CONTENTS

CORE VALUES

[illegible] we thrive in an environment that is [illegible] constant change, creativity and exploration [illegible] progress, which is marked by careful [illegible] planning. At Pan Africa, dynamism is [illegible] than feared in so long as this adds [illegible] our stakeholders. Our staff embody these [illegible] and demonstrate a commitment to going [illegible] the call of duty, being energetic and positive in [illegible] undertake to do.

CUSTOMER DELIGHT

PROFESSIONALISM

Our sense of professionalism translates through to everything we do. Our staff are continuously engaged in creative and intellectually challenging work through application of impressive competence in various activities they are engaged in. We place a lot of trust in our staff who in turn uphold strict ethical and moral behaviour.

NURTURING

Nurturing is the ability to care for and foster growth in yourself and others. At Pan Africa, we view nurturing as the bedrock of all our working relationships. Nurturing is necessary in fostering an environment that is based on mutual understanding and respect

COLLABORATION

Collaboration is the basis for bringing together the knowledge, experience and skills of all our staff to contribute to the achievement of common goals and objectives. At Pan Africa, we understand that Collaboration requires effective team work. All our team members must trust and respect one another. There must be open communication and a willingness to accept input from others.

Company Information

...oung
...e Towers, Upperhill
...agati Road
...Box 44286-00100
NAIROBI

LEGAL ADVISORS
Kaplan & Stratton Advoc...
Williamson House, 4th ...
NAIROBI

Iseme, Kama...
IKM Place...
Off B...
NAIROBI

...Bank of Kenya Limited
...
P.O Box ...91 – 00100
NAIROBI

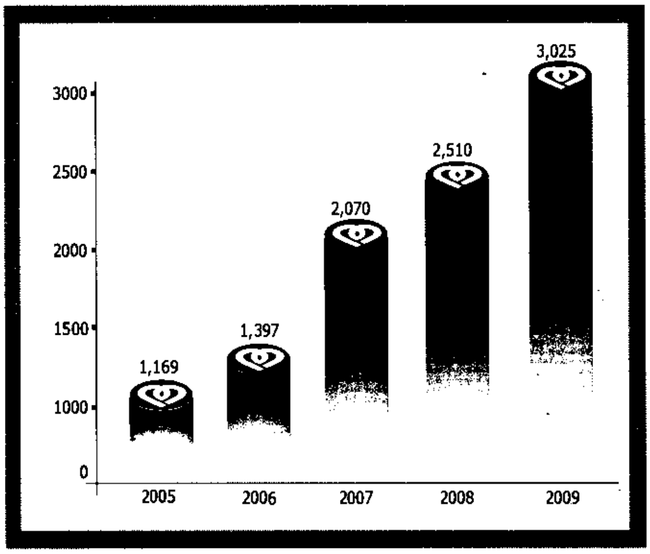
Cooperative Bank of Kenya Limited
Ukulima Branch
P.O Box 74956 – 00200
NAIROBI

National Bank ...

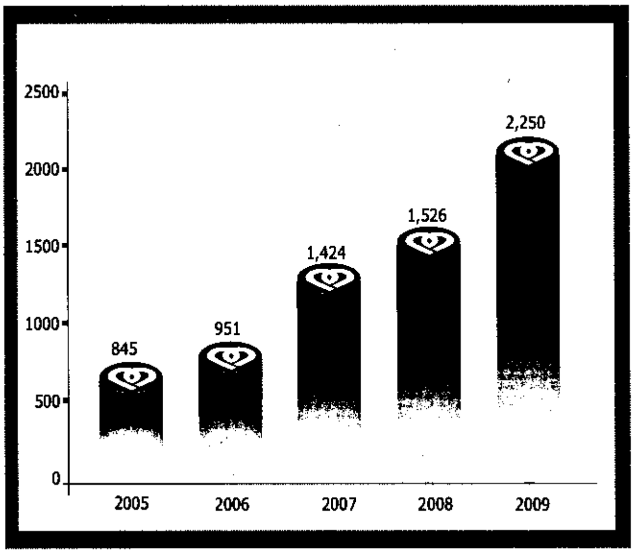
Five Year Group Review

	2005	2006	2007	2008	2009
	KShs.m	KShs.m	KShs.m	KShs.m	KShs.m
Profit and Loss Account					
Total other revenue	219	404	422	258	574
Operating profit before tax and share of associate	175	451	136	117	107
Profit/(loss) attributed to shareholders	176	425	147	(96)	139
Dividends	57	69	76	-	82
Long Term Insurance Business					
Gross premium income	1,169	1,397	2,070	2,510	3,025
Net premium income	1,031	1,248	1,834	2,318	2,821
Net benefits and claims paid	845	951	1,424	1,526	2,250
Statement of Financial Position					
Total equity	931	1,303	1,362	1,186	1,325
Insurance contract liabilities	2,196	2,402	3,237	3,694	5,020
Share capital	240	240	240	240	240
Total assets	3,696	4,684	5,863	6,094	7,538
Key Indicators					
	KShs.	KShs.	KShs.	KShs.	KShs.
Basic earnings/ (loss) per share	3.68	8.87	3.03	(1.99)	2.89
Dividends per share	1.20	1.44	1.60	-	1.70
Market capitalisation at year end(KShs. m)	1,920	4,392	4,776	2,976	2,160
Group Share Prices at the NSE					
High	42	100	122	99	62
Low	22	34	75	62	44
Share price at year end	40	92	100	62	45

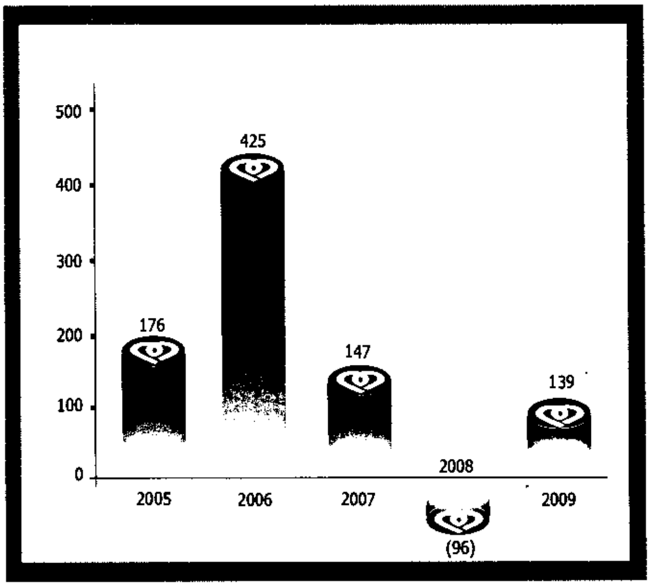
GROSS PREMIUM INCOME



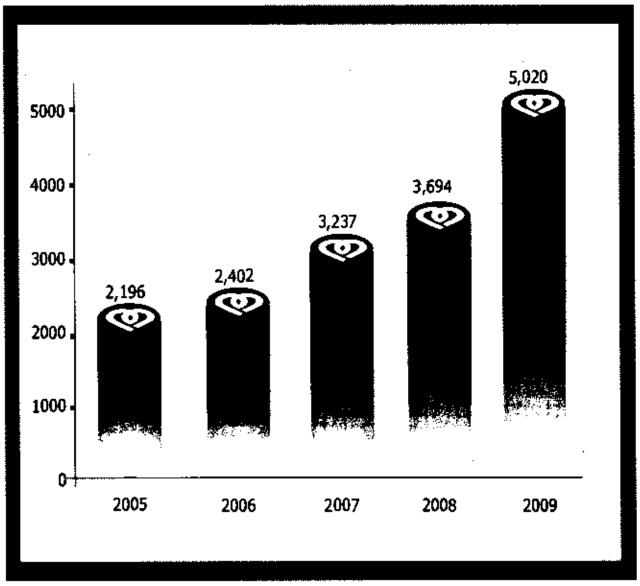
NET BENEFITS AND CLAIMS PAID



PROFIT/(LOSS) ATTRIBUTED TO SHAREHOLDERS



LONG TERM BUSINESS FUNDS



The Directors submit their report together with the audited financial statements for the year ended 31 December 2009 that discloses the state of affairs of the Company and its subsidiaries.

INCORPORATION

Pan Africa Insurance Holdings Limited is a company whose shares are traded publicly on the Nairobi Stock Exchange (NSE). It 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 profit for the year of KShs. 138,916,000 (2008: loss of KShs. 95,998,000) has been added to the retained earnings.

DIVIDENDS

The Directors recommend a dividend of KShs.81,600,000 (2008: KShs. Nil) to the shareholders at the 64th 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.

AUTHORISATION

The consolidated financial statements of Pan Africa Insurance Holdings Limited for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on 8 March 2010. The owners have the power to amend the financial statements after issue.

FINANCIAL STATEMENTS

At the date of this report, the directors were not aware of any circumstances, which would have rendered the values attributed to the assets and liabilities in the financial statements of the company misleading.

DIRECTORS

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

John P N Simba	Chairman
Tom Gitogo	Chief Executive
Margaret Dawes	
James Gitoho	
Baloobhai Patel	
Robert Dommisse	
Norman Kelly	Resigned 23 Februray 2010
Susan Mudhune	Appointed 18 August 2009
Thomas Wixley	Appointed 23 February 2010
Nelius Bezuidenhout	Appointed 23 February 2010

AUDITORS

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

By Order of the Board

Emma Wachira
Company Secretary
8 March 2010

Statement of Director's Responsibilities

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
Chairman
8 March 2010

Tom Gitogo
Director
8 March 2010

Board of Directors

JOHN P N SIMBA (65) (Chairman)
Appointed to the Board in December 2001
Appointed as Chairman in March 2002
Occupation: Lawyer, Partner in Simba & Simba, Advocates
Academic Qualifications: Bachelor of Law (University of Dar-es-Salaam)
Professional Qualification: Advocate of the High Court of Kenya

TOM GITOGO (41) (CEO)
Appointed to the Board in April 2008
Occupation: Insurance Executive
Academic Qualifications: MBA (Strategic Management), Bachelor of Science (Civil Engineering)
Professional Qualifications: CPA (K), CPS (K), ACA (England & Wales)

ROBERT DOMMISSE (41)
Appointed to the Board in December 2007
Occupation: General Manager -Structural Growth at Sanlam Developing Markets
Academic Qualifications: BAcc (Hons), MBA (Stellenbosch University)
Professional Qualifications: Chartered Accountant (SA)

JAMES GITOHO (54)
Appointed to the Board in December 2001
Occupation: Architect
Academic Qualifications: Bachelor of Architecture
Professional Qualification: Member of Kenya Architect Association

Board of Directors

MARGARET DAWES (52)
Appointed to the Board in March 2005
Occupation: Head – Rest of Africa, Sanlam Developing Markets
Academic Qualifications: BSc Biology (Hons) London, Higher Diploma in Tax Law (University of the Witwatersrand)
Professional Qualifications: ACA (England & Wales), Chartered Accountant (SA)

BALOOBHAI PATEL (71)
Appointed to the Board in December 2001
Occupation: Managing Director, Trans-world Safaris Limited.

SUSAN MUDHUNE (60)
Appointed to the Board in August 2009
Occupation: Banker
Academic Qualifications: Bachelor of Arts Degree in Education, University of Witwatersrand
Professional Qualifications: Fellow of the Institute of Bankers (Kenya), Fellow of the Kenya Institute of Management

NELIUS BEZUIDENHOUT (26)
Appointed to the Board in February 2010
Occupation: Actuary at Sanlam Developing Markets
Academic Qualifications: Bachelor of Commerce, University of Stellenbosch
Professional Qualifications: Fellow of the Institute of Actuaries, Fellow of the Actuarial Society of South Africa

THOMAS WIXLEY (70)
Appointed to the Board in February 2010
Occupation: Registered Accountant and Auditor,
Academic Qualifications: Bachelor of Commerce, University of Cape Town.
Professional Qualifications: Fellow of the Institute of Directors, Chartered Accountant (SA)

Management Team

[illegible]
Chief Executive
Joined Pan Africa in May [illegible] Management and a BSc in [illegible] CPS (K) as well as a member of the [illegible] Accountants in England and Wales.

Emma Wachira
Company Secretary/ Chief Legal Officer
Joined Pan Africa in December 2007 she holds a Bachelor of Law Degree and CPS (K)

Joseph Wamwea
General Manager, Opera[illegible]
Joined Pan Africa in Sept[illegible] a Bsc (Hons). He holds furthe[illegible] Dip CS

Stephen Kamanda
General Manager, Finance & Administration
Joined Pan Africa in August 2005. He holds an MBA finance and a Bachelor of Arts Degree in Economics. He holds further qualifications in FCCA (UK), ICSA (UK), CPA (K)

James Muiruri
General Manager, Corporate Business
Joined Pan Africa in November 1999. He holds a BSc (Hons) Degree, AIIK, ACII, ACIArb. He is also an Associate, customer service of LOMA (USA)

Jane Ntutu
General Manager, Sales and Marketing
Joined Pan Africa in May 2003. She holds a BSc Degree

Catherine Olaka
Human Resource Manager
Joined Pan Africa in October 2007. She holds an MBA in Strategic Management, a BA Degree and Higher National Diploma in Human Resource.

Chairman, John Simba

GLOBAL ECONOMY

Following the global economic depression experienced in 2008 and 2009,signs of economic growth in most economies only begun to show in the second half of 2009. IMF estimates the world growth for 2009 at negative 0.8 percent, down from 3 percent in 2008. The advanced economies which contribute a big percentage of the world output suffered a negative 3.2 percent growth (2008: 0.5 percent) while emerging and developing economies grew at 2.1 percent (2008: 6.1 percent).

In 2010, IMF expects recovery for most advanced economies to remain sluggish while headline inflation is expected to pick up from zero in 2009 to around 1 percent in 2010, as rebounding energy prices more than offset slowing labour costs. The reversal of the confidence crisis and the reduction in uncertainty may continue to foster a stronger-than-expected improvement in financial market sentiment and prompt a larger-than-expected rebound in capital flows, trade, and private demand. For the emerging and developing economies, IMF expects relatively vigorous activities largely driven by buoyant internal growth while inflation is expected to edge up to around 6 percent in 2010, as some of these economies face growing upward pressures due to more limited economic slack and increased capital flows.

KENYAN ECONOMY

The Global Economic crisis which started in 2008 extended into 2009. Financial market conditions remained extremely difficult for much longer than initially envisaged despite wide-ranging policy measures by government to stimulate a turnaround especially in the developed world.

Economic prospects remained low in 2009 with equity markets making little or no gains. The NSE share index declined by 8 percent to 3247 while global equity markets remained volatile with most showing recovery signs only in the 4th quarter 2009. Interest rate on 91 days treasury bills dropped from 8.54 percent in December 2008 to 6.82 percent in December 2009. The 12 Months overall inflation decreased from 17.8 percent in December 2008 to 5.3 percent in December 2009 mainly following the re-calibration in October 2009. The currency markets have also been volatile with the Kenya Shilling strengthening by 2.4 percent against the US Dollar to close at Kshs. 75.82 in December 2009.

Growth prospects for 2009 remained low as a result of various shocks including the persistent drought which adversely affected the agricultural and electricity sectors; increase in the cost of electricity which suppressed the transport and manufacturing sectors; and the global economic recession. According to CBK, agriculture, which constitutes 23.4 percent of GDP, declined by 3.5 percent during the third quarter of 2009, while manufacturing, transport and communications, and construction, which together account for about 25.0 percent of GDP also declined during the quarter by 2.4, 1.8 and 1.1 percent, respectively. The above decreases were counteracted by increases in other sectors, with the hotels and restaurants sector leading by an estimated 44.4 percent growth. The economy had registered growth of 4.0 and 2.1 percent in the first and second quarter of 2009, respectively before stagnating in the third quarter of 2009.

INSURANCE INDUSTRY

The Finance Act 2009 clarified a number of aspects in the taxation of Life insurance companies. However, the Finance Act also introduced the controversial taxation of management expenses in excess of the level permitted by the Insurance Act. It will be necessary for the industry to get this matter addressed soon as tax on business expenses discriminates the industry compared to other sectors of the economy.

Discussions on the draft Insurance Bill, 2009 continue to progress well with the Statutory & Legal Affairs Committee of AKI and the Commissioner of Insurance continuing to coordinate various technical discussions on the proposed amendments.

The 2007 requirement that Life and General insurance companies increase their share capital to Kshs 150m and Kshs 300m respectively by June 2010 continues to create interest in the market, although the expected consolidation has not necessarily happened. Several companies including Pan Africa Life have already met the required capital levels.

GROUP PERFORMANCE

The 2009 Group results reflect a profit after tax of Kshs 138.9m, a turnaround from the unrealised loss of Kshs 96m in 2008. The life business, which forms the core operations of the Group remained sound with the Gross premium income exceeding Kshs 3b, consolidating our market leadership position in Life Insurance since 2007.

The operating surplus for 2009 has reduced mainly due to lower than expected new business volumes and persistency in the Individual Life business as well as premium collection challenges, reflecting the impact the economic depression during the year had on our clients. In addition, there was higher mortality in our Group Credit business resulting in higher reserving assumptions.

The 2009 financial year has seen significant growth in gross premium income which increased by 21 percent to over Kshs 3b, while management expenses were reduced by 7 percent through effective cost cutting initiatives implemented during the year. Corporate business gross premiums grew significantly by over 50 percent to reach Kshs 1.5b. Individual Life premiums, at Kshs 1.5b, remained flat and below our expectation, mainly due to the adverse economic conditions which resulted in low new business sales and lower persistency.

DIVIDEND

In keeping with our policy on dividend payment, the Board of Directors will recommend to the shareholders at the 64th Annual General Meeting that the Company declares a first and final dividend of Kshs 1.70 (2008: Kshs Nil, 2007: Kshs 1.60) per share payable to shareholders appearing in the Register of Members by close of business on 26 May 2010. Upon approval by the shareholders, the dividend payments will be remitted from 28 June 2010.

STATEMENT OF CORPORATE GOVERNANCE

As a publicly listed company, Pan Africa complies with the Capital Markets Authority 'Guidelines on Corporate Governance'. The Group is a member of the Sanlam Group which continues to share 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.

GLOBAL CREDIT RATING

During 2009, Pan Africa Life Assurance Ltd undertook an assessment on its claims paying ability by Global Credit Rating Company (GCR). This international rating is exclusively accorded to insurance/ reinsurance companies and is a measure of their ability to honour policyholder obligations over the medium term. Pan Africa Life was awarded an A+ rating which means that we have a very solid claims paying ability.

We are proud for the A+ rating as it demonstrates to our clients our financial strength.

FINANCIAL REPORTING (FiRe AWARDS)

In 2009, Pan Africa was the second runners up in the Corporate Governance category and the third runners up in the insurance category based on our published accounts for the year ended 31 December 2008. 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 awards 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 January 2010, Norman Kelly resigned from the board to pursue other interests. Susan Mudhune was appointed on 18 August 2009 while Thomas Wixley (former chairman of Ernst & Young, South Africa) and Nelius Bezuidenhout (a qualified Actuary) joined the board on 23 February 2010.

MAE RIDGE DEVELOPMENT

The Phase 1 of Mae Ridge Development comprising 20 high end residential houses in Runda area is now complete. The sales prospects remain good. We will be embarking on the second phase of this development as soon as all the sales of phase 1 have been completed. The property market in Kenya continues to show huge growth potential.

NOTE OF APPRECIATION

On behalf of the Board of Directors, let me take this opportunity to express my gratitude to Norman Kelly for his invaluable contribution to the Group. We wish him every success in all that he chooses to undertake. As we welcome Susan Mudhune to the board and trust that her vast experience in banking and management will infuse fresh impetus to the board. To my other fellow directors who served during the year, let me express my gratitude for the robust yet constructive discussions in our meetings which shaped the direction and momentum of our business. I thank you for your support, dedication and diligence -particularly in fully participating as members of the various Committees of the Board which play such a key role in the corporate governance of the Group.

To our stakeholders, business partners, customers, suppliers and all those we are associated with, your support and encouragement during the year was invaluable. You enabled us to confront the challenges we faced with confidence and resolve.

Creation of appropriate structures and implementation of efficient systems are dependant on a knowledgeable, inquisitive, dedicated and loyal human resource base. I am grateful to our Management and Staff who displayed resilience throughout the year under review and for remaining firmly focused on our business objectives. And for embracing the fact that in the wake of challenges are numerous opportunities.

Finally to our shareholders, I thank you for your support and the confidence you have shown in your board and management.

John P N Simba, MBS OGW
Chairman
8 March 2010

UCHUMI DUNIANI

Kufuatia kuzorota kwa hali ya uchumi duniani kulikotokea miaka ya 2008 na 2009, dalili za ukuaji wa uchumi katika chumi nyingi ulianza tu kuonekana katika nusu ya pili ya mwaka wa 2009. Shirika la Fedha Ulimwenguni, IMF, linakadiria ukuaji duniani kwa mwaka wa 2009 kuwa katika asilimia hasi 0.8 yaani, negative 0.8,ambao ni chini ya kiwango cha asilimia 3 mwaka wa 2008. Chumi zilizostawi ambazo huchangia asilimia kubwa ya utoaji duniani zilipata ukuaji wa asilimia hasi 3.2 (2008: asilimia 0.5) ilhali chumi zinazoibuka na zile zinazoendelea zilikua kwa asilimia 2.1 (2008: asilimia 6.1).

