Contents

Our Core Values

synergy with our clients

CLIENT FOCUS
Through fostering long-term relationship with our customers, we will proactively understand their needs and tailor relevant solutions while consistently delivering on our promises

NURTURING
We recognise individual potential and draw synergies to achieve our objectives

ACCOUNTABILITY
We take full responsibility for our actions and results as well as honour our commitments and take pride in being a good corporate citizen.

DYNAMISM
We are committed to creating an inclusive business culture that welcomes the strengths of our diverse workforce and supports everyone's involvement. We strive to be relevant at all times and responsive to the diverse and ever-changing needs of our stake holders.

PROFESSIONALISM
Internal and external relationships are conducted with respect and discretion.

INTEGRITY
We take pride in treating all stakeholders in an honest and fair manner, while maintaining dignified and ethical conduct at all levels of our interactions.

Company Information

PRINCIPAL PLACE OF BUSINESS
Pan Africa Life House
1st Floor
Kenyatta Avenue
P.O Box 44041 - 00100
NAIROBI

REGISTERED OFFICE
LR No. 209/927
Pan Africa Life House
1st Floor
Kenyatta Avenue
P.O. Box 44041 - 00100
NAIROBI

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

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

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

National Bank of Kenya Limited
Kenyatta Avenue
P.O. Box 30645 - 00100
NAIROBI

SECRETARY
Emma Wachira
Pan Africa Life House
1st Floor
Kenyatta Avenue
P.O. Box 44041 - 00100
NAIROBI

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

LEGAL ADVISERS
Kaplan & Stratton Advocates
Williamson House, 4th Ngong Avenue
NAIROBI

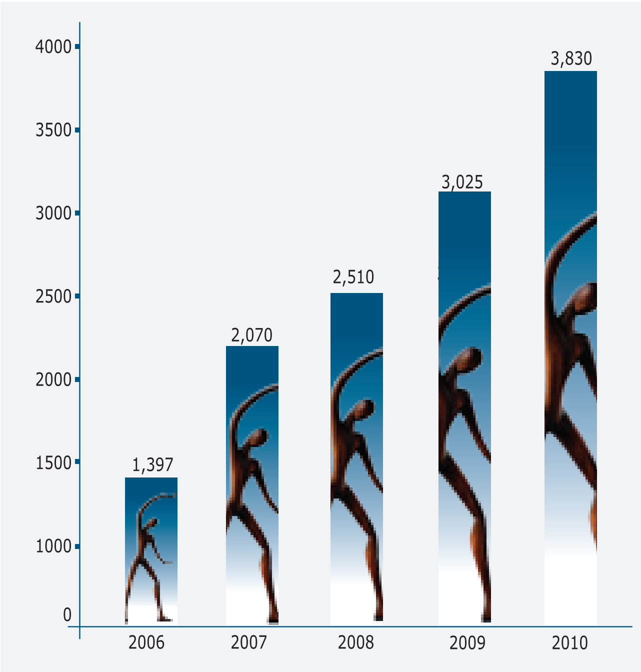
Waruhiu & Company Advocates
12th Floor, International House
Mama Ngina Street
NAIROBI

Five Year Group Review

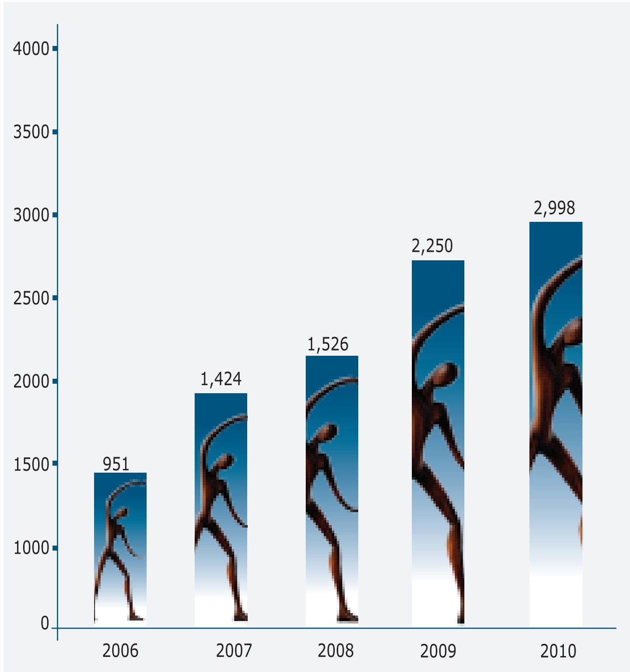
synergy with our clients

	2006	2007	2008	2009	2010
	KShs.m	KShs.m	KShs.m	KShs.m	KShs.m
Income statement:					
Total other revenue	404	422	258	574	1,308
Operating profit before tax and share of associate	451	136	117	107	359
Profit/ (loss) attributed to shareholders	425	147	(96)	139	589
Dividends	69	76	-	82	144
Long term insurance business:					
Gross premium income	1,397	2,070	2,510	3,025	3,830
Net premium income	1,248	1,834	2,318	2,821	3,542
Net benefits and claims paid	951	1,424	1,526	2,250	2,998
Statement of financial position:					
Total equity	1,303	1,362	1,186	1,325	1,832
Insurance contract liabilities	2,402	3,237	3,694	5,136	7,200
Share capital	240	240	240	240	240
Total assets	4,684	5,863	6,094	7,681	10,671
Key indicators:					
	KShs.	KShs.	KShs.	KShs.	KShs.
Basic earnings/ (loss) per share	8.87	3.03	(1.99)	2.89	12.28
Dividends per share	1.44	1.60	-	1.70	3
Market capitalisation at year end(KShs. m)	4,392	4,776	2,976	2,160	3,144
Group share prices at the NSE:					
High	100	122	99	62	87
Low	34	75	62	44	45
Share price at year end	92	100	62	45	65.5

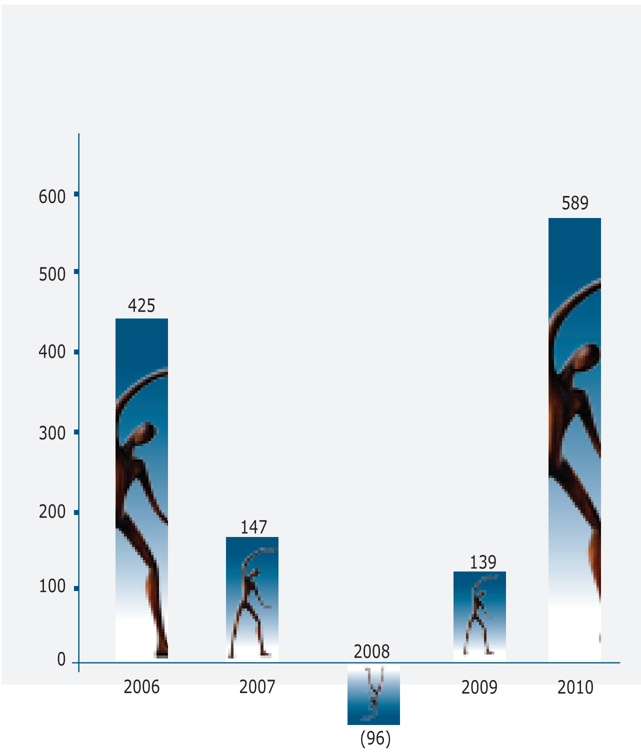
GROSS PREMIUM INCOME



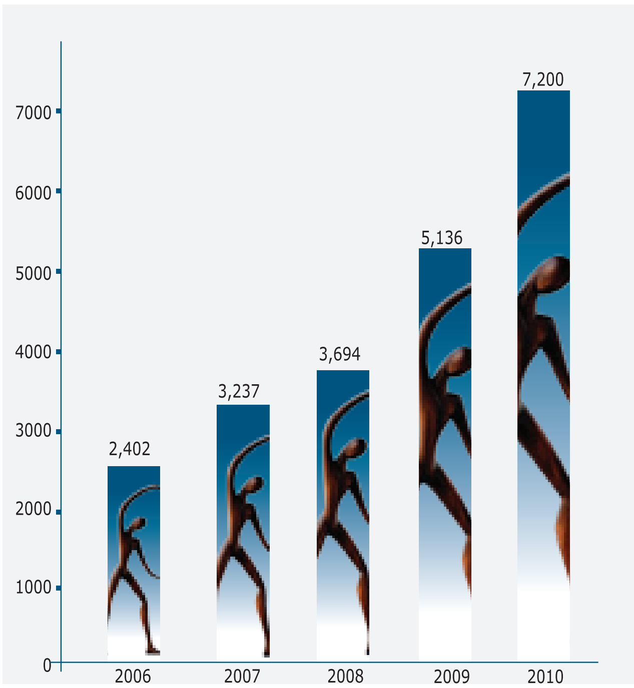
NET BENEFITS AND CLAIMS PAID



PROFIT/(LOSS) ATTRIBUTED TO SHAREHOLDERS



LONG TERM BUSINESS FUNDS



Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2010 which disclose the state of affairs of the Company and its subsidiaries.

INCORPORATION

The Company was incorporated in Kenya on 26 October 1946 under certificate of incorporation number C.10/46 under the Companies Act (Chapter 486 of the Laws of Kenya) and is domiciled in Kenya.

PRINCIPAL ACTIVITIES

The principal activity of the Group, through it's 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, and an associate general insurance company, APA Insurance Limited.

RESULTS

The results of the year are set out on pages 45 - 52 of this Annual Report.

The profit after tax for the year of KShs 589m (2009 : KShs 138m) has been added to the retained earnings.

DIVIDENDS

Subject to the approval of the shareholders, the Directors will recommend the payment of a dividend of KShs 3 per share (2009: KShs 1.70) at the 65th 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 2010 were authorised for issue in accordance with a resolution of the directors on 15 March 2011. 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:

1) John P N Simba (Chairman)
2) Tom Gitogo (Chief Executive)
3) Margaret M Dawes
4) James N Gitoho
5) Baloobhai Patel
6) William R Dommisse
7) Susan Mudhune
8) Nelius Bezuidenhout (Appointed: 23 February 2010)
9) Thomas A Wixley (Appointed: 23 February 2010)

- In accordance with the Company's Articles of Association John PN Simba retires by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-election.
- In accordance with the Company's Articles of Association William R Dommisse retires by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-election.
- In accordance with the Company's Articles of Association Margaret M Dawes retires by rotation at the forthcoming Annual General Meeting and being eligible, offers herself for re-election.

AUDITORS

The Group's auditors, Ernst & Young, have indicated their willingness to continue in office in accordance with Section 159 (2) of the Companies Act (Chapter 486 of the Laws of Kenya)

By Order of the Board

Emma Wachira
Company Secretary

15 March 2011

Statement of Directors' Responsibilities

The Kenyan Companies Act requires the directors to prepare consolidated financial statements for each financial year which 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 the Group and the Company keep proper accounting records, which disclose with reasonable accuracy at any time 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 judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the consolidated 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 designing, implementing and maintaining adequate systems of internal financial control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements.

