports directly to it. The sub-committee has been mandated to oversee the development of the Mae Ridge Development and reports to the Investment Committee. Its members comprise of:

a. Baloobhai Patel (Chairperson)

b. John Simba

c. James Gitoho

d. Tom Gitogo

Human Resources Committee

The members of the Human Resources Committee are as detailed in Table 3 below. The Committee is governed by the provisions of its Human Resources charter and an annual plan to guide the agenda of meetings throughout the year. Specifically, its responsibilities include to regularly evaluate the long-term availability of management expertise, to appoint members of the executive management, to give careful attention to succession planning for the positions of the senior management, including making recommendations with regard to the position of the Chief Executive.

Table 3: Human Resources Committee Membership

	Member	Directorship Status
1	James Gitoho (Chairperson)	Non-Executive Director
2	Margaret Dawes	Non-Executive Director, Chief Executive of the Rest of Africa (SDM)
3	John Simba	Non-Executive Director

Attendance at Meetings

Table 4 summarises the attendance record of the directors at the Board and Committee meetings in 2008. A record of attendance is kept in a register, which is in the Group Company Secretary's custody. The record of attendance, partial attendance and absence is also noted in the minutes of the meetings.

the Board decisions and instructions on the general management of the Group with the assistance of the Executive Management.

Role of the Board Vs the Executive Management

The roles of the Board and those of the Executive Management are separate and except for the office of the Chief Executive who acts both as a director and as a member of the Executive Management, the offices are not vested in the same persons. The abridged biographies of the management are as detailed on page 10 - 11 of this Annual Report. The Board is responsible for the long term strategic direction and profitable growth of the Group. while the Executive Management is responsible for the operational day to day running of the Group. The Group adheres to an Approval Framework Policy which clearly sets out the exact decisions which can be made by the Board and those which can be made by the Executive Management.

Committees of the Board

To assist the Board better discharge its responsibilities, the Board has constituted several Board Committees comprising a balanced mix of non-executive directors. Executive management and Group consultants, experts and service providers are on occasion invited to the Board as circumstances dictate to provide their expertise. The delegation by the Board to these committees does not detract the Board from its ultimate collective accountability for the performance and good governance of the Group.

Each Board Committee has a Charter which contains provisions relating to the powers delegated by the Board to each Committee, membership of the Committee and the Committee's detailed duties. Annual performance reviews of each Committee are carried out and presented to the Board. At every quarter, the Chairperson of each Committee presents a report on the discussions held at the Committee meeting and seeks the Board's ratification for any decision made.

Members and attendance of these committees are provided on page 30.

The Board has three committees as follows:

Audit Committee

The membership of the audit committee is detailed in table 1 below.

This Committee meets at least once in each quarter. The Audit Committee charter sets out the mandate of this Committee as considering all risks that affect the Group, legally, financially, technologically, politically, and to develop measures to manage identified risks. Specifically, for and on behalf of the board, the Committee is responsible for: Setting and overseeing the overall standard for financial and actuarial reporting, risk management and internal controls within the Group; monitoring the effectiveness of business risk management processes in the Group; reviewing and assessing the quality of the work done by the professionals responsible for financial and actuarial reporting, risk management and internal control; engaging in discussions with external and internal auditors on the quality and acceptability of the control environment and reporting structures.

The Board of the Group has authorised the Committee to investigate any activity within its terms of reference. The Committee is authorised to seek any information it requires from any employee in the Group and all employees are required to co-operate with any request made by the Committee.

Table 1: Audit Committee Membership

	Member	Directorship Status
1	Margaret Dawes (Chairperson)	Non-Executive Director, Chief Executive of the Rest of Africa (SDM)
2	Baloobhai Patel	Non-Executive Director
3	Robert Dommisse	Non-Executive Director

Chief Executive as the only executive director, three directors representing the strategic partner Sanlam Group and two non-executive directors thus balancing the board composition. The Board is composed of directors with a good mix of skills, experience and competences in the relevant fields of expertise and is well placed to take the business to greater heights. The directors abridged biographies appear on page 8 - 9 of this Annual Report.

Changes to the Board during 2008

During 2008, Andrew Greenwood resigned as the Chief Executive of the Group and was replaced by Tom Gitogo who was previously the General Manager for Individual Life. In addition Douglas Lacey resigned and Norman Kelly was appointed as a director in his place. John Burbidge, a long serving member of the Board, retired from the Sanlam Group and consequently resigned from the Board.

Re-election to the Board

In accordance with the provisions of the Company's Articles of Association, all the directors retire by rotation every three years and are eligible to offer themselves for re-election. In every year, new directors who are appointed during the year to fill any casual vacancies, are subject to election by the shareholders during the Annual General Meeting and thereafter offer themselves for re-election every three years. In the 2008 Annual General Meeting, Baloobhai Patel resigned as a director and was unanimously re-elected to the Board. In addition, Tom Gitogo and Robert Dommisse who were appointed as directors in 2008 resigned in the 2008 Annual General Meeting as it was their first Annual General Meeting since they were appointed as directors and were unanimously re-elected to the Board.

Responsibility for Financial Reporting

The Board recognises its responsibility to present a true and fair view of the state of the financial affairs of the Group and its prospects. The Group's financial statements are prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act and are audited in accordance with International Auditing Standards.

Remuneration

In remunerating the directors, the Group 's policy has been to consider, the demands and requirements made on the directors in relation to the business of the Group, the availability of the directors for ad hoc consultation, professional and business counsel as and when the need arises, industry and related companies benchmarks, international experiences and the calibre of directors needed to run this Group. The directors have always, are, and will be expected to continue to add value to the business. The directors' fee is annual but the sitting allowances are only paid subject to attendance at the board and/or committee meetings confirmed by the register of attendance. Both the annual fees and sitting allowance are paid on a quarterly basis. The Directors are not eligible for pension scheme membership and do not participate in any of the Group's remuneration schemes.

Details of the directors' remuneration are set out in note 39.

Service Contracts and Compensation

Apart from the Chief Executive, no director or a party related to a director has a service contract or receives compensation from the Group.

Disclosure of Interests

The Directors are under a fiduciary duty to act honestly and in the best interests of the Group. To curb instances where the directors' self interests conflict with their duty to act in the best interests of the Group, the Group has instituted policies requiring the directors to make declarations on any such interests at any such meeting where such business will be discussed in addition to absolving themselves from making decisions on the respective business. The policy provides that directors, their immediate families and companies where directors have interests must not transact business with the Group without express approval from the Board. Any such business transacted with the Group must be at arms length.

Every quarter prior to the beginning of any Board meeting, the directors are requested to declare any interest and to complete a disclosure of interest form confirming that they have excluded themselves from discussions or decisions on potentially conflicting matters. The duly completed forms are kept in the Company Secretary's safe custody. In addition, any new director coming on board is required to complete the disclosure of interest form.

Role of the Chairman vs. the Chief Executive

The roles of the Chairman and the Chief Executive are clearly defined and are not vested in the same person. The day-to-day executive management of the Group is delegated to the Chief Executive whereas the running of the Board is the responsibility of the Chairman. The Chief Executive directs the implementation of

Corporate Governance Report

Principles of Corporate Governance

The Pan Africa Group continues to be committed to the highest level of Corporate Governance, which we consider to be critical to maintaining business integrity and investors' trust in the Group. Our Corporate Governance philosophy, which incorporates the four pillars of corporate governance namely; responsibility, accountability, fairness and transparency, sets out the standards, discipline, systems and processes which ensure that our Group operates on a transparent, just and equitable manner.

For this reason the Group expects for all its directors and employees to act with honesty, integrity and fairness. The Board of Directors are required to adhere to principles and standards which have been developed with close reference to the provisions and principles of good corporate governance as set out by the Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya issued by the Capital Markets and other best practices. This culture and standards are also expected of all of the Group's employees. To this end, the Group has adopted a Code of Ethics, which complies with the highest standards of integrity, honesty and ethics in dealing with all its stakeholders, including directors, managers, employees, customers, suppliers, competitors, shareholders and society at large. The Code also stipulates policies and guidelines regarding the personal conduct of employees. All new staff receive a copy of the Code and a presentation on the Code as part of the induction process.

In addition to the Code of Ethics, the Group continues to uphold the Gift Policy (outlines the policy on receipt and issue of gifts by employees), Financial Crime Combating Policy (outlines the guidelines of combating financial crime and unlawful conduct), Schedule of Offences (defines the different instances of unlawful conduct and the respective sanctions) and Zero Tolerance Approach (stipulates zero tolerance to financial crimes and unlawful conduct in addition to the consequences of committing such crimes).

Board of Directors

The Directors are ultimately accountable to all stakeholders for ensuring that the Group's business is conducted in accordance with high standards of corporate governance. Of particular importance to the Group is the protection of shareholders' and policyholders' interests and open corporate communication.

The Directors' conduct is regulated by the provisions of the Board Charter. It dictates among other things the size, role, responsibilities, functions and powers of the Chairman and other members, inductions, appointments, performance evaluation and remuneration of the members. It also comprises a work plan setting out the schedule of Board meetings and the main business to be dealt with at those meetings.

The Board continues to undertake annual self evaluations and reviews of its performance, which includes the review of the suitability of its composition, the diversity of skills and experience on the Board performance against the terms of reference and succession planning, together with the performance of the Committees, Chairman, Chief Executive and the Group's Company Secretary.

Board Responsibilities

The Board is charged with the duty of steering the Pan Africa Group. It is responsible for formulating Group policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholder and investors value are achieved. To facilitate this, Management is required to provide timely and adequate information on the Group's policies to the Board to ensure its effective discharge of its duties. The Board also considers operational reports, reports from each Board Committee, specific proposals for capital expenditure and acquisitions and strategic opportunities for the Group.

The Board meets at least four times during the year to review the financial performance and operations of the Group. At these meetings, the Board also considers strategic matters and other issues that will impact on the Group's financial position and reputation. The Board further considers matters aimed at ensuring competent management of the business, internal controls and compliance with laws and regulations as advised by the Group's Company Secretary and reporting performance to shareholders.

Notices of Board meetings are circulated at least 21 clear days before Board meetings and agendas for meetings and detailed Board papers are circulated at least fourteen clear days before any Board meeting. To ensure the continuous flow of information, the Group encourages dialogue and meetings between members of the Board and senior management outside of the formal quarterly Board meetings. Directors also continually avail themselves on areas of their expertise particularly, accounting, law, insurance and strategic management.