Katika mwaka wa 2010, Shirika la Fedha Ulimwenguni linatarajia ukuaji kwa chumi zilizoendelea usalie kuwa wa polepole ilhali mfumko wa bei unatarajiwa kuinuka kutoka sufuri mwaka wa 2009 hadi takriban asilimia 1 mwaka wa 2010, huku bei za kawi zinazorejelea zikifidia gharama zinazoenda taratibu za kazi. Kugeuzwa kwa mzozo wa imani na kupunguzwa kwa hali ya kutokuwa na uhakika huenda kukaendelea kukuza uimarishaji thabiti kuliko ilivyotarajiwa katika hisia za masoko ya kifedha na kupelekea urejeleaji thabiti usiotarajiwa katika mtiririko wa mtaji, biashara na mahitaji ya kibanafsi. Kwa Chumi zinazoibuka na zinazoendelea, Shirika la IMF linatarajia shughuli kabambe ambazo kwa kiasi kikubwa zinapata msukumo wa ukuaji wa kindani ilhali mfumo wa bei unatarajiwa kuongezeka hadi asilimia 6 mnamo 2010, kwa kuwa baadhi ya chumi hizi zinakabiliwa na shuruti zinazoongezeka kutokana na ufinyu zaidi wa ulegeaji wa uchumi na ongezeko la mtiririko wa mtaji.

UCHUMI WA KENYA

Mzozo wa uchumi duniani ambao ulianza 2008 uliendelea hadi 2009. Hali ya masoko ya kifedha ilisalia kuwa ngumu kwa muda mrefu zaidi ya ilivyokuwa imefikiriwa hapo awali licha ya hatua pana za sera zilizochukuliwa na serikali kuhimiza mabadiliko hasa katika mataifa yaliyostawi ulimwenguni.

Matarajio ya kiuchumi yalibakia ya chini mwaka wa 2009 huku masoko ya hisa yakipata faida ndogo au kutopata faida yoyote. Kiwango cha uuzaji katika Soko la Hisa la Nairobi kilipungua kwa asilimia 8 na kufikia 3247 ilhali masoko ya hisa duniani yalisalia kutokuwa thabiti huku mengi yakionyesha dalili za ufufuzi katika robo ya nne ya mwaka 2009. Kiwango cha riba cha hati za thamana za siku 91 kilipungua kutoka asilimia 8.54 mnamo Disemba 2008 hadi asilimia 6.82 mnamo Disemba 2009. Mfumko wa bei kwa ujumla kwa miezi 12 ulipungua kutoka asilimia 17.8 mwezi Disemba 2008 hadi asilimia 5.3 mnamo Disemba 2009 hasa kufuatia kuwekwa upya kwa alama za vipimo mnamo mwezi Oktoba 2009. Masoko ya sarafu za kigeni kadhalika hayajakuwa thabiti huku shilingi ya Kenya ikiimarika kwa asilimia 2.4 dhidi ya dola ya Marekani na kufunga kwa Kshs. 75.82 mwezi Disemba 2009.

Matarajio ya ukuaji kwa mwaka wa 2009 yalibakia ya chini kutokana na athari mbalimbali ukiwemo ukame wa muda mrefu ulioathiri vibaya sekta za kilimo na nguvu za umeme; Ongezeko la gharama ya nguvu za umeme lililoathiri sekta za uchukuzi na utengenezaji bidhaa; na kuzorota kwa uchumi duniani.Kwa mujibu wa Benki Kuu ya Kenya, kilimo ambacho hujumuisha asilimia 23.4 ya Pato la Taifa,GDP, kilipungua kwa asilimia 3.5 wakati wa robo ya tatu ya mwaka wa 2009, ilihali utengenezaji bidhaa, uchukuzi, mawasiliano na ujenzi ambazo kwa pamoja huchangia takriban asilimia 25.0 ya Pato la Taifa pia zilipungua katika kipindi cha robo hiyo kwa asilimia 2.4, 1.8 na 1.1, mtawalia. Upungufu uliotajwa hapo awali ulikabiliwa na ongezeko katika sekta nyingine, huku sekta ya hoteli na mikahawa ikiongoza kwa ukuaji wa takriban asilimia 44.4. Uchumi ulikuwa umeandikisha ukuaji wa asilimia 4.0 na 2.1 katika robo ya kwanza na ya pili ya mwaka 2009 mtawalia, kabla ya kukwama katika robo ya tatu ya 2009.

SEKTA YA BIMA

Kifungu cha sheria ya kifedha mwaka wa 2009 kilifafanua baadhi ya vipengee katika utozaji kodi kampuni zinazotoa bima ya maisha. Hata hivyo, mswada huo pia ulianzisha utozaji ushuru uliozua mzozo wa gharama za usimamizi ambazo zinazidi kiwango kinachoruhusiwa na kifungu cha sheria za bima. Itakuwa muhimu kwa sekta hii kuhakikisha suala hili linashughulikiwa haraka kwani ushuru kwenye biashara unabagua sekta hii ikilinganishwa na sekta nyingine za uchumi.

Majadiliano kuhusu Mswada kielelezo wa Bima mwaka 2009, yanaendelea vizuri huku Kamati ya Masuala ya Kisheria ya AKI na kamishna wa Bima wakiendelea kushirikisha mashauriano mbalimbali kuhusu sekta hii katika marekebisho yaliyopendekezwa.
Masharti ya mwaka wa 2007 kwamba kampuni za bima ya maisha na bima ya jumla ziongeze mtaji wao hadi Kshs milioni 150 na Kshs milioni 300 mtawalia kufikia mwezi Juni 2010 yanaendelea kuibua hali ya mvuto kwenye soko ingawa muungano uliotarajiwa haujafanyika haswa. Baadhi ya kampuni ikiwemo Pan Africa Life tayari zimetimiza viwango vya mtaji vinavyohitajika.

UTENDAJI WA KUNDI

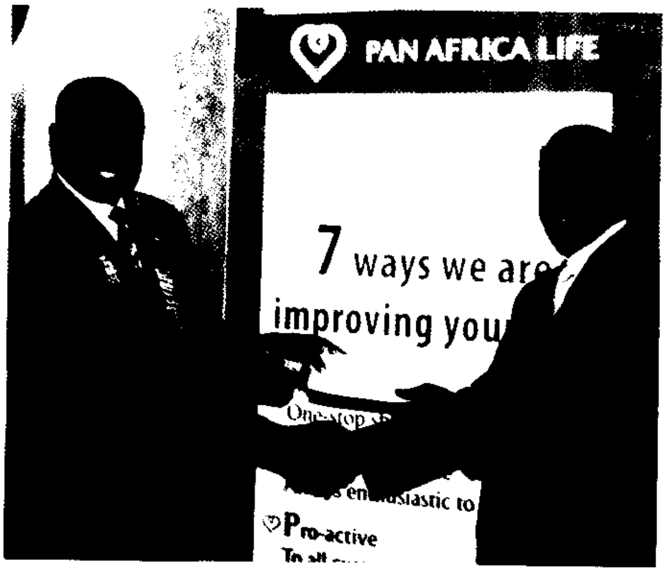
Matokeo ya Kundi yanaonyesha faida baada ya kutozwa ushuru ya Kshs milioni 138.9, badiliko kutoka hasara ambayo haijawahi kupatikana ya Kshs milioni 96 mnamo mwaka wa 2008. Biashara ya maisha ambayo ndiyo shughuli muhimu ya Kundi ilibakia thabiti huku mapato ya ada ya jumla yakizidi Kshs bilioni 3, na kuimarisha nafasi ya uongozi wetu katika soko la bima ya maisha mnamo 2007.

Kiasi cha ziada cha uendeshaji shughuli katika mwaka wa 2009 kimepungua haswa kutokana na upungufu usiotarajiwa wa kiwango cha biashara mpya na kusisitizwa kwa biashara ya maisha ya mtu binafsi pamoja na changamoto katika ukusanyaji wa ada, na kudhihirisha athari ambazo kuzorota kwa uchumi katika kipindi cha mwaka huo zilisababisha kwa wateja wetu. Zaidi ya hayo kulikuwa na kiwango cha juu cha vifo katika biashara ya mikopo ya Kundi letu na kusababisha kiwango cha juu zaidi cha hifadhi kutumika.

Mwaka wa matumizi ya fedha wa 2009 umeshuhudia ukuaji wa kiwango kikubwa katika mapato ya ada ya jumla ambayo yaliongezeka asilimia 21 hadi kufikia zaidi ya Kshs. Bilioni 3, ilihali gharama za usimamizi zilipunguzwa kwa asimilia 7 kupitia mipango madhubuti ya upunguzaji gharama katika kipindi cha mwaka. Ada za biashara ya mashirika kwa jumla iliongezeka kwa kiwango kikubwa kwa zaidi ya asilimia S0 na kufikia Kshs bilioni 1.S. Ada za maisha za watu binafsi kwa kiwango cha Kshs. Bilioni 1.S, zilibakia kwa kiwango kilekile na chini ya matarajio yetu, haswa kutokana na hali ngumu ya kiuchumi ambayo ilisababisha kiwango cha chini cha biashara mpya ya mauzo na kiwango cha chini cha kuendeleza malipo.

MGAO WA FAIDA

Kulingana na sera yetu kuhusu malipo ya mgao wa faida,



Mwenyekiti wa Pan Africa Insurance Holdings, John Simba (Kulia) akabidhi hundi ya mchango kusaidia uhifadhi wa mfumo wa mazingira wa Mara.

Halmashauri ya Wakurugenzi watapendekeza kwa wenyehisa katika Mkutano Mkuu wa Mwaka wa 64 kwamba Kampuni itangaze mgao wa kwanza na wa mwisho wa Kshs 1.70 (2008: Kshs sufuri, 2007: Kshs 1.60) kwa kila hisa kulipwa wenyehisa kwenye kitabu cha usajili wa wanachama kufikia kufungwa kwa biashara tarehe 26 Mei 2010. Baada ya kuidhinishwa na wenyehisa, malipo ya mgao wa faida yatatolewa kuanzia tarehe 28 Juni 2010.

TAARIFA YA USIMAMIZI WA SHIRIKA

Kama Kampuni iliyoorodheshwa kwa umma, Pan Africa inazingatia 'maongozi kuhusu usimamizi wa mashirika' ya Halmashauri ya Usimamizi wa Masoko ya hisa. Kundi hili ni mwanachama wa Sanlam Group ambalo linaendelea kubadilishana ujuzi na tajriba katika Nyanja hii. Halmashauri ya Wakurugenzi imejitwika jukumu la kuzingatia viwango vikali zaidi vya usimamizi wa kampuni vinavyohitajiwa na hali ya biashara yetu.

KIWANGO CHA MKOPO DUNIANI

Katika kipindi cha 2009, Kampuni ya Pan Africa Life Assurance iliandaa ukadiriaji wa uwezo wake wa kulipa madai na Kampuni ya Global Credit Rating Company (GCR). Ukadiriaji viwango huu wa kimataifa hufanyiwa tu kampuni za bima pekee na unakadiria uwezo wao wa kuheshimu majukumu yao kwa wenye bima katika muda wa kipindi cha kadri. Kampuni ya Pan Africa Life ilikabidhiwa alama ya A+ kiwango ambacho kinamaanisha kwamba tuna uwezo thabiti wa kulipa madai.

Tunajivunia alama hiyo ya kiwango cha A+ kwa sababu inaonyesha wateja wetu uwezo wetu wa kifedha.

TAARIFA ZA KIFEDHA (FIRE AWARDS)

Mnamo mwaka 2009, Kampuni ya Pan Africa ilikuwa ya pili bora katika kiwango cha usimamizi wa mashirika na ya tatu bora katika kiwango cha bima kutokana na taarifa zetu za kifedha zilizochapishwa kwa mwaka uliomalizika tarehe 31 Disemba 2008. Tuzo hilo linadhaminiwa kwa pamoja na taasisi ya wahasibu, Institute of Certified Public Accountants of Kenya, Halmashauri ya Usimamizi wa Masoko ya Hisa, Capital Markets Authority na Soko la Hisa la Nairob , Nairobi Stock Exchange. Tangu kuanzishwa kwa tuzo hizo mwaka wa 2000, Kundi limeendelea kushinda tuzo kila mwaka. Hili ni dhihirisho kwamba Kundi linazingatia utaalamu, uwajibikaji na ubora katika Taarifa za kifedha.

MABADILIKO KATIKA HALMASHAURI

Mnamo mwezi Januari 2010, Norman Kelly alijiuzulu kutoka kwa Halmashauri kufuatilia maslahi mengine. Susan Mudhune aliteuliwa tarehe 18 Agosti 2009 ilhali Thomas Wixley (aliyekuwa mwenyekiti wa Ernst & Young, South Africa) na Nelius

Bezuidenhout (mtakwimu bima aliyehitimu) walijiunga na Halmashauri tarehe 23 Februari 2010.

MRADI WA MAE RIDGE

Awamu ya Kwanza ya mradi wa Mae Ridge unaojumuisha nyumba 20 za orofa za makazi katika eneo la Runda sasa umekamilika. Matarajio ya uuzaji yanaendelea kuwa mazuri. Tutaanza awamu ya pili ya mradi huu mara tu uuzaji wa awamu ya kwanza utakapokamilika. Soko la mali nchini Kenya linaendelea kudhihirisha uwezo mkubwa wa ukuaji.

SHUKRANI

Kwa niaba ya Halmashauri ya Wakurugenzi, nachukua nafasi hii kumshukuru Norman Kelly kwa mchango wake mkubwa kwa Kundi hili. Tunamtakia kila ufanisi katika mambo yote atakayofanya.

Tunapomkaribisha Susan Mudhune katika Halmashauri na tunaamini kwamba ujuzi wake mkubwa katika sekta ya benki na usimamizi utaleta msukumo mpya katika Halmashauri, kwa wakurugenzi wengine wenzangu ambao walihudumu wakati wa kipindi cha mwaka, nataka kutoa shukrani zangu kwa majadiliano imara na ya kufaa kwenye mikutano yetu ambayo yaliongoza mwelekeo wa biashara yetu. Nawashukuru kwa usaidizi wenu, kujitolea na juhudi zenu haswa katika kushiriki kikamilifu kama wanachama wa kamati mbalimbali za Halmashauri ambazo hutekeleza jukumu muhimu katika usimamizi wa kiushirika wa Kundi.

Kwa washika dau wetu, washirika wa biashara, wateja, wagawaji, na wale wote tunaohusiana nao, usaidizi wenu na utiaji moyo ni wa thamani isiyo na kifani. Mlituwezesha kukabiliana na changamoto zilizotukumba kwa ukakamavu na uthabiti. Hatungeweza kukabiliana na changamoto za mwaka uliopita. Kubuni kwa miundo ifaayo na utekelezaji wa mifumo bora vinategemea wafanyakazi wenye ujuzi, udadisi, waliojitolea, na waaminifu. Nawashukuru Wasimamizi na wafanyakazi wetu ambao walidhihirisha juhudi na kujitolea kwao katika kipindi chote cha mwaka na kwa kuendelea kuzingatia malengo ya biashara yetu. Na kwa kutilia maanani wazo kwamba kunako changamoto pia kuna nafasi zaidi.

Mwishowe kwa wenyehisa wetu, nawashukuru kwa usaidizi wenu na imani mliyoonyesha kwa Halmashauri na Wasimamizi wenu.

John P N Simba, MBS OGW
Mwenyekiti
8 Machi 2010

Kundi la Pan Africa Life lapigwa picha na Waziri Msaidizi wa Fedha Mhe. Oburu Odinga kwenye sherehe ya Tuzo za FiRe Awards za mwaka wa 2009

Chief Executive, Tom Gitogo

The year 2009 was a challenging one for business, especially because of the tough operating environment. The effects of the global recession that begun in the last quarter of 2008 became manifest in the local economy in 2009. The NSE index declined by 8 percent to close at 3,247 compared to 3,521 at the beginning of the year. We witnessed prolonged drought (agriculture is 25 percent of the Kenyan GDP), low tourist numbers and double digit headline inflation closing the year at 11.4 percent.

This impacted our retail business significantly on a) the new business front (characterised by low productivity on individual life) and b) existing business via increased lapses as a notable number of clients failed to sustain the remittance of monthly premiums. Corporate business was faced with growing pressure by clients to hold (or even discount) premium levels as corporate clients sought to reduce their own costs.

Despite these difficult circumstances, we managed to grow our premium income by 21 percent with the result that we surpassed the Shs 3 billion gross premium milestone. This further solidifies the market leadership position we assumed in 2007 in life insurance.

INDIVIDUAL LIFE

Individual life new business sales income declined in 2009 to Shs 206 million (2008: Shs 231 million), reflecting the impact of the economic factors cited above. There was also upward pressure on lapses of existing business as an increasing number of customers witnessed declining disposable income. Management took a proactive approach of engaging our customers through various methods such as open days, short message (SMS), email communication and regular phone calls to reaffirm to them the benefits of keeping their policies paid up-to-date despite the hard economic times. This interaction bore fruit and we were able to maintain the gross premium for this line of business at the level of Shs 1.5 billion.

The future growth of Individual Life business will come from developing relevant products that resonate with our clients as well as innovative and effective distribution channels. Currently we rely heavily on the agency model, for which we will continue to recruit and train high calibre financial advisors. However, to supplement this model, we have embarked on the distribution of individual life products through corporate entities such as brokers and there are early signs that this will bear fruit.

Bancassurance has helped other markets such as South Africa and Europe increase insurance penetration. It has not however been properly embraced in our market because of lack of an appropriate legislative framework. There is an urgent and strong need for both the Banking Act and the Insurance Act to be appropriately enhanced to remove the limitations that currently engulf bancassurance. I remain hopeful that this will be done in the next Finance Bill.

GROUP BUSINESS

Corporate business premium increased by a remarkable 50% to Shs 1.51 billion (2008: 1 billion) with most of the increment coming from credit life business. Group life has continued to be characterised by cut throat price competition but we have continued with our resolve not to engage in price wars, preferring instead to pursue our strategy of relationship building, operational efficiency and enhanced customer and distributor service levels while pursuing profitable business.

Significant progress has been made in improving our pension proposition, with our innovative Individual Pension Plan (IPP) product beginning to make satisfactory headway in the market place. We believe that there is huge potential in the still developing pension industry and applaud the Government for the incentives it has given to this sector in the last few years.

COST MANAGEMENT

Reducing expenditure in light of shrinking markets and reduced margins resulting from economic and competitive pressures is unavoidable. The approach we adopted during the year was to only spend money on areas that had the greatest impact to our business. We also exploited synergies within the business to create greater efficiency and effectiveness in delivering solutions to our customers. To supplement this effort, we embarked on a brand building exercise through media campaign via print, radio and more recently television. These branding efforts will be sustained into 2010 to aid our sales efforts.

CUSTOMER SERVICE AND SYSTEMS

The group continues to invest in new technologies to keep abreast with changing times. Although I mentioned in my report last year that we had identified a life administration system called Alfinanz that we now wanted to implement, further reviews settled on a cheaper but efficient life system called Orfeo. Implementation of this system has commenced and when completed will greatly enhance our efficiency and quality of customer service. Some of the enhancements will come from broader access points to web enabled functionality supplemented by an elaborate SMS system that will put more information in the hands of customers. Other efficiencies will be realised in storage and retrieval of documents as well as compatibility with emerging technologies.

EMBEDDED VALUE

We have continued to publish the embedded value (EV) report for the group in keeping with the high corporate governance standards that you have come to expect from us. We remain the only insurer in Kenya to report on embedded value, a requirement by capital markets in the more developed financial markets. The EV gives a more comprehensive measure of the value of the group's assets and the intrinsic value of the in-force book of long term insurance business, by incorporating the net 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 2009 stands at Shs 3.7 billion, an impressive increase of 25 percent over the prior year. Whereas the value of in-force business decreased slightly mainly due to experience variations on operational parameters, the overall increase arose mainly from the growth of shareholders' equity and a Shs 832 million fair value adjustment of properties owned by the group.

VALUE OF NEW BUSINESS AND NEW BUSINESS MARGIN

The value of new business measures the net present value of future shareholder profits that the Group expects to earn from the new long term insurance business written during the year. The new business margin is an indicator of the profitability of the new long term insurance business written during the year.

The value of new business (VNB) written during the year increased by 22% to Shs 110 million, an exceptional performance in the prevailing economic environment during the year. This growth was also not achieved by sacrificing profitability, as indicated in the increase in VNB margin from 3.6% to 4.2%.

OUR PEOPLE

The group values human capital and has elaborate programs aimed at building the capacity of our employees. We uphold the highest dignity of our staff and in this regard have a no discrimination policy. The group offers equal opportunities irrespective of gender, colour or race and does not discriminate against HIV positive individuals whether they be staff or clients.

A large number of our staff have achieved various professional qualifications while others are in the process of attaining them. Last year, all managers undertook a one year management development program (Bullet Proof) to improve on their leadership and managerial skills. We also continued to send staff requiring specialised training on secondments to Sanlam in South Africa, our technical partner.

Open communication is greatly encouraged and to this end we introduced bi-weekly staff meeting in which staff members are encouraged to contribute. We have continued the tradition of the quarterly social club events with the recent one being a three day visit to Amboseli National Park. All these initiatives are targeted at creating greater openness and enhancing communication at all levels.

PROSPECTS

We see pension business (group schemes and individuals) as the next logical growth area. The government has done a lot to encourage investment in this sector. As mentioned above, our focus will also be directed at developing bancassurance capacity as it will inevitably be one of the ways that will improve insurance penetration in this country. We will also continue with our plans to develop additional distribution outlets to reduce reliance on the traditional agency model.

Tom Gitogo
Chief Executive
8 March 2010

Staff at a team building session at the Tsavo National Park.

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the 64th Annual General Meeting of the Company will be held at the Tsavo Room, Hilton Hotel, Mama Ngina Street, Nairobi on Wednesday, 26 May 2010 at 10.00 am to conduct the following business:

1. To table the proxies and note the presence of a quorum.

2. To read the notice convening the meeting.

3. To confirm the minutes of the previous Annual General Meeting held on 27 May 2009.

4. To consider, and if approved, adopt the statement of financial position and financial statements for the year ended 31 December 2009 together with the reports of the Chairman, the Chief Executive, the Directors, the Auditors and the Statutory Actuary.