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

15 March, 2011

Tom Gitogo
Director

15 March, 2011

SMS : 8182


" I can finary get my Barances and Poricy deetails through my mobiro"

Board of Directors

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

2. MARGARET DAWES (53)
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)

3. ROBERT DOMMISSE (42)
Appointed to the Board in December 2007
Occupation: Chief Finance officer - Sanlam Developing Markets
Academic Qualifications: BAcc (Hons), MBA (Stellenbosch University)
Professional Qualifications: Chartered Accountant (SA)

4. JOHN P N SIMBA (66) (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

Board of Directors

Management Team

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1 LUKE MAGAMBO,
Divisional Manager - Finance & Administration

2 TOM GITOGO,
Chief Executive

3 EMMA WACHIRA,
Company Secretary /Chief Legal Officer

8 JANE NTUTU,
General Manager - Sales & Marketing

9 STEPHEN KAMANDA,
General Manager - Finance & Administration

12 JAMES MUIRURI,
General Manager - Corporate Business

13 PIUS KITELA,
Regional Sales Manager - Eastern Region

14 SAMSON KAMAU,
Business Relationship Manager

Management Team

4 GWEN KINISU,
Head Bancassurance & Broker Channels

5 LINDA WERE,
Divisional Manager - Operations & ICT

6 FRANCIS OGWEL,
Regional Sales Manager - Western Region

7 NELSON KABAU,
Actuarial Manager - Finance & Administration

10 JOSEPH WAMWEA,
General Manager - Operations & ICT

11 MIRIAM GATHURA,
Human Resources Manager

15 MARTIN NZOMO,
Corporate Business Manager

16 LUCY MUNJUGA,
Divisional Manager - Finance & Administration

17 GIBSON OBANDA,
Pension Administration Manager

Chairman's Statement

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JOHN P N SIMBA
Chairman

GLOBAL ECONOMY

Nearly four years after the onset of the Global Economic crisis, the world is now on a recovery path with IMF estimating world economic growth for 2010 and 2011 at 5% and 4.7% respectively. The two flagship IMF analyses, the World Economic Outlook (WEO) and the Global Financial Stability Report (GFSR), show that the world is in a two-speed economic recovery, with advanced economies still recovering slowly and emerging markets and even some low-income countries relatively buoyant.

Overall, advanced economies are projected to grow by 2.5 percent in 2011, while emerging and developing economies at 6.5 percent, against 7.1 percent last year. Growth in sub-Saharan Africa will climb to 5.5 percent, from 5.0 percent in 2010.

We anticipate that the unrest in Tunisia, Libya, Egypt and some of the other Arab countries will impact negatively on global financial markets as oil price is expected to shoot up following interference with the steady supply of oil.

KENYAN ECONOMY

The performance of the Kenyan economy picked up in 2010 and CBK estimates the Kenyan GDP to have grown by 5% in 2010 mainly due to favourable weather conditions, increased liquidity in the banking system, and prudent macroeconomic management. Financial market conditions improved with The NSE index performance improving by 36% to 4432.60, thus placing NSE among the top performing African markets after Uganda. Over the year, interest rates were on a decline with the 91 days treasury bill interest dropping from the December 2009 high of 6.82% to December 2010 low of 2.31%. The Kenya Shilling weakened by 6.5% against the US Dollar to close at Kshs. 80.75 in December 2010.

The prospects for 2011 remain good though we expect the NSE performance to be lower compared to 2010 performance. With the CBK push for low interest rates, we expect to see stabilized interest rates especially with the issuance of the 30 year Treasury bond. Risk factors for 2011 include political risk as politicians start early campaigns for 2012 elective slots and the looming drought that may reduce disposable house hold income. We expect the shilling to come under pressure from global increase in fuel prices following unrest in the Arab world

INSURANCE INDUSTRY

The 2009 AKI statistics show that the total market penetration as percentage of GDP is 2.84 % (2008:2.63%). Life Insurance penetration is very low at 0.94 % (2008: 0.87%). South Africa has the highest total penetration level at 12.9% in Africa. There is need for all stake holders in the Insurance Industry to come together and formulate ways in which this low penetration level will be addressed. In the developed world, distribution through banks has helped in improving this but this has not fully been exploited locally due to legislative limitations.

Despite delays surrounding discussions on the Draft Insurance Bill 2009, progress continues to be made with the Insurance Regulatory Authority coordinating various technical discussions on the proposed amendments.

GROUP PERFORMANCE

The Group delivered solid results that demonstrate the resilience of the Pan Africa business model. The Group achieved a profit after tax of Kshs 589m, a 324% growth over 2009. Profit before tax grew from Kshs.173m in 2009 to Kshs 665m in 2010, mainly due to good performance by the Life Company and improved results from our share of Associate. The Chief Executive Report indicates where our profits came from.

DIVIDEND

In keeping with our Dividend Policy, the Directors will recommend to the shareholders the payment of a first and final dividend of KShs 3.00 (2009:KShs 1.70) per share payable to the shareholder appearing in the Register of Members at the close of business on 18 May 2011. Upon approval from the shareholders, the dividend will be paid, less applicable taxes, on 30 June 2011 and the Share Register will be closed from 19 May 2011 to 2 June 2011, both days inclusive.

BONUS SHARES

In addition to the dividend payment, the Directors will be recommending to the shareholders approval for issuing of bonus shares at a ratio of 1:1 for all shares in our register after getting the necessary statutory approvals from the Regulators. This will enable more shares to be available for trading at the NSE.

DELIVERING SHAREHOLDER VALUE

The performance of Pan Africa share price reflects the Groups resilient results, providing a total return of 45.6% to shareholders in 2010 with the closing price at Kshs 65.50 at year end indicating increased confidence the investing public has on the activities of the Group.

STATEMENT OF CORPORATE GOVERNANCE

As a publicly listed company, Pan Africa complies with the Capital Markets Authority Guidelines on Corporate Governance. The Commissioner of Insurance also requires that all directors in the Insurance Sector undergo a course in Corporate Governance. All our Directors continue to comply with Global Standards on Corporate Governance.

AWARDS WON IN 2010

As we have done in the past, we participated in various competitions in 2010 with very pleasing results as follows:-

Think Business Insurance Survey

James Muiruri with the COYA Manager of the Year Award.

The first Annual Insurance survey in Kenya by Think Business was conducted on 1st October 2010 for all Insurance companies. Of the 5 classes we participated in, we won in the following:

- The Life Insurer of the year
- Efficient claim settlement
- Best customer service
- Fraud detection and prevention and prevention initiative
- We were also the first runners up in ICT Award category.

These winnings confirm our dominant role in the Life insurance market in the country.

2010 FiRe Awards

In the 2010 FiRe competitions, Pan Africa Insurance was awarded 1st runners up in the Insurance category based on our Annual Report for the year ended 31 December 2009. FiRe competition is 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 continues to win awards every year, a manifestation of the Group's continued focus on professionalism, transparency and excellence in financial reporting.

GCR Rating

The Global credit rating firm based in South Africa, has rated our claims settlement ability in 2010 and awarded us A+ rating. This achievement continues to demonstrate to our clients our continued financial strength and ability to honour policyholder obligations over the medium term.

Company of the Year Awards (COYA)

In COYA 2010, Pan Africa managed to attain the OPI Bronze Standard at a commendable 5.682 compared to the winning company which had a 6.09 mark.

James Muiruri, the General Manager-Corporate Business won the overall Manager of the Year recognition in the 2010 COYA awards.

These wins continue to show a focused leadership in Pan Africa which has created a clear strategic intent to guide it in all the activities of the organization towards sustainable business performance excellence.

CHANGES TO THE BOARD

In 2010, I'm glad to report that there was no change to our Board. This helped the Board to focus on improved performance as seen in the 2010 Annual report and strategic matters relating to the group.

MAE RIDGE DEVELOPMENT

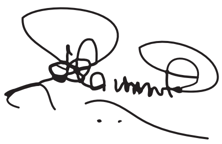
Phase 1 of the Mae Ridge Development is now complete with 16 out of 20 houses already sold. The remaining 3 houses will be sold in the 1st half of 2011. 8 buyers have already taken possession and moved into their new estate. The future of property development in the country continues to be promising.

CLOSING NOTE

The slow recovery from the global economic crisis four years ago goes a long way to show how vulnerable developing economies are to the downturns in advanced economies. Pan Africa Group continues to apply risk management techniques that have helped us achieve the current results. Our focus during this recovery period will be continued growth and profitability.

I would like to thank all our shareholders for the confidence they have continued to show in the Group even during difficult times. I would also like to thank all my fellow directors for their commitment and drive in making sure that the company gives value to the shareholders, the policyholders and other stakeholders. Congratulations to Management for the courage, leadership and determination displayed over the last 4 years of economic downturn. To all staff and members of our distribution force, thank you for your determination to continuously deliver on the promises to the policyholders, shareholders and other stakeholders. Without proper regulatory framework, the Insurance market would not function with proper direction. In this regard, let me congratulate the Insurance Regulatory Authority and the Government of Kenya for the continous improvement of regulations that facilitate increased efficiency within the Insurance industry. With a focused strategy, we will continue to deliver success.

I wish everyone success in the months ahead.



John P N Simba, MBS OGW

Chairman

15 March 2011

Taarifa ya Mwenyekiti

JOHN P N SIMBA
Mwenyekiti

UCHUMI DUNIANI

Takriban miaka minne baada ya kuanza kwa hali ya kuzorota kwa uchumi duniani ulimwengu sasa umeanza kupata nafuu kutokana na hali hiyo huku Shirika la Fedha Ulimwenguni IMF likikadiria ukuaji wa uchumi kwa mwaka wa 2010 na 2011 kuwa asilimia 5% na 4.7% mtawalia. Chunguzi mbili za IMF, World Economic Outlook (WEO) na Global Financial Stability Report (GFSR), zinaonyesha kwamba ulimwengu uko kwenye kasi mbili za ukuaji wa uchumi huku chumi zilizostawi zikiendelea kuimarika polepole nayo masoko yanayoibuka na baadhi ya nchi zenye mapato ya chini zikinawiri.

Kwa ujumla chumi zilizostawi zinakadiriwa kukua kwa kiwango cha asilimia 2.5 mwaka wa 2011, ilhali chumi zinazoibuka na kuendelea kustawi zinatarajiwa kukua kwa asilimia 6.5 ikilinganishwa na asilimia 7.1 mwaka uliopita. Ukuaji katika eneo lililoko kusini mwa Sahara barani Afrika utapanda na kufikia asilimia 5.5, kutoka asilimia 5.0 mwaka wa 2010.

Tunadhania kwamba hali ya msukosuko huko Tunisia, Libya, Misri na baadhi ya nchi nyingine za Kiarabu itaathiri vibaya masoko ya kifedha duniani kwani bei ya mafuta inatarajiwa kupanda zaidi kufuatia kuvurugwa kwa ugawaji thabiti wa mafuta.

UCHUMI WA KENYA

Utendaji wa uchumi wa Kenya uliimarika mwaka wa 2010 na Benki Kuu ya Kenya inakadiria pato la Taifa la Kenya GDP kuwa limekua kwa asilimia 5% mwaka wa 2010 hasa kutokana na hali nzuri ya hewa, kuongezeka kwa uwezo wa kupata pesa katika mfumo wa benki na usimamizi bora wa chumi kubwa. Hali ya masoko ya kifedha iliimarika huku kiwango cha soko la hisa la Nairobi NSE kikiongezeka kwa asilimia 36% na kufikia 4432.60, na hivyo basi kuweka NSE miongoni mwa masoko bora barani Afrika baada ya Uganda. Katika kipindi cha mwaka, viwango vya riba vilipungua huku riba ya hati za dhamana za treasury bills za siku 91 ikipungua kutoka kiwango cha juu mnamo mwezi Disemba 2009 cha asilimia 6.82% hadi kiwango cha chini cha asilimia 2.31% mwezi Disemba 2010. Sarafu ya Kenya ilipungua thamani kwa asilimia 6.5% dhidi ya dola ya Marekani na kufikia Kshs. 80.75 Disemba 2010.

Matarajio ya mwaka 2011 ni mazuri ingawa tunatarajia utendaji katika soko la hisa la Nairobi kuwa wa chini ikilinganishwa na mwaka wa 2010. Kutokana na shuruti za CBK za kuwepo kwa viwango vya chini vya riba, tunatarajia kuona viwango thabiti vya riba hasa kufuatia kutolewa kwa hati ya thamana ya serikali ya miaka 30. Hali za mashaka kwa mwaka wa 2011 ni pamoja na mashaka ya kisiasa huku wanasiasa wakianza kampeni za mapema kwa uchaguzi wa mwaka 2012 na hali ya ukame ambayo huenda ikapunguza mapato ya matumizi kwa jamii. Tunatarajia shilingi kukabiliwa na shinikizo kutokana na ongezeko la bei ya mafuta duniani kufuatia msukosuko katika nchi za Kiarabu.