Board Composition

The current Board consists of seven directors comprising of the Chairman, as an independent non-executive director, the

Ilani ya Mkutano Mkuu wa Mwaka

ILANI INATOLEWA HAPA kwamba mkutano mkuu wa mwaka wa 63 wa Kampuni utafanywa katika ukumbi wa Tsavo wa Hoteli ya Hilton iliyoko katika barabara ya Mama Ngina, Nairobi, tarehe 27 May 2009 saa nne asubuhi kujadili mada zifuatazo:

1. Kuwasilisha mada mbadala na kunukuu hadhira.

2. Kusoma ilani ya mkutano.

3. Kuthibitisha kumbukumbu za mkutano mkuu wa mwaka uliotangulia ambao ulifanywa tarehe 21 May 2008.

4. Kuzingatia na endapo itaidhinishwa, kuikubali arifa ya mahesabu ya kipindi cha mwaka kilichomalizika tarehe 31 Desemba 2008 pamoja na taarifa za Mwenyekiti,Afisa Mkuu Mtendaji,Wakurugenzi,wakaguzi wa mahesabu na wasimamizi wakuu wa fedha.

5. Kunakili kwamba wakurugenzi hawapendekezi mgawo wa hisa kwa kipindi kilichomalizika tarehe 31 Desemba 2008.

6. Kuwachagua wakurugenzi:

6.1 Baloobhai Patel kwa kuwa ametimu umri wa miaka sabini, anastaafu kulingana na kifungu 186 (2) cha sheria za Kampuni kitengo (Cap 486), na kwa mujibu wa Ilani maalum iliyotolewa chini ya kifungu 186(5), anajiwasilisha kwa ajili ya kuchaguliwa tena.

6.2 Margaret Dawes, anastaafu kwa kupokezana kulingana na sheria za vyama zinazotumiwa na Kampuni atajiwasilisha kwa ajili ya kuchaguliwa tena.

6.3 Kulingana na sheria za vyama zinazotumiwa na Kampuni, Norman J Kelly ambaye aliteuliwa kuwa mkurugenzi tarehe 21 May 2008, anastaafu huu ukiwa mkutano mkuu wa kwanza wa mwaka kufanyika tangu kuteuliwa kwake na kwa kuwa uwezekano upo,anajiwasilisha kwa ajili ya kuchaguliwa tena.

7. Kuidhinisha nyongeza ya mishahara ya Wakurugenzi.

8. Kunakili kwamba kampuni ya wakaguzi wa mahesabu ya Ernst & Young, itaendelea kuhudumu chini ya kifungu 159(2) cha sheria za Kampuni, kitengo (Cap 486) na itawaagiza Wakurugenzi kutekeleza nyongeza hiyo.

9. Kujadili mada nyengine yoyote kwa idhini ya mwenyekiti ambapo ilani ya saa 48 imekabidhiwa Katibu wa Kampuni katika ofisi ya Kampuni iliyosajiliwa.

Kwa agizo la Halmashauri

Emma Wachira

Katibu

16 March 2009

Nukuu:

Mwanachama ambaye anastahili kuhudhuria mkutano huo na kupiga kura na ambaye atakumbwa na udhuru asiweze kuhudhuria ana uhuru wa kuchagua mwakilishi wake atakayehudhuria na kupiga kura kwa niaba yake. Kwa kuliwezesha hilo kuna fomu maalumu ya uwakilishi ambayo imeambatanishwa na taarifa hii na inapasa kujazwa na kutiwa saini na mwanachama huyo na ni lazima iwasilishwe katika ofisi ya Katibu wa Kampuni, Jumba la Pan Africa, Kenyatta Avenue, Sanduku la Barua 10493, 00100 Nairobi au itumwe mapema ili iweze kufika kabla ya Jumatatu tarehe 25 Mei 2009 saa nne asubuhi.

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the 63rd Annual General Meeting of the Company will be held at the Tsavo Room, Hilton Hotel, Mama Ngina Street, Nairobi on Wednesday, 27 May 2009 at 10.00 am to conduct the following business:

1. To table the proxies and note the presence of a quorum.
2. Toread the notice convening the meeting.
3. Toconfirm the minutes of the previous Annual General Meeting held on 21 May 2008.
4. To consider, and if approved, adopt the Balance Sheet and Accounts for the year ended 31 December 2008 together with the reports of the Chairman, the Chief Executive, the Directors, the Auditors and the Statutory Actuary.
5. To note that the directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2008.
6. Toelect directors:

6.1 Baloobhai Patel having attained the age of seventy years, retires in terms of Section 186 (2) of the Companies' Act (Cap 486), and being eligible by virtue of a Special Notice given under section 186(5), offers himself for re-election.

6.2 Margaret Dawes, retires by rotation in accordance with the Company's Articles of Association and being eligible offers herself for re-election.

6.3 In accordance with the Company's Article of Association, Norman J Kelly who was appointed a director on 21 May 2008, retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election.

7. Toapprove the Directors' remuneration.
8. To note that the auditors, Ernst & Young, will continue in office in accordance with Section 159(2) of the Companies Act (Cap 486) and to authorise the Directors to fix their remuneration.
9. To transact any other business with the permission of the Chair for which 48 hours notice had been given to the Company Secretary at the registered office of the Company.

By Order of the Board

Emma Wachira

Company Secretary

16 March 2009

Note:

A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company. To be valid, a proxy form, which is attached to the end of this report, must be completed and signed by the member and must be lodged at the offices of the Company Secretary, Pan Africa Insurance Holdings, Pan Africa Life House, Kenyatta Avenue, P.O. Box 10493, 00100 Nairobi or be posted, so as to reach not later than Monday 25 May 2009 at 10.00 am.

our staff went on three month secondment to Sanlam in South Africa, not to mention several others who have also gone for shorter training stints at Sanlam.

In our pursuit to become the employer of choice, the Group carried out employee and agent satisfaction surveys during the year and has been implementing the results of these surveys. We also launched an ultra modern intranet facility where staff receive regular updates on pertinent issues and are able to share their ideas too.

Exemplary performance continues to be awarded and in September, our best performing sales executives went on an enviable incentive trip to India and Singapore. The race is on for the next incentive trip as most of the sales executive are determined to qualify in 2009.

Prospects

The investment we have made in improving the calibre of our sales force through training and recruitment, new innovative products, as well as the opening of the three additional branch offices will no doubt see our individual life sales go up significantly in the coming months. Like in 2008, we will continue to focus on low to medium income markets while strategically shifting to the medium to high income markets.

Corporate business growth prospects are quite high as the concept of bancassurance is expected to pick up. We are on course to launch an Individual Pension product as well as other innovative products in 2009. We will also be expanding our Deposit Administration operations to take advantage of the opportunities that this sector presents.

The current global recession is expected to recede to a large extent in 2009, with the recovery process continuing into 2010. This process will gradually see the reversal of the unrealised investment losses that the group had to take in at the end of 2008, since the fundamentals of the companies we have invested in are all sound. Meanwhile, we will strive to diversify our investment income sources and the ongoing residential houses development in Runda is a case in point.

Tom Gitogo

Chief Executive

16 March 2009

FiRe Awards Win

Our rich legacy of professional excellence is demonstrated in the recognition of Pan Africa Insurance during the 2008 FiRe Awards in which the company emerged the Overall winner in the Corporate Governance category. The Group has continously received various awards in FiRe competition since 2000. The FiRe Award is awarded to companies that demonstrate excellence in their financial reporting and those that embrace sound corporate governance practices.

The CEO of Pan Africa Life, Tom Gitogo (left) and the GM Sales & Marketing, Jane Ntutu (right) receive the award for the Overall Winner, Corporate Governance category, from Simon Rutega (centre), the Chief Executive Officer of the Uganda Stock Exchange, during the 2008 FiRe Awards.

called FlexiAnnuity which was received very well by the market. The new product offers a guaranteed monthly annuity payment during the life of the insured with optional guarantee periods of either five or ten years.

Risk Management

The group identifies risks on a continuous basis and have continued to upgrade our systems, controls and business processes to address emerging risks. In 2008, we commissioned an offsite data replication site to ensure quick recovery in the event of disaster. We also successfully upgraded our finance management system and are in the process of implementing a state of the art life administration system called Alfinanz.

Management actively and regularly reviews all the risks the group faces and puts in place programmes that ensure that these risks are effectively mitigated or where appropriate, eliminated. Extensive coverage of what the group is doing to manage risk is contained in the risk report note 41.

Expenses

Operating expenses increased by only 7.5 percent to Shs 473m compared to premium income growth of 21 percent, reflecting the conscious effort that management made to contain expenditure in the prevailing hard economic times. This cost efficiency was achieved despite additional premium collection charges levied by some of our key business partners, as well as the expenses associated with opening and running of the new branches mentioned above.

Policyholder Benefits and Life Funds

The gross value of policyholder benefits grew by 15 percent over the year to stand at KShs. 1.6b. This was occasioned in part by claims reported late from previous periods together with the build up of reserves to cater for unearned premiums. Despite the increase in reported claims, the claims outstanding at the end of the year decreased by 13 percent demonstrating our aggressiveness in early settlement, an aspect of our service that our customers have come to expect from us and one we intend to keep. The life fund and the deposit administration fund total over KShs. 4b, a growth of 15 percent.

Results from investing activities

Pan Africa Insurance Holdings wholly owns PA securities Limited. This subsidiary is an investment company which invests directly in the capital markets but its main investment is a 40 percent shareholding in APA Insurance Limited (APA), a general insurer.

APA saw its gross premium income grow to just over KShs. 3b, a commendable 27 percent increase over the previous year. APA also registered a KShs. 27m underwriting profit compared to KShs. 13m loss the year before, demonstrating that its core business operations are very sound. The company however suffered the brunt of the declining fortunes at the NSE which resulted in a KShs. 585m unrealised loss. In accordance with International Financial Reporting Standards (IAS 28), we have incorporated our share of these results in our profit and loss account. The effect of this is a loss of KShs. 123m which as I have mentioned above is unrealised as it arises not from the insurance operations of APA but from its portfolio of investment in quoted equity shares.

Embedded Value

In keeping with the high corporate governance standards that you have come to expect from the Group, we have for the 5th consecutive year published the embedded value report for the group. We are currently the only insurer in Kenya to report on embedded value, a requirement by capital markets in the more developed financial markets. The report gives a more comprehensive measure of the value of assets and the intrinsic value of the in-force book of long term insurance business, by incorporating the present value of future profits expected to arise from policies in place as at year end.