5. To declare a dividend of KShs 1.70 per share for the financial year ended 31 December 2009 and approve the closure of the register of Members on 27 May 2010 to 8 June 2010.

6. To elect directors:

   6.1 James N Gitoho, retires by rotation in accordance with the Company's Articles of Association and he offers himself for re-election.

   6.3 In accordance with the Company's Article of Association, Susan Mudhune who was appointed a director on 18 August 2009 retires this being the first Annual General Meeting to be held since her appointment and being eligible, offers herself for re-election.

   6.4 In accordance with the Company's Articles of Association, Nelius Bezuidenhout who was appointed a director on 23 February 2010, retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election.

   6.5 In accordance with the Company's Articles of Association, Thomas A Wixley having attained the age of seventy years and was appointed a director on 23 February 2010, retires this being the first Annual General Meeting to be held since his appointment and special notice having being given under section 186 (5) of the Companies Act (Cap 486, offers himself for re-election.

7 To approve 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.

10 SPECIAL BUSINESS: Amendment of the Articles of Association

To consider, and if approved, pass the following Special Resolutions:

a) **Notices:**

That Articles 36, 37 and 38 be deleted in their entirety and replaced with the following new Articles:

Article 36

Any notice or other document may be served by the Company on any Member or Director either personally or by sending it through the post (by airmail where such service is available) in a prepaid letter or by telegram, telex or facsimile addressed to such Member or Director at his registered address as appearing in the Register of Members or the Company's other records, whether such address shall be within or outside Kenya, or by telex, facsimile or by telegram addressed as aforesaid or by an advertisement in at least two daily newspapers of a national circulation or by sending it by electronic media to an address for the time being notified to the Company by the member. In case of joint holders of a share, all notices by post, telegram or facsimile shall be given to that one of the joint holders whose name appears first in the Register of Members and Notice so given shall be sufficient to all joint shareholders. The Company may give any Notice or provide any document or information to any member or Director by making it available on the Company website or such other website as may be prescribed for such purpose.

Article 37

Any Notice of an Annual General Meeting, such Notice may be given by:

a) Publishing a Notice containing a summary of both the annual financial statement and auditors' report, in at least two local daily newspapers with national circulation for at least two consecutive days; and/or

b) Personal delivery or by sending to every member such notice through the electronic media or through the post and the notice in each case shall contain such financial and other documents and reports as may be a mandatory requirement under the law."

Article 38

Where a Notice or other document is:

a) Delivered to a member personally or left at his registered address in Kenya, it shall be deemed to have been received on the day it was so delivered or left

b) Sent by post to a registered address in Kenya, its shall be deemed to be received on the third day after the day on which it was posted if addressed within Kenya and on the fifth day after the day it was posted if addressed outside Kenya and in the latter case any such Notice or other document shall be dispatched by airmail and in proving such service or sending, it shall be sufficient to prove that the cover containing the notice or document was properly addressed and put into the post office as a prepaid letter or prepaid airmail letter;

c) sent by telegram, telex, facsimile or electronic media it shall be deemed to have been received on the day that it was sent;

d) given by newspaper advertisement it shall be deemed to have been served on the first day it is published unless it is not a working day in which case it shall be deemed to have been received on the first working day following the publication.

e) Made available on the website, it is deemed to have been received on the day it was first made available on the website

For purposes of this Article, "day" means a working day, excluding Saturdays, Sundays and public holidays.

b) **Method of Payment of Dividends**

That Article 94 be deleted in its entirety and replaced with:

Any dividend or other money payable in cash or in respect of shares may be paid by:

i) Direct debit, bank transfer or other automated system of bank transfer, electronic or mobile money transfer system transmitted to such bank or electronic or mobile telephone address as indicated in the Register of Members or;

ii) By cheque or warrant payable at such place as the company shall specify in writing, sent by post to the address of the member or person entitled to it as shown in the Register of Members or in case of two or more persons being entitled thereto in consequences of the death or bankruptcy of the holder, to any one of such persons at such address as the persons being entitled to receive payment may in writing direct.

iii) Every such payment whether by cheque or warrant or electronic funds transfer or via mobile money payments systems shall be sent at the risk of the person entitled to the money represented by it.

By Order of the Board

Emma Wachira
Company Secretary

Date: 23 February 2010

Note:

A member entitled to attend and vate at the meeting and wha is unable to attend is entitled to appoint a proxy to attend and vate 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 Life House, Kenyatta Avenue, P.O. Box 10493, 00100 Nairobi or be posted, so as to reach not later than Monday 24 May 2010 at 10.00 am.

Arifa ya Mkutano Mkuu wa Mwaka

ARIFA INATOLEWA HAPA KWAMBA Mkutano Mkuu wa Mwaka wa 64 wa Kampuni utafanywa katika chumba cha Tsavo, Hoteli ya Hilton, Barabara ya Mama Ngina, Mjini Nairobi siku ya Jumatano tarehe 26 Mei 2010 saa nne asubuhi kuendesha shughuli zifuatazo:

1. Kuwasilisha wawakilishi na kuhakikisha idadi inayohitajika.

2. Kusoma tangazo la kuandaa mkutano.

3. Kuthibitisha kumbukumbu za MkutanoMkuu wa Mwaka uliopita uliofanyika tarehe 27 Mei 2009.

4. Kufikiria na ikikubaliwa, kuidhinisha mizania na hesabu za kifedha kwa mwaka uliomalizika tarehe 31 Disemba 2009 pamoja na taarifa za Mwenyekiti, Afisa Mkuu Mtendaji, Wakurugenzi, Wakaguzi wa hesabu za fedha na Sheria ya Mtakwimu Bima.

5. Kutangaza mgao wa faida wa KShs 1.70 kwa kila hisa kwa mwaka uliomalizikia tarehe 31 Disemba 2009 na kuidhinisha kufungwa kwa kitabu cha usajili wa wanachama tarehe 27 Mei 2010 hadi 8 Juni 2010.

6. Kuchagua wakurugenzi:

6.1 James N Gitoho, anastaafu kwa zamu kulingana na Kifungu cha Sheria za Kampuni na anajiwasilisha kuchaguliwa

6.3 Kulingana na Kifungu cha Sheria za Kampuni Susan Mudhune ambaye aliteuliwa kama mkurugenzi tarehe 18 Agosti 2009 anastaafu na huu ukiwa Mkutano Mkuu wa Mwaka wa kwanza tangu kuteuliwa kwake na kwa kuwa anahitimu anajiwasilisha kuchaguliwa upya..

6.4 Kulingana na Kifungu cha Sheria za Kampuni, Nelius Bezuidenhout ambaye aliteuliwa kuwa mkurugenzi tarehe 23 Februari 2010, anastaafu, na huu ukiwa mkutano Mkuu wa Mwaka wa kwanza tangu ateuliwe na kwa kuwa anahitimu anajiwasilisha kuchaguliwa upya..

6.5 Kulingana na Kifungu cha Sheria za Kampuni, Thomas A Wixley aliye timu umri wa miaka sabini na ambaye aliteuliwa kama mkurugenzi tarehe 23 Februari 2010, anastaafu na kwa kuwa huu ndio mkutano mkuu wa mwaka wa kwanza kufanywa tangu achaguliwe na kwa mujibu wa ilani maalum iliyotolewa chini ya kifungu 186 (5), (Cap 486) anajiwasilisha kuchaguliwa upya.

7 Kuidhinisha malipo ya Wakurugenzi.

8 Kubaini kwamba wakaguzi , Ernst & Young, wataendelea kufanya kazi hiyo kulingana na Sehemu ya 159(2) ya Sheria za Makampuni (Cap 486) na kuidhinisha wakurugenzi kuweka malipo yao.

9 Kutekeleza shughuli nyingine yoyote kwa ruhusa ya Mwenyekiti ambayo arifa ya masaa 48 ilikuwa imepewa Katibu wa Kampuni katika afisi iliyosajiliwa ya Kampuni.

10 SHUGHULI MAALUM: Kurekebishwa kwa Kifungu cha Masharti ya Kampuni

Kufikiria, na ikikubaliwa kupitisha Maazimio Maalum yafuatayo::

a) Arifa:

Kwamba vifungu 36, 37 na 38 vifutiliwe mbali kabisa na nafasi yake yake kuchukuliwa na vifungu vipya vifuatavyo:

Kifungu 36

Tangazo lolote au hati nyingine zinaweza kutolewa na Kampuni kwa mkurugenzi yeyote, kwake binafsi au kuituma kupitia posta (kwa njia ya angani ,airmail, mahali hudumu hiyo inapopatikana) kwenye barua iliyolipiwa au kwa njia ya telegramu, teleksi au kipepesi iliyoandikiwa Mwanachama huyo au Mkurugenzi kupitia anwani yake iliyosajiliwa kama ilivyo kwenye daftari ya usajili wa wanachama au kumbukumbu nyingine za kampuni, ikiwa anwani hiyo itakuwa ndani au nje ya Kenya, kwa njia ya teleksi, kipepesi, au kwa telegramu iliyowekwa anwani kama inavyosema hapo juu au kwa kupitia tangazo katika magazeti ya kila siku yasiyopungua mawili yanayosambaza magazeti kote nchini au kwa kutuma kupitia vyombo vingine vya habari kwa anwani kwa wakati huo iliyotolewa kwa Kampuni na mwanachama huyo. Katika hali ambapo kuna wamiliki wawili wa hisa, matangazo yote kwa njia ya posta, telegramu au kipepesi yatapewa yule kati ya wamiliki hao ambaye jina lake linatokea kwanza katka daftari ya usajili wa wanachama na tangazo linalotolewa hivyo litatosha kwa wamiliki wote wa pamoja.

Kampuni inaweza kutoa arifa yoyote au kutoa hati au maelezo kwa mwanachama yeyote au mkurugenzi kwa kuiweka katika mtandao au tovuti ya Kampuni au tovuti nyingine yoyote ambayo inaweza kutengewa lengo hilo.

Kiufungu 37
Arifa yoyote ya Mkutano Mkuu wa Mwaka, arifa kama hiyo inaweza kutolewa kwa:

a) Kuchapisha arifa yenye muhtasari wa taarifa ya kifedha ya mwaka na taarifa ya wakaguzi wa hesabu za fedha, katika angalau magazeti mawili ya humu nchini yanayosambaza magazeti yao kote nchini kwa muda usiopungua siku mbili mfululizo na/au
b) Kumpa mtu binafsi au kutuma kwa kila mwanachama arifa hiyo kupitia vyombo vya habari au posta na arifa hiyo itajumuisha hati za kifedha na nyinginezo na taarifa kama inavyohitajika chini ya sheria.."

Kifungu 38
Ambapo arifa au hati nyingine zina:

a) Wasilishwa kwa mwanachama kibinafsi au kuachwa katika anwani yake ya usajili nchini Kenya, itachukuliwa kwamba imepokelewa siku iliyowasilishwa au kuachwa..
b) Kutumwa kwa njia ya posta kwa anwani iliyosajiliwa nchini Kenya, itachukuliwa kwamba imepokelewa siku ya tatu baada ya siku ambapo ilitumwa ikiwa anwani ni ya nchini Kenya na siku ya tano baada ya siku iliyotumwa ikiwa anwani ni ya nje ya Kenya na katika hali hiyo arifa au hati nyingine zitatumwa kwa ndege, yaani airmail, na ili kuthibitisha huduma hiyo au kutuma, itatosha kuonyesha kwamba karatasi inayofunika arifa hiyo au hati hiyo iliandikwa vizuri na kuwekwa posta kama barua iliyolipiwa au barua ya airmail iliyolipiwa.;
c) Kutumwa kwa telegramu, teleksi, kipepesi au vyombo vya habari itachukuliwa kwamba imepokelewa siku iliyotumwa;
d) Kutolewa kwa matangazo ya magazeti itachukuliwa kwamba imepokelewa siku ya kwanza ilipochapishwa isipokuwa ikiwa sio siku ya kazi ambapo itachukuliwa kwamba imepokelewa siku ya kwanza ya kazi inayofuatia tangazo hilo..
e) Kuwasilisha kwenye mtandao au tovuti, inachukuliwa kwamba imepokelewa siku ya kwanza ambapo iliwasilishwa kwenye tovuti

Kwa mujibu wa Kifungu hiki, "siku" inamaanisha siku ya kazi, ukiondoa Jumamosi, Jumapili na siku za Mapumziko..

b) **Njia ya kulipa mgao wa faida**

Kwamba Kifungu 94 kifutiliwe mbali na nafasi yake kuchukuliwa na:

Mgao wowote wa faida au pesa nyingine zozote zinazopaswa kulipwa kwa pesa taslimu au kwa mujibu wa hisa zinaweza kulipwa:

i) Kutolewa moja kwa moja, uhamishaji wa benki au mfumo mwingine wowote wa uhamishaji wa benki kwa njia ya mitambo, mfumo wa uhamishaji fedha wa elektroni au simu unaotekelezwa kupitia anwani za benki, elektroni au simu za mkono kama inayoonyeshwa kwenye kitabu cha usajili wa wanachama au;
ii) Kwa hundi au hati ya malipo inayoweza kulipiwa mahali Kampuni itataja kwa maandishi, na kutumwa kwa njia ya posta kwa anwani ya mwanachama au mtu anayestahili kupata kama inavyoonyeshwa kwenye kitabu cha usajili wa wanachama au pale ambapo watu wawili au zaidi wanastahili kupata kutokana na kifo au kufilisika kwa mwenyehisa, kwa yeyote kati yao kupitia anwani ambayo mtu anayestahili kupata malipo anaagiza kwa maandishi.
iii) Kila malipo ya aina hiyo iwe ni hundi au hati ya malipo au uhamishaji fedha kwa njia ya elektroni au kupitia mfumo wa malipo ya simu ya mkononi yatatumwa hali ya maskaka ikiwa juu ya mtu anayepaswa kupokea malipo hayo.

Kwa amri ya Halmashauri

Emma Wachira
Katibu wa Kampuni

Tarehe: 23 Februari 2010

Kumbuka:

Mwanachama anayeruhusiwa kuhudhuria na kupiga kura katika mkutono hua na ambaye hawezi kuhudhuria anaweza kumteua mwakilishi kuhudhuria na kupiga kura kwa niaba yake.. Mwakilishi sio lazima awe mwanachama wa Kampuni. Ili ikubaliwe fomu yo mwakilishi ambaya imeambatanishwa mwisho wa taarifa hii, ni lazima ijazwe na kutiwa sahihi na mwanachama na kuwasilishwa katika afisi za Katibu wa Kampuni, Jumba la Pan Africa Life House, Barabara ya Kenyatta Avenue, S.L.P.10493, 00100 Nairobi au kutumwa kwa njia ya posta ili kufika kabla ya Jumatatu tarehe 24 Mei 2010 saa nne asubuhi.

OVERVIEW

The Corporate Social Responsibility program for 2009 has focused on activities that resonate with our brand essence 'we have a sense for life'. These activities espouse Pan Africa Life'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.

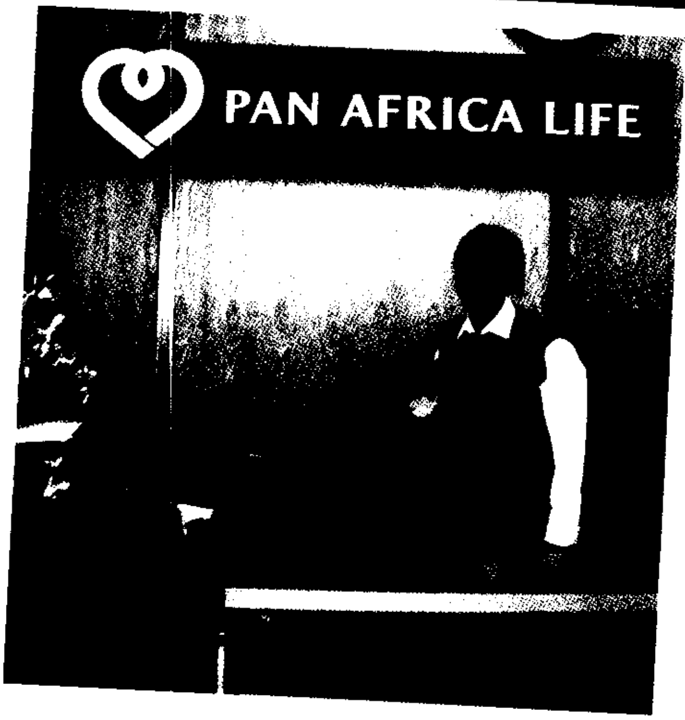
SUPPORTING INITIATIVES IN EDUCATION

We have participated in university career fairs at Kenyatta University and the United States International University (USIU). This has provided a forum for the students to interact with our staff and gain valuable career insights that assist them in their preparation for the job market.

As a result, we have engaged several university students as interns to provide them with an opportunity to gain valuable experience on the job training.

We hosted Precious Blood Kilungu Girls as part of the school's practical learning program. A total of 70 girls and three of their teachers visited Pan Africa Life in a program that is intended to give the students an opportunity to visit select companies and undertake interactions designed to provide practical knowledge beyond the classroom lessons.

Pan Africa staff join parents and pupils of Westlands primary school in a tree planting exercise at the school.



Jackline Mukami, a student at Nembu High School, one of the beneficiaries of Pan Africa scholarship.

Financial support to needy students

The Company is currently sponsoring several bright and needy students around the country. The financial support is in the form of tuition fees and is aimed at preparing them for a bright future.

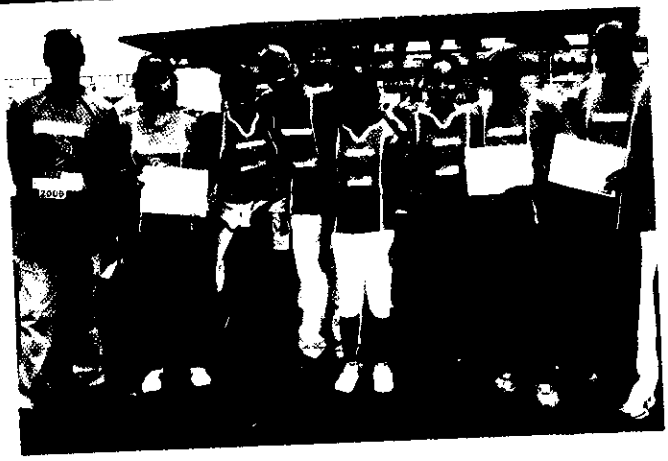
Donation of computers to deserving needy institutions

Pan Africa Life seeks to support initiatives that promote learning and development in the schools within our communities, particularly schools that require support of various kinds. In line with this, we donated 6 computers to Nembu High School. The donation has enabled the school to equip their computer lab, thereby facilitating training on IT for students.

ENVIRONMENTAL CONSERVATION

'Growing up Green' environmental initiative

Following the success of the pilot 'Growing up green' environmental initiative that was launched 2008, this year we have increased our involvement by launching the initiative through-out our countrywide branch network. The tree planting activities target primary school pupils and are



Staff members pose with their certificates after participating in the Mater Heart run.

intended to inculcate a sense of community responsibility and environmental conservation awareness at an early age. This is a collaborative effort involving local schools in partnership with local administration.

CARING FOR THE COMMUNITY

Participation in the Mater Heart Run

The company participated in this year's Mater Hospital 'Heart Run', which is an annual family marathon in aid of raising funds for needy children requiring a heart transplant.

Anti-jigger campaign

Pan Africa Life partnered with other corporates in sponsoring the anti-jigger campaign. The campaign is intended to facilitate access to medication and basic education on hygiene to eradicate the jigger menace amongst infected children and adults.

Contribution to the hunger alleviation project

The company collaborated with the Insurance Institute of Kenya to raise money for the purchase of foodstuff in aid of Kenyans facing starvation. We also partnered with other insurance companies in an initiative known as 'Okoa Jamii' in which staff members contributed money and foodstuff in a show of industry solidarity towards fellow Kenyans in dire need of food.

CHAIRMAN'S FUND

Through the Chairman's fund, we have supported the Maasai Mara Marathon in aid of conservation of the Mara eco-system. We have made a contribution towards the 'Palm House Foundation', in support of education among disadvantaged students as well as provided library books to several schools upcountry.

The Pan Africa team participates in the anti-jigger campaign in Muranga District

INTRODUCTION

Pan Africa Insurance Holdings Limited continues to subscribe to and fully embrace the principles of corporate governance as set out by the Guidelines on Corporate Governance practices by public listed companies in Kenya issued by the Capital Markets Authority. This influences the process and structures used to direct and manage the business affairs of the Company and its constituent subsidiaries, the roles of the Board of Directors and management and the framework for internal controls. We recognise that ethical business practices and the integrity of our internals systems are key to the enhancement of our financial performance and sustainability, and we therefore remain committed to achieving the highest standards of corporate governance and business ethics by Management to the Board, by the Board to its shareholders, and by the Group to its policyholders, customers, regulatory authorities and the Government of Kenya. The Board of Directors is accountable to shareholders for ensuring that the Company complies with the law and the highest standards of corporate governance and business ethics. In ensuring that good corporate governance is practiced so that the Company remains a sustainable and viable business venture, the Company has continuously implemented the following policies to guide the operations of the Group:

1. **Code of Ethics**: This outlines 10 ethical principles which comply 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 principles are designed to prevent an employee from engaging in any activity that would raise questions as to the Group's integrity, respect for diversity, impartiality or reputation.

2. **Gift Policy**: This outlines the policy of giving and receiving gifts by employees and is designed to prevent the unfair granting of a gift or a favour.

3. **Financial Crime Combating Policy**: This outlines the guidelines of combating financial crime and unlawful conduct and provides a framework for which this can be prevented, detected, investigated and dealt with.