SEKTA YA BIMA

Takwimu za AKI za mwaka wa 2009 zinaonyesha kwamba jumla ya kiwango cha kupenye kwenye soko kama asilimia ya Pato la Taifa ni 2.84 % (2008:2.63%). Kiwango cha kupenya kwa Bima ya Maisha ni cha chini sana kikiwa asilimia 0.94 %(2008: 0.87%). Afrika Kusini ina kiwango cha juu zaidi cha upenyaji cha asilimia 12.9%. Ipo haja kwa washika dau wote katika sekta ya bima kushirikiana pamoja kuandaa mikakati ya kushughulikia kiwango hiki cha upenyaji wa chini. Katika mataifa yaliyostawi, ugawaji kupitia benki umesaidia kuimarisha hali hii lakini suala hili halijashughulikiwa kikamilifu humu nchini kutokana na vizingiti vya kisheria.

Licha ya kucheleweshwa kwa mashauriano kuhusu Mswada kielelezo wa Bima mwaka 2009, hatua inaendelea kupigwa huku Halmashauri ya Kusimamia sekta ya Bima ikishirikisha mashauriano mbalimbali ya kiufundi kuhusu marekebisho yaliyopendekezwa.

UTENDAJI WA KUNDI

Kundi liliwasilisha matokeo madhubuti ambayo yanadhihirisha uthabiti wa kielelezo cha kibiashara cha Pan Africa. Kundi lilipata faida baada ya kutozwa ushuru ya Kshs 541m, ambayo ni asilimia 392% ya ukuaji mwaka wa 2009. Faida kabla ya kutozwa ushuru ilikua kutoka Kshs. milioni 173 hadi Kshs milioni 617 hasa kutokana na utendaji bora wa kampuni ya bima ya maisha Life Company na matokeo yaliyoimarika kutoka kwa mgawo wa ushirika. Taarifa ya Afisa Mkuu Mtendaji inadhihirisha mahala faida yetu ilikotoka.

MGAO WA FAIDA

Kulingana na sera yetu ya mgao wa faida, wakurugenzi watapendekeza kwa wenyehisa malipo ya mgao wa faida wa kwanza na wa mwisho wa KShs 3.00 (2009:KShs 1.70) kwa kila hisa kulipwa wenyehisa kwenye kitabu cha usajili wa wanachama kufikia kufungwa kwa biashara tarehe 18 Mei 2011. Baada ya kuidhinishwa na wenyehisa, mgao huo wa faida utalipwa, baada ya kutozwa ushuru unaohitajika, tarehe 30 Juni 2011 na kitabu cha usajili wa wanachama kitafungwa kuanzia tarehe 19 Mei 2011 hadi tarehe 2 Juni 2011, siku zote mbili zikijumuishwa.

HISA ZA ZIADA

Pamoja na malipo ya mgao wa faida, wakurugenzi kadhalika watapendekeza kwa wenyehisa kuidhinishwa kwa utoaji wa hisa za ziada kwa kiwango cha 1:1 kwa hisa zote kwenye kitabu cha usajili wa wanachama baada ya kupata idhini za kisheria kutoka kwa wadhibiti. Hii itawezesha kupatikana kwa hisa zaidi za uuzaji kwenye soko la hisa la Nairobi.

KUWASILISHA THAMANI KWA MWENYEHISA

Utendaji wa bei za hisa za Pan Africa unadhihirisha uthabiti wa matokeo ya Kundi, kwa kutoa jumla ya mapato ya asilimia 45.6% kwa wenyehisa mwaka wa 2010 huku hisa hizo zikifunga mwaka kwa bei ya Kshs 65.50 na kudhihirisha kuongezeka kwa imani ya wawekezaji kwenye shughuli za Kundi.

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. Kamishna wa Bima kadhalika anahitaji kwamba wakurugenzi wote katika sekta ya bima wanahudhuria mafunzo kuhusu usimamizi wa mashirika. Wakurugenzi wetu wote wanaendelea kuzingatia Viwango vya Kimataifa kuhusu Usimamizi wa Mashirika.

TUZO TULIZOSHINDA MWAKA WA 2010

Kama ambavyo tumekuwa tukifanya miaka iliyopita, tulishiriki kwenye mashindano mbalimbali mwaka wa 2010 na kupata matokeo ya kufurahisha kama ifuatavyo:-

Uchunguzi wa Bima wa Think Business

Uchunguzi wa kwanza wa bima wa kila mwaka nchini Kenya ulifanywa na Think Business tarehe 1 Oktoba 2010 kwa kampuni zote za bima. Katika daraja tano tulizoshiriki, tilishinda ifuatavyo:

- Mtoaji bima ya maisha wa mwaka
- Mlipaji bora wa fidia ya madai
- Huduma bora zaidi kwa mteja
- Ugunduzi wa udanganyifu na taratibu za uzuiaji
- Kadhalika tulikuwa mshindi wa pili katika kiwango cha Tuzo la ICT.

Ushindi huu unathibitisha jukumu letu imara kwenye soko la Bima ya Maisha nchini.

Tuzo za Fire Awards 2010

Katika mashindano ya FiRe 2010, Pan Africa Insurance ilikuwa ya pili bora katika kiwango cha bima kutokana na taarifa zetu za kila mwaka za kifedha kwa mwaka uliomalizika 31 Disemba 2009. Shindano la FiRe linadhaminiwa na taasisi ya wahasibu nchini, Institute of Certified Public Accountants of Kenya, Halmashauri ya Masoko ya Hisa, Capital Markets Authority na Soko la Hisa la Nairobi, Nairobi Stock Exchange. Tangu kuanzishwa kwa tuzo hizo mwaka wa 2000, kundi limeendelea kushinda tuzo kila mwaka, dhihirisho wazi kwamba kundi linazingatia utaalamu, uwajibikaji na ubora katika taarifa za kifedha..

Ukadiriaji wa GCR

Kampuni ya Global credit rating yenye makao yake nchini Afrika Kusini imekadiria uwezo wetu wa kulipa madai mwaka wa 2010 na kutukabidhi alama ya A+. Ufanisi huu unaendelea kudhihirishia wateja wetu uthabiti wetu wa kifedha na uwezo wa kuheshimu majukumu yetu kwa wenye bima katika muda wa kipindi cha kadri.

Tuzo za Kampuni Bora ya Mwaka (COYA)

Katika COYA 2010, Pan Africa ilifanikiwa kupata kiwango cha OPI Bronze kwa kupata alama ya 5.682 ikilinganishwa na alama ya kampuni iliyoshinda ya 6.09.

James Muiruri, Meneja mkuu wa kitengo cha Biashara ya kampuni alipata tuzo la Meneja bora wa mwaka katika tuzo za COYA mwaka wa 2010.

Ushindi huu unaendelea kuonyesha uongozi bora katika kampuni ya Pan Africa ambao umebuni nia dhahiri ya kimkakati ya kuiongoza kwenye shughuli zake zote katika kuafikia utendaji endelevu wa hali ya juu zaidi wa kibiashara.

MABADILIKO KATIKA HALMASHAURI

Mnamo mwaka wa 2010, ninafuraha kuwatangazia kwamba hakukuwa na mabadiliko yoyote katika halmashauri yetu. Hii ilisaidia halmashauri kuzingatia utendaji bora kama inavyoonekana kwenye taarifa ya mwaka ya 2010 na masuala ya mikakati kuhusiana na Kundi.

MRADI WA MAE RIDGE

Awamu ya kwanza ya mradi wa maendeleo wa Mae Ridge sasa imekamilika huku nyumba 17 kati ya 20 zikiwa tayari zimeuzwa. Nyumba 3 zilizosalia zitauzwa katika nusu ya kwanza ya mwaka wa 2011. Wanunuzi 8 tayari yameingia kwenye nyumba na kuhamia kwenye mtaa wao mpya. Hali ya baadaye ya ustawishaji mali nchini inaendelea kuleta matumaini mema.

HITIMISHO

Ufufuzi wa polepole kutokana na mzozo wa kiuchumi miaka minne iliyopita unadhihirisha kwa kiwango kikubwa jinsi chumi zinazoendelea zinavyoweza kuathiriwa kwa urahisi na kuzorota kwa chumi zilizostawi. Kundi la Pan Africa linaendelea kutumia mbinu za usimamizi wa hali ya mashaka ambazo zimetusaidia kuafikia matokeo tulionayo kwa wakati huu. Uzingatiaji wetu katika kipindi hiki cha ufufuzi utakuwa kuendeleza ukuaji na upatikanaji wa faida.

Ningependa kuwashukuru wenyehisa wetu wote kwa imani ambayo wameendelea kuonyesha kwa Kundi hata katika vipindi vya wakati mgumu. Ningependa pia kuwashukuru wakurugenzi wenzangu kwa juhudi na kujitolea kwao kuhakikisha kuwa kampuni inatoa huduma ya thamani kwa wenyehisa, wenye bima na washika dau wengine. Pongezi kwa wasimamizi kwa ushupavu, uongozi bora na uamuzi waliodhihirisha katika muda wa miaka minne iliyopita ya msukosuko wa kiuchumi. Kwa wafanyakazi wetu wote na wanachama wa kitengo cha ugawaji, nawashukuru kwa azma yenu ya kuendelea kutimiza ahadi kwa wenye bima, wenyehisa na washika dau wengine. Bila kuwepo mfumo bora wa udhibiti sekta ya bima haiwezi kutekeleza kazi yake kwa mwelekeo ufaao. Kuhusiana na hayo, nachukua nafasi hii kupongeza Halmashauri ya Usimamizi wa Bima na Serikali ya Kenya kwa kuendelea kuimarisha kanuni ambazo zinasaidia kuongeza utendaji bora katika sekta ya bima. Kwa kuzingatia mbinu bora, tutaendelea kutoa huduma zenye ufanisi.
Namtakia kila mmoja ufanisi katika miezi ijayo.

John P N Simba, MBS OGW
Mwenyekiti

15 Machi 2011

TOM GITOGO
Chief Executive

BUSINESS ENVIRONMENT

Compared to the year before, 2010 experienced good rainfall, a bullish run on the stock exchange market and a low interest regime that spurred consumer spending and held inflation to below double digit levels. In August, the country passed a new constitution resulting in increased optimism about the future and quality of life of the general public. All this contributed somewhat to a conducive business environment at least for part of the year.

INSURANCE INDUSTRY

Although there has been significant contribution by the Insurance Regulatory Authority and several players in the area of drumming up public awareness regarding insurance products and services through public forums, open days, newspaper and TV advertisements, penetration remains a challenge.

On our part, we will continue to play our rightful role of taking insurance services and awareness to as many members of the public as possible through innovative distribution channels. These efforts must be supplemented by appropriate legislative changes such as full accommodation of bancassurance and other modern distribution ideas by the Insurance Act. We expect that the revised Insurance Act which has been under review for a while now will be enacted soon.

GROUP RESULTS

Our strategy of focusing on growth and profitability has been working well and has consolidated our market leadership in Life Insurance over the past three years. The attention we have given to our processes and services has also seen us bag several prestigious awards such as "The Life Insurer of the year 2010" by Think Business, among others.

Our financial results for 2010 are pleasing and reflect the resilient nature of our strategy. The group achieved profit before tax of Kshs. 665m (2009: Kshs.173m), a growth of 384%. Key highlights of the performance are as follows:

	Year to 31 Dec 10 Kshs'000	Year to 31 Dec 09 Kshs'000
Operating surplus	314,703	25,494
Investment income on shareholders' assets	44,598	81,789
Share of associate	305,899	66,364
Profit before tax	665,200	173,647
Tax	(75,942)	(34,731)
Net Surplus for the period	589,258	138,916

The annualised new business premium income grew by a remarkable 47%. Gross premium income grew by 27% to reach Kshs 3.8 billion. The improved operating surplus is attributable to good sales volumes, lower claims ratio, good costs and expenses management and good returns on investments.