The total Group embedded value as at 31 December 2008 stands at KShs. 3b, an increase of 3 percent over the prior year. This increase arises mainly from the growth in the value of in-force business and a KShs. 276m fair value adjustment of properties owned by the group. For 2008, a 30 percent tax was applied to the value of in-force business following legislation changes regarding surpluses from life business that took effect from 1 January 2009. Had the prior year results been adjusted for this tax change, the growth in EV in 2008 would have been an impressive 11 percent.

Our People

The group recognises that its people hold the key to its ability to operate profitably and deliver on its promises to the various stakeholders. The group employs 105 full time employees and a team of over 550 sales executives and throughout 2008 continued to pursue the objective of attracting, developing and retaining the best and the brightest staff. We continue to place a strong emphasis on investment in skills training and development as a means of retaining our competitive advantage and realising our full potential. To this end, two of

Chief Executive's Statement

Performance in Year under Review

The year 2008 will perhaps go down in history as one of the most difficult years for businesses across the world on account of, among other challenges, the unprecedented global recession. Here in Kenya, we started off with the political unrest that noticeably affected some of the markets we operate in.

Against this background however, our core operations returned solid results with the life business operating surplus up by 24 percent to Shs 169m. The premium income exceeded KShs 2.5b, a commendable growth of 21 percent. The total lives now covered by the group stand at over 644,000.

But as expected in the circumstances, the group's results from investing activities were negatively affected by the volatility witnessed in all global equity markets. All major world indices recorded significant decline and here at home the Nairobi Stock Exchange (NSE) index dropped by 35 percent to 3,521, resulting in the group witnessing significant unrealised losses from both the investment of shareholder assets (Shs 96m) as well as share of associate (KShs. 123m).

Individual Life

Individual life premium income grew by 21 percent to KShs 1.5b, a result we are proud of given the difficult environment under which this was achieved. As is our custom, we continued to pay attention to underrepresented segments of the market and this culminated during the year in the expansion of our branch network to cover Westlands, Naivasha and Voi. We believe that by attending to underrepresented segments of the market, we will have played our rightful role in improving insurance penetration in Kenya.

In response to our client needs, we continue to review our products and to launch innovative products that are value for money. During the year we launched the FlexiFamily, a product that caters for burial expenses. In 2009, we expect to launch new products that will address some of the changing needs and expectations of the market.

Corporate Business

Our group risk premium income now exceeds the KShs. 1b mark and is well set to retain the market leader position it assumed in 2007. We continue to expand our relationships without compromising on quality and this has made us the insurance provider of choice in this area. During the year, the company introduced a new single premium retirement annuity product

We listen and develop solutions according to your life needs.
PAN AFRICA LIFE
We have a sense for Life
We keep our collective ear to the ground all over the region to ensure that our products meet and exceed your every requirement.

migumu ya mwaka hasa kutokana na mporomoko wa kiuchumi duniani, msukumo mkali wa soko la hisa ambao umekuwa na athari kubwa katika pato la mwekezaji. Kupanda kwa mfumko wa bei pia kunaendelea kuathiri pato letu la kimsingi na kupunguza thamani katika ustawi wa kibiashara.

Kampuni yetu, pamoja na kampuni zengine za bima imekumbwa na athari kubwa ya mtingishiko wa mwaka 2008. Pamoja na hayo Kampuni yetu inatafuta njia mbadala za kuongeza mapato huku mradi mkubwa wa 2008 ukiwa ni ule wa ustawi wa Mae Ridge.

Ustawi wa Mae Ridge

Kampuni yetu imeanza ustawi wa mradi wa Mae Ridge Development katika eneo la Runda kwa gharama ya takriban shilingi bilioni 2. Ukiwa katika eneo la Eagle Park ambalo pia lilistawishwa na Kampuni ya Pan Africa Group, mradi huo utahusisha ujenzi wa nyumba 81 za kifahari ambazo zitajengwa kwa awamu tatu. Katika mradi huo awamu ya kwanza ya nyumba ishirini inatarajiwa kukamilika kufikia mwezi Januari 2010. Huku biashara ya rasilimali zilizohamishika ikiendelea kunawiri nchini Kenya, mradi huo wa ustawi utatoa fursa muhimu ya uwekezaji kwa wanaotaka kumiliki nyumba na wawekezaji katika nyanja hiyo ya rasilimali zisizohamishika.

Shukran

Mwisho, ningependa kuchukua fursa hii kumtambua na kumpongeza kwa huduma zake, aliyekuwa Afisa Mkuu Mtendaji Bwana Mr Andrew Greenwood ambaye kabla ya kujiuzulu kwake mnamo mwezi Februari 2000 alikuwa amehudumu katika kampuni hii tangu mwezi Desemba 2000. Wakati wa kipindi hicho, Kampuni ilipiga hatua kubwa na tunamshukuru kwa huduma zake za kutakata na kujitolea kwa hali ya juu zilizopelekea kukua kwa Kampuni hii.

Pia ningependa kuchukua fursa hii kumkaribisha katika Kampuni hii Afisa Mkuu Mpya Mtendaji, Tom Gitogo ambaye aliteuliwa mnamo mwezi wa Aprili 2008. Alikuwa Maneja Mkuu wa Individual Life, na ana tajriba kubwa katika sekta ya bima baada ya kuhudumu katika wadhifa mkuu wa usimamizi katika Kampuni ya PricewaterhouseCoopers (Kenya na London) na pia Mkurugenzi wa masuala ya Fedha nchini Uingereza.

Kwa niaba ya Halmashauri ya Wakurugenzi, ningependa kuchukua fursa hii kuwapongeza Douglas Lacey na John Burbidge kwa huduma zao za muda mrefu na zisizo kifani katika Kampuni hii tangu kuingia kwa African Life katika sekta ya bima nchini Kenya kupitia Kampuni ya Pan Africa. Tunawatakia kila la kheri katika mambo yote ambayo wamepanga kufanya.

Kwa wakurugenzi wenzangu, ninawashukuru kwa ushauri wao,usaidizi,kujitolea na uadilifu wakiwa wanachama wa Halmashauri na pia kwa huduma yao kuu katika kamati mbalimbali za Halmashauri ambazo zinatekeleza wajibu muhimu katika maongozi ya kishirika ya Kampuni hii.

Tunawashukuru wadau wetu wakiwemo wateja wawasilishaji wa bidhaa na wote wanaoshirikiana nasi kwa kuwa bila usaidizi wao hatungeweza kuzikabili changamoto za mwaka uliotangulia.

Pia ningependa kuwashukuru wasimamizi na wafanyikazi wa Kampuni hii ambao wamejitahidi sana kazini katika kipindi cha mwaka kilichopita kuweza kuafikia malengo na matarajio ya kampuni hii.

Na kwa wenye hisa wetu ningependa kuwashukuru kwa imani yao ambayo wameendelea kuidhihirisha kwa Kampuni hii.

John P N Simba, MBS OGW

Mwenyekiti

16 March 2009

Pato la jumla la bima liliongezeka kwa asilimia 21 hadi zaidi ya shillingi bilioni 2.5. Bima za kibinafsi katika kiwango cha shillingi bilioni 1.5 zilipelekea ukuaji wa asilimia 23 ambao ulikuwa chini ya matarajio yetu, hasa kutokana na changamoto za kiuchumi ambazo ziliathiri zaidi viwango vyetu vya kibiashara. Biashra na mashirika zilifanya vyema katika kipindi hiki cha mwaka na kufikia pato la jumla la shilingi bilioni moja, ukiwa ni ukuaji wa asilimia 18.

Kampuni ilidhihirisha thamani ya huduma licha ya athari ya msukumo mkali wa masoko ya hisa na kupata ukuaji wa asilimia 3 hadi shillingi bilioni 3. Hii ni baada ya kukubalia ulipaji wa mgawo wa hisa wa shilingi milioni 76.8 uliolipwa katika kipindi hicho cha mwaka kwa mlinganisho wa 2007.

Mtaji wa hisa wa Kampuni ya Pan Africa Insurance Holdings Limited shares katika Soko la Hisa la Nairobi ulipungua kwa asilimia 38 katika kipindi hicho cha mwaka na kufikia shilingi bilioni 2.97 (shilingi bilioni 4.8 : 2007) na hasa hasa ilitokana na mkurupuko wa mauzo katika Soko la Hisa la Nairobi. Kutokana na hasara za uwekezaji, hasara ya kimsingi kwa hisa ni shilingi 2 (Faida – Shilingi 3.06: 2007).

Mgawo wa Hisa

Kutokana na hali ya kiuchumi duniani isiyokadirika na athari ambayo huenda ikaifikia biashara yetu kutokana na hilo pamoja na nia yetu ya kuhifadhi pesa taslimu na kuimarisha rasilimali ya Mae Ridge huko Runda, Halmashauri imejitokeza na mfumo wa udhibiti usiogeuzika kuhusiana na mgawo wa hisa na hivyo haipendekezi malipo ya mgawo wowote wa hisa kwa wenye hisa katika mkutano mkuu wa 63 ujao mwaka. Endapo kutakuwa na mabadiliko katika mazingara yetu ya kibiashara Halmashauri itachunguza upya msimamo huo na kupendekeza mgawo wa muda wa hisa.

Taarifa za Viwango

Kwa ajili ya kuimarisha uwajibikaji, uongozi wa kimashirika na uwazi,Kampuni iliendelea kujiweka katika viwango mbalimbali vya kimataifa na vya kampuni vya utoaji wa taarifa ikiwa ni pamoja na:

- Taarifa za Kifedha: Kulingana na viwango vya kimataifa vya utoaji wa taarifa za kifedha.
- Taarifa za kukadiria hasara: Kwa mujibu wa viwango na maongozi ya Kamati ya ukâguzi wa mahesabu na ukadiriaji wa hasara.
- Taarifa za uongozi wa kimashirika: Kulingana na misingi ya "uongozi wa kimashirika" wa CMA na masharti mengine ya usimamizi.
- Taarifa za kampuni tanzu / matawi / kamati za Halmashauri: kila kitengo cha kampuni na Pan Africa Insurance Holdings Limited.