4. **Zero Tolerance Approach**: Financial crimes and unlawful conduct are not tolerated in the Company as stipulated by this policy. The policy further outlines the consequences of committing a financial crime and unlawful conduct.

5. **Schedule of Offences**: This policy defines the different instances of unlawful conduct by directors, managers, employees, customers, suppliers, competitors, shareholders and the sanctions meted thereto.

6. **Self-Evaluation**: 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 Company Secretary. The results of the evaluations are discussed and action plans tabled to strengthen the Board, Committees and evaluation processes.

BOARD OF DIRECTORS

The primary responsibility of the Board of Directors is to lead and control the Company. The members are responsible for the enforcement of the corporate vision and mission, and for ensuring financial soundness of the company. Of particular importance to the Company is the observance of shareholders' interest, efficient practices and open corporate communication. The Board deliberates upon and approves strategy and business plans, and monitors the performance of the company against set objectives. It also plays a critical oversight role in the way business is generally managed and conducted, and on how risk is evaluated and managed. It will also confirm that company's due compliance with the relevant legal and statutory requirements.

To enable this the Directors have full access to the advise and services of the Chief Executive, Company Secretary and Senior Management. They also have full and timely access to relevant information. New directors also undergo an induction process where they are apprised of the Company's legislative framework, policies and governance procedures, nature and operations of the business and meet the Senior Management team of the Company. They are also provided with relevant documentation about the Company.

BOARD MEETINGS

The Board meets at least once in every quarter or more often in accordance with requirements of the business. The Board work plan and calendar of meetings is prepared and circulated annually in advance. Adequate notice is given for each Board meeting and Directors receive a clear agenda and comprehensive pre-prepared board papers which are distributed in good time before the meeting, In 2009, the Board held a total of four quarterly meetings which were very well attended as shown below:

DIRECTOR'S NAME	2009 ATTENDANCE (%)
John Simba (Chairman)	100%
Tom Gitogo (Chief Executive)	100%
Margaret Dawes	100%
Norman Kelly	100%
James Gitoho	100%
Baloobhai Patel	75%
Susan Mudhune*	50%
Robert Dommisse	25%

*appointed on 1Bth August 2009

Board Composition

The current Board consists of nine directors comprising of the Chairman, as an independent non-executive director, the Chief Executive as the only executive director, four directors representing the strategic partner Sanlam and three non-executive directors thus balancing the board composition.

The Board is composed of directors with a good mix of skills, experience and competences in relevant fields of expertise and is well placed to take the business to greater heights.

Changes to the Board during 2009

In the 2009 financial year, Susan Mudhune was appointed as an additional non-executive director of the Company.

Re-election to the Board

In accordance with the provisions of the Company's Article's of Association, at least one-third of the directors retire by rotation every year 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 2009 Annual General Meeting, Baloobhai Patel, having attained the age of seventy years, retired and being eligible by virtue of a Special Notice, was unanimously re-elected to the Board. In addition, Margaret Dawes resigned as a director and was unanimously re-elected to the Board. Norman J Kelly, who was appointed a director on 21 May 200B resigned in the 2009 Annual General Meeting as it was his first Annual General Meeting since his appointment as a director and was unanimously re-elected to the Board.

Role of the Chairman Versus the Chief Executive

The roles of the Chairman and the Chief Executive are clearly defined and separated. Whereas the day-to-day executive management of the Company has been delegated to the Chief Executive and detailed discussions on audit, investments and remuneration have been delegated to committees (described later in this Annual Report), the running of the Board is the responsibility of its Chairman. The Chief Executive directs the implementation of the Board decisions and instructions on the general management of the Group with the assistance of the Executive Management.

Responsibility for Financial Reporting

It is the responsibility of the directors to ensure preparation of the annual and half year financial statements that give a true and fair view of the state of affairs of the Company and its subsidiaries. This requires the directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. The Board is also responsible for safeguarding the assets of the Company.

Operations

The diverse skills, experience and professions of the directors enliven the deliberations of the Board. By way of summary, the Board benefits from professional knowledge of its members in accounting, actuarial, architecture, entrepreneurship, insurance , finance , law, marketing and management. It is important that the Board has proper information supplied to it in a timely manner. 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 7 clear days before any Board meeting. To ensure the continuous flow of information, the Company encourages dialogue and meetings between members of the Board and senior management outside of the formal quarterly Board meetings. In addition, Management provides the Board with monthly Directors' Newsletters which update the Directors on the Company's operations during the month. The Directors also continually avail themselves on areas of their expertise, particularly, accounting, law, insurance and strategic management.

Remuneration

Details of directors fees in the year 2009 are set out in the Related Party Transaction note in the Notes to the Financial Statements. In remunerating the directors, the Company 's policy has been to consider, first, the demands and requirements made on the directors in relation to the business of the Company, second , the availability of the directors for ad hoc consultation , professional and business counsel as and when the need arises, third, industry and related companies benchmarks, fourth, international experiences and fifth, the calibre of directors needed to run this Company. The directors have always, are, and will be expected to continue to add value to the business. The financial results indicate that the financial performance of the Company is on an upward trend and it is recognised that this, in part, is due to the improvement of the quality of corporate governance at the board level. 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.

There were no directors loans at any time during the financial year 2009.

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 Company.

Disclosure of Interests

The directors are under a fiduciary duty to act honestly and in the best interests of the company. The practice now has been for the directors to disclose their interests at every quarterly Board meeting and in the event that there are changes, the directors disclose their interests as and when the changes occur. Every quarter, the disclosure of interest form is circulated with the board papers for the directors to complete. The Company Secretary is the custodian of these forms.

Board and Committee Structure

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 company 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 company.

Each Board Committee has a Board Charter containing provisions that ensure that the Board observes best practices. It dictates among other things the size, role and functions of the Committee, inductions, appointments and Board performance evaluation and remuneration. It also comprises a Work Plan setting out the schedule of meetings of the Board and the main business to be dealt with at those meetings.

The Board has three committees as follows:

I. Audit Committee

The proceedings of the Committee are governed by an annual plan that details the specific matters that it must discuss at each quarterly meeting and the Audit Committee charter mandate to consider all risks that affect the Group, legally, financially, technologically, politically, and to develop measures to manage identified risks. The Committee may in consultation with the Chairperson of the Board, and in cooperation with the Board's Company Secretary obtain outside legal or other independent professional advice.

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 Company and Group; Monitoring the effectiveness of business risk management processes in the Company and 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 Company 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 Company or Group, and all employees are expected to co-operate with any request made by the Committee. The members of the Committee, and their attendance to the four meetings held in the year 2009 were as follows:

Table 1: Audit Committee Membership.

Member	Directorship Status	2009 Attendance (%)
Margaret Dawes (Chairperson)	Non-Executive Director, Head - Rest of Africa, SDM	100%
Baloobhai Patel	Non-Executive Director	75%
Robert Dommisse	Non-Executive Director	75%

II. Investment Committee

The primary functions of the Investment Committee are: To establish appropriate investment guidelines for the Life & Investment Businesses; To set investment benchmarks, (for example, recommended percentage compositions of property, equities, cash, bonds etc for each of the two 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.

The members of the Committee, and their attendance to the four meetings held in the year are detailed in table 2 below.

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. Its members comprise of :

a. Baloobhai Patel (Chairperson)
b. John Simba
c. James Gitoho
d. Tom Gitogo

III. Human Resources Committee

In 2006 this Committee developed a new charter and an annual plan to guide the agenda of meetings throughout the year. This committee changed its name from the 'Remuneration' Committee to the 'Human Resources Committee' to reflect its new charter and expanded mandate. Specifically, its new responsibilities are to ensure that an effective management succession process exists; to regularly evaluate the long-term availability of management expertise; and to give careful attention to succession planning for the positions of the senior management, including making recommendations with regard to the position of Chief Executive. The Committee also recommends to the Board terms and conditions of service of the Chief Executive, staff and recommendations for appointment, promotion and disciplinary issues of senior staff.

The members of the Committee, and their attendance to the four meetings held in the year are detailed in table 3 below.

Table 2: Investment Committee Membership

Member	Directorship Status	2009 Attendance (%)
Baloobhai Patel (Chairperson)	Non-Executive Director	75%
Norman Kelly	Non-Executive Director	100%
Tom Gitogo	Chief Executive	100%
James Gitoho	Non-Executive Director	100%
John Simba	Non-Executive Director	100%

Table 3: Human Resources Committee Membership

Member Directorship	Directorship Status	Attendance
James Gitoho (Chairperson)	Non-Executive Director	100%
Margaret Dawes	Head - Rest of Africa, SDM	100%
John Simba	Non-Executive Director	100%

Management Committees

The Chief Executive has established several committees to assist him in the management of the Company 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 Company and ensure adherence to company policy and procedures
- The Management Committees (MANCOM) that meets monthly to review operational issues of the Company, with emphasis on the assessment and monitoring of the institution's operational risks

PROFESSIONAL ADVICE

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. The directors have full access to the advice of the Company Secretary. They are also entitled to obtain independent professional advice on any matter at Company expense should they deem this necessary.

Company Secretary

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

Ernst & Young

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

KPMG

They 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 Company. He does this by independently valuing the Company assets and policy liabilities. The statutory actuary reports independently and directly to the Board during the review of half year and end year results.

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) Limited 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 occurs when a person has knowledge of the Company'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 Company'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 Company's shares during the closed season. The closed season is the period between the end of the Company'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). Details of the directors' shareholding in the Company are summarised in Table 4 below.

Table 4: Directors Shareholding as at 31st December 2009

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

Disclosure of Information to shareholders

The Board discloses to shareholders the financial position of the Company three times a year: at the annual general meeting, by publication of the half- year and year end results in the local english daily newspapers. The financial position of the Company together with relevant information such as the share price and on the central depository system are made available for viewing on the Company's website, www.pan-africa.com. The share register is kept at the offices of the Company 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 Company and are available for the perusal of shareholders during working hours. The Company publishes the annual report and audited financial statements, which are sent out to all shareholders, entitled to attend the annual general meeting. All shareholders are entitled to attend the Annual General Meeting for which notice is issued at least 21 days to the meeting date by way of post to all local shareholders, and publication in the local daily newspapers. The Company has an authorised share capital of KShs 500 Million divided into 100 Million shares of KShs 5/= each. 48 Million shares are currently issued.

Distribution of shareholders

The top 10 shareholders, based on the Company's Register of Members, as at 31 December 2009 are shown in table 5 below.

The Capital Markets Authority requires the Company 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 6 and 7 below.

Table 5: Top 10 shareholders as at 31st December 2009

	2009 Number of Share	%	2008 Number of Share	%
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	657,669	1.37
Cannon Assurance (Kenya) Limited	527,788	1.10	511,558	1.07
Barclays (Kenya) Nominees Ltd A/C 9397	4B5,069	1.01	485,069	1.01
Olympia Capital Holdings Limited	316,400	0.66	310,000	0.65
Financial Fixtures Limited	287,237	0.60	287,237	0.60
Robert Kamau Willie Ngigi	223,866	0.47	277,166	0.58
TOTAL	38,831,640	80.90	38,862,310	80.96

Table 6: Distribution Schedule

	Number of 5hareholders	Number of Shares	%
Less than 1,000	1,000	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

Table 7: 5hareholder'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 company 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 Company commenced operations in February 2005. A progress report on the immobilisation is presented in the table below.

Item	Amount (KShs)	%
Company'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	9,853,097	20.53
Total Number of Non-immobilised Shares	38,146,903	79.47

The Pan Africa Insurance Holdings Company Secretary, Emma Wachira receives an award for 1st runner up in the Corporate Governance category on behalf of the company during the 2009 FiRe Awards, from the CEO of Capital Markets Authority Stella Kilonzo

GOING CONCERN

The Board submits this annual report and audited financial statements for the year ended 31 December 2009. 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 Company's position and prospects. The Board reports that the business is a going concern and they have no reason to believe that the Company and its subsidiaries will not be going concerns into the foreseeable future.

John P N Simba
Chairman
8 March 2010

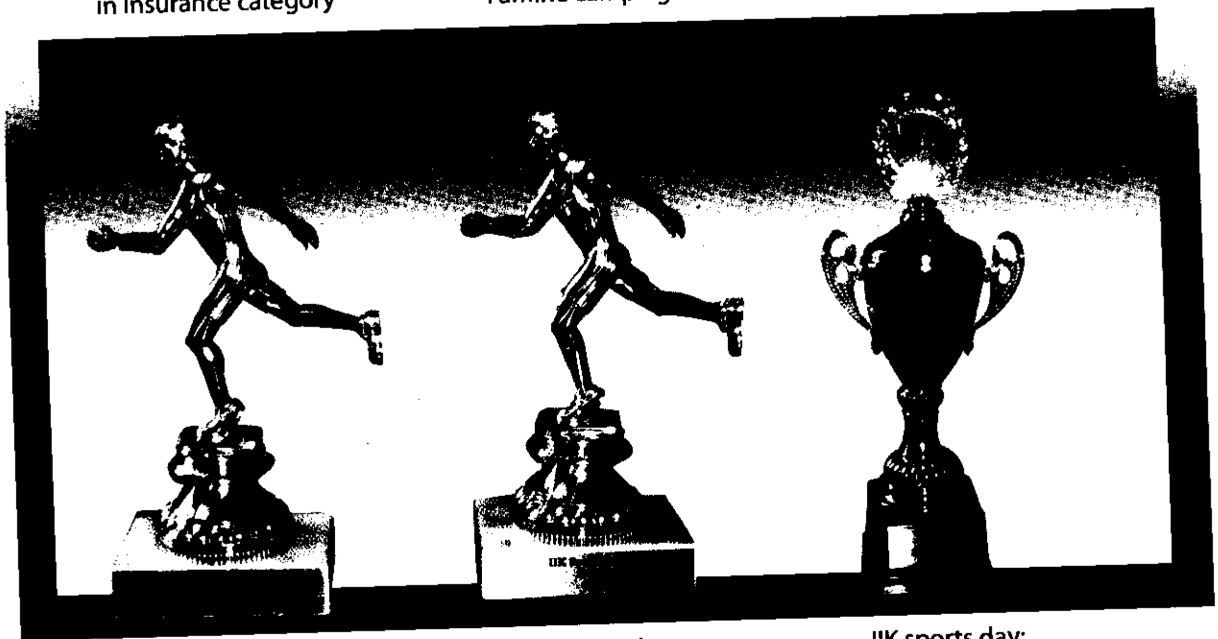
Tom Gitogo
Chief Executive
8 March 2010

Some Corporate Achievements in 2009

FiRe Awards:
2nd runners up
in Insurance category

Pan Africa CSR recognition
on contributing Rotary Fight
Famine campaign

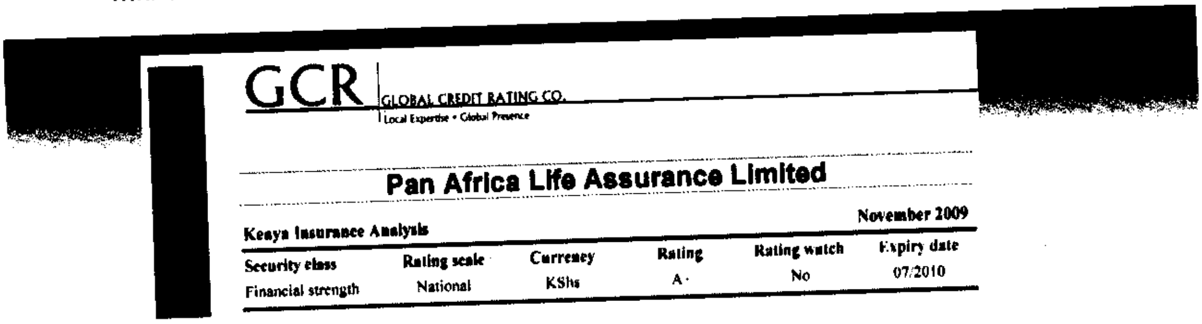
FiRe Awards:
1st runners up
in Corporate Governance



IIK sports day:
winners in 100 M

IIK sports day:
winners in 200 M

IIK sports day:
1st runners up overall



GCR | GLOBAL CREDIT RATING CO.
Local Expertise • Global Presence

Pan Africa Life Assurance Limited

Kenya Insurance Analysis — November 2009

Security class	Rating scale	Currency	Rating	Rating watch	Expiry date
Financial strength	National	KShs	A-	No	07/2010

Report of the Statutory Actuary

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 2009.

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 2009.

Giles T Waugh
Statutory Actuary
MA, FIA, FASSA, ASA
Fellow of the Institute of Actuaries

8 March 2010

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 37 to 114, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 2009, and of the Group's financial performance and 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:

(i) 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;

(ii) 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

(iii) The Group's and Company's statements of financial position, income statements and statements of comprehensive income are in agreement with the books of account.

Ernst & Young

Nairobi
30 March 2010

1. a) **Definition of Embedded Value**

This report sets out the 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 Company excluding the value attributable to future new business. The embedded value comprises:

- The value of the life company's shareholders' net assets; plus
- 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)

Pan Africa Life has fully adopted the revised embedded value guidance from the Chief Financial Officer's (CFO) Forum's European Embedded Value (EEV) Principles.

2. **Embedded Value Results**	**As at 31 Dec 2009 KShs.'000**	**As at 31 Dec 2008 KShs.'000**
2. a) Group embedded value		
Shareholders' adjusted net assets	2,896,394	1,907,421
Net value of in-force business	914,317	1,091,858
Gross value of in-force business	1,398,156	1,584,613
Tax provision	(419,447)	(475,383)
Cost of CAR	(64,392)	(17,372)
Embedded value	3,810,711	2,999,279
2. b) Embedded Value Earnings		
The embedded value earnings are derived as follows:		
Embedded value at end of year	3,810,711	2,999,279
Embedded value at beginning of year	(2,999,279)	(2,898,661)
Change in embedded value	811,432	100,618
Transfer to shareholders	-	76,800
Embedded value earnings	811,432	177,418
These earnings can be analysed as follows:		
Adjustment to fair value of subsidiary	888,746	276,300
Roll forward	281,845	245,609
Investment return on free assets	26,405	44,412
Expected return on life business in-force	255,440	201,197
Change over the period	(359,158)	(344,491)
Value of new business at year end	134,935	103,952
Value of new business at point of sale	174,806	133,684
Tax on value of new business	(52,442)	(40,105)
Expected return on new business to end of year	12,571	10,373
Changes in assumptions and methodology	(309,459)	27,240
Change in tax treatment of reserves	-	(165,036)
Cost of CAR	(47,020)	(14,687)
Experience variations	(216,611)	(66,717)
Increase in NAV for other subsidiaries	78,998	(229,243
Total earnings	811,433	177,418

3. Value of New Business

	As at 31 Dec 2009 KShs.'000	As at 31 Dec 2008 KShs.'000
Value at point of sale (gross of tax)	174,806	133,684
Tax on value at point of sale	(52,442)	(40,105)
Cost of CAR at point of sale	(11,513)	(2,901)
Expected Return	12,571	10,373
Value of new business	123,422	101,051

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 African Life Company. The sensitivity of the embedded value to the risk discount rate is set out below:

Risk Discount Rate	13.90%	14.90%	15.90%
	KShs '.000	KShs '.000	KShs '.000
Shareholders' net assets	2,896,394	2,896,394	2,896,394
Value of in-force business	949,842	914,317	881,938
Embedded value	3,846,236	3,810,711	3,778,332
Value of one year's new business at valuation date	134,187	123,422	113,007

5. Assumptions

The assumptions used in the calculation of the embedded value are based on the Company'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:

	2009 % p.a.	2008 % p.a.
Risk discount rate	14.90	16.12
Overall investment returns (pre tax)	10.53	11.95
Expense Inflation Rate	6.90	8.12

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 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 2009.

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.

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 2009	914,317	
Policy discontinuance rate increases by 10% e.g. from 10% to 11%	920,837	0.7%
Future expense increases by 10%	870,156	-4.8%
Expense inflation increases by 1% e.g. from 10% to 11%	901,501	-1.4%
Mortality and morbidity experience increases by 10%	912,379	-0.2%
Investment returns decrease by 1% e.g. from 10% to 9%	866,547	-5.2%
Premium increase take-up rate decreases by 10% e.g. from 90% to 81%	909,809	-0.5%

The sensitivity of the value of new business is as follows:

Value of one year's new business as at 31 December 2009	123,422	
Policy discontinuance rate increases by 10% e.g. from 10% to 11%	119,723	-3.0%
Future expense increases by 10%	115,836	-6.1%
Expense inflation increases by 1% e.g. from 10% to 11%	119,954	-2.8%
Mortality and morbidity experience increases by 10%	121,806	-1.3%
Investment returns decrease by 1% e.g. from 10% to 9%	113,054	-8.4%
Premium increase take-up rate decreases by 10% e.g. from 90% to 81%	120,549	-2.3%
Increase in non-commission acquisition expenses by 10%	107,955	-12.5%

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.