Our Mae Ridge residential units in Runda started selling in the second half of the year. Property transaction takes time to complete and for that reason only 7 units out of 16 sold were recorded as income in 2010.

Our associate APA recorded good results over the period mainly bolstered by good investment climate.

LIFE BUSINESS

The company expanded its distribution channels for Individual Life products to include select brokers and bancassurance. These channels are expected to contribute significantly to sales in the future. In the short-run however, bancassurance will remain constrained until the legal impediments that restrict distribution of insurance products through banks are removed. We have increased our interaction with customers and will continue to emphasize on relationship building, operational efficiency and service delivery as opposed to engaging in price wars with the competition. This approach has enabled the Group to achieve excellent results in corporate business without compromising on profitability.

CUSTOMER ENGAGEMENT

The Group continues to invest in latest technologies to provide efficient services to our customers. In the year under review, we made progress towards commissioning of a new life administration system which will enable us to serve our customers even better. In 2010, the Group also began disbursing and receiving payments to and from customers through M-Pesa. We intend to continue exploiting ways of incorporating the latest technology in our processes to ensure we remain as efficient as possible.

OUR PEOPLE

Staff bonding activities which begun some years back provide a good opportunity for staff to socialise. The staff social club events normally take place on a quarterly basis and have seen staff tour many corners of our country. The Group has also introduced bi-weekly all staff meetings to improve the level of communication across all areas of the organisation.

The group recognizes the importance of professional training and has continued to sponsor staff for professional courses. This has seen a good number of them achieve their dream qualifications.

OUTLOOK

The World Bank has projected a modest 5% growth in our economy in 2011. However, a prolonged dry spell in 2011 has been forecasted and this could erode the gains made in 2010. There is also a rise in oil prices resulting from the ongoing crises in North Africa and the Arab world. These developments seem to point to a difficult 2011 start.

Our Strategic thrusts and focus have served us well over the last two years and the Group is very confident that it is well positioned to meet any challenge that the year ahead portends.

APPRECIATION

I would like to sincerely thank our clients and business partners for their continued support which has enabled us to achieve very pleasing results.

I would also like to recognise and appreciate the tireless input by Pan Africa staff and agents as well as the board.

Tom Gitogo
Chief Executive

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the 65th Annual General Meeting of the Company will be held at the Ballroom, Stanley, Kenyatta Avenue, Nairobi on Tuesday, 17 May 2011 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 26 May 2010.
4. To consider, and if approved, adopt the Balance Sheet and Accounts for the year ended 31 December 2010 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 3.00 per share for the financial year ended 31 December 2010 and approve the closure of the register of Members on 18 May 2011 to 2 June 2011.
6. To declare, subject to the Approval of subject to the Regulatory Approvals, a bonus issue of at the rate of 1 fully paid up share for every 1 held in the issued and paid up share capital of the company to the shareholders appearing in the Register of Members as at 17 May 2011 and approve the closure of the register of Members on 18 May 2011 to 2 June 2011.
7. To elect directors:
   - 6.1 John PN Simba, retires by rotation in accordance with the Company's Articles of Association and he offers himself for re-election.
   - 6.2 William R Dommisse, retires by rotation in accordance with the Company's Articles of Association and he offers himself for re-election.
   - 6.3 Margaret M Dawes, retires by rotation in accordance with the Company's Articles of Association and she offers herself for re-election.
8. To approve the Directors' remuneration.
9. 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.
10. 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.
11. SPECIAL BUSINESS: Amendment of the Articles of Association

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

I. That the Article 95 of the Articles of Association be deleted in its entirety and be replaced by the insertion of a new Article 95:

a) The Company may invest, utilise or otherwise deal in such manner as the Directors may deem fit, and in compliance with the regulations applicable to the dealing of the Company dividends, the dividends owing to untraceable shareholders if:

i. For a period of twelve (12) months the dividend cheques sent by the Company to the shareholders, in the manner authorised by these Articles, have been returned unclaimed and uncashed; and

ii. No communication has been received by the Company from the member, or any other person entitled, during the said twelve (12) months period; and

iii. The Company has not during the period of twelve (12) months preceding received any notification and/or information reasonably satisfactory to the Directors as to either the whereabouts or existence of the member or entitled person; and

b) If the member or entitled persons makes a claim for the unpaid dividends during the period of six (6) years, the Company shall pay the member the cumulative dividends.

c) No dividend shall bear interest against the company.

d) After a period of seven (7) years from the date of issue of the dividend cheque referred to above, any or such other period as determined by the relevant laws and where no claim has been made by the member or person entitled to the dividends, the net dividends shall be invested in the Investor Compensation Fund, or any other body set up by the Government or otherwise and the member shall have no further claim against the Company.

e) No trust shall be created in respect of the unclaimed dividends, no interest shall accrue or be payable in respect of it and the Company shall not be required to account for any money earned on the investment or utilisation of the monies in such manner as the Directors think fit.

By Order of the Board

Emma Wachira

Company Secretary

Date: 15 February 2011

Note:

A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company. To be valid, a proxy form, which is attached to the end of this report, must be completed and signed by the member and must be lodged at the offices of the Company Secretary, Pan Africa House, Kenyatta Avenue, P.O. Box 10493, 00100 Nairobi or be posted, so as to reach not later than Friday 13 May 2011 at 10.00 am.

ILANI YA MKUTANO MKUU WA MWAKA ILANI IMETOLEWA HAPA KWAMBA Mkutano Mkuu wa Mwaka wa 65 wa Kampuni utafanywa katika ukumbi wa Ballroom, hoteli ya Stanley, kwenye barabara ya Kenyatta Avenue, mjini Nairobi siku ya Jumanne tarehe 17 Mei 2011 saa nne asubuhi kuendesha shughuli zifuatazo:

1. Kuwasilisha wawakilishi na kuhakikisha idadi inayohitajika.
2. Kusoma tangazo la kuandaa mkutano.
3. Kuthibitisha kumbukumbu za Mkutano Mkuu wa Mwaka uliopita uliofanyika tarehe 26 Mei 2010.
4. Kufikiria na ikikubaliwa, kuidhinisha mizania na hesabu za kifedha kwa mwaka uliomalizika tarehe 31 Disemba 2010 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 3 kwa kila hisa kwa mwaka uliomalizikia tarehe 31 Disemba 2010 na kuidhinisha kufungwa kwa kitabu cha usajili wa wanachama tarehe 18 Mei 2011 hadi tarehe 2 Juni 2011.
6. Kutangaza, ikikubaliwa na Mashirika ya Udhibiti, hisa moja ya ziada kwa kiwango cha hisa moja iliyolipiwa kwa kila hisa zinazomilikiwa na kulipiwa kwenye mtaji wa kampuni kwa wenye hisa walio kwenye kitabu cha usajili wa wanachama kufikia tarehe 17 Mei 2011 na kuidhinisha kufungwa kwa kitabu cha usajili wa wanachama tarehe 18 Mei 2011 hadi 2 Juni 2011.
7. Kuchagua wakurugenzi:
   - 6.1 John PN Simba, anastaafu kwa zamu kulingana na Kifungu cha Sheria za Kampuni na anajiwasilisha kuchaguliwa upya.
   - 6.2 William R Dommisse, anastaafu kwa zamu kulingana na Kifungu cha Sheria za Kampuni na anajiwasilisha kuchaguliwa upya.
   - 6.3 Margaret M Dawes, anastaafu kwa zamu kulingana na Kifungu cha Sheria za Kampuni na anajiwasilisha kuchaguliwa upya.
8. Kuidhinisha malipo ya Wakurugenzi.
9. 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
10. Kutekeleza shughuli nyingine yoyote kwa ruhusa ya Mwenyekiti ambayo arifa ya masaa 48 ilikuwa imepewa Katibu wa Kampuni katika afisi iliyosajiliwa ya Kampuni.
11. SHUGHULI MAALUM: Marekebisho ya Sheria za Kampuni

Kufikiria na ikikubaliwa kupitisha maazimio maalum yafuatayo:

1. Kwamba Kifungu cha sheria nambari 95 cha sheria za kampuni kifutiliwe mbali na badala yake kuwekwa kifungu kipya cha sheria nambari 95:

(a) Kampuni inaweza kuwekeza, kutumia au kutekeleza kwa njia ambayo wakurugenzi wataona inafaa na kulingana na kanuni zinazoambatana na kushughulikiwa kwa mgao wa faida wa kampuni, mgao wa faida unaodaiwa wenyehisa wasiopatikana iwapo:

(i) Kwa muda wa miezi 12 hundi za mgao wa faida zilizotumwa na kampuni zimerejeshwa bila kudaiwa na pesa kuchukuliwa na wenyewe: na

(ii) Hakuna mawasiliano yoyote yaliyopokelewa na kampuni kutoka kwa mwanachama , au mtu mwingine yeyote anayestahili, katika muda huo wa kipindi cha miezi 12: na

(iii) Kampuni katika muda huo wa miezi 12 iliyotangulia haijapokea ilani na/au maelezo yoyote yanayoridhisha wakurugenzi kuhusu mahali aliko au kuwepo kwa mwanachama au mtu anayestahili kupokea: na

b) Iwapo mwanachama au mtu anayestahili kupata mgao huo atadai mgao huo wa faida ambao haukulipwa katika kipindi cha miaka 6 kampuni itamlipa mwanachama huyo malimbikizi ya mgao wake wa faida.

c) Hakuna mgao wowote wa faida utakaojipatia riba dhidi ya kampuni.

d) Baada ya kipindi cha miaka 7 kutoka tarehe ya kutolewa kwa hundi ya mgao wa faida kwa aliyetajwa hapo juu, kipindi chochote au kingine kilichoamuliwa na sheria zinazohusika na ambapo madai hayakufanywa na mwanachama au mtu anayestahili kupokea mgao huo, mgao huo wa faida utawekezwa katika Hazina ya Fidia ya Uwekezaji, Investor Compensation Fund, au shirika lingine lolote zililobuniwa na serikali au linginelo, na mwanachama hataweza kufanya madai mengine yoyote kwa kampuni.

e) Hakuna wakfu utakaobuniwa kutokana na mgao huo wa faida ambao haujadaiwa, hakuna riba yoyote itakayopatikana au kutolewa kuhusiana na mgao huo wa faida na kampuni haitahitajika kutoa maelezo yoyote kuhusu pesa zilizopatikana kutokana na uwekezaji au utumiaji wa pesa hizo kwa njia ambayo wakurugenzi wataonelea inafaa.

Kwa amri ya Halmashauri

Emma Wachira

Katibu wa Kampuni

Tarehe: 15 Februari 2011

Kumbuka:

Mwanachama anayeruhusiwa kuhudhuria na kupiga kura katika mkutano huo na ambaye hawezi kuhudhuria anaweza kumteua mwakilishi kuhudhuria na kupiga kura kwa niaba yake.. Mwakilishi sio lazima awe mwanachama wa Kampuni. Ili ikubaliwe fomu ya mwakilishi ambayo 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 House, Barabara ya Kenyatta Avenue, S.L.P.10493, 00100 Nairobi au kutumwa kwa njia ya posta ili kufika kabla ya Ijumaa tarehe 13 Mei 2011 saa nne asubuhi.

Corporate Social Resposibilty

Our Corporate Social Responsibility program for 2010 was committed to activities that echo our brand essence "we have a sense for life" as well as our CSR policy that revolves around three main pillars: Supporting the education of needy children, Conserving our environment and Lifting the living standards of our communities.

A) SUPPORTING INITIATIVES IN EDUCATION

- **Financial Support to needy students :** The company is currently sponsoring several bright but needy students around the country by financing their tuition. Our aim is to give them and their communities hope and opportunity for a bright future.