Taarifa ya Uongozi wa kimashirika

Taarifa yetu ya mwaka kila wakati ina maelezo yetu kamili ya uongozi wa kimashirika. Ikiwa kampuni iliyoorodheshwa kwa umma katika soko la hisa, Kampuni ya Pan Africa inajiambatanisha na "maongozi ya kimashirika" ya Mamlaka inayosimamia masoko ya hisa. Kampuni pia iko chini ya Sanlam Group ambayo imewasilisha tajriba na ujuzi wake katika eneo hili. Halmashauri ya Wakurugenzi imejikakamua kuweka viwango thabiti zaidi vya uongozi wa kimashirika kama inavyohitajika katika shughuli zetu.

Tuzo za utoaji wa taarifa za kifedha (FiRe)

Mnamo 2008, Kampuni ya Pan Africa Insurance Holdings Limited ilikabidhiwa hadhi ya kwanza katika kitengo cha uongozi wa kimashirika na nafasi ya pili katika kitengo cha bima kutokana na taarifa yetu ya mahesabu kwa kipindi cha mwaka kilichomalizika tarehe 31 Desemba 2008. Tuzo hizo zilidhaminiwa kupitia ushirikiano wa Taasisi ya Uhasibu ya Kenya na Mamlaka ya Masoko ya Hisa na Soko la Hisa la Nairobi. Tangu kuanzishwa kwa tuzo hizo za FiRe mnamo 2000, Kampuni yetu haijakosa kutuzwa kutuzwa kila mwaka. Hilo linadhihirisha lengo la Kampuni yetu la kuendelea kuzingatia utaalamu,uwazi na ubora katika utoaji wa taarifa za kifedha.

Mabadiliko katika Halmashauri

Mnamo mwezi Februari, Andrew Greenwood alijiuzulu wadhifa wa Afisa Mkuu Mtendaji wa Kampuni hii ili aweze kuandama shughuli zengine. Tom Gitogo aliyekuwa Meneja Mkuu wa Individual Life, aliteuliwa kuchukua wadhifa huo mnamo mwezi Aprili 2008.

John Burbidge, ambaye kahudumu kwa muda mrefu katika Halmashauri, alijiuzulu mnamo mwezi Mei 2008. Norman Kelly aliteuliwa kuwa Mkurugenzi na kuchukua nafasi ya Douglas Lacey aliyejiuzulu mnamo mwezi Machi 2008.

Sura ya Mustakabali

Tukipiga darubini ,sekta ya bima inakabiliwa na mikabala

Mwaka mmoja baadaye hali ilizidi kuwa ngumu na kukithiri kwa mporomoko wa muamana wa kiuchumi duniani. Mfumko wa bei wa miezi 12 uliongezeka kutoka asilimia 12 mnamo Desemba 2007 hadi aasilimia 27 mnamo Disemba 2008. Kiwango cha mtaji cha Soko la Hisa la Nairobi kilishuka kwa asilimia 35 hadi 3521.

Shilingi ya Kenya ilipungua thamani kwa asilimia 22.7 dhidi ya Dola ya Marekani hadi takriban KShs. 77.7 mnamo Disemba 2008.

Mazingara ya Kibiashara

Tulikisia ukuaji wa Pato la Taifa wa kati ya asilimia 3 na asilimia 4 mnamo mwaka wa 2008 ambao ulitarajiwa kushuka zaidi kwa kati ya asilimia 2 na asilimia 3 mnamo mwaka wa 2009. Kudorora huko kulitokana na kushuka kwa tendakazi katika sekta kadhaa za kiuchumi,kupungua kwa utashi wa bidhaa mbalimbali na athari za mporomoko wa kiuchumi duniani.

Sekta ya kilimo ilishuhudia kudorora kwa asilimia 10 katika utoaji wa bidhaa katika kipindi cha miezi 11 hadi Novemba 2008 hasa kutokana na hali mbaya ya hewa na athari za ghasia za baada ya uchaguzi na kuongezeka kwa bei ya pembejeo za kilimo.

Kulikuwa na matokeo mchanganyiko katika sekta ya viwanda katika miezi 11 ya kwanza ya 2008: Utoaji wa saruji uliongezeka kwa asilimia 18.9; utoaji wa magadi na bia ukaongezeka kwa asilimia 39.5 na asilimia 14.9 mtawalia; hata hivyo utoaji wa sigara ulipungua kwa asilimia 5.1.

Sekta ya Utalii ilidorora kwa asilimia 33.8 kutokana na kupungua kwa idadi ya watalii wa kigeni kati ya Januari na Novemba 2008 kutoka watalii 630,941 hadi watalii 952,396.

Sekta ya mawasiliano iliendelea kuwa imara huku ukuaji wake ukikisiwa kuwa wa zaidi ya asilimia 10 mnamo 2008.

Ulipaji wa madeni ya kigeni ulipungua kutoka ziada ya dola milioni 473 katika kipindi hicho cha mwaka hadi Novemba 2008 kufuatia kuongezeka haraka kwa nakisi ya dhamana ya matumizi ikilinganishwa na kuimarishwa kwa dhamana ya kifedha na mtaji. Nakisi hiyo ya dhamana ya mtaji iliongezeka hasa kutokana na kuongezeka kwa kima cha bidhaa zilizoagizwa kutoka nje ambacho kilipita kiwango cha uuzaji wa bidhaa na huduma katika nchi za kigeni.

Dhamana ya kifedha na mtaji iliimarika hadi ziada ya dola milioni 2,070 katika kipindi hicho cha mwaka hadi Novemba 2008 ikilinganishwa na ziada ya dola milioni 1,557 katika kipindi hicho cha mwaka hadi Novemba 2008. Kiwango cha fedha za kigeni kiliimarika kutoka dola milioni 5 katika kipindi hicho cha mwaka hadi Novemba 2007 hadi kufikia dola milioni 561 katika kipindi cha mwaka hadi Novemba 2007 kikieleleza uwekezaji wa kigeni wa moja kwa moja na biashara zengine za kadiri za kibinafsi.

Benki Kuu inaendelea kutumia sera kabambe za kifedha katika urekebishaji wa kasoro za kiuchumi.

Sekta ya Bima

Katika juhudi za kujiambatanisha na agizo la Waziri wa Fedha kwa kampuni za bima za kudumu za bima kuongeza mtaji wake kutoka shilingi milioni 50 hadi shilingi milioni 150, Kampuni ya Pan Africa Life Assurance Limited iliongeza mtaji wake wa bima kutoka hisa shilingi 126,600,000 katika hisa 25,320,000 hadi shilingi 200,000,000 katika hisa 50,000,000 za shilingi 5 kila hisa.

Serikali ya Kenya kupitia wizara ya Fedha inanuia kuchunguza upya msingi wa kisheria na usimamizi wa sekta ya bima nchini Kenya kwa lengo la kuimarisha tendakazi ya sekta hiyo.

Kwa ajili hiyo kumebuniwa jopo kazi la kukusanya maoni na mapendekezo kutoka kwa kampuni za bima na wadau wengine muhimu.

Kampuni hii kwa muktadha huo inanuia kushiriki kikamilifu katika zoezi hilo na kutarajia kuwepo kwa sekta bora zaidi iliyodhibitiwa ambayo itapelekea matokeo mazuri katika sekta ya bima.

Matokeo ya Kampuni

Kampuni ilipata nakisi ya shilingi milioni 96 ikilinganishwa na ziada ya shilingi milioni 147 iliyotangazwa 2007. Nakisi hii ilitokana na hasara ya rasilimali za uwekezaji wa wenye hisa na pia hasara kutoka kwa mshirika mmoja. Hatahivyo shughuli za kimsingi zimeendelea kuwa imara.

Licha ya hali ngumu ya kiuchumi,kuliwa na ukuaji katika ziada ya bima ya maisha ambayo ilitokana na kudumishwa kwa utaratibu wetu wa utengezaji wa faida. Kushughulikia fedha za ziada huambatanisha matokeo ya ulimwengu wa bima lakini hakujumuishi mapato ya uwekezaji katika rasilimali za wenye hisa.

Taarifa ya Mwenyekiti

Ni furaha yangu kuwasilisha kwenu matokeo ya Kampuni ya Pan Africa ya kipindi cha mwaka kilichomalizika tarehe 31 Disemba 2008.

Uchumi wa Dunia

Kufuatia dharura iliyotokana na mfumko wa muamana wa kiuchumi duniani mnamo 2008, shirika la Fedha Duniani IMF limekadiria ukuaji wa uchumi duniani kuwa asilimia 3.4 ikiwa ni kiwango kilichopungua kwa asilimia tano kikilinganishwa na mwaka uliotangulia.

Huku sera zikishindwa kuondoa hali ya wasiwasi iliyopo, hali hii imesababisha kushuka kwa thamani ya rasimali kwa mataifa yaliyostawi kiuchumi na yale yanayoendelea kustawi. Mbali na hayo hali hii imepunguza kima cha umiliki wa mali na hivyo kudidimiza utashi wa wateja.

Aidha, wasiwasi huo umepelekea kampuni mbalimbali, mashirika na watu binafsi,.kuahirisha matumizi na hivyo kupunguza utashi wa wateja wa huduma za mtaji.

Wakati huo huo, kupunguzwa sana kwa viwango vya mikopo, kumetatiza biashara kwa kuathiri utoaji na ununuzi wa bidhaa.

Sera kabambe zinaendelea kutekelezwa kwa ajili ya kukabiliana na mfumko huo wa kiuchumi ili kuupa nguvu utashi wa bidhaa miongoni mwa wateja, lakini itachukua muda kwa suluhisho kupatikana.

Mikakati hiyo ni pamoja na mipango ya kununua rasilimali zilizochujuka, kutumia fedha za umma kuimarisha mitaji wa benki na kutoa dhamana za kudumu, na kushirikisha upunguzaji wa ada za maongozi zinazotozwa na Benki Kuu.

Ukuaji wa uchumi wa Dunia unatarajiwa kushuka kwa asilimia ½ mwaka huu,ikiwa ni kiwango chake kidogo zaidi tangu vita vikuu vya pili vya Dunia.

Licha ya hatua kuchukuliwa, mkurupuko wa muamana ungali na athari kubwa na unasambaratisha uchumi.

Ufufuzi wa kudumu wa kiuchumi hautawezekana hadi utendakazi wa sekta ya fedha urejeshwe katika hali ya kawaida huku msimamo wa utoaji wa mikopo ukidhibitiwa.