08 March 2010

Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2009

		Group		Company	
		2009	2008	2009	2008
	Note	KShs'.000	KShs'.000	KShs'.000	KShs'.000
Gross Premiums	3	3,025,151	2,510,032	-	-
Premium ceded to reinsurers		(203,971)	(191,938)	-	-
Net Premium Income		2,821,180	2,318,094	-	-
Fee and commission income	4	48,468	51,106	-	-
Investment income	5(a)	361,501	330,719	849	4,325
Realised (losses)/gains	5(b)	(95,946)	106,605	10	4,119
Fair value gains/(losses)	5(c)	194,485	(231,581)	280	(2,910)
Other operating revenue		65,344	1,114	65,511	18,306
Total other revenue		573,852	257,963	66,650	23,840
Total Revenue		3,395,032	2,576,057	66,650	23,840
Gross benefits and claims paid	6	(1,020,461)	(1,174,841)	-	
Claims ceded to reinsurers	6	96,305	105,710		-
Change in contract liabilities	6	(1,326,063)	(456,643)	-	
Net benefits and claims		(2,250,219)	(1,525,774)	-	-
Other operating and administrative expenses	7	(1,037,530)	(932,948)	(7,353)	(52,215)
Financing costs	10	-	-	(24,665)	-
Total benefits, claims and other expenses		(3,287,749)	(2,458,722)	(32,018)	(52,215)
Operating profit before tax and share of associate		107,283	117,335	34,632	(28,375)
Share of profit/(loss)of associate		66,364	(133,703)	1,692	-
Profit before tax		173,647	(16,368)	36,324	(28,375)
Income tax expense	11	(34,731)	(79,630)	-	-
Profit for the year		138,916	(95,998)	36,324	(28,375)
Profit attributable to:					
Equity Holders of the parent		138,916	(95,998)	36,324	(28,375)
Non-controlling interests		-	-	-	-
		138,916	(95,998)	36,324	(28,375)
Earnings per share:	32				
Basic		2.89	(1.99)	0.76	(0.59)
Diluted		2.89	(1.99)	0.76	(0.59)

Statement of Comprehensive Income
FOR THE YEAR ENDED 31 DECEMBER 2009

		Group		Company	
		2009	2008	2009	2008
	Note	KShs'.000	KShs'.000	KShs'.000	KShs'.000
Profit/(loss) for the year		138,916	(95,998)	36,324	(28,375)
Other comprehensive income					
Surplus/(deficit) on revaluation of property, plant and equipment	25	-	(2,766)	-	-
Deferred income tax relating to components of other comprehensive income		-	-	-	-
Other comprehensive income for the year, net of tax		-	(2,766)	-	-
Total comprehensive income/(loss) for the year attributable to the owners of the company		138,916	(98,764)	36,324	(28,375)
Attributable to:					
Equity Holders of the parent		138,916	(98,764)	36,324	(28,375)
Non-controlling interests		-	-	-	-
		138,916	(98,764)	36,324	(28,375)

Statement of Financial Position

FOR THE YEAR ENDED 31 DECEMBER 2009

		Group		Company		
					Restated	
		2009	2008	2009	2008	2007
	Note	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
ASSETS						
Property and equipment	12	59,973	65,205	28	168	246
Intangible assets	13	6,051	8,240	-	-	-
Investment properties	14	391,000	374,500	-	6,000	6,000
Investments in subsidiaries	15(a)	-	-	909,270	909,270	1,010,212
Equity-accounted investments	15(b)	567,327	508,158	9,003	7,311	7,836
Financial Instruments:						
Held to maturity financial assets	16	1,167,909	492,523	-	-	-
Available for sale financial assets	16	3,827	3,827	3,827	3,827	-
Fair value through profit or loss	16	3,107,001	3,036,894	8,801	7,978	171,653
Loans and receivables	17	633,540	338,598	94,720	35,445	41,332
Long-term reinsurance assets		34,553	30,629	-	-	
Land and development	22	538,658	88,525	538,658	88,525	47,732
Income tax receivable	11	30,389	23,292	13,680	13,680	13,680
Insurance receivables	23	111,785	220,072	-	-	-
Cash and cash equivalents	24	911,802	903,664	489	26,920	96,218
Total Assets		7,563,815	6,094,127	1,578,476	1,099,124	1,394,909
EQUITY AND LIABILITIES .						
CAPITAL AND RESERVES						
Issued share capital	25	240,000	240,000	240,000	240,000	240,000
Share premium	25	364,431	364,431	364,431	364,431	364,431
Revaluation reserves	25	7,507	7,507	-	-	-
Statutory fund	25	351,359	388,831	-	-	-
Retained earnings		361,566	185,178	346,194	258,505	410,938
Total Capital and Reserves		1,324,863	1,185,947	950,625	862,936	1,015,369
LIABILITIES						
Insurance contract liabilities	26	5,019,631	3,693,567	-	-	
Amounts payable under deposit administration contracts	26	469,204	352,405	-	-	
Insurance payables	28	134,378	203,839	-	-	-
Deferred tax liability	29	28,930	28,930	-	-	-
Provisions	30	111,285	111,285	-	-	-
Other payables	31	475,524	518,154	627,851	236,188	379,540
Total Liabilities		6,238,952	4,908,180	627,851	236,188	379,540
TOTAL EQUITY AND LIABILITIES		7,563,815	6,094,127	1,578,476	1,099,124	1,394,909

The financial statements were approved by the Board of Directors on 8 March 2010 and signed on its behalf by:

John P N Simba – Chairman
8 March 2010

Tom Gitogo - Chief Executive
8 March 2010

Group Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2009

Year Ended 31 December 2008	Note	Share capital KShs.'000	Share premium KShs.'000	Revaluation surplus KShs.'000	Statutory Fund KShs.'000	Retained earnings KShs.'000	Total KShs.'000
At 1 January - As previously reported		240,000	364,431	10,936	292,172	530,646	1,438,185
Prior period adjustment	33	-	-	(663)	(37,799)	(38,212)	(76,674)
As restated		240,000	364,431	10,273	254,373	492,434	1,361,511
Total comprehensive income :							
Loss for the year		-	-	-	-	(95,998)	(95,998)
Other comprehensive income		-	-	(2,766)	-	-	(2,766)
Transactions with owners:							
Dividends: Final for 2007	36	-	-	-	-	(76,800)	(76,800)
Transfer to Statutory fund	25	-	-	-	134,458	(134,458)	-
As at 31 December		240,000	364,431	7,507	388,831	185,178	1,185,947

Year Ended 31 December 2009	Note	Share capital KShs.'000	Share premium KShs.'000	Revaluation surplus KShs.'000	Statutory Fund KShs.'000	Retained earnings KShs.'000	Total KShs.'000
At 1 January		240,000	364,431	7,507	388,831	185,178	1,185,947
Total comprehensive income:							
Profit for the year		-	-	-	-	138,916	138,916
Transactions with owners:							
Transfer to shareholder		-	-	-	(89,370)	89,370	-
Transfer to Statutory fund	25	-	-	-	51,898	(51,898)	-
At 31 December		240,000	364,431	7,507	351,359	361,566	1,324,863

Company Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	Share capital KShs.'000	Share premium KShs.'000	Retained earnings KShs.'000	Total KShs.'000
Year Ended 31 December 2008					
At I January - As previously reported		240,000	364,431	411,751	1,016,182
Prior period adjustment	33	-	-	(813)	(813)
As restated		240,000	364,431	410,938	1,015,369
Total comprehensive income:					
(Loss) for the year		-	-	(28,375)	(28,375)
Transactions with owners:					
Dividends:					
- Final for 2007	36	-	-	(76,800)	(76,800)
- Proposed for 2008		-	-	-	
- Dividend from subsidiary		-	-	53,684	53,684
Prior year adjustment	33	-	-	(100,942)	(100,942)
At 31 December		240,000	364,431	258,505	862,936
Year Ended 31 December 2009					
At 1 January - As previously reported		240,000	364,431	359,447	963,878
Prior period adjustment	33	-	-	(100,942)	(100,942)
As restated		240,000	364,431	258,505	862,936
Total comprehensive income:					
Profit for the year		-	-	36,324	36,324
Transactions with owners:					
Dividends:-					
-Dividend from subsidiary		-	-	51,365	51,365
At 31 December		240,000	364,431	346,194	950,625

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2009

a) GROUP

Year Ended 31 December 2009

	Note	Ordinary Life KShs.'000	Super Annuation KShs.'000	Investments KShs.'000	Group KShs.'000
OPERATING ACTIVITIES					
Net cash generated from operations	37(a)	158,081	486,682	206,546	851,309
INVESTING ACTIVITIES					
Investment income		362,421	128,962	(8,292)	483,091
Purchase of property & equipment		(19,550)	-	-	(19,550)
Net purchase of financial assets through profit and loss		(216,077)	(76,531)	(823)	(293,431)
Net purchase of government securities		(205,221)	(470,166)	-	(675,387)
Investments in land and development		-	-	(494,093)	(494,093)
Proceeds from sale of plots		-	-	65,511	65,511
Mortgage loans advanced		(91,080)	-	-	(91,080)
Net repayment of mortgage loans		20,467	-	1,493	21,960
Net proceeds from disposal of quoted shares		-	-	99,837	99,837
Net Proceeds from redemption of government securities		-	-	27,101	27,101
Net cash (used in) investing activities		(149,040)	(417,735)	(309,266)	(876,041)
FINANCING ACTIVITIES					
Transfer to life/shareholders fund		(51,365)	-	51,365	-
Dividends received		-	-	7,195	7,195
Net cash (used in)/generated from financing activities		(51,365)	-	58,560	7,195
(Decrease)/increase in cash and cash equivalents		(42,324)	68,947	(44,160)	(17,537)
Cash at start of year		611,144	266,937	25,583	903,664
At end of year		568,820	335,884	(18,577)	886,127

Year Ended 31 December 2008

	Note	Ordinary Life KShs.'000	Super Annuation KShs.'000	Investments KShs.'000	Group KShs.'000
OPERATING ACTIVITIES					
Net cash generated from/(used in) operations	37(a)	332,550	226,757	(276,586)	282,721
INVESTING ACTIVITIES					
Investment income		235,481	72,575	14,685	322,741
Interest on mortgage		-	-	(793)	(793)
Purchase of property & equipment		(42,440)	-	-	(42,440)
Purchase of software		(6,570)	-	-	(6,570)
Mortgage loans advanced		(33,641)	-	-	(33,641)
Net mortgage loans repayments		12,481	-	-	12,481
Net Purchase of financial assets through profit and loss		(447,906)	(149,306)	(43,239)	(640,451)
Net Purchase of government securities		(124,908)	(499,632)	105,810	(518,730)
Proceeds from disposal of property and equipment		2,000	-	-	2,000
Net Proceeds from disposal of quoted shares		198,892	223,471	56,569	478,932
Net cash (used in)generated from investing activities		(206,611)	(352,892)	133,032	(426,471)
FINANCING ACTIVITIES					
Transfer to life/shareholders fund		(53,684)	-	-	(53,684)
Transfer from subsidiary		-	-	60,879	60,879
Dividends paid		-	-	(76,800)	(76,800)
Net cash (used in) financing activities		(53,684)	-	(15,921)	(69,605)
Increase/(decrease) in cash and cash equivalents		72,255	(126,135)	(159,475)	(213,355)
Cash at start of year		538,889	393,072	185,058	1,117,019
At end of year		611,144	266,937	25,583	903,664

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2009

b) COMPANY

	Note	2009 KShs.'000	2008 KShs.'000
OPERATING ACTIVITIES			
Net cash generated from/(used in) operations	37(b)	349,749	(190,917)
INVESTING ACTIVITIES			
Investment income		(23,815)	4,255
Net Purchase of financial assets through profit and loss		(823)	105,810
Increase in land and development		(494,093)	(40,793)
Net proceeds from disposal of quoted shares		-	56,569
Net Proceeds from sale of plots		65,511	-
Net cash (used in) /generated from investing activities		(453,220)	125,841
FINANCING ACTIVITIES			
Dividend from subsidiary		51,365	53,684
Dividends from associate		-	18,894
Dividends paid		-	(76,800)
Net cash generated from/(used in) financing activities		51,365	(4,222)
Decrease in cash and cash equivalents		(52,106)	(69,298)
Cash at start of year		26,920	96,218
At end of year		(25,186)	26,920

1. PRINCIPAL ACCOUNTING POLICIES

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

a) Basis of preparation

The financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS). The measurement basis used is the historical cost basis, 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 financial statements are presented in Kenya Shillings (KShs), rounded to the nearest thousand, which is also the functional currency.

The financial statements comprise the income statements, statements of comprehensive income, statements of financial position, statements of changes in equity, statements of cash flows, and notes. Income and expenses, excluding the components of other comprehensive income, are recognised in the profit and loss account. Other comprehensive income is recognised in the statement of comprehensive income and comprises items of income and expenses (including reclassification adjustments) that are not recognised in the profit and loss account as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to the profit and loss account in the current period that were recognised in other comprehensive income in the current or previous periods. Transactions with the owners of the company in their capacity as owners are recognised in the statement of changes in equity.

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

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the accounting policies adopted by the Group. Although such estimates and assumptions are based on the directors' best knowledge of the information available, actual results may differ from those estimates. The judgements and estimates are reviewed at the end of each reporting period, and any revisions to such estimates are recognised in the year in which the revision is made. The areas involving the judgements of most significance to the financial statements, and the sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year, are disclosed in section 6 of the Embedded Value Report.

b) Adoption of new and revised standards

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

The Group has adopted the following new and revised IFRS during the year.

- IFRS 7 – Improving disclosures about financial instruments – Amendments to IFRS 7 Financial instruments: Disclosures : The amendment to the standard requires an entity to provide a quantitative and qualitative analysis of those instruments recognised at fair value based on a three-Level measurement hierarchy. Furthermore, for those instruments which have significant unobservable inputs (classified as Level 3), the amendment requires disclosures on the transfers into and out of Level 3, a reconciliation of the opening and closing balances, total gains and losses for the period split between those recognised in other comprehensive income, purchases, sales issues and settlements, and sensitivity analysis of reasonably possible changes in assumptions. In addition, disclosure is required of the movements between different levels of the fair value hierarchy and the reason for those movements.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

b) Adoption of new and revised standards (continued)

Finally, the standard amends the previous liquidity risk disclosures as required under IFRS 7 for non-derivative and derivative financial liabilities. Entities are required to apply this amendment for annual periods beginning on or after 1 January 2009, with no requirement to provide comparatives on transition. However, the Group has voluntarily provided comparatives.

- 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.

- IAS 1 replaces IAS 1 (revised in 2003) as amended in 2004 and 2005. This standard separates owner and non-owner changes in equity requiring all owner changes in equity to be presented in a statement of changes in equity, and all non-owner changes either in one statement of comprehensive income or in two separate statements, which are an income statement and a statement of comprehensive income. The previous standard required components of comprehensive income to be presented in the statement of changes in equity. The revised standard also requires that the income tax effect of each component of comprehensive income to be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements. The Group has elected to present comprehensive income in two separate statements. Information about the individual components of comprehensive income as well as the tax effects have been disclosed in the notes to the financial statements. The Company has presented three statements of financial position in these financial statements because it has made a retrospective restatement of items in its financial statements that affected the statement of financial position at the beginning of the earliest comparative period.

The following revised standards and interpretations became effective in the current year but did not have any material effect on the financial performance or position of the Group.

- 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. 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 "vestingcondition" to a condition that includes an explicit or implicit requirement to provide services. Any other 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, there are no significant implications

- IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements - 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 non-controlling interests. The Group has not taken advantage of this possibility.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

b) Adoption of new and revised standards (continued)

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Plan to sell the controlling interest in a subsidiary. When a subsidiary is held for sale, all of its assets and liabilities shall be classified as held for sale under IFRS 5, even when the entity will retain a non-controlling interest in the subsidiary after the sale. Therefore, any investments in subsidiaries classified as held for sale since IFRS 5 was applied will need to be re-evaluated. The Group has no short term intention to reduce holding or sell in any of its subsidiaries and therefore will not apply this standard.

- 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. This revision has had no impact on the Group as no such assets were sold in the current year.

- IAS18 Revenue: Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39. The amendment has had little impact on the financial position or performance of the Group.
- 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. The amendment has had little impact on the financial position or performance of the Group.

- IAS 38 Intangible Assets: Advertising and promotional activities. Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues. The standard has had little impact on the financial position and 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

  Further 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 re-measuring a debt instrument on the cessation of fair value hedge accounting. The Group has not adopted this standard as it does not have any derivatives.

- 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. This standard has had some impact on the consolidated financial statements as the Group is currently involved in the construction of investment property.

- IFRIC 15 Agreement for the Construction of Real Estate: 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 did have an impact on the consolidated financial statement because the Group is currently involved construction of real estate.

- IFRIC 17 Distribution of non cash assets to owners: 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

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

b) Adoption of new and revised standards (continued)

situations where an entity may also give its owners a choice of receiving either non-cash assets or a cash alternative. This had no impact on the consolidated financial statements of the Group.

- IFRIC 18 Transfers to Assets from Customers: IFRIC applies to all entities that receive from customers an item of property, plant and equipment or cash for the acquisition or construction of such items. These assets are then used to connect customers to a network and/or provide them with ongoing access to a supply of goods and/or services, such as electricity, gas and water. The diversity of accounting methods used by entities for the assets they received has led the IFRIC to issue Interpretation IFRIC 18 Transfers of Assets from Customers. The interpretation provides guidance on when and how an entity should recognise such assets. However, if the transfer is a government grant (within the scope of IAS 20) or the asset is used in a service concession arrangement (and within the scope of IFRIC 12), the interpretation will not apply. This does not have any impact on the operations of the Group as the Group does not engage in such activity.

Standards issued but not yet effective

The following amendments to existing standards and new standards and interpretations will be mandatory for the Group's accounting periods beginning on or after 1 January 2010, but which the Group has not early adopted:

- IFRS 2 Share based Payments: Amendments to IFRS 2 – Share-based payments – Group cash-settled share-based payment arrangements. An entity receiving goods or services measures the goods or services received as an equity-settled share-based payment transaction when the entity's

  own equity instruments are granted, or when the entity has no obligation to settle the transaction. Otherwise, the entity receiving the goods or services measures the transaction as a cash-settled share-based payment transaction. The entity with the obligation to settle a transaction in which another entity in the same group receives the goods or services recognises the transaction as equity-settled only if it is settled in the entity's own equity instruments. Otherwise the entity recognises the arrangement as a cash-settled share-based payment transaction. Effective 1 January 2010.

- IFRS 5 – Non-current assets held for sale and discontinued operations: The amendment clarifies that the disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. Effective 1 January 2010, to be applied prospectively.

- IFRS 8 – Operating segments: Clarifies that segment assets and liabilities only need to be reported when included in measures that are used by the chief operating decision maker. Effective 1 January 2010.

- IFRS 9 – Financial instruments: In order to expedite the replacement of IAS 39, Financial instruments: recognition and measurement - the IASB has split the project into three phases. The main focus of the first phase, which culminated in the issue of IFRS 9, is the classification and measurement of financial assets. Work on the other phases is ongoing and includes: impairment of financial instruments, hedge accounting, financial liabilities and derecognition. The aim is to replace IAS 39 in its entirety by the end of 2010. IFRS 9 is applicable for annual periods beginning on or after 1 January 2013; earlier application is permitted. The main changes from IAS 39 specify how an entity should classify and measure financial assets. In summary, these amendments require all financial assets to be:
  - classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset;
  - initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs; and
  - subsequently measured at amortised cost or fair value.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

b) Adoption of new and revised standards (continued)

- IAS 1 – Presentation of financial statements: Current/non-current classification of convertible instruments amended. Effective 1 January 2010.
- IAS 7 – Statement of cash flows: Clarifies that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. Effective 1 January 2010.
- IAS 17 – Leases: Guidance on the classification of leases of land. Effective 1 January 2010.
- IAS 24 – Related party disclosures. IAS 24 has been revised to simplify the definition of a 'related party' and confirm the application of disclosure requirements in environments where government control is pervasive. Under the previous version of IAS 24, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard eliminates some of these requirements and requires disclosure about such transactions only if they are individually or collectively significant. The changes made to the definition of a related party principally impact the consideration of relationships with associates and joint venture, and ensure reciprocity in disclosure requirements.
- IAS 36 – Impairment of assets: The amendment clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in IFRS 8. Effective 1 January 2010.
- IAS 38 – Intangible assets: If an intangible asset acquired in a business combination is only identifiable with other intangible assets the acquirer may recognise the group as a single asset provided the individual useful lives are similar. Guidance on the measurement of the fair value of an intangible asset acquired in a business combination is amended. Effective 1 July 2010.
- IAS 39 – Financial instruments: Recognition and measurement: Additional guidance issued to clarify the treatment of loan prepayment penalties as closely related embedded derivatives. Scope exemption for business combination contracts amended to apply only to binding forward contracts. Clarification that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument should be reclassified in the period that the hedged forecast cash flows affect profit or loss. Effective 1 July 2010.

IFRIC interpretations not yet effective

- IFRIC 9 –Reassessment of embedded derivatives: Scope of IFRIC 9 was amended to clarify that it does not apply to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture. Effective 1 January 2010, to be applied prospectively.
- IFRIC 19 –Extinguishing financial liabilities with equity instruments: This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. It does not address the accounting by the creditor. IFRIC 19 was issued on 24 December 2009 and is effective for periods beginning on or after 1 July 2010.

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 and associates in the Company financial statements are carried at cost less any impairment losses recognised.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

c) Consolidation (continued)

i) Subsidiaries

Subsidiaries are all entities over which the Company 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 Company. They are de-consolidated from the date the control ceases.

All intra-Company balances, transactions, income and expenses and profits and losses resulting from intra-Company 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 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 recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company 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 Company'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. For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments.

e) Income recognition

Revenue represents the fair value of consideration received or receivable for the sale of goods and services in the course of the Group's activities. It is recognised when it is probable that future economic benefits will flow to the Group and the amount of revenue can be measured reliably. It is stated net of Value Added Tax, rebates and trade discounts. Cash discounts are included as part of finance costs.

Sale of goods are recognised upon the delivery of the product and customer acceptance, while sale of services are recognised upon performance of the service and customer acceptance based on the proportion of actual service rendered to the total services to be provided.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

e) Income recognition (Continued)

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 statement of financial position 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 statement of financial position 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 dividend income which is recognised when the right to receive the payment is established.

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

Dividends are recognised when the Group's right to receive the payment is established.