Mathar Ritah Obote, a student at Loreto High School Limuru, one of the beneficiaries of Pan Africa's Education Initiatives

- **Starehe Girls Centre :** Pan Africa Life partners with Starehe Girls Centre in their Charity golf tournaments that are geared towards raising funds to facilitate various areas of the centre.

Pan Africa Life Staff presenting a cheque to Starehe Girls Centre

- **Donation of computers to needy schools :** We partnered with The Sunrise Schools of Africa in Waithaka and Kitengela, and donated computers to the two schools.

Happy students at The Sunrise of Africa Schools perform a skit after receiving computer donations

- **Project Hope Charity Concert :** In December 2010 Pan Africa was glad to present a cheque donation to the Lavington Mixed Secondary School (which provides education to needy students in the neighboring Kawangware/ Kangemi slums). The funds raised went towards the construction of additional classrooms.

Jubilant School official receives a cheque donation

- **Empowering the Youth through Aiesec :** We continue to partner with Aiesec, the world's largest student-run organization focused on providing a platform for youth leadership development. This year we have given them a KShs. 150,000/= annual sponsorship as well as donated stationery for their National Induction Seminar.

B) ENVIRONMENTAL CONSERVATION

- **Growing up green initiative :** The growing up green initiative is a campaign that focuses on long term conservation of the environment through planting of trees. Started in 2008, the initiative involves schools and local administration all over the country in environmental conservation. Pupils are assigned a tree each at an early age, to nurture until they graduate from the school.

- **PALAL Branch initiative :** In the year, tree planting was done in various areas around the country where members of staff from 13 of our branches partnered with local communities and planted a total of 2,600 trees.

- **Greenline Initiative :** Pan Africa supported the Green line initiative by the Kenya Wildlife Society where over 250,000 trees were planted around the Nairobi National game reserve on 5th June 2010.

Mama Sarah Obama in the company of Pan Africa Life staff graces a tree planting event at Kogelo Primary

C) CARING FOR OUR COMMUNITY

- **Water Tank Donation :** Our CSR projects selection criterion focuses on uplifting living standards of the communities in which we operate. In the year 2010, we focused on water harvesting initiatives and donated water tanks in various needy parts of the country.

- **Standard Chartered Marathon :** The company also took part in the SCBK Marathon geared towards raising funds for needy children to undergo eye surgery.

Pan Africa Life Staff at the SCBK Marathon 2010

Pan Africa Life staff with the Abantu for Life Home staff and children standing in front of a water tank they had just spent the day installing together (October 2010)

Corporate Social Resposibilty (continued)

- **The Mater Heart Run :** As it has been our practice, we participated in this year's Mater Hospital Heart Run, an annual family marathon event that raises funds to finance heart transplants for needy children all over the country.

- **Anti-jigger campaign :** We continued to support the anti-jigger campaign, an initiative by Ahadi Trust Kenya whose objective is to eradicate jiggers among the affected and infected communities all over the country.

Pan Africa Life Staff at the Mater Heart Run 2010

Cecilia Mwangi, Ahadi Kenya Ambassador gets a cheque from Pan Africa Life's Jane Ntutu, GM – Sales and Marketing

Members of Pan Africa Life Staff at work on the Anti Jigger campaign Sports and Treatment Day.

- **Project Baobab :** Pan Africa Life sponsored, via participation in a golf tournament, the Project Baobab whose objective is to help the youth acquire needed entrepreneurial skills.

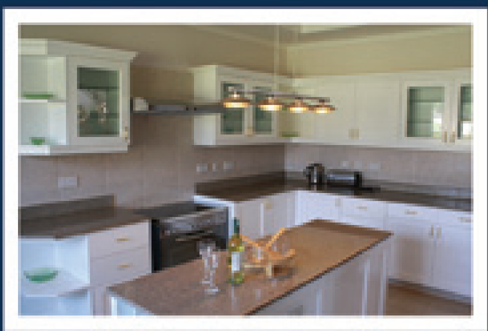
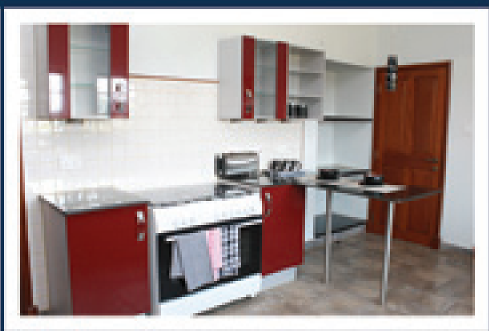
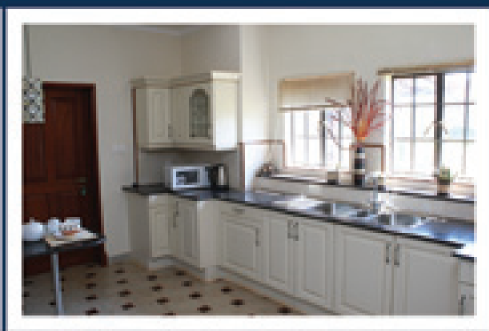
- **YMCA - Youth Event :** At Pan Africa Life we believe in nurturing our relationships with current and even prospective customers. To this end, the company supported the Young Men's Christian Association's youth rally for the year 2010. The company also supported The Cerebral Palsy Society of Kenya's rehabilitation program with a donation during their fundraising dinner.

Pan Africa Life Mega Branch Manager John Mbindyo presenting a cheque to Tone la Maji, a home for disadvantaged boys.

Pan Africa's Mega Branch Sales Manager, John Mbindyo presenting a cheque to Alice Gathogo, Executive Director of Project Baobab





MAE RIDGE DEVELOPMENT:

A property development initiative by Pan Africa Insurance Holdings Limited. Phase one is complete and comprises of twenty high-end residential units.

PRINCIPLES OF CORPORATE GOVERNANCE

The Pan Africa Insurance Group of Companies fully complies with the requirements for good corporate governance practices. The Board of Directors is committed to ensuring that the Group conducts its affairs with prudence, transparency, accountability, fairness and social responsibility thereby safeguarding the interests of all its stakeholders.

At Pan Africa Insurance Holdings Limited, we recognise that ethical business practices and the integrity of our internal 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. The Directors attach great importance to the need to conduct business and operations of the Group with generally accepted practice and endorse the internationally developed principles of good corporate governance.

The Group continues to adhere to the provisions and principles of good corporate governance as set out in the Guidelines on Corporate Governance practices by public listed companies in Kenya issued by the Capital Markets Authority.

The following policies have been implemented to guide the operations of the Group:

1. **Code of Ethics:** This outlines 10 ethical principles that 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 and the sanctions.

SELF-EVALUATION

The Board undertakes a Board and Sub-Committee effectiveness review as a form of self-evaluation annually for the members of the Board and its Committees. This facilitates the Board to review its performance collectively together with the performance of the Chairman, Chief Executive and the Company Secretary. The results of the evaluations are discussed and action plans tabled to strengthen the evaluation processes.

BOARD CHARTER

The Board is guided by the provisions of the Board Charter which provides a detailed overview of the Director's responsibilities, roles and the accountability of the Board members, collectively and effectively to ensure a balance of power and authority. The Board Charter is reviewed annually.

BOARD COMPOSITION

The 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 the relevant fields of expertise and is well placed to take the business to greater heights.

APPOINTMENTS TO THE BOARD

During the year 2010, Norman Kelly resigned as a director of the Company and was subsequently replaced by Nelius Bezuidenhout. Thomas A Wixley was also appointed as a Director. Thomas, a previous Chairman of Ernst & Young (SA), brings to the Board significant expertise and experience in accounting and corporate governance.

RE-ELECTION TO THE BOARD

In accordance with the provisions of the Company's Articles of Association, all the directors retire by rotation every three years and are eligible to offer themselves for re-election. In every year, new directors who are appointed during the year to fill any casual vacancies, are subject to election by the shareholders during the Annual General Meeting and thereafter offer themselves for re-election every three years.

NEW DIRECTORS' INDUCTION AND ON GOING TRAININGS

New directors are taken through a detailed induction programme covering the Group's businesses, their roles and responsibilities as Directors, legal, statutory obligations required of Directors. During the year, all Directors endeavour to receive updated trainings in corporate governance and Risk management.

RESPONSIBILITIES

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

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.

SUCCESSION PLANNING

The Group has implemented a succession planning model which is updated regularly. The Succession planning model comprises of documentation relating to potential candidates for leadership and key positions within the Company, training and development initiatives for the potential successors. The Succession planning model is approved annually by the Human Resources Committee.

RESPONSIBILITY FOR FINANCIAL REPORTING

It is the responsibility of the directors to prepare 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. The profiles of the directors are described in page 10 -11 of this Annual Report. By way of summary, the Board benefits from professional knowledge of its members in accounting, architecture, entrepreneurship, insurance , finance , law 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 the formal quarterly Board meetings. Directors also continually avail themselves on areas of their expertise, particularly, accounting, law, insurance and strategic management.

REMUNERATION

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 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.

LEGAL AND STATUTORY COMPLIANCE

The Group is regulated by various Acts of Parliaments namely: Insurance Act, Company Act, Capital Market Act, NSE Listing requirements, Retirement Benefits Act, Income Tax Act, VAT Act, Custom and Exercise Duty Act, Employment Act amongst others. The Group continuously reviews compliance to various statutory regulations to assess the impact they will have in the Group. All changes in the regulations are updated to the board through the quarterly compliance report. The Group Compliance Officer ensures that the Group complies with all statutory requirements on a continuous basis. The Group Compliance Report highlights the status of this compliance on a monthly basis. This report is discussed in the monthly Management meetings.

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 every six months and in the event that there are changes, the directors disclose their interest at the next board meeting. 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

The Board is responsible for the management of the Company and formal meetings are therefore of great importance. The Board has delegated some of its responsibilities to three committees to enable it to carry on its responsibilities: Audit & Risk Committee, Investment Committee and Human Resources Committee. The membership of the committees is reviewed annually.

Committee Charters

Each Committee has a Committee Charter which describes the terms of reference for each Committee as approved by the Board and are reviewed annually.

Audit and Risk 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 2010 were as in the Table 1.

Investment Committee

The primary functions of the Investment Committee are: To establish appropriate investment guidelines for the Life business; 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 is shown in Table 2.

Table 1: Audit Committee Membership

Member	Directorship Status	Attendance at Meetings
Thomas Wixley (Chairman)	Non-Executive Director	100%
Margaret Dawes	Non-Executive Director	100%
Robert Dommisse	Non-Executive Director	75%
Baloobhai Patel	Non-Executive Director	100%
Susan Mudhune	Non-Executive Director	75%

Human Resources Committee

The members of the Human Resources Committee are described in Table 3 below. The proceedings of the Human Resources Committee is guided by the Human Resource Charter and the annual plan. Human Resources Committee 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.

Management Committees

The Chief Executive has established two 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 Committee (MANCOM) that meets monthly to review operational issues of the Company, with emphasis on the assessment and monitoring of the institution's operational risks

An approval framework guiding the kind of decisions that can be made by the management is reviewed by the Board at least once in the year.

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 accounts and for presenting a balanced and fair view of the financial position of the Company, Ernst & 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 liaise with management to ensure that the Group optimises its tax position and complies with all tax matters.

Table 2: Investment Committee Membership

Member	Directorship Status	Attendance at Meetings`
Baloobhai Patel (Chairperson)	Non-Executive Director	100%
Tom Gitogo	Chief Executive	100%
James Gitoho	Non-Executive Director	100%
John Simba	Chairman of the Board	100%

Table 3: Human Resources Committee Membership

Member	Directorship Status	Attendance at Meetings
James Gitoho (Chairperson)	Non-Executive Director	100%
Margaret Dawes	Non-Executive Director	100%
John Simba	Non-Executive Director	100%
Susan Mudhune	Non-Executive Director	75%

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 also reviews all new products developed by the company. He also advises the Board on the performance of these products. The statutory actuary reports independently and directly to the Board at board meetings where the half year results and the end year results are being considered.