Kwa lengo hilo, sera na mikakati mipya vinahitajika kwa ajili ya kutoa utambuzi wa hasara inayotokana na utoaji wa mikopo, kuziweka asasi za kifedha katika vitengo vyao vya kadiri na kuwezesha watu kupata usaidizi kutoka kwa asasi hizo kupitia uimarishaji wa mtaji wa asasi hizo na kuziondolea mbali rasilimali zisizokuwa na faida.

Maongozi ya kifedha yanahitajika kusaidia zaidi uimarishaji huo wa utashi wa masurufu tena kwa kipindi kirefu kijacho, huku mikakati ikifanywa kuhakikisha muamana wa kifedha unaimarishwa.

Mataifa machanga na yanayoendelea kustawi kiuchumi

Huku ukuaji wa uchumi katika mataifa yaliyo na ustawi mkubwa wa kiuchumi ukipungua kwa asilimia moja (2007: asilimia 2.7), ustawi katika mataifa machanga na yale yanayoendelea kustawi ulipungua kwa asilimia 6.3 percent (2007: asilimia 8.3). Mataifa ya Afrika yalishuhudia kupungua kwa asilimia moja hadi asilimia 5.2 percent (2007: asilimia 6.2 percent).

Ukuaji katika mataifa machanga na yale yanayoendelea kustawi ulitarajiwa kupungua kutoka asilimia 6.3 mnamo 2008 hadi asilimia 3.3 mnamo 2009, chini ya upeo wa kupungua kwa utashi wa uagizaji bidhaa kutoka nje na ufadhili wa kifedha, kushuka kwa bei za bidhaa na masharti magumu zaidi ya ufadhili kutoka nje (hasa kwa mataifa yaliyokuwa na kiasi kikubwa cha madeni ya kigeni yasiyolipwa).

Misingi thabiti ya kiuchumi katika mataifa mengi machanga imetoa fursa zaidi za sera za maongozi kuliko wakati uliopita, jambo ambalo lilisaidia katika kuzuia kwa kiasi kikubwa athari hiyo ya kupunguzwa kwa ufadhili wa kigeni wa kifedha. Kwa muktadha huo, ingawa mataifa haya yatakumbwa na kudorora kwa ukuaji wa kiuchumi, ukuaji wao unatarajiwa kubakia ulipokuwa ama kuongezeka kidogo ikilinganishwa na nyakati zengine kuliposhuhudiwa mkurupuko wa muamana wa kiuchumi duniani. Mataifa yanayostawi Barani Afrika na kwengineko pia yamejiandaa vyema wakati huu kukabiliana na changamoto za kimaongozi kutokana na kutekelezwa kwa mipango iliyoimarishwa ya ustawishaji wa uchumi wa mataifa machanga. Lakini Bara la Afrika liko katika hali hafifu ya kujikwamua ikilinganishwa na mataifa ya maeneo mengine kutokana na viwango vyake vya umasikini na kutegemea kwa bidhaa kutoka nchin za kigeni.

Uchumi wa Kenya

Mwaka wa 2008 ulianza kwa ugumu kuhusiana na shughuli zetu kufuatia athari za ghasia za baada ya uchaguzi katika baadhi ya masoko yetu tunayoyashughulikia.

affect our premium income and reduce the value of new business. The Group, along with other insurance companies has experienced a turbulent 2008. Consequently, the Group is looking into ways of income diversification with the main project for 2009 being the Mae Ridge Development.

Mae Ridge Development

The Group has embarked on the development of Mae Ridge Development in the Runda area at an estimated cost of over KShs. 2 billion. Located a few metres from Eagle Park which had also been developed by the Pan Africa Group, the project will entail the construction of 81 high quality residential houses which will be developed in three phases, with the first phase of twenty houses expected to be completed by January 2010. The development is expected to provide a viable investment opportunity for potential home owners and investors in the property market.

Note of Appreciation

In conclusion, I take this opportunity to recognise with much appreciation the service of the former Chief Executive, Mr Andrew Greenwood who before his resignation in February 2008 had served the Group since December 2000. During that period, the Group realised various milestones and we thank him for his dedicated and outstanding contribution to the growth of the Group. I also take the opportunity to welcome the Group's new Chief Executive, Tom Gitogo who was appointed to that position in April 2008. Formerly the General Manager for Individual Life, he possesses a wealth of experience in the financial services sector with a specialisation in the insurance industry having previously served in a senior position in PricewaterhouseCoopers (Kenya and London) and as the Group Finance Director at British American Insurance Company Limited.

On behalf of the Board of Directors, let me take this opportunity to express my gratitude to Douglas Lacey and John Burbidge for their long and invaluable contribution to the Group since the arrival of African Life into the Kenyan market through Pan Africa. We wish them every success in all that they choose to undertake.

To my fellow directors, I thank them for their counsel, support, dedication and diligence as members of the Board and also in their key service on the various Committees of the Board which play a key role in the corporate governance of the Group.

We are grateful to our stakeholders, business partners, customers, suppliers and all those we are associated with, without whose support we could not have effectively faced the challenges of the past year.

I am also grateful for our dedicated Management and staff who have worked hard in the year under review and for remaining focused on the goals and targets which we have set ourselves as a group.

To our shareholders, I thank them for the support and the confidence they have continued to demonstrate in their board and management.

John P N Simba, MBS OGW

Chairman

16 March 2009

Despite tough economic conditions, there was a strong growth in the Life operating surplus which is attributable to the retention of our profitable book of business. Operating surplus incorporates the underwriting result but excludes investment income on shareholders' assets.

The overall gross premium increased by 21 percent to over KShs. 2.5 billion. Individual life premium at KShs. 1.5 billion realised a growth of 23 percent which was below our expectations. This was mainly due to the adverse market conditions which further impacted on new business margins. Corporate business had a successful year attaining gross premium of KShs. 1 billion, a growth of 18 percent. The Group Embedded Value, despite the impact of volatility in the capital markets, increased by 3 percent to KShs. 3 billion. This is after allowing for the KShs. 76.8 million dividend paid during the year, relating to 2007.

Market capitalisation of Pan Africa Insurance Holdings Limited shares at the NSE decreased by 38 percent over the year to reach KShs. 2.97 billion (2007: KShs. 4.8 billion) in line with the general trend at the NSE. Due to unrealised investment losses, the Basic loss per share is KShs. 2 (2007: Profit-KShs. 3.06).

Dividend

As a result of the global economic uncertainty and the impact it may have on our business as well as the need to conserve cash, coupled with our commitment to develop the Mae Ridge property in Runda, the Board has adopted a conservative approach in respect of dividends and will not recommend the payment of a dividend to the shareholders at the forthcoming 63rd Annual General Meeting. Should the business environment significantly change, your Board will review this position and recommend payment of an interim dividend.

Reporting Standards

To enhance accountability, corporate governance and disclosures, the Group during 2008, continued to conform to the various international and Group standards for reporting including:

- Financial Reporting: In accordance with the International Financial Reporting Standards;
- Risk Management Reporting: In accordance with the standards and guidelines of the Audit & Risk Committee;
- Corporate Governance Reporting: In accordance with the CMA's 'Principles of Corporate Governance' and other statutory/regulatory requirements;
- Subsidiary / Associated Companies / Board Committees: reports every quarter to the holding company, Pan Africa Insurance Holdings Limited;

Statement of Corporate Governance

Our Annual Reports consistently contain our statement of corporate governance. As a publicly listed company, the Group complies with the Capital Markets Authority 'Guidelines on Corporate Governance'. The Group is also part of the Sanlam Group which has shared its knowledge and experience in this area. The Board of Directors has taken upon itself to adopt even more stringent corporate governance standards as demanded by the nature of our business.

Financial Reporting (FiRe) Awards

In 2008, Pan Africa Insurance Holdings Limited was awarded the first position in the Corporate Governance category and the 2nd runners up in the insurance category based on our published accounts for the year ended 31 December 2007. The award is jointly sponsored by the institute of Certified Public Accountants of Kenya, the Capital Markets Authority and the Nairobi Stock Exchange. Since the inception of the awards in 2000, the Group has continued to win a FiRe Award every year. This is a manifestation of the Group's continued focus on professionalism, transparency and excellence in financial reporting.

Changes to the Board

In February 2008, Andrew Greenwood resigned from the position of the Chief Executive of the Group in order to pursue other interests. Tom Gitogo, the former General Manager for Individual Life, was appointed to succeed him in April 2008. Following his retirement, John Burbidge, a long serving member of the Board, resigned in May 2008. Norman Kelly was appointed as a Director to replace Douglas Lacey who resigned in March 2008.

Future Outlook

Going forward the insurance industry faces a tough year. The global recession, a volatile capital market which has had an adverse effect to the investment income together with rising inflation are some of the factors which will continue to negatively and much tighter external financing constraints (especially for economies with large external imbalances). Stronger economic frameworks in many emerging economies have provided more room for policy support to growth than in the past, helping to cushion the impact of this unprecedented external shock. Accordingly, although these economies will experience serious slowdowns, their growth is projected to remain at or above rates seen during previous global downturns. Developing countries in Africa and elsewhere are also better prepared this time to face policy challenges because of improved macroeconomic policy implementation, but the continent is in a weaker position than most other regions because of its poverty levels and reliance on commodity exports.

Kenyan Economy

2008 started as a difficult year with post election violence adversely affecting some of the markets we operate in. This was compounded later in the year as the Global Financial crisis deepened. The 12 months overall inflation increased from 12 percent in December 2007 to 27 percent in December 2008. The NSE index declined by 35 percent to 3521. The Kenya Shilling weakened by 22.7 percent against the US Dollar to close at KShs. 77.7 in December 2008.

Business Environment

We estimate a GDP growth of between 3 percent and 4 percent in the year 2008 which should slump further to between 2 percent and 3 percent in 2009. The expected slump is attributed to a dismal performance by various sectors of the economy, waning demand for various outputs and the effects of the global economic crisis.

The agricultural sector, recorded a decline of 10% in production over eleven months to November 2008 mainly due to unfavourable weather coupled with effects of post election violence and high agricultural input costs.

There was mixed performance in the manufacturing sector in the first eleven months of 2008: Cement production increased by 18.9 percent; soda ash and beer production increased by 39.5 percent and 14.9 percent respectively; however, cigarette production declined by 5.1 percent.

Tourism sector recorded a decline as international tourist arrivals between January and November 2008 period declined by 33.8 percent, from 952,396 visitors in the same period of 2007 to 630,941 visitors. The telecommunications sector remained vibrant with 2008 growth estimated at over 10%.