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

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

f) Benefits, claims and expenses recognition (Continued)

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 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 statement of financial position.

j) Property and equipment

All categories of property, plant and equipment are initially recognised at cost. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system, that s an integral part of the related hardware is capitalised as part of the computer equipment. Freehold land and buildings are subsequently carried at a revalued amount, based on periodic valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All other items of property and equipment are subsequently carried at cost less accumulated depreciation and accumulated impairment losses

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

j) Property and equipment (Continued)

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. Repairs and maintenance expenses are charged to the profit and loss account in the year in which they are incurred.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are charged to the profit and loss account. Annually, the difference between depreciation charge based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost is transferred from the revaluation surplus reserve to retained earnings.

Freehold land is not depreciated. Depreciation is calculated using the straight line method to write down the cost or the revalued amount of each asset to its residual value over its estimated useful life using the following annual rates:

Freehold land	- Nil
Buildings	- Over the unexpired lease period
Equipment and Motor Vehicles	- 3-8 years

As no parts of items of property and equipment have a cost that is significant in relation to the total cost of the item, the same rate of depreciation is applied to the whole item.

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

An item of property 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

Investment property is property held to earn rentals or for capital appreciation or both. Investment property, including interest in leasehold land, is initially recognised at cost including the transaction costs. Subsequently, investment property is carried at fair value representing the open market value at the statement of financial position date determined by annual valuations carried out by external registered valuers/directors. Gains or losses arising from changes in the fair value are included in determining the profit or loss for the year to which they relate.

Subsequent expenditure on investment property where such expenditure increases the future economic value in excess of the original assessed standard of performance is added to the carrying amount of the investment property. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.

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 profit or loss.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED

k) Investment property (Continued

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 and equipment up to the date of the change in use.

l) Intangible assets

Software licence costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the company are recognised as intangible assets. Amortisation is calculated using the straight line method to write down the cost of each licence or item of software to its residual value over its estimated useful life (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 are 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.

m) Borrowing costs

Borrowing costs, net of any temporary investment income on those borrowings, that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset. The net borrowing cost capitalised is either the actual borrowing cost incurred on the amount borrowed specifically to finance the asset; or in the case of general borrowings, the borrowing cost is determined using the overall weighted average cost of the borrowings on all outstanding borrowings during the year less any specific borrowings directly attributable to the asset and applying this rate to the borrowing attributable to the asset. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised in the profit or loss in the year in which they are incurred.

n) Financial instruments

The Company 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:

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

n) Financial instruments (Continued)

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 Company 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 re-measured 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 statement of financial position.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method

iii) Held–to-maturity investments

Held–to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company 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 Company 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. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

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 –non-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. After initial measurement, available-for-sale financial assets are measured at fair value. Fair value gains and losses are reported as a separate component in other comprehensive income until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity are transferred to the income statement.

Derecognition of financial assets

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.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

n) Financial instruments (Continued)

Amortised cost

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 acquisit on and includes transaction costs and fees that are an integral part of the effective interest rate.

Fair value

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.

Impairment of financial assets

The Group assesses at each statement of financial position 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 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.

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.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

n) Financial instruments (Continued)

Available-for-sale financial investments

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in other comprehensive income, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments classified at available-for-sale are reversed through the income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the income statement.

Policy receivables

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.

o) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the Group operates), which is Kenya Shillings.

Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the statement of financial position date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in the profit and loss account in the year in which they arise, except for differences arising on translation of non-monetary available-for-sale financial assets, which are recognised in other comprehensive income.

p) Accounting for leases

Finance leases as the lessee

Leases of property and equipment including hire purchase contracts where the Group assumes substantially all the risks and rewards incident to ownership are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value.

Each lease payment is allocated between the liability and finance cost using the interest rate implicit in the lease. The finance cost is charged to the profit and loss account in the year in which it is incurred. Property and equipment acquired under finance leases are capitalised and depreciated over the estimated useful life of the asset.

Operating 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/received under operating leases are charged/credited to the profit and loss account on a straight line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

q) 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.

r) 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 (n) have been met.

s) Financial liabilities

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.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

t) Net asset value attributable to unit-holders

Unit trusts in which the Group has a percentage holding in excess of 50 percent 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.

u) 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 In-force (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 statement of financial position date is recognised as an expense accrual.

v) Other financial liabilities and insurance payables

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit or loss, which are initially recognised at fair value and the transaction costs are expensed in the profit and loss account. Subsequently, all financial liabilities are carried at amortised cost using the effective interest method except for financial liabilities through profit or loss which are carried at fair value.

All financial liabilities are classified as non-current except financial liabilities at fair value through profit or loss, those expected to be settled in the Group's normal operating cycle, those payable or expected to be paid within 12 months of the statement of financial position date and those which the Group does not have an unconditional right to defer settlement for at least 12 months after the statement of financial position date. A financial liability is derecognised only when the obligation specified in the contract is discharged or cancelled or expires.

Borrowings and trade and other liabilities are classified as financial liabilities by the directors and are carried at amortised cost.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED

w) Income Taxes

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

Current Income tax

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance 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 statement of financial position date

Deferred Income tax

Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss.

Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the statement of financial position date and expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

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

The carrying amount of deferred income tax assets is reviewed at each statement of financial position 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 statement of financial position 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

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 statement of financial position.

x) Dividends

Dividends on ordinary shares are recognised as a liability in the year in which they are declared. Proposed dividends are accounted for as a separate component of equity until they have been declared at an annual general meeting. Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the statement of financial position date.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

y) Comparatives

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

z) 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 40 details the nature and extent of risks arising from financial instruments and the approach the Group has adopted to mitigate these risks.

aa) Deferred acquisition cost

Incremental costs directly attributable to the acquisition of investment contracts with investment management services are capitalized to a Deferred 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.

ab) 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 statement of financial position as an asset.

ac) 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 impairment loss is recognised for the amount by which the asset's carrying amount exceeds its 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. 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).

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

ac) Impairment of non-financial assets (Continued)

Impairment losses of continuing operations are recognised in the income statement in those expenses categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to comprehensive income. In this case the impairment is also recognised in comprehensive income up to the amount of any previous revaluation.

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 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 statement of financial position 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.

ad) 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.

ae) Cash and cash equivalents

Cash and cash equivalents include cash in hand and demand and term deposits, with maturities of three months or less from the date of acquisition, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. In the statement of financial position, bank overdrafts are included as borrowings under current liabilities.

af) Revaluation reserve

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

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

ag) Significant judgements and key sources of estimation uncertainty

In the process of applying the accounting policies adopted by the Group, the directors make certain judgements and estimates that may affect the carrying values of assets and liabilities in the next financial period. Such judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The directors evaluate these at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available.

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) Significant judgements made in applying the Group's accounting policies:

The judgements made by the directors in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

a. Whether it is probable that that future taxable profits will be available against which temporary differences can be utilised; and

b. Whether the Group has the ability to hold 'held-to maturity' investments until they mature. If the Group were to sell other than an insignificant amount of such investments before maturity, it would be required to classify the entire class as 'available-for-sale' and measure them at fair value.

ii) Key sources of estimation uncertainty

a. Valuation of insurance 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 (h) 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.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

ag) Significant judgements and key sources of estimation uncertainty (Continued)

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) Warranty provision

Estimates made in determining the warranty provision, which is based on past experience and may change based on actual cost of fulfilling the warranty. The carrying amount of the warranty provision is set out in Note 38.

d) Impairment losses

Estimates made in determining the impairment losses on receivables. Such estimates include the determination of the net realisable value or the recoverable amount of the asset.

e) Income taxes

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.

iii) 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.

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

ai) Share capital and share premium

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

2. BUSINESS SEGMENT INFORMATION

The core business of the Group is underwriting of long-term business. The Insurance Act (Regulations under section 180 subsection 9) defines the following classes for the purpose of accounting.

Serial Number:	Brief description of class:
31.	Bond investment business
32.	Industrial life assurance business
33.	Ordinary life assurance business
34.	Superannuation business

The Group does not underwrite bond investment and industrial life assurance business.

Superannuation business as defined by the above regulation means life assurance business being the issuing of or the undertaking of liability under superannuation, group life and permanent health insurance policy:-

(a) That is vested in the trustees of a fund established or maintained by a person, being a fund the terms and conditions applicable to which provide for-

(i) the payment of contributions to the fund by that person; and
(ii) payments being made from the fund, on account of injury, sickness, retirement or death of the employees of that person or of a company in which that person has a controlling interest; or

(b) That was-

(i) effected for the purposes of a superannuation or retirement scheme; or
(ii) accepted by the person maintaining such a scheme for the purpose of the scheme.

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

(i) The Ordinary Life insurance segment offers individual life insurance products.
(ii) The Superannuation segment deals with group insurance schemes.
(iii) The Investments segment provides investment management services.

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. Group financing and income taxes are managed on a group basis and are not allocated to individual operating segments.

In the Group, the Odinary Life and Super annuation segments are the business of Pan Africa Life Assurance Limited while the other Companies handle the Investment segments. The inter-segment transactions which occured in 2009 and 2008 are detailed in notes 10 and 37. 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 include those transfers between business segments which are then eliminated on consolidation.

The Group operating segments are all based in one geographical area - Kenya

2. BUSINESS SEGMENT INFORMATION (CONTINUED)

Segment income statement for the year ended 31 December 2009:

	Ordinary Life KShs '.000	Super-annuation KShs '.000	Investments KShs '.000	Total KShs '.000
Income				
Gross Premiums	1,512,171	1,512,980	-	3,025,151
Premium ceded to reinsurers	(13,247)	(190,724)	-	(203,971)
Net Premium Income	1,498,924	1,322,256	-	2,821,180
Fee and commission income	3,650	44,818	-	48,468
Investment income	259,369	110,424	(8,292)	361,501
Realised gains and losses	(44,352)	5,649	(57,243)	(95,946)
Fair value gains and losses	147,404	12,890	34,191	194,485
Other operating revenue	2,438	-	62,906	65,344
Total other revenue	368,509	173,781	31,562	573,852
Total Revenue	1,867,433	1,496,037	31,562	3,395,032
Gross benefits and claims paid	(399,264)	(621,197)	-	(1,020,461)
Claims ceded to reinsurers	25,367	70,938	-	96,305
Gross change in contract liabilities	(805,925)	(520,138)	-	(1,326,063)
Net benefits and claims	(1,179,822)	(1,070,397)	-	(2,250,219)
Other operating and administrative expenses	(652,894)	(408,457)	23,821	(1,037,530)
Total benefits, claims and other expenses	(1,832,716)	(1,478,854)	23,821	(3,287,749)
Profit before share of profit of associate	34,717	17,183	55,383	107,283
Share of profit of an associate	-	-	66,364	66,364
Profit Before Tax	34,717	17,183	121,747	173,647
Income tax expense	(23,233)	(11,498)	-	(34,731)
Profit for the year	11,484	5,685	121,747	138,916

All expenses, including depreciation and amortisation costs, have been charged to the respective operating segments.

2. BUSINESS SEGMENT INFORMATION (CONTINUED)

Segment income statement for the year ended 31 December 2008:

	Ordinary Life KShs'000	Super-annuition KShs'000	Investments KShs'000	Total KShs'000
Income				
Gross Premiums	1,502,445	1,007,587	-	2,510,032
Premium ceded to reinsurers	(10,008)	(181,930)	-	(191,938)
Net Premium Income	1,492,437	825,657	-	2,318,094
Fee and commission income	7,367	43,739	-	51,106
Investment income	235,481	72,575	22,663	330,719
Realised gains	83,627	-	22,978	106,605
Fair value gains and losses	(172,125)	(9,830)	(49,626)	(231,581)
Other operating revenue	1,114	-	-	1,114
Total of other revenue	155,464	106,484	(3,985)	257,963
Total Revenue	1,647,901	932,141	(3,985)	2,576,057
Gross benefits and claims paid	(707,501)	(467,340)	-	(1,174,841)
Claims ceded to reinsurers	-	105,710	-	105,710
Gross change in contract liabilities	(102,949)	(353,694)	-	(456,643)
Net benefits and claims	(810,450)	(715,324)	-	(1,525,774)
Other operating and administrative expenses	(668,480)	(190,425)	(74,043)	(932,948)
Total benefits, claims and other expenses	(1,478,930)	(905,749)	(74,043)	(2,458,722)
Profit before share of profit of associate	168,971	26,392	(78,028)	117,335
Share of profit of an associate	-	-	(133,703)	(133,703)
Profit Before Tax	168,971	26,392	(211,731)	(16,368)
Income tax expense	(79,630)	-	-	(79,630)
Profit for the year	89,341	26,392	(211,731)	(95,998)

All expenses, including depreciation and amortisation costs, have been charged to the respective operating segments.

2. BUSINESS SEGMENT INFORMATION (CONTINUED)

Segment statement of financial position:

At 31 December 2009	Ordinary Life	Super annuation	Investments	Elimination on consolidation	Group
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
ASSETS					
Intangible assets	6,051	-	-	-	6,051
Investment properties	391,000	-	-		391,000
Equity accounted investments	-	-	567,327	-	567,327
Investments in subsidiaries	-	-	967,869	(967,869)	-
Financial instruments	3,319,265	1,588,075	501,359	(496,422)	4,912,277
Long term reinsurance assets	25,367	9,186	-	-	34,553
Insurance receivables	43,694	68,091	-	-	111,785
Land and development	-	-	538,658	-	538,658
Other assets	567,593	403,996	30,575	-	1,002,164
Total assets	4,352,970	2,069,348	2,605,788	(1,464,291)	7,563,815
LIABILITIES					
Insurance contracts	3,739,503	1,280,128	-	-	5,019,631
Deposit administration contracts	-	469,204	-	-	469,204
Dther liabilities	191,600	194,996	859,943	(496,422)	750,117
Total liabilities	3,931,103	1,944,328	859,943	(496,422)	6,238,952
NET ASSETS	421,867	125,020	1,745,845	(967,869)	1,324,863
At 31 December 2008					
ASSETS					
Intangible assets	8,240	-	-	-	8,240
Investment properties	364,000	-	10,500		374,500
Equity accounted investments	-	-	508,158	-	508,158
Investments in subsidiaries	-	-	967,869	(967,869)	-
Financial instruments	2,382,909	1,164,873	389,360	(65,301)	3,871,841
Long term reinsurance assets	-	30,629	-	-	30,629
Insurance receivables	64,450	155,622	-	-	220,072
Land and development	-	-	88,525	-	88,525
Other assets	940,809	2,080	49,273	-	992,162
Total assets	3,760,408	1,353,204	2,013,685	(1,033,170)	6,094,127
LIABILITIES					
Insurance contracts	2,933,576	759,991	-	-	3,693,567
Deposit administration contracts	-	352,405	-	-	352,405
Other liabilities	240,453	246,105	440,951	(65,301)	862,208
Total liabilities	3,174,029	1,358,501	440,951	(65,301)	4,908,180
NET ASSETS	586,379	(5,297)	1,572,734	(967,869)	1,185,947

3. GROUP 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:

	2009 KShs.'000	2008 KShs.'000
New business: Recurring		
Individual life	205,824	230,834
Group business	97,294	106,742
New business: Single premiums		
Individual life	9,434	73,778
Group business	1,107,072	590,818
Total new business	1,419,624	1,002,172
Renewal recurring		
Individual life	1,296,913	1,197,833
Group business	308,614	310,027
Total renewal premium income	1,605,527	1,507,860
Total premium income	3,025,151	2,510,032

4. FEES AND COMMISSION INCOME

	2009 KShs.'000	2008 KShs.'000
Fees	3,614	7,332
Commission received	44,854	43,774
	48,468	51,106

5. INVESTMENT RETURN

a.) INVESTMENT INCOME

	Group		Company	
	2009 KShs.'000	2008 KShs.'000	2009 KShs.'000	2008 KShs.'000
Rental income:				
Gross rental income	31,944	34,129	-	-
Net rental expenses	(14,370)	(10,680)	-	-
	17,574	23,449	-	-
Dividend income	27,403	24,574	1	70
Interest income:				
Financial assets at fair value through profits or loss	177,657	223,384	848	4,255
Loans to related parties	1,827	625	-	-
Other loans and receivables	37,026	22,851	-	-
Held-to-maturity financial assets	99,815	35,638	-	-
Cash and cash equivalents	199	198	-	-
Total investment income	361,501	330,719	849	4,325

5. INVESTMENT RETURN (CONTINUED)

b) REALISED GAINS/(LOSSES)	Group 2009 KShs.'000	Group 2008 KShs.'000	Company 2009 KShs.'000	Company 2008 KShs.'000
Financial assets at fair value through profit or loss (designated upon initial recognition)				
Realised losses:				
Equity securities	(113,462)	-	(6)	-
Realised gains:				
Equity securities	-	106,605	-	767
Debt securities	17,516	-	16	3,352
Total realised gains	(95,946)	106,605	10	4,119
The realized gains/(losses)represent actual gains/(losses)on instruments sold/matured during the year.				
c) FAIR VALUE GAINS /(LOSSES)				
Fair value gains on investment properties	34,000	116,729	-	-
Fair value gains on financial assets at fair value through profit or loss (designated upon initial recognition)	160,485	(348,310)	280	(2,910)
Total fair value gains/(losses)	194,485	(231,581)	280	(2,910)

Fair value gains/(losses)arose out of restatement of instruments to fair value at year end.

6. NET BENEFITS AND CLAIMS

	Group 2009 KShs.'000	Group 2008 KShs.'000
Gross death and disability claims	651,050	509,173
Maturity and survival benefits	224,269	241,065
Policy surrenders	90,368	424,235
Annuities	54,774	-
Interest declared to deposit administration funds	-	368
Gross benefits and claims paid	1,020,461	1,174,841
Change in actuarial value of insurance contract liabilities	1,326,063	456,643
Claims ceded to reinsurers	(96,305)	(105,710)
Net benefits and claims	2,250,219	1,525,774

7. OPERATING EXPENSES	Group 2009 KShs.'000	Group 2008 KShs.'000	Company 2009 KShs.'000	Company 2008 KShs.'000
Sales remuneration/commission expenses	620,438	385,471	--	-
Operating charges	417,092	547,477	7,353	52,215
	1,037,530	932,948	7,353	52,215
Other operating charges include:				
Staff costs (note 8)	231,306	237,572	14,167	12,082
Provisions written back (note 9)	(86,613)	-	(39,924)	-
Depreciation (note 12)	22,699	23,846	140	78
Amortisation (note 13)	4,271	3,618	-	-
Fees for managerial and administrative services:				
Auditor's remuneration	3,097	2,272	1,103	877
Tax audit	4,152	4,318	412	-
Legal	5,371	1,349	2,719	2,185
Actuarial	5,400	2,470	-	-
Total fees for managerial and administrative services	18,020	10,409	4,234	3,062
Repairs and maintenance	5,141	3,366	18	103
Premium tax and stamp duty	21,027	23,266	-	-

8. STAFF COSTS	Group 2009 KShs.'000	Group 2008 KShs.'000	Company 2009 KShs.'000	Company 2008 KShs.'000
Staff costs include the following:				
Defined contribution pension costs	20,210	14,204	1,502	1,184
Social security benefit costs	236	253	14	14
Salaries and other short term benefits	210,860	223,115	12,651	10,884
	231,306	237,572	14,167	12,082

9. PROVISIONS WRITTEN BACK	Group 2009 KShs.'000	Group 2008 KShs.'000	Company 2009 KShs.'000	Company 2008 KShs.'000
Reinsurance creditor	13,500	-	-	-
Discontinued operations	66,482	-	29,423	-
Obligations settled in full or not recoverable	6,631	-	10,501	-
	86,613	-	39,924	-

The provisions were initially created in 2002 and they were in respect of short term insurance business that was sold off and no claims have arisen to date in respect of these.

10. FINANCE COSTS

	Company 2009 KShs.'000	Company 2008 KShs.'000
PA Securities Limited	16,172	-
Pan Africa Life Assurance Limited	8,493	-
	24,665	-

The finance costs are for inter – company loans from PA Securities Limited and Pan Africa Life Assurance Limited of KShs. 231 million and KShs. 192 million respectively. The loans are at an interest rate of 12.5% per annum and are secured. The value of collateral is KShs. 637 million.

11. INCOME TAX

	Group 2009 KShs.'000	Group 2008 KShs.'000
Statement of financial position:		
At start of the year	23,292	23,292
Instalment tax paid	41,828	-
Current income tax charge	(34,731)	-
	30,389	23,292
Income statement:		
Current income tax	34,731	50,700
Deferred income tax (note 29)	-	28,930
Current year tax charge	34,731	79,630

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

	2009 KShs.'000	2008 KShs.'000
Reconciliation of income tax expense to tax based on accounting profit:-		
Profit /(loss)before income tax	173,647	(16,369)
Tax calculated at a statutory rate of 30%	52,094	(4,911)
Tax effect of:		
Income not subject to tax	7,430	87,021
Expenses not deductible for tax	32,161	(31,410)
Deferred income tax liability	-	28,930
Deferred income tax credit	(56,954)	-
Income tax charge	34,731	79,630

12 a) GROUP PROPERTY AND EQUIPMENT

Year ended 31 December 2009	Motor Vehicle KShs.'000	Furniture, fittings and equipment KShs.'000	Total KShs.'000
Cost /valuation:			
At 1 January	8,726	155,421	164,147
Additions	-	17,468	17,468
As at 31 December	8,726	172,889	181,615
Accumulated Depreciation:			
As At start of year	5,209	93,734	98,943
Charge for the year	1,137	21,562	22,699
As at 31 December	6,346	115,296	121,642
Net Book Value:			
As at 31 December	2,380	57,593	59,973

The useful lives of property and equipment are assessed every year.

No borrowing costs have been capitalised in the additions to property and equipment. None of the above assets was pledged as security for liabilities.