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.

Lloyd Masika

A significant component of the Investments within the Group comprise of residential and commercial properties. In 2010, Lloyd Masika were appointed as the property managers responsible for the management of these commercial properties, collection of rent, general repairs and maintenance. Quarterly reports from Lloyd Masika are tabled before the Board for discussion at every meeting.

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 (30 June and 15 August). The Company Secretary regularly disseminates written notices to inform the directors, employees and agents regarding insider trading legislation, and advises them on the closed and open periods.

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

Table 5: Director's shareholding as at 31 December 2010

Name of Director	Shareholding
Baloobhai Patel	9,599,400
Tom Gitogo (Chief Executive)	10,000
John Simba (Chairman)	28,500
James Gitoho	4,000

Communication with shareholders

The Board continuously seeks to improve its communication efforts through more detailed disclosure of relevant financial and other information. The Board appreciates the importance of dissemination of accurate information to all the stakeholders. 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 results in the English daily newspapers and by publication of the year-end results in the 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 accounts, which are sent out to all shareholders, entitled to attend the annual general meeting. The shareholders are encouraged to attend the Annual General meeting in order to have their questions answered and other issues addressed.

Table 6: Top ten shareholders as at 31 December 2010

	2010 Number of Shares	%	2009 Number of Shares	%
Hubris Holdings Limited	24,000,000	50.00	24,000,000	50.00
Baloobhai Patel	9,599,400	20.0	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	658,069	1.37	657,669	1.37
Standard Chartered Nomines Ltd A/C 9397	627,369	1.31	-	-
Cannon Assurance (Kenya) Limited	583,288	1.22	527,788	1.10
Apollo Insurance Company Limited	325,695	0.68	226,000	0.47
Financial Fixtures Limited	287,237	0.60	287,237	0.60
Standard Chartered Nomines Ltd A/C 9595	264,600	0.55	-	-
TOTAL	**40,080,629**	**83.51**	**38,032,305**	**79.23**

Distribution of shareholders

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 7 and 8 below:

Table 7: Distribution Schedule

	Number of Shareholders	Number of Shares	%
Less than 1,000	1,928	996,639	2.08
1,001 - 5,000	508	983,600	2.05
5,001 - 10,000	63	441,533	0.92
10,001 - 50,000	68	1,374,564	2.86
50,000 - 100,000	15	930,466	1.94
More than 100,000	14	43,273,198	90.15
TOTAL	**2,596**	**48,000,000**	**100**

Table 8:Shareholder's Profile

Category	Number of Shareholders	Number of Shares	%
Local Corporate	142	34,848,499	72.60
Local Individual	2,259	12,595,914	26.24
Foreign Investors	195	555,587	1.16
TOTAL	**2,596**	**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 Table 9 below.

Table 9: Immobilisation Report as at 31 December 2010

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	11,002,968	22.92
Total Number of Non-immobilised Shares	36,997,032	77.08

Going Concern

The Board submits this annual report and audited financial statements for the year ending 31 December 2010. 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

15 March 2011

Margaret Dawes
Director

15 March 2011

"From the first time I saw him, I knew I would do anything for my boy, including giving him the very best education so he can make his own way."

Martha Sule, new mother to 6 month old Jimmy

*At Pan Africa Life, your dreams are our dreams. Trust our **FlexiEducator** product to get you there.*

Our Corporate Achievements in 2010

synergy with our clients

The Insurance Awards 2010
LIFE INSURER OF THE YEAR
WINNER

The Insurance Awards 2010
ICT AWARD
1ST RUNNER UP

The Insurance Awards 2010
CUSTOMER SERVICE AWARD
WINNER

The Insurance Awards 2010
FRAUD DETECTION &
PREVENTION INITIATIVE
OF THE YEAR
WINNER

The Insurance Awards 2010
CLAIMS SETTLEMENT AWARD
WINNER

Our Corporate Achievements in 2010

Insurance Institute of Kenya
ANNUAL QUIZ
WINNER

Insurance Institute of Kenya
GOLF TOURNAMENT
TEAM PRIZE FOUR BALL

Sanlam
Bancassurance Awards
BEST OVERALL
ADMINISTRATION
2010

Fire Award 2010
1ST RUNNER UP
INSURANCE
CATEGORY

Company of the year Awards
(COYA)
MANAGER OF THE YEAR
JAMES MUIRURI

Sanlam
Bancassurance Awards
BEST OVERALL ACHIEVER

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 2010.

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 2010.

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

Date: 15 March 2011

Report of the Independent Auditors
to the Shareholders of Pan Africa Insurance Holdings Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Pan Africa Insurance Holdings Limited (the Company) and of its subsidiaries (the Group), which comprise the consolidated and company statement of financial position as at 31 December 2010, the consolidated and company income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 45 to 125.

Directors' Responsibility for the Financial Statements

The directors of the company and Group 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, and for such internal control as the directors determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an 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 about 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 entity'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 financial statements present fairly, in all material respects, the financial position of the company and the Group as at 31 December 2010, and of the company's and 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) 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

Ernst & Young
05 April 2011

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 2010 KShs.'000	As at 31 Dec 2009 KShs.'000
a) Group embedded value		
Shareholders' adjusted net assets	3,493,229	2,896,394
Net value of in-force business	1,057,447	914,317
Gross value of in-force business	1,678,553	1,398,156
Tax provision	(503,566)	(419,447)
Cost of Capital Adequacy Requirement (CAR)	(117,540)	(64,392)
Embedded value	4,550,676	3,810,711

b) Embedded Value Earnings

The embedded value earnings are derived as follows:	As at 31 Dec 2010 KShs.'000	As at 31 Dec 2009 KShs.'000
Embedded value at end of year	4,550,676	3,810,711
Embedded value at beginning of year	(3,810,711)	(2,999,279)
Change in embedded value	739,965	811,432
Dividends paid in the year	81,600	-
Embedded value earnings	821,565	811,432

2. (b) Embedded Value Earnings continued

	As at 31 Dec 2010 KShs.'000	As at 31 Dec 2009 KShs.'000
These earnings can be analysed as follows:		
Adjustment to fair value of subsidiary	237,627	888,746
Roll forward	157,608	279,044
Investment return on free assets	21,375	26,405
Expected return on life business in-force	136,233	252,639
Change over the period	426,330	(356,358)
Value of new business at year end	161,159	122,594
Value of new business at point of sale	247,807	174,806
Tax on value of new business	(74,342)	(52,442)
Value of CAR at point of sale	(21,279)	(11,513)
Expected return on new business to end of year	8,973	11,743
Changes in assumptions and methodology	(119,813)	(325,100)
Experience variations	48,262	(232,850)
Increase in NAV for other subsidiaries	336,722	78,998
Total earnings	821,565	811,432

3. Value of New Business

	2010	2009
Value at point of sale (gross of tax)	247,807	174,806
Tax on value at point of sale	(74,342)	(52,442)
Cost of CAR at point of sale	(21,279)	(11,513)
Expected Return	8,973	11,743
Value of new business	161,159	122,594

4. Sensitivity to the Risk Discount Rate

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

Risk Discount Rate	10.70%	11.70%	12.70%
	KShs.'000	KShs.'000	KShs.'000
Shareholders' net assets	3,493,229	3,493,229	3,493,229
Value of in-force business	1,263,664	1,057,447	1,163,734
Embedded value	4,756,893	4,550,676	4,656,963
Value of one year's new business at valuation date	182,546	161,159	151,373

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:

	2010 % p.a.	2009 % p.a.
Risk discount rate	11.70	14.90
Overall investment returns (pre tax)	7.73	10.53
Expense Inflation Rate	3.70	6.90

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.

The table below summarises mortality rates based on investigations:

	2010	2009
Mortality		
Basic (other than Immediate Annuities)	SA56-62	SA56-62
Immediate Annuities	A(55)	A(55)
Adjustment for females	-3	-3
AIDS	Kenyan Aids Tables	Kenyan Aids Tables
AIDS adjustment		
FFP Mortality		
Main member	60% SA56-62; 20% Kenyan AIDS	70% SA56-62; 20% Kenyan AIDS
Spouse	150% SA56-62; 30% Kenyan AIDS	180% SA56-62; 30% Kenyan AIDS
Child	360% SA56-62; 40% Kenyan AIDS	420% SA56-62; 40% Kenyan AIDS
Parent	100% SA56-62; 35% Kenyan AIDS	120% SA56-62; 35% Kenyan AIDS
Wider Family		
WP,FS and FE Mortality		
Numbers-based rates	50% basic and 6% Aids	50% basic and 6% Aids
Riders		
Claims ratio on riders	60%	60%
KH Mortality		
Numbers-based rates	150% of Kinga Halisi accident tables, FlexiShield 100% Tables	150% of Kinga Halisi accident tables, FlexiShield 100% Tables
CREDIT LIFE (SINGLE PREMIUM)		
Basic mortality	75% of SA56-62 BBK, 50% of SA56-62 Other	80% of SA56-62 BBK, 50% of SA56-62 Other
AIDS Mortality	Not used	Not used

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 2010.

e) Persistency / Surrender Basis

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

The table below summarises Persistency rates based on investigations:

	2010	2009
Withdrawal Rates FFP/FFC		
Year 1	36%	35%
Year 2	15%	15%
Year 3	10%	10%
Year 4	15%	18%
Year 5+	10%	13%
Withdrawal Rates Wealth Provider		
Year 1	40%	40%
Year 2	10%	10%
Year 3	8%	8%
Year 4	10%	10%
Year 5+	8%	10%
Withdrawal Rates FlexiSaver		
Year 1	37%	40%
Year 2	13%	10%
Year 3	8%	8%
Year 4	10%	10%
Year 5+	8%	-
Withdrawal Rates FlexiEducator		
Year 1	33%	29%
Year 2	12%	10%
Year 3	8%	8%
Year 4	10%	10%
Year 5+	8%	
Withdrawal Rates KH/Shield		
Year 1	47%	41%
Year 2	20%	20%
Year 3	15%	15%
Year 4+	15%	15%
Withdrawal Rates PAIC		
Year 3+	8%	8%

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 2010	1,057,447	
Investment return (and inflation) decreased by 1,0% and with bonus rates and discount rates changing commensurately	1,041,479	-1.5%
Equity/property assets fall by 10% without a corresponding fall/rise in dividend / rental yield - Assume portfolio asset mix is rebalanced after fall in market values	1,053,171	-0.4%
Increase expected return on equities/property assets by 1,0% p.a. due to a change in the equity/property risk premium with no consequential changes to discount rates	1,087,499	2.8%
'Shock scenario *	1,080,636	2.2%
Expenses and persistency		
Non commission maintenance unit expenses (excluding investment expenses) decrease by 10%	1,126,708	6.5%
Discontinuance rates decrease by 10%	1,055,830	-0.2%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	1,129,482	6.8%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	1,053,080	-0.4%

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

Value of one year's new business as at 31 December 2010	161,159	
Investment return (and inflation) decreased by 1,0% and with bonus rates and discount rates changing commensurately	163,024	1.2%
Equity/property assets fall by 10% without a corresponding fall/rise in dividend / rental yield - Assume portfolio asset mix is rebalanced after fall in market values	188,591	17.0%
Shock scenario *	165,006	2.4%
'New business volumes decrease by 10%	125,039	-22.4%
Expenses and persistency		
Maintenance unit expenses (excluding investment expenses) decrease by 10%	179,615	11.5%
Non-commission acquisition expenses decrease by 10%	184,399	14.4%
Discontinuance rates decrease by 10%	166,600	3.4%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	191,920	19.1%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	160,071	-0.7%

Notes:

Shock scenario*: .Shock scenario is defined as an immediate 30% drop in equity values, 15% drop in property values, overseas assets fall at least 20% and fixed interest yields rise 25% (i.e. higher assumed returns and inflation rates as well as risk discount rates).