Kenya's balance of payments declined from a surplus of US$ 473 million in the year to November 2007 to a deficit of US$ 43 million in the year to November 2008 following a faster widening in the current account deficit than the improvement in the capital and financial account. The current account deficit widened mainly due to growth in merchandise imports that surpassed the growth in exports of both goods and services.

The capital and financial account improved to a surplus of US$ 2,070 million in the year to November 2008 compared with a surplus of US$ 1,557 million in the year to November 2007. Net private medium and long-term financial inflows improved from US$ 5 million in the year to November 2007 to US$ 561 million in the year to November 2008 reflecting increased foreign direct investment inflows and other private medium and long-term financial flows.

The Central Bank continues to utilise prudent fiscal and monetary policies in controlling distortions in the economy.

Insurance Industry

In a bid to comply with a directive from the Minister of Finance that long term insurance companies increase their paid up capital from KShs 50 million to KShs 150 million, Pan Africa Life Assurance Limited increased its paid up share capital from KShs 126.6 million to KShs. 200 million.

The Government of Kenya, through the Ministry of Finance intends to review and implement an appropriate legal and regulatory framework governing the insurance industry in Kenya in order to promote the efficiency and effectiveness of the industry. To this end, a task force has been established to collect views, opinions and recommendations from insurance companies and other key stakeholders. As a Group, we intend to actively participate in this exercise and look forward to a better regulated insurance industry which in turn will positively impact the economy and the insurance market in particular.

Group Performance

The Group recorded a deficit of KShs. 96 million compared to a surplus of KShs. 147 million reported in 2007. This deficit is as a result of unrealised investment losses on shareholders' assets as well as a share of unrealised loss from an associate. These losses notwithstanding, our core operations remain sound.

Chairman's Statement

I am delighted to present to you the results of the Group for the financial year ended 31 December 2008.

Global Economy

Following the emergence of the Global Economic crisis in 2008, IMF estimates the world growth for 2008 at 3.4 percent, down from 5 percent in 2007. Global output and trade plummeted in the final months of 2008 as the financial crisis persisted. All major equity indices dropped by wide margins in 2008. With policies failing to dispel uncertainty, this has caused asset values to fall sharply across advanced and emerging economies, decreasing household wealth and thereby putting downward pressure on consumer demand. In addition, the associated high level of uncertainty has prompted households and businesses to postpone expenditures, reducing demand for consumer and capital goods. At the same time, widespread disruptions in credit is constraining household spending and curtailing production and trade.

Comprehensive policy actions are being implemented to address the root causes of financial stress and to support demand, but it will take time to reap their full benefits. The initiatives include programs to purchase distressed assets, use of public funds to recapitalise banks and provide comprehensive guarantees, and a coordinated reduction in policy rates by major central banks.

World growth is projected to fall to ½ percent in 2009, its lowest rate since World War II. Despite wide-ranging policy actions, financial strain remain acute, pulling down the real economy. A sustained economic recovery will not be possible until the functionality of the financial sector is restored and credit markets are unclogged. For this purpose, new policy initiatives are needed to produce credible loan loss recognition; sort financial companies according to their medium-term viability; and provide public support to viable institutions by injecting capital and carving out bad assets. Monetary and fiscal policies need to become even more supportive of aggregate demand and sustain this stance over the foreseeable future, while developing strategies to ensure long-term fiscal sustainability.

Emerging and Developing Economies

While growth in the advanced economies declined to 1 percent (2007: 2.7 percent), growth in emerging and developing economies declined to 6.3 percent (2007: 8.3 percent). Africa experienced a decline of 1 percent to 5.2 percent (2007: 6.2 percent).

Growth in emerging and developing economies is expected to slow sharply from 6.3 percent in 2008 to 3.3 percent in 2009, under the drag of falling export demand and financing, lower commodity prices,

Management Team *continued*

8. Tom Gitogo

9. Martin

Division

Joined Pan

Chartered In

10. Emma Wachira

Company Secretary

11. Jane Ntutu,

General Manager, Sales & Marketing.

Joined Pan Africa Life in May 2003. She holds a BSc Degree.

Regional Sales Manager, Eastern

Joined Pan Africa life in October 2001. He holds a BSc Degree.

13. Stephen Kamanda,

General Manager, Finance & Administration

2005. He holds an MBA in Finance and

He holds further qualifications in

Management Team

1. **James Muiruri,**
General Manager, Corporate Business
Joined Pan Africa Life in November 1999. He holds a BSc Degree, AIIK, ACII, ACIArb. He is also an Associate, Customer Service of LOMA (USA)

2. **Lucy Munjuga,**
Deputy Divisional Manager, Finance & Administration
Joined Pan Africa Life in May 1996. She holds a BSc Degree and CPA (K)

3. **Mercy Kabangi,**
Public Relations Manager
Joined Pan Africa Life in June 2007. She holds a BA Degree

4. **Catherine Olaka,**
Human Resource Manager
Joined Pan Africa Life in October 2007. She holds an MBA in [illegible] Management, a BA Degree and a Higher [illegible] Dip [illegible]

5. **Joseph Wamwea,**
General Manager, Operations & IST
Joined Pan Africa Life in September 1999. He holds an MBA and a Bsc (Hons). He holds further qualifications in CISA, Dip FM, Dip CS

6. **Luke Magambo,**
Divisional Manager, Finance & Administration
Joined Pan Africa Life in August 2002. He holds a BSc Degree, CPA (K), CPS (K), Dip IMIS

7. **Linda Were,**
Deputy Divisional Manager, Operations
Joined Pan Africa Life in Fe[illegible]

JAMES GITOHO (53)
Appointed to the Board in December 2001

Occupation:
Partner, Triad Architects

Professional Qualification:
Registered Architect

Academic Qualifications:
Bachelor of Architecture

Relevant Directorships:
Pan Africa Life Assurance Limited and subsidiaries in the Pan Africa Insurance Group of Companies

JOHN P N SIMBA (64)
(Chairman)
Appointed to the Board in December 2001
Appointed as Chairman in March 2002

Occupation:
Lawyer, Partner in Simba & Simba, Advocates

Professional Qualification:
Advocate of the High Court of Kenya

Academic Qualifications:
Bachelor of Law (University of Dar-es-Salaam)

Other Relevant Chairmanships:
APA Insurance Limited

Relevant Directorships:
Pan Africa Life Assurance Limited and other subsidiaries within the Pan Africa Insurance Group of Companies

NORMAN J KELLY (41)
Appointed in May 2008

Occupation:
Actuary – Sanlam Developing Markets

Professional Qualifications:
Fellow of the Institute of Actuaries (UK), Fellow of the Actuarial Society of South Africa

Academic Qualifications:
Bachelor of Science Degree in Mathematical Statistics and *Actuarial Sciences, University of* Witerwatersrand

MARGARET DAWES (51)
Appointed to the Board in March 2005

Occupation:
CEO, Sanlam Developing Markets

Professional Qualifications:
ACA (England & Wales), Chartered Accountant (SA)

Academic Qualifications:
Higher Diploma in Tax Law (University of the Witwatersrand)

Relevant Directorships:
Sanlam Developing Markets, Pan Africa Life Assurance Limited and a number of subsidiaries within the Sanlam Group of Companies

Profile of Directors

[illegible] (4[illegible])
Appointed to the Board on 1 April 2008

Occupation:
[illegible]

Professional Qualifications:
[illegible] ICA (England & Wales)

Academic Qualifications:
MBA (Strategic Management), Bachelor of Science (Civil Engineering)

Relevant Directorships:
APA Insurance Limited, Pan Africa Life Assurance Limited, and subsidiaries in the Pan Africa Insurance Group of Companies

ROBERT DOMMISSE (41)
Appointed to the Board in December 2007

Occupation:
General Manager - Structural Growth at Sanlam Limited

Professional Qualifications:
Chartered Accountant (SA)

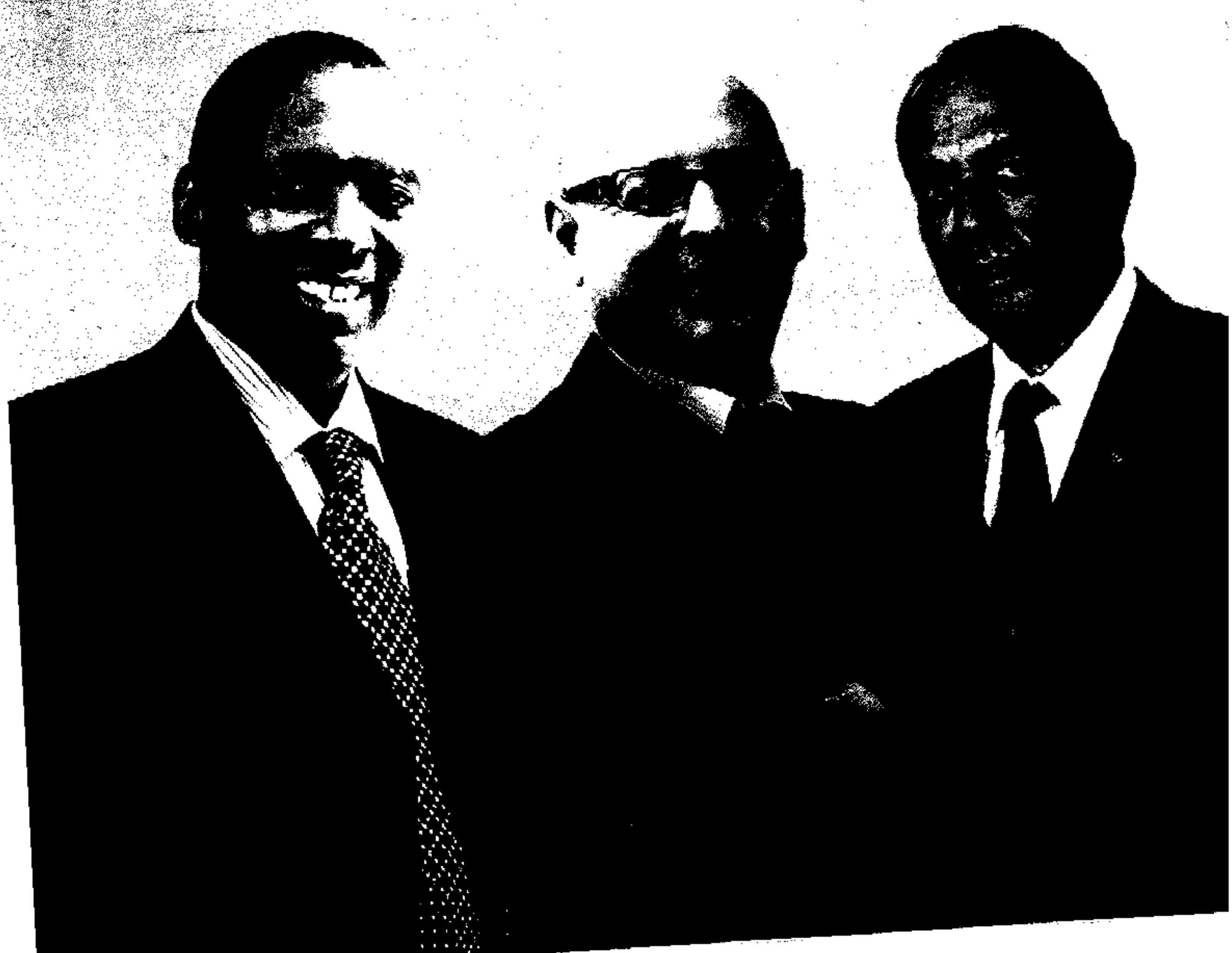
Academic Qualifications:
MBA (Stellenbosch University)