12 a) GROUP PROPERTY AND EQUIPMENT (CONTINUED)

Year ended 31 December 2008:

	Buildings KShs.'000	Motor vehicle KShs.'000	Furniture, fittings and equipment KShs.'000	Total KShs.'000
Cost /valuation:				
At 01 January	15,084	10,396	117,789	143,269
Prior year adjustment (note 33)	-	-	(278)	(278)
Restated	15,084	10,396	117,511	142,991
Additions	-	4,530	37,910	42,440
Reclassification to investment property	(15,084)	-	-	(15,084)
Disposals	-	(6,200)	-	(6,200)
At 31 December	-	8,726	155,421	164,147
Accumulated depreciation:				
At start of year	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

12 b) COMPANY PROPERTY AND EQUIPMENT

Year ended 31 December 2009:

	Furniture and equipment KShs.'000	Total KShs.'000
Cost:		
At 01 January	560	560
Additions	-	-
At 31 December	560	560
Accumulated depreciation:		
At 01 January	392	392
Charge for the year	140	140
At 31 December	532	532
Net book value:		
At 31 December	28	28

12 b) COMPANY PROPERTY AND EQUIPMENT (CONTINUED)

Year ended 31 December 2008:	**Furniture and equipment KShs.'000**	**Total KShs.'000**
Cost:		
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	168	168
Year ended 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

13. GROUP INTANGIBLE ASSETS (SOFTWARE)

	2009 KShs.'000	**2008 KShs.'000**
Cost:		
At 01 January	17,084	10,515
Additions	2,082	6,569
At 31 December	19,166	17,084
Accumulated depreciation:		
At start of year	8,844	5,226
Charge for the year	4,271	3,618
At 31 December	13,115	8,844
Net book value:		
At 31 December	6,051	8,240

14. INVESTMENT PROPERTY

	Group 2009 KShs.'000	Group 2008 KShs.'000	Company 2009 KShs.'000	Company 2008 KShs.'000	Company 2007 KShs.'000
At 01 January	374,500	234,500	6,000	6,000	6,000
Additions from companies within the group	-	-	11,500	-	-
Reclassification from Property and equipment	-	13,000	-	-	-
Reclassification from other receivables	-	10,271	-	-	-
Fair value gain/-loss)	34,000	116,729	-	-	-
Disposals	(17,500)	-	(17,500)	-	-
At 31 December	391,000	374,500	-	6,000	6,000

Investment properties are stated at fair value, which has been determined based on valuations performed by Knight Frank Limited as at 31 December 2009. 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 are disclosed in note 5.

The fair valuation basis takes into account the existing use and the tenancies and also considers the normal lease structure for similar buildings.

15. INVESTMENTS

a) INVESTMENTS IN SUBSIDIARIES

	Shareholding	Company 2009 KShs.'000	Company 2008 KShs.'000	Company 2007 KShs.'000
Pan Africa Life Assurance Limited	100%	230,261	331,203	331,203
PA Securities Limited	100%	679,009	679,009	679,009
Prior year adjustment (note 33)	100%	-	(100,942)	-
		909,270	909,270	1,010,212

15. INVESTMENTS (CONTINUED)

b) INVESTMENTS IN ASSOCIATES

	Group		Company		
	2009 KShs.'000	2008 KShs.'000	2009 KShs.'000	2008 KShs.'000	2007 KShs.'000
Share of associates' statement of financial position:					
Assets	2,290,078	1,922,835	14,108	12,515	13,828
Liabilities	(1,722,751)	(1,484,677)	(5,105)	(5,204)	(5,992)
Net assets	567,327	508,158	9,003	7,311	7,836
Share of associates' revenue and profit:					
Revenue	119,959	133,237	8,921	5,939	5,713
Profit	66,154	(133,703)	1,780	(614)	167
Carrying amount of investments	567,327	508,158	9,003	7,311	7,836

Investments comprise:	Principal activity	2009 Share holding	2008 Share holding	2007 Share holding
APA Insurance Limited	General Insurance	39.97%	39.97%	39.97%
Runda Water Limited	Water distribution	24.90%	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.

16. FINANCIAL INSTRUMENTS

a) SUMMARY PER CATEGORY
i) GROUP

The Group's financial instruments other than derivative financial instruments are summarized by categories as follows:

	Designated as at fair value through profit or loss KShs.'000	Held-to-maturity KShs.'000	Loans and receivables (note 16) KShs.'000	Available - for - sale KShs.'000	Total KShs.'000
31 December 2009					
Public sector stocks and loans	2,165,329	1,167,909	-	-	3,333,238
Equities and similar securities	941,672	-	-	3,827	945,499
Debentures, insurance policies, preference shares and other loans	-	-	633,540	-	633,540
	3,107,001	1,167,909	633,540	3,827	4,912,277
31 December 2008					
Public sector stocks and loans	2,026,724	492,523	-	-	2,519,247
Equities and similar securities	1,010,170	-	-	3,827	1,013,997
Debentures, insurance policies, preference shares and other loans	-	-	338,598	-	338,598
	3,036,894	492,523	338,598	3,827	3,871,842

Maturity analysis

	< 1 year KShs.'000	1 - 5 years KShs.'000	> 5 years KShs.'000	Open ended KShs.'000	Total KShs.'000
31 December 2009					
Public sector stocks and loans	249,944	653,110	2,430,185	-	3,333,239
Equities and similar securities	-	-	3,827	941,672	945,499
Debentures, insurance policies, preference shares and other loans	168	198,241	203,235	231,895	633,539
	250,112	851,351	2,637,247	1,173,567	4,912,277
31 December 2008					
Public sector stocks and loans	400,032	895,334	1,223,881	-	2,519,247
Equities and similar securities	-	-	3,827	1,010,170	1,013,997
Debentures, insurance policies, preference shares and other loans	70,490	268,108	-	-	338,598
	470,522	1,163,442	1,227,708	1,010,170	3,871,842

Held-to-maturity investments comprise Government bonds held under lien as required by the Insurance Regulatory Authority. The Group has the positive intention and ability to hold until maturity.

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 in 2008. 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. The Group has the positive intention and ability to hold into foreseeable future.

16. FINANCIAL INSTRUMENTS (CONTINUED)

a) SUMMARY PER CATEGORY (Continued)
ii) COMPANY

The Group's financial instruments other than derivative financial instruments are summarised by categories as follows:

	Designated as at fair value through profit or loss KShs.'000	Held-to-maturity (note 16) KShs.'000	Loans and receivables KShs.'000	Available for sale KShs.'000	Total KShs.'000
31 December 2009					
Public sector stocks and loans	8,753	-	-	-	8,753
Equities and similar securities	48	-	-	3,827	3,875
Debentures, insurance policies, preference shares and other loans	-	-	94,720	-	94,720
	8,801	-	94,720	3,827	107,348
31 December 2008					
Public sector stocks and loans	7,978	-	-	-	7,978
Equities and similar securities	-	-	-	3,827	3,827
Debentures, insurance policies, preference shares and other loans	-	-	35,445	-	35,445
	7,978	-	35,445	3,827	47,250

Maturity analysis

	< 1 year KShs.'000	1 - 5 years KShs.'000	> 5 years KShs.'000	Open ended KShs.'000	Total KShs.'000
31 December 2009					
Public sector stocks and loans	-	8,753	- -	-	8,753
Equities and similar securities	-	-	3,827	48	3,875
Debentures, insurance policies, preference shares and other loans	94,720	-	-	-	94,720
	94,720	8,753	3,827	48	107,348
31 December 2008					
Public sector stocks and loans	-	7,978	-	-	7,978
Equities and similar securities	-	-	3,827	-	3,827
Debentures, insurance policies, preference shares and other loans	35,445	-	-	-	35,445
	35,445	7,978	3,827	-	47,250

16. FINANCIAL INSTRUMENTS (CONTINUED)

b) DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

Below follows required disclosure of fair value measurements, using a three-level fair value hierarchy that reflects the significance of the inputs used in determining the measurements. It should be noted that these disclosure only cover instruments measured at fair value.

Level 1
Included in level 1 category are financial assets and liabilities that are measured in whole or in part by reference to unadjusted, quoted prices in an active market for identical assets and liabilities. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2
Included in level 2 category are financial assets and liabilities measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For example, instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are categorised as level 2.

Level 3
Financial assets and liabilities measured using inputs that are not based on observable market data are categorised as level 3.

i) GROUP

As at 31 December 2009	**Level 1 KShs.'000**	**Level 2 KShs.'000**	**Level 3 KShs.'000**	**Total fair value KShs.'000**
Financial assets :				
Equities and similar securities	941,671	-	-	941,671
Public sector stocks and loans	2,165,329	1,167,910	-	3,333,239
	3,107,000	1,167,910	-	4,274,910
Financial liabilities:				
Investment contract liabilities	-	469,204	-	469,204
	-	469,204	-	469,204
As at 31 December 2008				
Financial assets:				
Equities and similar securities	1,010,170	-	-	1,010,170
Public sector stocks and loans	2,026,724	492,524	-	2,519,247
	3,036,894	492,523	-	3,529,417
Financial liabilities:				
Deposit administration contracts (note 26)	-	352,405	-	352,405

16. FINANCIAL INSTRUMENTS (CONTINUED)

ii)COMPANY

The financial instruments for the company were all Level 1

	Level 1	Total fair value
31 December 2009	**KShs.'000**	**KShs.'000**
Financial assets:		
Equities and similar securities	48	48
Public sector stocks and loans	8,753	8,753
	8,801	8,801
31 December 2008		
Financial assets:		
Public sector stocks and loans	7,978	7,978
	7,978	7,978

17. LOANS AND RECEIVABLES

	Group		Company		
	2009 KShs.'000	2008 KShs.'000	2009 KShs.'000	2008 KShs.'000	2007 KShs.'000
Other receivables (note 18)	197,048	70,490	94,720	35,445	41,322
Mortgage loans (note 19)	218,953	136,558	-	-	-
Policy loans (note 20)	217,539	131,550	-	-	-
Total Loans and receivables	633,540	338,598	94,720	35,445	41,322

18. OTHER RECEIVABLES

	Group 2009	Group 2008	Company 2009	Company 2008	Company 2007
Debtors and prepayments	15,737	32,329	3,985	2,718	2,098
Amounts due from related parties	4,318	427	33,967	28,628	27,416
Rent outstanding	8,711	5,962	-	-	-
Plot debtors	59,899	6,798	59,899	6,798	14,949
Impairment of plot debtors	(3,131)	(3,131)	(3,131)	(3,131)	(3,131)
Reclassification to investment property	-	(10,271)	-	-	-
Other receivables	111,514	38,376	-	432	-
At 31 December (note 17)	197,048	70,490	94,720	35,445	41,332

The carrying amounts disclosed above reasonably approximate fair value at statement of financial position date due to their short-term nature.

The plot debtors impairment relates to land sold but full proceeds have not been received. The company, however, still retains title to these plots. No additional impairment has been provided for.
Refer to note 21 for effective interest rates.

19. GROUP MORTGAGE LOANS

	2009 KShs.'000	2008 KShs.'000
At start of year	146,750	126,994
Accrued interest	13,572	9,557
Loans advanced	91,080	33,641
Loan repayments	(21,957)	(23,442)
At end of year	229,445	146,750
Impairment:		
At 01 January	(10,192)	(5,752)
Charge for the year	(300)	(4,440)
At 31 December	(10,492)	(10,192)
At end of year (note 17)	218,953	136,558
Maturity profile of mortgage loans		
Loans maturing:		
Within 1 year	170	5,971
In 1 - 5 years	7,950	21,235
After 5 years	221,325	119,544
Provision for Impairment	(10,492)	(10,192)
	218,953	136,558
Loans at:		
Market rate	33,392	15,517
Concessionary rate	5,144	22,095
Staff loans	190,909	109,138
Provision for Impairment	(10,492)	(10,192)
	218,953	136,558

These loans are carried at amortized cost. None of the above loans have had their terms renegotiated. The fair value of collateral on the mortgage loans amounted to KShs. 590,300,000 (2008: KShs. 441,050,000).The Group can liquidate the collateral in case of default.

20. GROUP POLICY LOANS

	2009 KShs.'000	2008 KShs.'000
At start of year	131,550	89,855
Additions	131,389	77,135
Repayments	(67,842)	(48,949)
Interest accrued	22,742	13,666
At end of year	217,839	131,707
Provision for impairment:		
At start of the year	(157)	-
Additions	(143)	(157)
At end of the year	(300)	(157)
Net policy loans	217,539	131,550

21. 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.

	2009	2008
Treasury bills	11%	9%
Treasury bonds	14%	13%
Mortgage loans and commercial papers	11%	9%
Deposit with financial institutions	11%	9%
Policy loans	14%	14%

22. LAND AND DEVELOPMENT

	Group		Company		
	2009 KShs.'000	2008 KShs.'000	2009 KShs.'000	2008 KShs.'000	2007 KShs.'000
At start of year	88,525	47,732	88,525	47,732	39,825
Additions	450,133	40,793	450,133	40,793	7,907
As at December	538,658	88,525	538,658	88,525	47,732

The above amounts relate to Work - in - Progress for the Runda Housing Development project.

23. GROUP INSURANCE RECEIVABLES

	2009 KShs.'000	2008 KShs.'000
Individual life	106,705	124,730
Corporate clients	70,990	155,623
Total insurance receivables before impairment	177,695	280,353
Impairment	(65,910)	(60,281)
Total insurance receivables after impairment	111,785	220,072

The impairment was written off to expenses in the respective periods.

24. CASH AND CASH EQUIVALENTS

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

	Group		Company		
	2009 KShs.'000	2008 KShs.'000	2009 KShs.'000	2008 KShs.'000	2007 KShs.'000
Cash and bank balances	266,775	73,247	-	7,661	18,303
Deposits with financial institutions	645,027	830,417	489	19,259	77,915
	911,802	903,664	489	26,920	96,218
Overdraft (note 31)	(25,675)	-	(25,675)	-	-
	886,127	903,664	(25,186)	26,920	96,218

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% (2008: 4.3%). The carrying amounts disclosed above reasonably approximate fair value at statement of financial position date.

25. GROUP SHARE CAPITAL AND RESERVES

SHARE CAPITAL	Ordinary shares KShs.'000	Ordinary shares KShs.'000
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.

SHARE PREMIUM

On 16 February 2000, a rights issue of one share for every one share held was made at a price of KShs. 21.50 per share. A total of 24,000,000 were issued. The net proceeds from the rights issue was KShs. 484,431,000, after deducting issue expenses amounting to KShs.31,569,000, hence a share premium arising of KShs.364,431,000.

REVALUATION SURPLUS

	Group	
	2009 KShs.'000	2008 KShs.'000
At start of the year	7,507	10,273
Revaluation of buildings held at amortised cost	-	(3,885)
Share of associate revaluation gain on freehold land and buildings	-	1,119
At end of the year	7,507	7,507

Revaluation of buildings held at amortised cost was released due to reclassification of certain property held as prepaid operating lease rentals to investment property in 2008.

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 are made upon recommendation of the actuary. This movement has been shown on page 40.

26. GROUP LONG-TERM POLICY LIABILITIES

Long term policy liabilities refer to the amount that needs to be set aside by the life assurance Group in order to be able to cover future obligations to policy holders. It is the difference between the present value of the future benefits and the present valı of the expected premiums. In the case of unit linked policies, it is the current value of the fund held by the Group on behalf of policy holders. Summary of movements is shown below.

26. GROUP LONG-TERM POLICY LIABILITIES (CONTINUED)

	Total	2009 Insurance contracts	Deposit admin contracts	Total	2008 Insurance contracts	Deposit admin contracts
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Analysis of movement in policy liabilities						
Premium income (net)	2,926,965	2,821,180	105,785	2,396,674	2,318,094	78,580
Investment income	608,872	571,256	37,616	344,119	341,176	2,943
Asset management fees	(32,217)	(28,967)	(3,250)	(63,078)	(60,504)	(2,574)
Income	3,503,620	3,363,469	140,151	2,677,715	2,598,766	78,949
Policy benefits (net)	(947,508)	(924,156)	(23,352)	(1,089,047)	(1,069,131)	(19,916)
Sales renumeration and administrative expenses	(1,061,351)	(1,061,351)	-	(858,905)	(858,905)	-
Transfer to statutory fund	(51,898)	(51,898)	-	(214,087)	(214,087)	-
Outflow	(2,060,757)	(2,037,405)	(23,352)	(2,162,039)	(2,142,123)	(19,916)
Net movement for the year	1,442,863	1,326,064	116,799	515,676	456,643	59,033
Balance at beginning of the year	4,045,972	3,693,567	352,405	3,530,296	3,236,924	293,372
Balance at end of year	5,488,835	5,019,631	469,204	4,045,972	3,693,567	352,405

Maturity analysis of insurance contract liabilities	KShs.'000 < 1 year	KShs.'000 1-5 years	KShs.'000 >5 years	KShs.'000 open ended	KShs.'000 Total
As at December 2009					
Linked and market-related liabilities	62,667	867,486	1,584,180	146,849	2,661,182
Reversionary bonus policies	120,525	520,715	276,085	-	917,325
Other non-participating liabilities	244,759	416,780	224,279	555,306	1,441,124
Total insurance contracts	427,951	1,804,981	2,084,544	702,155	5,019,631
As at December 2008					
Linked and market-related liabilities	44,013	550,747	1,176,488	-	1,771,248
Reversionary bonus policies	109,274	524,563	341,803	-	975,641
Other non-participating liabilities	184,009	347,833	61,364	353,472	946,678
Total insurance contracts	337,296	1,423,143	1,579,655	353,472	3,693,567

27. INTEREST AND BONUS DECLARATION

DEPOSIT ADMINISTRATION CONTRACTS

The liabilities of the Group 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% (2008:10%).

INSURANCE CONTRACTS

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

	2009	2008
Reversionary bonus	2.5%	2.5%
Terminal bonus	2.5%	2.5%

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

28. GROUP INSURANCE PAYABLES

	2009 KShs.'000	2008 KShs.'000
i) Outstanding claims		
Individual life	33,651	40,821
Corporate clients	75,611	76,605
ii) Reinsurances		
Individual life	18,581	19,192
Corporate clients	5,642	20,036
iii) Premium creditors		
Individual life	893	47,185
Total insurance payables	134,378	203,839

29. DEFERRED INCOME TAX

a) GROUP

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

	2009 KShs.'000	2008 KShs.'000
At start of year	28,930	-
Deferred tax charge (note 11)	-	28,930
At end of year	28,930	28,930

29. DEFERRED INCOME TAX (CONTINUED)

	At start of year KShs.'000	Group Charge/ (credit) to Income statement KShs.'000	At end of year KShs.'000
Property and equipment	(5,132)	296	(4,836)
Investment property fair value gains	37,829	6,000	43,829
Quoted shares – fair value gain	11,026	5,240	16,266
Provisions	(104,687)	40,474	(64,213)
Tax losses carried forward	(132,719)	4,945	(127,774)
	(193,683)	56,955	(136,728)
Pan Africa Life Assurance Limited	-	-	-
PA Securities Limited	126,169	(46,188)	79,981
Mae Properties Limited	3,234	-	3,234
Pan Africa Insurance Holdings Limited	35,350	(10,767)	24,583
Deferred income tax not recognised	164,753	(56,955)	107,798
Deferred income tax liability on the statement of financial position	(28,930)	-	(28,930)

b) COMPANY

Plant & equipment	(2)	(7)	(9)
Provisions	(1,189)	(532)	(1,721)
Tax losses carried forward	(34,159)	11,307	(22,852)
	(35,350)	10,768	(24,582)
Deferred income tax not recognised	35,350	(10,768)	24,582
Deferred income tax asset on the statement of financial position	-	-	-

30. GROUP PROVISIONS

	2009 KShs.'000	2008 KShs.'000
Provision for outstanding claims on discontinued operations	67,381	67,381
Provision for guarantees on discontinued operations	43,904	43,904
	111,285	111,285
The movement in the provisions is as follows:		
At 1 January	111,285	97,285
Additional claim provided	-	14,000
At end of year	111,285	111,285

The carrying amounts disclosed above reasonably approximate fair value at statement of financial position date.

31. OTHER PAYABLES

	Group		Company		
	2009 KShs.'000	2008 KShs.'000	2009 KShs.'000	2008 KShs.'000	2007 KShs.'000
Amount due to related parties (note 38 b)	7,405	11,087	449,457	101,738	290,292
Warranties	-	28,018	-	-	-
Unclaimed dividends	43,268	43,412	43,268	43,412	25,839
Bank overdraft (note 24)	25,675	-	25,675	-	-
Other payables and accruals	399,176	435,637	109,451	91,038	63,409
	475,524	518,154	627,851	236,188	379,540

32. EARNINGS PER SHARE

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

	2009 KShs.'000	2008 KShs.'000
Net profit/(loss) attributable to ordinary shareholders for basic and diluted earnings	138,916	(95,998)
Weighted average number of ordinary shares for basic earnings per share	48,000	48,000
Basic earnings per ordinary share KShs.	2.89	(1.99)
Diluted earnings per ordinary share KShs.	2.89	(1.99)

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

33. PRIOR YEAR ADJUSTMENTS

a) December 2009:

The prior year adjustment in the company books as at 31 December 2009 arose as follows:

In 2002, the Group was restructured from a composite insurer, offering both life and general insurance into Life Assurance business (currently Pan Africa Life Assurance Limited – PALAL) and General Insurance. The company assets, prior to this restructuring, were held by Pan Africa Insurance Company Limited (PAIC). At restructuring, PAIC was renamed Pan Africa Insurance Holdings Limited (PAIHL) representing its holding role.