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.

15 March 2011

Income Statement
For the year ended 31 December 2010

		Group		Company	
		2010	2009	2010	2009
	Note	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Gross premium income	3(a)	3,830,693	3,025,151	-	-
Premium ceded to reinsurers	3(b)	(287,744)	(203,971)	-	-
Net premium income		3,542,949	2,821,180	-	-
Fees and commission income	4	69,639	48,468	-	-
Investment income	5(a)	420,398	361,501	-	849
Fair value gains/(losses)	5(b)	689,884	98,539	-	290
Other operating revenue	5(c)	128,684	65,344	106,582	65,511
Total other revenue		1,308,605	573,852	106,582	66,650
Total revenue		4,851,554	3,395,032	106,582	66,650
Gross benefits and claims paid	6(a)	(1,067,855)	(1,020,461)	-	-
Claims ceded to reinsurers	6(a)	110,874	96,305	-	-
Gross change in contract liabilities	6(a)	(2,064,625)	(1,330,358)	-	-
Change in contract liabilities ceded to reinsurers	6(a)	22,707	4,295	-	-
Net benefits and claims		(2,998,899)	(2,250,219)	-	-
Fee and commission expense	6(b)	(890,043)	(620,438)	-	-
Other operating and administrative expenses	7	(603,311)	(417,092)	(86,176)	(7,353)
Finance costs	10	-	-	(19,291)	(24,665)
Total benefits, claims and other expenses		(4,492,253)	(3,287,749)	(105,467)	(32,018)
Profit before share of profit of an associate		359,301	107,283	1,115	34,632
Share of profit/(loss)of associate	15(b)	305,899	66,364	1,640	1,692
Profit/ (loss) before tax		665,200	173,647	2,755	36,324
Income tax expense	11	(75,942)	(34,731)	-	-
Profit/ (loss) for the year		589,258	138,916	2,755	36,324
Profit attributable to:					
Equity Holders of the parent		589,258	138,916	2,755	36,324
Non-controlling interests		-	-	-	-
		589,258	138,916	2,755	36,324
Earnings per share:					
Basic	32	12.28	2.89	0.06	0.76
Diluted	32	12.28	2.89	0.06	0.76

Statement of Comprehensive Income
For the year ended 31 December 2010

synergy with our clients

		Group		Company	
		2010	2009	2010	2009
	Note	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Profit/(loss) for the year:		589,258	138,916	2,755	36,324
Other comprehensive income:					
Surplus/(deficit) on revaluation of property, plant and equipment		-	-	-	-
Deferred income tax relating to components of other comprehensive income		-	-	-	-
Other comprehensive income for the year, net of tax		-	-	-	-
Total comprehensive income for the year attributable to the owners of the company		589,258	138,916	2,755	36,324
Attributable to:					
Equity Holders of the parent		589,258	138,916	2,755	36,324
Non-controlling interests		-	-	-	-
		589,258	138,916	2,755	36,324

Statement of Financial Position
As at 31 December 2010

	Note	Group 2010 KShs.'000	Group 2009 KShs.'000	Company 2010 KShs.'000	Company 2009 KShs.'000
ASSETS					
Intangible assets	13	23,195	6,051	-	-
Property and equipment	12	65,401	59,973	10,875	28
Investment properties	14	435,600	391,000	-	-
Land and development	22	465,341	538,658	502,790	538,658
Investments in subsidiaries	15(a)	-	-	909,270	909,270
Investment in associates	15(b)	864,831	567,327	10,643	9,003
Loans	17	613,443	436,492	-	-
Financial Instruments:					
Held to maturity financial assets	16	2,056,052	1,167,909	-	-
Available for sale financial assets	16	3,827	3,827	3,827	3,827
Fair value through profit or loss	16	3,900,292	3,107,001	-	8,801
Reinsurance assets	26	139,410	116,703	-	-
Income tax receivable	11	-	30,389	13,680	13,680
Insurance receivables	23	181,027	210,131	-	-
Receivables and other financial assets	18	274,483	133,255	279,724	94,720
Cash and cash equivalents	24	1,648,719	911,802	22,193	489
TOTAL ASSETS		10,671,621	7,680,518	1,753,002	1,578,476
EQUITY AND LIABILITIES					
CAPITAL AND RESERVES					
Issued share capital	25	240,000	240,000	240,000	240,000
Share premium	25	364,431	364,431	364,431	364,431
Revaluation reserves	25	7,507	7,507	-	-
Statutory fund	25	494,837	351,359	-	-
Retained earnings		725,746	361,566	267,349	346,194
TOTAL CAPITAL AND RESERVES		1,832,521	1,324,863	871,780	950,625
LIABILITIES					
Insurance contract liabilities	26	3,178,811	2,475,152	-	-
Investment contract liabilities	26	4,022,147	2,661,182	-	-
Amounts payable under deposit administration contracts	26	706,181	469,204	-	-
Provisions	30	85,924	111,285	-	-
Deferred tax	29	-	28,930	-	-
Current tax	11	36,280	-	-	-
Insurance payables	28	255,813	134,378	-	-
Payables and other charges	31	553,944	475,524	881,222	627,851
TOTAL LIABILITIES		8,839,100	6,355,655	881,222	627,851
TOTAL EQUITY AND LIABILITIES		10,671,621	7,680,518	1,753,002	1,578,476

The financial statements were approved by the Board of Directors on 15 March 2011 and signed on its behalf by:

John P N Simba
Chairman
15 March 2011

Tom Gitogo
Chief Executive
15 March 2011

Group Statement of Changes in Equity

For the year ended 31 December 2010

	Note	Share capital KShs.'000	Share premium KShs.'000	Revaluation surplus KShs.'000	Statutory Fund KShs.'000	Retained earnings KShs.'000	Total KShs.'000
Year Ended 31 December 2009:							
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 shareholders		-	-	-	(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
Year Ended 31 December 2010:							
At 1 January		240,000	364,431	7,507	351,359	361,566	1,324,863
Total comprehensive income:							
Profit for the year		-	-	-	-	589,258	589,258
Transactions with owners:							
Dividends paid						(81,600)	(81,600)
Transfer to shareholders		-	-	-	(185,000)	185,000	-
Transfer to statutory fund	25	-	-	-	328,478	(328,478)	-
At 31 December		240,000	364,431	7,507	494,837	725,746	1,832,521

Company Statement of Changes in Equity

For the year ended 31 December 2010

	Note	Share capital KShs.'000	Share Premium KShs.'000	Retained earnings KShs.'000	Total KShs.'000
Year Ended 31 December 2009:					
At I January – As previously reported		240,000	364,431	359,447	963,878
Prior period adjustment		-	-	(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
Year Ended 31 December 2010:					
At 1 January – As previously reported		240,000	364,431	346,194	950,625
Total comprehensive income:					
Profit for the year		-	-	2,755	2,755
Transactions with owners					
Dividends:-					
Dividends paid		-	-	(81,600)	(81,600)
31 December		240,000	364,431	267,349	871,780

a) GROUP

	Note	Ordinary life KShs.'000	Super annuation KShs.'000	Investments KShs.'000	Group KShs.'000
OPERATING ACTIVITIES					
Net cash generated from operations	36(a)	510,794	814,768	24,411	1,349,973
INVESTING ACTIVITIES					
Purchase of property and equipment		(25,630)	(8,543)	(11,719)	(45,892)
Net sale of financial assets through profit and loss		49,873	91,436	95,704	237,013
Net purchase of government securities		-	(958,423)	-	(958,423)
Investments in land and development		-	-	(73,317)	(73,317)
Proceeds from sale of houses		-	-	95,400	95,400
Mortgage loans advanced		(54,171)	-	-	(54,171)
Repayment of mortgage loans		34,160	-	-	34,160
Interest received from government securities		88,257	162,798	-	251,055
Net cash generated from / (used in) investing activities		92,489	(712,732)	106,068	(514,175)
FINANCING ACTIVITIES					
Dividends paid		-	-	(81,600)	(81,600)
Dividends from associate		-	-	8,394	8,394
Net cash used in financing activities		-	-	(73,206)	(73,206)
Increase in cash and cash equivalents		603,283	102,036	57,273	762,592
Cash at start of year		568,820	335,884	(18,577)	886,127
Cash at end of year		1,172,103	437,920	38,696	1,648,719

Statement of Cash Flows

For the 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	36(a)	158,081	486,682	206,546	851,309
INVESTING ACTIVITIES					
Investment income		362,421	128,962	(8,292)	483,091
Purchase of property and 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)	27,101	(648,286)
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 cash (used in) investing activities		(149,040)	(417,735)	(309,266)	(876,041)
FINANCING ACTIVITIES					
Dividends from subsidiary		(51,365)	-	51,365	-
Dividends from associate		-	-	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
Cash at end of year		568,820	335,884	(18,577)	886,127

b) COMPANY

	Note	2010 KShs. '000	2009 KShs. '000
OPERATING ACTIVITIES			
Net cash generated from operations	36(b)	168,156	349,749
INVESTING ACTIVITIES			
Investment income		-	(23,815)
Net Purchase of financial assets through profit and loss		8,801	(823)
Increase in land and development		(37,948)	(494,093)
Purchase of property and equipment		(10,030)	-
Net Proceeds from sale of plots		-	65,511
Net cash used in investing activities		(39,177)	(453,220)
FINANCING ACTIVITIES			
Dividend from subsidiary		-	51,365
Dividends paid		(81,600)	-
Net cash (used in) / generated from financing activities		(81,600)	51,365
Decrease in cash and cash equivalents		47,379	(52,106)
Cash at start of year		(25,186)	26,920
At end of year		22,193	(25,186)

1. PRINCIPAL ACCOUNTING POLICIES

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

a. Basis of preparation

The financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act. 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 income statement. 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 income statement as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to income statement 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 current and 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 Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

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 note (ag).

b. New and amended standards, interpretations and improvement

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009 including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009

These revised standards and interpretations did not have any material effect on the financial performance or position of the Group. They did, however, give rise to additional disclosures in some occasions.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

b. New and amended standards and interpretations (continued)

The principal effects of these changes are as follows:

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended):

- o IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.
- o IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions 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. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

Listed below are other standards and interpretations that have been issued and are applicable to the 31 December 2010 reporting period, but have no significant impacts on the financial statements

IFRS 2 Share-based Payment (Revised):

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It does not have an impact on the financial position or performance of the Group.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment has no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Improvements to IFRSs:

In April 2009 the IASB issued its annual amendments to International Financial Reporting Standards (IFRSs) and the related Bases for Conclusions and guidance made. The IASB uses the annual improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of a major project. The amendments primarily deal with a view to remove inconsistencies and clarifying wording. Pan Africa Insurance Holdings Limited has adopted the following amendments to standards as they come to effect for the reporting period beginning on 1 January 2010:

- IFRS 2 Share-based Payment: the amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2 and IFRS 3. It will be applied retrospectively for annual periods beginning on or after 1 July 2009 with early application permitted. This has no impact on the Group as there are no such activities during 2010.
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: amendment clarifies the disclosure requirements for non-current assets or disposal groups classified as held for sale are only those set out in IFRS 5 although the general requirements of IAS 1 still apply to them. It is effective for annual periods beginning on or after 1 January 2010 and applied prospectively. This has no impact on the Group as the Group has no discontinued operations or held for sale assets that fall into the scope of IFRS 5.
- IFRS 8 Operating Segments: amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. It is effective for annual periods beginning on or after 1 January 2010 and applied retrospectively. This has no impact on the Group as the Group's segment assets and liabilities are used by the chief operating decision maker hence be reported on the financial statements.