Relevant Directorships:
Sanlam Limited, Pan Africa Life Assurance Limited, and subsidiaries in the Pan Africa Insurance Group of Companies

BALOOBHAI PATEL (70)
Appointed to the Board in December 2001

Occupation:
Managing Director, Transworld Safaris Limited

Relevant Directorships:
Pan Africa Life Assurance Limited, and subsidiaries in the Pan Africa Insurance Group of Companies



Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2008 that disclose the state of affairs of the Company and its subsidiaries.

Incorporation

The limited liability company whose shares are traded publicly in the Nairobi Stock Exchange (NSE) was incorporated in Kenya on 26 October 1946 under certificate of incorporation number C.10/46 under the Kenyan Companies Act (Chapter 486 of the Laws of Kenya) and is domiciled in Kenya.

Principal Activities

The principal activity of the Group, through its subsidiary Pan Africa Life Assurance Limited, is the underwriting of all classes of long-term insurance business as defined by the Insurance Act (Chapter 487 of the Laws of Kenya), with the exception of industrial life insurance. The Group has interests in a wholly owned investment company, PA Securities Limited, Mae Properties Limited (dormant), Chem Chemi Mineral Water Limited (dormant) and an associate general insurance company, APA Insurance Limited.

Results

The loss for the year of KShs. 95,999,000 (2007: profit of: KShs. 146,990,000) has been deducted from the retained earnings.

Dividends

The Directors do not recommend a dividend (2007: KShs. 76,800,000) to the shareholders at the 63rd Annual General Meeting of the Company.

Financial Risk Management Objectives and Policies

The activities of the Company and its subsidiaries 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. Therefore the risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance. These 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 reinsurers. Investment policies are in place to enable optimal liquidity management and to maximise returns within an acceptable level of risk.

Authorization

The consolidated financial statements of Pan Africa Insurance Holdings Limited for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the directors on 16 March 2009. The owners have the power to amend the financial statements after issue.

Directors

The Board of Directors who served during the year and up to the date of this report are:

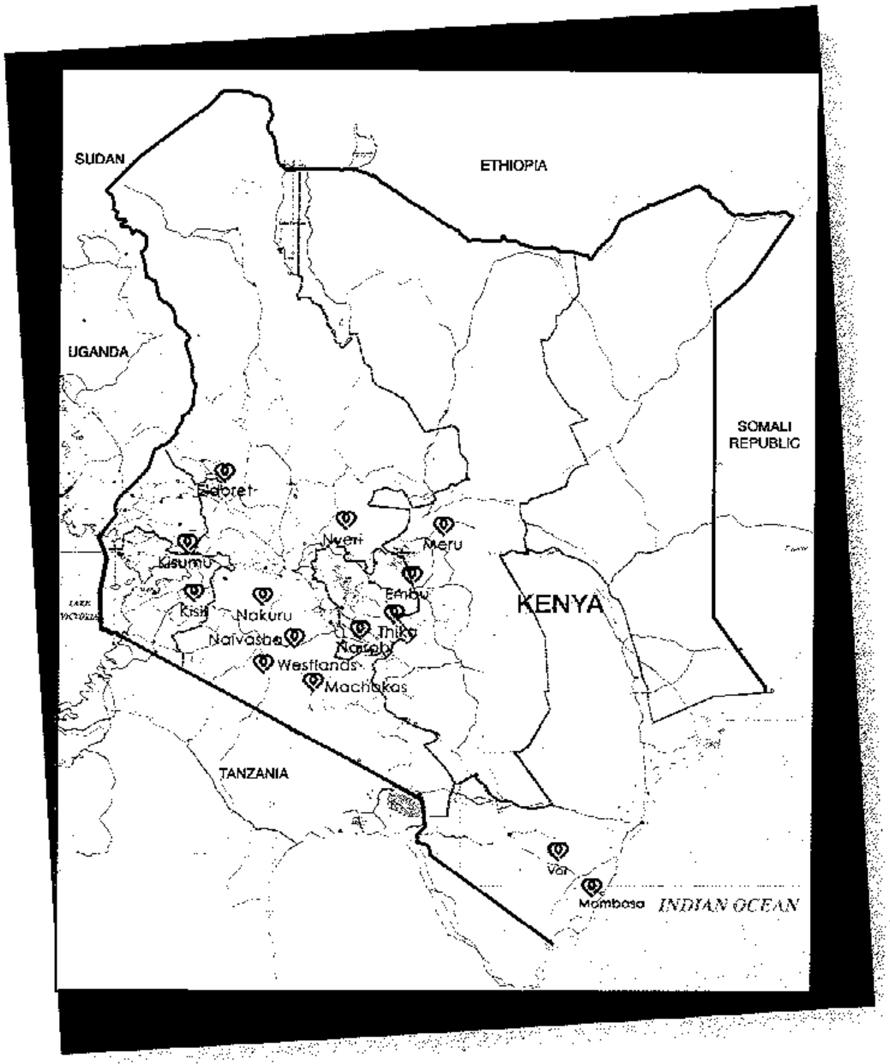
1) John P N Simba (Chairman)
2) Tom Gitogo (Chief Executive) (Appointed 1 April 2008)
3) John A Burbidge (Resigned 21 May 2008)
4) Margaret M Dawes
5) James N Gitoho
6) Norman J Kelly (Appointed 21 May 2008)
7) Baloobhai Patel
8) Douglas N Lacey (Resigned 31 March 2008)
9) William R Dommisse

Auditors

The Group's auditors, Ernst & Young, have indicated their willingness to continue in office in accordance with Section 159 (2) of the Companies Act.

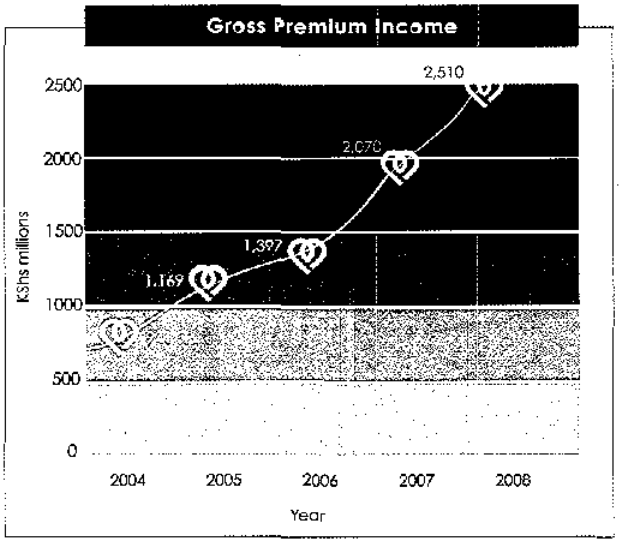
By Order of the Board
Emma Wachira
Company Secretary
16 March 2009

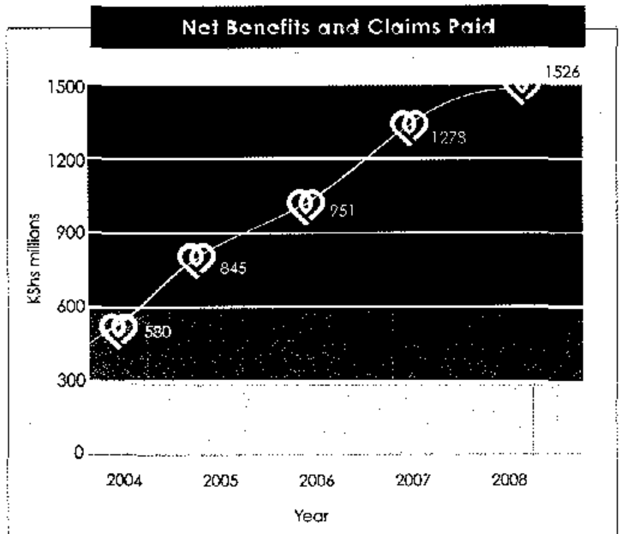
Branch Network

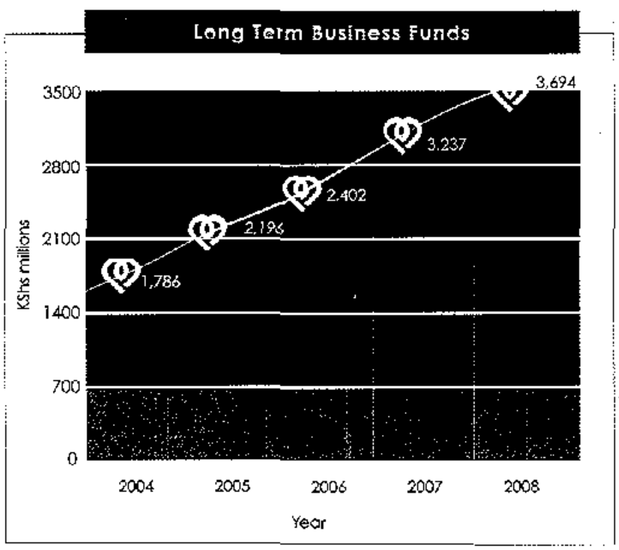


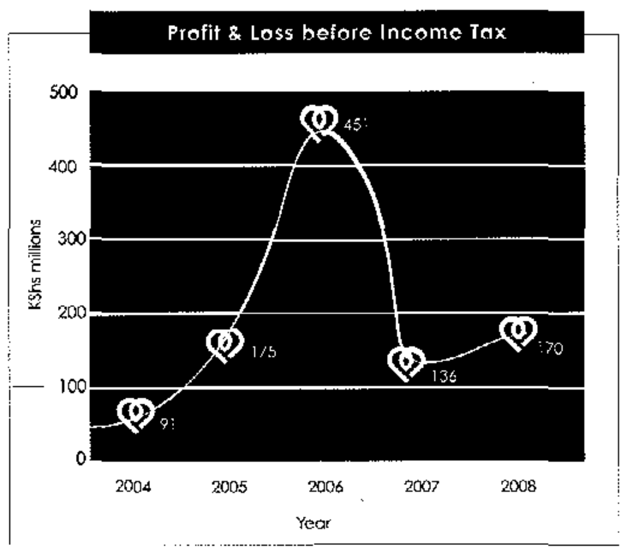
- Eldoret • Embu • Kisii • Kisumu • Machakos • Meru
- Mombasa • Nairobi City Centre • Nairobi Mega
- Nakuru • Nyeri • Naivasha • Thika • Westlands
- Nyahururu • Voi