The assets of PAIC were transferred to life assurance business and general bus ness at the book value since the transfer was within the Group. Among the assets moved to Pan Africa Life Assurance Limited (PALAL) was the Pan Africa Life House on Kenyatta Avenue. At the time, the building was classified as pre paid operating lease rentals since the combined occupation by PALAL and former Short-term insurance employees exceeded the 30% requirement. Short term business later merged with Apollo Insurance Company to form APA Insurance Limited and the short-term employees vacated occupation of Pan Africa life House. Subsequently, the occupancy level of the building fell below the 30% threshold and the building was reclassified from prepaid operating lease rentals to investment property.

The reclassification was effected in the books of PALAL at the book value of the building. However, an adjustment was done in the books of PAIHL (the ultimate holding company) recognising the value of the building at fair value. Consequently, the investment in PALAL in the books of PAIHL was adjusted to reflect the new value.

The following entries were passed revaluing the investment in subsidiary at the holding company (PAIHL).

		Company	
	As reported at 31 Dec 2008	Adjustment	As restated at 31 Dec 2009
	KShs.'000	KShs.'000	KShs.'000
ASSETS			
Investment in subsidiaries - Pan Africa Life Assurance Limited	331,203	(100,942)	230,261
SHARE CAPITAL AND RESERVES			
Retained earnings	529,769	(100,942)	428,827

This adjustment does not affect the Group accounts as it is eliminated on consolidation.

33. PRIOR YEAR ADJUSTMENTS

b) 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. The financial statements for the year ended 31 December 2007 were consequently restated as summarised below. There is no effect on the balances as at 1 January 2008.

	Group		
	As reported at 31 December 2007 KShs.'000	**Adjustment KShs.'000**	**As restated at 31 December 2007 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
LIABILITIES			
Current income tax	-	(38,004)	(38,004)
SHARE CAPITAL AND RESERVES			
Retained earnings	700,968	(208)	700,155
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)

	Company		
	As reported at 31 December 2007 KShs.'000	**Adjustment KShs.'000**	**As restated at 31 December 2007 KShs.'000**
SHARE CAPITAL AND RESERVES			
Retained earnings	635,757	(813)	634,944
INCOME STATEMENT			
Share of results of associated company	1,107	(813)	294

34. CONTINGENT LIABILITIES - GROUP

Companies in the Group are defendants to legal proceedings filed against them by third parties. Unverified claims have also been placed against the former Pan Africa Insurance Group Limited (See note 30). 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 advise of the Group's legal counsel, will not have a material effect on its results and financial position.

The quantum has not been disclosed as these amounts are unverifiable.

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.

35. CAPITAL COMMITMENTS – GROUP

The Group has no capital commitments as at statement of financial position date.

The Group has entered into commercial property leases in respect of its investment property portfolio, including the Group's unutilized office space. Leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Operating lease commitments:

The future minimum lease commitments under non-cancellable operating leases are as follows:

	Receivable		Payable	
	2009 KShs.'000	**2008 KShs.'000**	**2009 KShs.'000**	**2008 KShs.'000**
Not later than 1 year	163	3,275	7,097	6,475
Later than 1 year but not later than 5 years	24,411	21,470	15,620	20,447
More than 5 years	3,109	834	243	-
	27,683	25,579	22,960	26,922

36. DIVIDENDS PAID AND PROPOSED

	2009 KShs.'000	**2008 KShs.'000**
Final dividends for 2008: Nil (2007: KShs. 1.60 cents)	-	76,800
Total dividends paid in the year	-	76,800
Proposed for approval as at 31 December (not recognised as a liability before approval at the Annual General Meeting to be held on 27 May 2009):		
Final dividend for 2009: KShs.1.7 (2008: Nil)	81,600	-

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

37. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before income tax to cash generated from operations:

a) GROUP

Year Ended 31 December 2009	Individual life KShs.'000	Super annuation KShs.'000	Investments KShs.'000	Group KShs.'000
Profit before tax	34,716	17,182	121,749	173,647
Adjustments for				
Investment income	(259,368)	(110,424)	8,292	(361,500)
Fair value gains on investment property	(34,000)	-	-	(34,000)
Fair value loss/(gains) on quoted shares	(64,442)	(5,649)	56,963	(13,128)
Fair value loss/(gains) on treasury bonds	(4,610)	(12,890)	(33,911)	(51,411)
Depreciation & amortization	24,795	1,961	216	26,972
Provisions written back	-	-	(86,613)	(86,613)
Intergroup charge	-	-	24,665	24,665
Tax paid	(130,532)	-	-	(130,532)
Provision for impairment	63,312	2,898	-	66,210
Share of results of associates before income tax	-	-	(66,364)	(66,364)
	(370,129)	(106,922)	24,997	(452,054)
Changes in working capital				
Insurance receivables	20,756	87,532	-	108,288
Reinsurance assets	(25,367)	21,444	-	(3,923)
Loans and other receivables	(206,635)	(118,820)	(192,607)	(518,062)
Actuarial value of policyholders liabilities	805,926	520,138	-	1,326,064
Payables under deposit admin contracts	-	116,800	-	116,800
Technical provisions	(49,075)	(15,387)	-	(64,462)
Trade and other payables	(17,395)	(18,103)	374,156	338,658
Cash generated from operations	158,081	486,682	206,546	851,309

37. CASH GENERATED FROM OPERATIONS (CONTINUED)

Reconciliation of profit before income tax to cash generated from operations

Year Ended 31 December 2008	Individual life KShs.'000	Super Annuation KShs.'000	Investments KShs.'000	Group KShs.'000
Profit before tax	221,607	(7,518)	(230,457)	(16,368)
Adjustments for			-	
Profit on disposal of property and equipment	(1,112)	-	-	(1,112)
Investment income	(235,481)	(72,575)	(14,685)	(322,741)
Fair value gains on investment property	(116,729)	-	-	(116,729)
Fair value loss/(gains) on quoted shares	156,065	18,976	28,737	203,778
Fair value loss/(gains) on treasury bonds	16,059	5,230	(854)	20,435
Fair value loss/(gains) on corporate bonds and commercial paper	-	-	(2,728)	(2,728)
Depreciation & amortization	27,118	123	224	27,465
Share of results of associates before income tax	-	-	133,703	133,703
	67,527	(55,764)	(86,060)	(74,297)
Changes in working capital				
Insurance receivables	(50,495)	(93,777)	-	(144,272)
Net policy balances	172,461	-	-	172,461
Reinsurance assets	-	27,107	-	27,107
Other receivables	215,945	-	(14,484)	201,461
Land and development	-	-	(40,793)	(40,793)
Actuarial value of policyholders liabilities	102,954	353,689	-	456,643
Payables under deposit admin contracts	-	59,033	-	59,033
Creditors out of reinsurance arrangements	(11,772)	(12,252)	-	(24,024)
Technical provisions	(6,384)	(11,857)	-	(18,241)
Trade and other payables	(157,686)	(39,422)	(135,249)	(332,357)
Cash generated from operations	332,550	226,757	(276,586)	282,721

37. CASH GENERATED FROM OPERATIONS (CONTINUED)

Reconciliation of profit before income tax to cash generated from operations

b) COMPANY

	2009 KShs.'000	2008 KShs.'000
CASH FLOW FROM OPERATIONS		
Profit before tax	36,324	(47,361)
Adjustment for		
Investment income	23,815	(4,255)
Fair value loss/(gains) on quoted shares	(290)	1,049
Fair value loss/(gains) on treasury bonds	-	(854)
Fair value loss/(gains) on corporate bonds and commercial paper	-	(2,728)
Depreciation & amortization (note 12 (b))	140	78
Provisions written back	(39,924)	-
Intergroup charges	24,665	-
Share of results of associates before income tax	(1,692)	525
Changes in working capital	43,038	(53,546)
Other receivables	(59,275)	5,888
Trade and other payables	365,986	(143,259)
At end of year	349,749	(190,917)

38. RELATED PARTY TRANSACTIONS

	Group 2009 KShs.'000	2008 KShs.'000	2009 KShs.'000	Company 2008 KShs.'000	2007 KShs.'000
a) Amounts due from related parties:					
Parent:					
Hubris Holdings Limited	4,318	427	-	-	-
Associates:					
Runda Water Limited	-	-	-	16	16
Subsidiaries:					
PA Securities Limied	-	-	-	28,612	27,400
	4,318	427	-	28,628	27,416

There were no provisions made or amounts written off on related party balances during the year (2008:nil).

38. RELATED PARTY TRANSACTIONS (CONTINUED)

	Group		Company		
	2009 KShs.'000	2008 KShs.'000	2009 KShs.'000	2008 KShs.'000	2007 KShs.'000
b) Amounts due to related parties:					
Parent:					
African Life Assurance Group Limited	4,924	5,212	-	-	
Subsidiaries:					
Pan Africa Life Assurance Limited	-	-	192,421	39,111	226,498
PA Securities Limited			194,409	-	
Mae properties Limited	-	-	62,627	62,627	62,627
Other sister companies:					
SIM (K) Limited	2,481	5,875	-	-	1,167
	7,045	11,087	449,457	101,738	290,292
c) Key management compensation:					
Salaries and other short-term employment benefits	70,764	79,838	12,416	14,008	
Long term benefits incentive	-	9,500	-	1,667	
Termination benefits	-	15,190	-	2,665	
Post-employment benefits	8,037	12,312	1,365	2,091	
	78,801	116,840	13,781	20,431	
Loans to key management where collateral is accepted as security for Mortgage loans	66,144	40,533	-	-	
d) Directors' remuneration:					
Other emoluments (included in (c) above)	22,598	31,024	3,645	3,281	
Fees	6,104	4,993	1,654	1,397	

e) Directors' pension
The Group does not cater for any non - executive director's pension.

f) Investment in associates
No guarantees or collaterals were provided to the associates.

g) Particulars of the Group's 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. CAPITAL MANAGEMENT

Objective:
The Group's objective in managing its capital is to ensure that it supports the development of its business and is able to continue as a going concern, while at the same time maximising the return to its shareholders. The Life insurance part of the Group business is subject to the following external capital requirements:

	Condition:	Minimum requirement	Status:
a)	Required share capital(Life Group)	KShs. 150 million	Achieved
b)	Margin of Solvency: Insurance Act-S.41(1)	Admitted Assets(AA)>Admitted Liability.	Achieved
c)	Government Securities: Ins Act-S.50(1)(a)	10% AA in >2 years Govt Security.	Achieved
d)	Securities under Lien(Insurance Act- S.32)	2.5% >2 years Govt Security	Achieved

Other Group's businesses are not subject to any external capital requirements

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 34 to 36. 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 34);
(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.

All the subsidiaries of the Group are within the Kenyan jurisdiction and therefore apply the same capital management policies and processes.

Processes for managing capital:

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 policies to ensure appropriate 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

39. CAPITAL MANAGEMENT (CONTINUED)

(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.

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.

39. CAPITAL MANAGEMENT(CONTINUED)

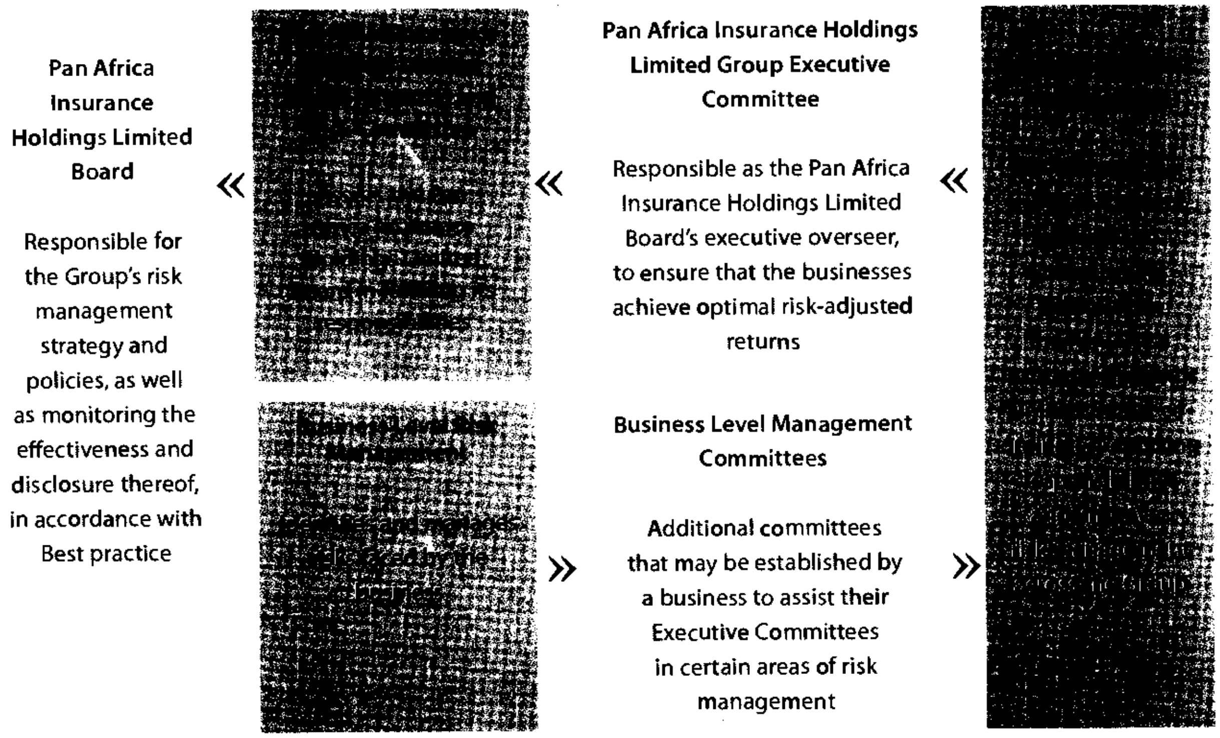
The Group's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Group's overall risk management policies are set out by the board and implemented by the management, and focus on the unpredictability of changes in the business environment and seek to minimise the potential adverse effects of such risks on the Group's performance by setting acceptable levels of risk. The Group's does not hedge against any risks.

40. 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, Capital Markets Authority and Nairobi Stock Exchange 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. 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 analysing 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 businesses

40. 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

40. RISK MANAGEMENT (CONTINUED)

(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:

(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:
- Strategic context (defining the business's strengths, weaknesses, opportunities and threats relative to its environment),
- Organisational context (understanding the business's goals, strategies, capabilities and values),
- 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.

40. 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 fair value or future cash flows of financial instruments will fluctuate because of changes in market price. 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 risks 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 of changes in the environment.	Life insurance
	Credit	Credit risk arises from the inability or unwillingness of counterparty to a financial instrument to discharge its contractual obligations. Credit risk includes:	Life 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.	Capital markets Short-term insurance
	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	**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.	Life insurance
		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.	

40. 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 Audit 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 contained on page 33 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 (I&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.

40. RISK MANAGEMENT (CONTINUED)

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.

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's 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 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

40. RISK MANAGEMENT (CONTINUED)

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:

- 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.

- 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.

o) Market risk – policyholder solutions (continued)

Equity 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 end of year 2009, all stable and reversionary bonus business portfolios had a funding level in excess of 98 percent

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 (o) above 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 Flexi Educator 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.

40. RISK MANAGEMENT (CONTINUED)

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.

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.

40. RISK MANAGEMENT (CONTINUED)

s) Market risk – capital (continued)

Credit risk

The amount that best represents the Group's maximum exposure to credit risk at end of year 2009 is made up as follows:

	2009 KShs.'000	2008 KShs.'000
Financial Instruments	4,912,277	3,871,841
Current income tax recoverable	34,453	23,292
Reinsurers' share of technical provisions and reserves	34,553	30,630
Receivables arising out of direct insurance arrangements	111,785	220,072
Cash and cash equivalents	886,127	903,664
	5,979,195	5,049,499

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.

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 on page 36. 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 percent, coupled with a 1 percent 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. 16.3 million (2008: 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.

40. RISK MANAGEMENT (CONTINUED)

u) Credit risk – policyholder solutions & capital (Continued)

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on a Group-wide basis. The Group does not grade the credit quality of financial assets that are neither past due nor impaired. These activities in the Group are conducted mostly by Sanlam Investments (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.

40. RISK MANAGEMENT (CONTINUED)

u) Credit risk – policyholder solutions & capital (Continued)

The maximum exposure of the Group to credit risk as at the statement of financial position date is as follows:

At 31 December 2009	Fully performing KShs'.000	Past due but not impaired KShs'.000	Past due and impaired KShs'.000	Total KShs'.000
Financial assets				
Mortgages	206,656	12,297	10,492	229,445
Policy loans	79,935	137,304	300	217,539
Insurance receivables	111,785	-	65,910	177,695
Cash at bank	241,000	-	-	241,000
Gross financial assets	639,376	149,601	76,702	865,679
At 31 December 2008				
Financial assets				
Mortgages	129,882	6,676	10,192	146,750
Policy loans	43,825	87,615	157	131,597
Insurance receivables	220,072	-	60,281	280,353
Cash at bank	73,247	-	-	73,247
Gross financial assets	467,026	94,291	70,630	631,947

The ageing analysis of past due but not impaired trade receivables is:

	2009 KShs'000	2008 KShs'000
0-3 months	639,375	467,026
3-6 months	226,303	164,921
	865,678	631,947

The past due receivables are not impaired and continue to be paid. An impairment provision of KShs 76.7 million (2008: KShs 70.6 million) is held against the impaired receivables. The Group holds collateral against the past due or impaired receivables. The management continues to actively follow up past due and impaired receivables.

40. RISK MANAGEMENT (CONTINUED)

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.

Maximum exposure to credit risk

The life insurance businesses' maximum exposure to credit risk is equivalent to the amounts recognised in the statement of financial position, 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 is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the Group short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The Group manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls.

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.

40. RISK MANAGEMENT (CONTINUED)

w) Liquidity risk (Continued)

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

Year ended 31 December 2009

	1 Year KShs.'000	1-5 Years KShs.'000	>5 Years KShs.'000	Open ended KShs.'000	Total KShs.'000
Insurance contracts	427,951	1,804,980	2,084,544	702,156	5,019,631
Investment contracts	-	-	-	469,204	469,204
Total policy liabilities	427,951	1,804,980	2,084,544	1,171,360	5,488,835
Properties	-	-	-	391,000	391,000
Equities and similar securities	-	-	-	878,168	878,168
Public sector stocks and loans	250,017	653,110	2,431,782	-	3,334,909
Commercial paper and corporate bonds	168	1,194	203,235	231,895	436,492
Mortgages and policy loans	-	-	-	646,547	646,547
Long-term reinsurance assets	-	-	-	34,553	34,553
Net working capital	(232,834)	-	-	-	(232,834)
Total policyholder assets	17,351	654,304	2,635,017	2,182,163	5,488,835

Year ended 31 December 2008

	1 Year KShs.'000	1-5 Years KShs.'000	5 Years KShs.'000	Open ended KShs.'000	Total 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	400,052	895,334	1,223,881	-	2,519,267
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	903,644	-	-	-	903,644
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

40. RISK MANAGEMENT (CONTINUED)

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.

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;
vii)	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

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 timorously 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.

40. RISK MANAGEMENT (CONTINUED)

x) Insurance risk (Continued)

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.

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%
Year ended 31 December 2009	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Non-participating life business						
Individual business	160,997	160,997	160,997	160,997	160,997	160,997
Employee benefits business	1,280,128	1,280,128	1,280,128	1,280,128	1,280,128	1,280,128
Total policy liability	1,441,125	1,441,125	1,441,125	1,441,125	1,441,125	1,441,125
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

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)

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 per individual: non-participating life business

	NUMBER OF LIVES		BEFORE REINSURANCE		AFTER REINSURANCE	
KShs'000	2009	2008	2009 KShs.'000	2008 KShs.'000	2009 KShs.'000	2008 KShs.'000
0 - 500	290,332	265,231	2,196,410	1,984,322	1,964,647	1,769,040
500 - 1 000	52,462	47,926	7,418,531	6,702,190	6,579,669	5,924,573
1 000- 5 000	83,658	76,426	20,245,677	18,290,372	11,595,725	10,441,212
5 000- 8000	417	381	72,645,391	65,630,670	42,327,170	38,112,922
>8 000	474	433	109,037,891	98,509,065	64,582,686	58,152,597
	427,343	390,397	211,543,900	191,116,983	127,049,897	114,400,345

Non-participating annuity payable per annum per life insured

	NUMBER OF LIVES		BEFORE REINSURANCE		AFTER REINSURANCE	
KShs'000	2009	2008	2009 KShs.'000	2008 KShs.'000	2009 KShs.'000	2008 KShs.'000
0 - 20	4	0	29	0	29	0
20 - 40	0	0	-	0	-	0
40 - 60	10	1	525	53	525	53
60 - 80	16	4	1,128	274	1,128	274
80 - 100	18	1	1,669	83	1,669	83
>100	206	50	72,207	21,400	72,207	21,400
	254	56	75,558	21,810	75,558	21,810

y) Capital adequacy risk

Refer to the capital management section on page 95 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 4.9 times by the excess of assets over liabilities.

PROXY FORM

To: The Company Secretary
Pan Africa Life Insurance Holdings Limited
2nd Floor, Pan Africa House, Kenyatta Avenue
P.O. Box 10493, 00100
NAIROBI

I/We..

of ....

being member/members of **PAN AFRICA INSURANCE HOLDINGS LIMITED**

hereby appoint ....

of..

or failing him/her ....

of ....

as my/our proxy to vote for me/us on my/our behalf at the 64th Annual General Meeting of the company to be held on 26 May 2010 at 10.00 am and at any adjournment thereof.

Signed/Sealed this .... day of 2010

Notes:

1. If you wish you may appoint the Chairman of the meeting as your proxy
2. In the case of a member being a corporation, the proxy must be under the Common Seal or under the hand of an officer or attorney duly authorised.
3. Completed proxy forms must be lodged with or posted to the company's registered office for the attention of the Company Secretary, so as to be received, no later than forty-eight hours before the time appointed for the holding of the Annual General meeting or any adjournment thereof.