Five Year Group Review









1. Pan Africa insurance company limited -- Kenya
2. Insurance law -- Kenya -- periodicals

4

Five Year Group Review

Profit and loss account (KShs million)

	2004 KShs'000	2005 KShs'000	2006 KShs'000	2007 KShs'000	2008 KShs'000
Investment income	194	219	404	191	282
Operating profit before income tax	91	175	451	136	170
Profit/ (loss) attributed to shareholders	93	176	425	147	(96)
Dividends	48	58	69	76	

Long term insurance business

	2004	2005	2006	2007	2008
Gross premium income	941	1,169	1,397	2,070	2,510
Net premium income	790	1,031	1,248	1,834	2,318
Net benefits and claims paid	580	845	951	1,278	1,526

Balance sheet

	2004	2005	2006	2007	2008
Shareholders' funds	799	931	1,303	1,362	1,186
Long term business funds	1,786	2,196	2,402	3,237	3,694
Share capital	240	240	240	240	240
Total assets	3,045	3,696	4,684	5,863	6,094

Key indicators

	2004	2005	2006	2007	2008
Basic earnings/ (loss) per share (KShs.)	1.95	3.68	8.87	3.06	(1.99)
Dividends per share (KShs.)	1.00	1.20	1.44	1.60	-
Market capitalisation at year end (KShs. million)	1,032	1,920	4,392	4,776	2,976

Company share prices at the NSE

	2004	2005	2006	2007	2008
High	35	42	100	122	99
Low	18	22	34	75	62
Share price at year end	22	40	92	100	62

Contents

We see into the future so your life can be more rewarding.

We have foresight that enables us to provide dynamic solutions that protect and enhance your life.

Five Year Group Review

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[illegible]INCIPAL PLACE
Pan Africa Life House
Kenyatta Avenue
P.O. Box 44041 – 00100
NAIROBI

REGISTERED OFFICE
Pan Africa Life House
Kenyatta Avenue
P.O. Box 44041 – 00100
NAIROBI

BANKERS
Barclays Bank of Kenya Limited
Barclays Plaza
P.O. Box 46661 – 00100
NAIROBI

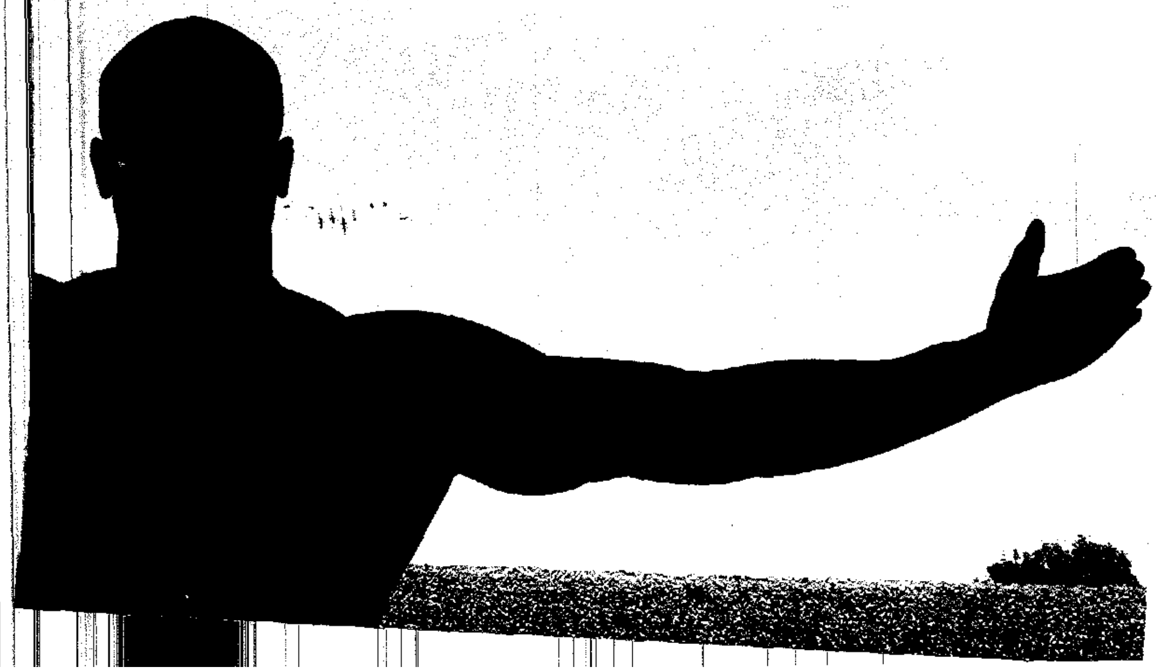
Standard Chartered Bank of Kenya Limited
Kenyatta Avenue
P.O. Box 30001 – 00100
NAIROBI

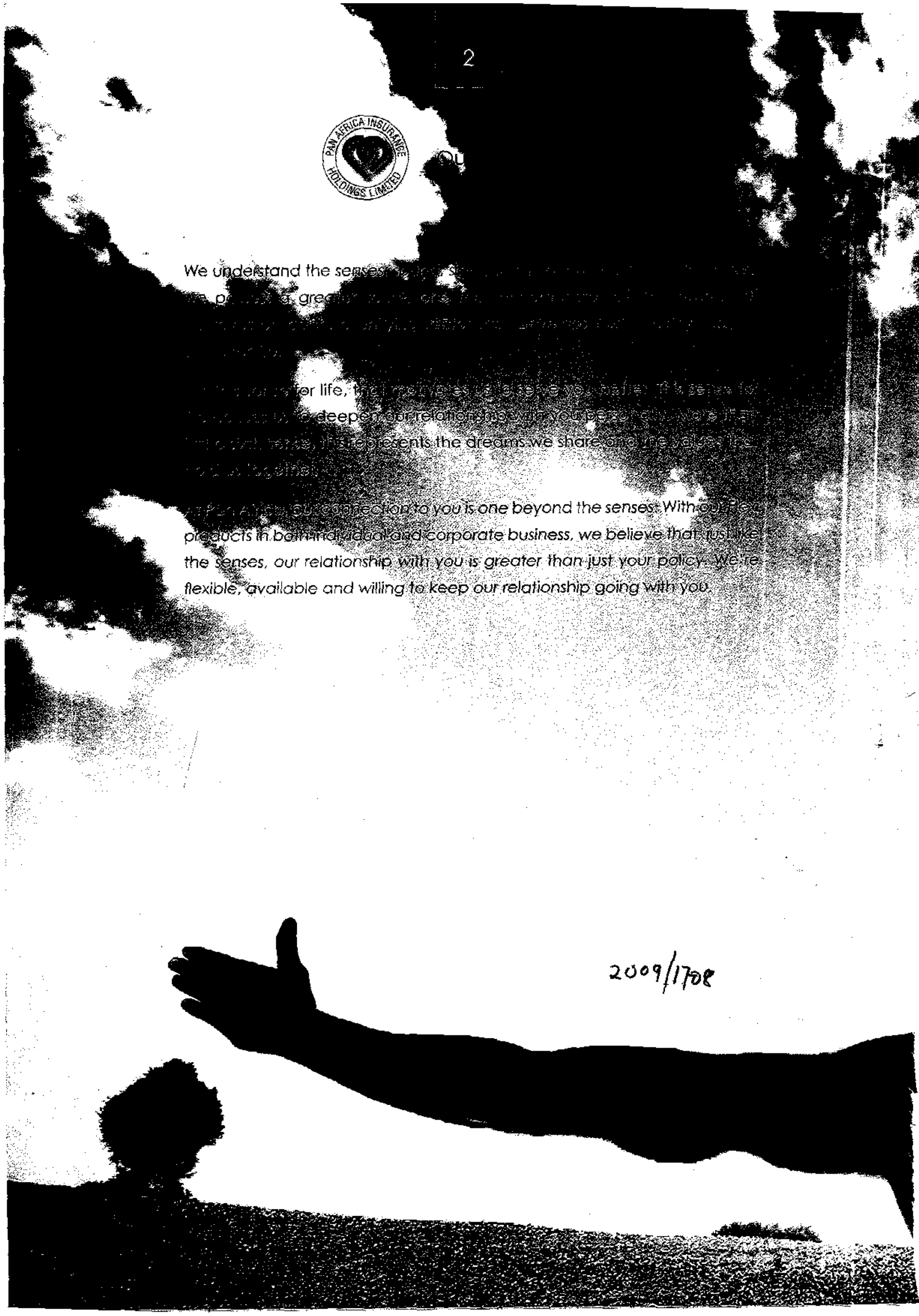
[illegible]
Ukulima Branch
P.O. Box 74958 – 002[illegible]
NAIROBI

National Bank of Ke[illegible]
Kenyatta Avenue
P.O. Box 30645 – 00[illegible]
NAIROBI

COMPANY SECRETARY
Emma Wachira
Pan Africa Life House
Kenyatta Avenue
P.O. Box 44041 – 00100
NAIROBI

AUDITORS
Ernst & Young
Kenya-Re Towers, Upperhill
Off Ragati Road
P.O. Box 44286 – 00100
NAIROBI




We understand the senses
the dreams we share
is one beyond the senses. With our
corporate business, we believe that
the senses, our relationship with you is greater than just your policy. We're
flexible, available and willing to keep our relationship going with you.
2009/1708