1.PRINCIPAL ACCOUNTING POLICIES (continued)

b. New and amended standards and interpretations (continued)

- IAS 1 Presentation of Financial Statements: amendment clarifies that the classification of a convertible instrument as current or non-current liability is based on requirements to transfer cash or other assets, and the effect of conversion options is ignored.. It is applicable retrospectively to annual periods beginning on or after 1 January 2010. This has no impact on the Group as the Group does not hold convertible financial instruments that are classified as liability.
- IAS 7 Statement of Cash Flows: amendment explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. It is applicable retrospectively to annual periods beginning on or after 1 January 2010. This has no impact on the Group as the cash flow from investing activities does not include expenditures that results in recognised assets.
- IAS 17 Leases: the amendment removes the specific guidance on classifying leases of land and ofbuildings as operating or finance leases such that only the general guidance remains. It is effective for annual periods beginning on or after 1 January 2010 and applied retrospectively unless information necessary to apply the amendment retrospectively is not available.
- IAS 36 Impairment of Assets: The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.
- IAS 39 Financial Instruments: Recognition and Measurement: amendment clarifies the assessment ofloan prepayment penalties as embedded derivatives, the scope exemption for contracts associated with a business combination and the accounting treatment for gains and losses on cash flow hedges.
- IFRIC 9 Reassessment of Embedded Derivatives: amendment clarifies that IFRIC 9 does not apply toembedded derivatives in contracts acquired in a combination between entities under common control or the formation of a joint venture. This has no impact on the Group as the Group does not have any joint venture business.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation: amendment makes amendment to the restriction on the entity that can hold hedging instruments. This has no impact on the Group as the Group does not hedge for the foreign operations).

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.

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 inter-company balances, transactions, income and expenses and profits and losses resulting from inter-company transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if this results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

1.PRINCIPAL ACCOUNTING POLICIES (continued)

c) Consolidation (continued)

ii) Associates

The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity, either directly or through other comprehensive income Profits or losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of the associate is shown on the face of the income statement. This is profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associates after factoring in other compreheinsive profit/(loss).

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring its accounting policies in line with the Group. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in associates. The Group determines at each reporting date, whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. Any interest in the equity of the associate that was recorded directly in other comprehensive income of the investor is recycled to the profit or loss and is included in the calculation of the gain or loss on disposal.

d) Segment reporting

An operating segment is a component of an entity:

a) That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entitiy)

b) Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decision about resources to be allocated to the segment and assess its performance, and

c) For which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues for example startup operations may be operating segments before earning revenues.

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.

When revenue is recognised the group estimates whether rebates or trade discounts will be provided and include this estimate in measuring the revenue at the amount received or receivable. Later changes in estimates are included n the revenue line.

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.

Realised / unrealised gains and losses

Realised / unrealised gains and losses recorded in the income statement on investments include gains and losses on financial assets and investment properties. Gains and losses also include the ineffective portion of hedge transactions. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

f) Benefits, claims and expenses recognition

Gross benefits and claims

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

f) Benefits, claims and expenses recognition (continued)

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 or insurance contract liabilities 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 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 is 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

Property and equipment, including owner-occupied property, is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

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 income statement 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 income statement. Annually, the difference between depreciation charge based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation surplus reserve to retained earnings.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

j) Property and equipment (continued)

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

Depreciation on an item of property and equipment commences when it is available for use and to continue to be depreciated until it is derecognised, even if during that period the item is idle. Depreciation of an item ceases when the item is retired from active use and is being held for disposal.

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.

All categories of property 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 is 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

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.

The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. The Investment properties are stated at fair value, which has been determined based on valuations performed by Knight Frank Limited as at 31 December 2010

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.

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.

When the Group completes the construction or development of a self constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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).

Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, even when idle. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised and ceases temporarily while the residual value exceeds or is equal to the carrying value

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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

An intangible asset shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal.

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

In the instance of specific funding obtained, the net borrowing cost capitalised is the actual borrowing cost incurred on the amount borrowed specifically to finance the asset less any investment income earned on surpluls funds. In the case of general borrowings, the capitalised borrowing cost is determined using the overall weighted average cost of the general borrowings during the year and applying this rate to the costs incurred on the asset. The amount capitalised can never exceed the borrowing costs incurred. 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

Financial instruments are recognised when the group or company becomes a party to the contractual provisions of the instrument. Financial assets are recognised and derecognised on the basis of trade date accounting.

Financial instruments are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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 though 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 portfolio 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 and information regarding these instruments are reported to the key management personnel on a fair value basis.

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. Gains and losses on loans and receivables are recognised on impairment, derecognition and through the amortisation process.

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. 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. Gains and losses on held to maturity assets are recognised on impairment, derecognition and through the amortisation process.

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.
The Group evaluated its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the Group is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held to maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity

1. PRINCIPAL ACCOUNTING POLICIES (continued)

n) Financial instruments (continued)

Derecognition of financial assets

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either: (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.
Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the amount of the asset and the maximum amount of consideration that the Group could be required to repay.
In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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 acquisition 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 reporting 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 financial assets carried at amortised cost, the Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are individually significant, but not impaired or 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 assets'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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

n) Financial instruments (continued)

Due from loans and advances to customers (continued)

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 allowances 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.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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 income statement 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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

p) Accounting for leases (continued)

Finance leases as the lessee (continued)

The finance cost is charged to the income statement 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 as lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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 income statement 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.

q) Land and development

Land and development, comprising plots held for resale and cost of houses constructed by the Group for sale, 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 and houses, which are deferred and released to income as the land and houses are 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 and insurance 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 premium deficiency, 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.

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, net of related PVIF and DAC, by using an existing liability adequacy test as laid out under Insurance Act. The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses,

1. PRINCIPAL ACCOUNTING POLICIES (continued)

s) Financial and insurance liabilities (continued)

Insurance contract liabilities (continued)

policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied, including discounted cash flows, option pricing models and stochastic modelling. Aggregation levels and the level of prudence applied in the test are consistent with Insurance Act requirements.

To the extent that the test involves discounting of cash flows, the interest rate applied may be prescribed by Insurance Act regulations or may be based on management's prudent expectation of current market interest rates. Any inadequacy is recorded in the income statement, initially by impairing PVIF and DAC and, subsequently, by establishing a technical reserve for the remaining loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. The assumptions do not include a margin for adverse deviation. Impairment losses resulting from liability adequacy testing can be reversed in future years if the impairment no longer exists, as allowed under Insurance Act Insurance Act.

t) Net asset value attributable to unit-holders

Unit trusts in which the Group has a percentage holding in excess of 50% have been consolidated. This liability is referred to as 'net asset value attributable to unit-holders'. These liabilities are designated at fair value through profit or loss. Fair value is measured at current unit values, which reflect fair values of underlying assets of the fund. These liabilities are derecognised when the related contracts are settled or disposed of.

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.

ii) 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.

iii) 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 and the amount can be measured reliably.

iv) 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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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 income statement. 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. Gains and losses on financial liabilities at amortised cost is recognised on derecognition and through the amortisation process. Gains and loss on financial liabilities at fair value through profit or loss are recognised in the income statement.

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 as at the reporting 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 tax assets is reviewed at each reporting 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 tax assets are reassessed at each reporting 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

w) Income Taxes (continued)

Sales taxes and premium taxes

Revenues, expenses and assets and liabilities 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 a non-adjusting event after the statement of financial position date.

y) Comparatives

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year. Where changes are made and affect the statement of financial position, a third statement of financial position at the beginning of the earliest period presented is presented together with the corresponding notes.

z) Risk and capital management

The Group has adopted IFRS 7 Financial Instruments:

Disclosures and the revised IAS 1:- Presentation of Financial statements. Note 37 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

Expenses are recognised in the income statement when a 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 expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of equipment).

i) 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.

ii) 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.

1.PRINCIPAL ACCOUNTING POLICIES (continued)

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.

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. 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 less costs to sell and the carrying value 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 finance cost.

1.PRINCIPAL ACCOUNTING POLICIES (continued)

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.

For the purpose of the consolidated cash flow, cash and cash equivalents consist of cash and cash equivalent as defined above, net of outstanding bank overdrafts.

af) Revaluation reserve

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

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 (s) above and in 5(a) of the embedded value report 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 Kenya's 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.

1.PRINCIPAL ACCOUNTING POLICIES (continued)

ii) Key sources of estimation uncertainty (continued)

a. Valuation of insurance contract liabilities (continued)

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation adjustments if appropriate.

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

b. Property and equipment

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

c. 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 30.

d. Impairment losses

Estimates made in determining the impairment losses on receivables. Such estimates include the determination 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.

ah) Events after the statement of financial position date.

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.

aj) Statutory fund.

The Group matches the assets to liabilities, after which there is a surplus/deficit that is transferred to the statutory fund. The Insurance Act regulations stipulate that only a maximum 30% of this can be transferred to the shareholders. The statutory actuary advices on the amount to be transferred to the shareholders. When a transfer is made to the shareholders, tax at the prevailing corporation rate 2010: 30% (2009:30%) is incurred

1.PRINCIPAL ACCOUNTING POLICIES (continued)

ak) Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment) The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduced a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues in a foreign currency (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments. This amendment will have no impact on the Group after initial application.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the Boards work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013, but can be early adopted. In subsequent phases, the Board will address impairment, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the current IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and liabilities. Changes to the classification and measurement of financial assets and liabilities could impact the measurement of these items and how the changes in carrying values are accounted for. However, the Group determined that the effect shall be quantified in conjunction with the other phases when issued to present a comprehensive picture.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment) - The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. IFRIC 14 provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

Improvements to IFRSs (issued in May 2010) – The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Group however, expects no significant impact from the adoption of the amendments on its financial position or performance. Amendments to IFRS 7 and IAS 1 will impact the disclosures in the financial statements.

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 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 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 Ordinary Life and Superannuation segments are the business of Pan Africa Life Assurance Limited while the other companies handle the Investments segment. The inter-segment transactions which occurred in 2010 and 2009 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 in Kenya.

2. BUSINESS SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2010:

	Ordinary life KShs.'000	Super-annuation KShs.'000	Investments KShs.'000	Elimination on consolidation KShs.'000	Total KShs.'000
Income					
Gross written premiums	1,697,407	2,133,286	-	-	3,830,693
Premiums ceded to reinsurers	(14,074)	(273,670)	-	-	(287,744)
Net Premium Income	1,683,333	1,859,616	-	-	3,542,949
Fee and commission income	3,987	65,652	-	-	69,639
Interest income	64,469	54,963	-	-	119,432
Investment income	186,230	158,769	32,872	(76,905)	300,966
Fair value gains and losses	673,702	2,169	14,013	-	689,884
Other operating revenue	1,937	-	106,582	20,165	128,684
Total other revenue	930,325	281,553	153,467	(56,740)	1,308,605
Total revenue	2,613,658	2,141,169	153,467	(56,740)	4,851,554
Gross benefits and claims paid	(410,235)	(657,620)	-	-	(1,067,855)
Claims ceded to reinsurers	4,675	106,199	-	-	110,874
Gross change in contract liabilities	(1,293,957)	(770,668)	-	-	(2,064,625)
Change in contract liabilities ceded to reinsurers	-	22,707	-	-	22,707
Net benefits and claims	(1,699,517)	(1,299,382)	-	-	(2,998,899)
Fee and commission expense	(310,151)	(579,892)	-	-	(890,043)
Other operating and administrative expenses	(453,994)	(83,413)	(65,904)	-	(603,311)
Finance cost	-	-	(19,291)	19,291	-
Total benefits, claims and other expenses	(2,463,662)	(1,962,687)	(85,195)	19,291	(4,492,253)
Profit before share of profit of an associate	149,996	178,482	68,272	(37,449)	359,301
Share of profit of an associate	-	-	305,899	-	305,899
Profit before tax	149,996	178,482	374,171	(37,449)	665,200
Income tax expense	(64,003)	(11,939)	-	-	(75,942)
Profit for the year	85,993	166,543	374,171	(37,449)	589,258

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

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
Realized gains	(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)	(524,433)	-	(1,330,358)
Change in contract liabilities ceded to reinsurers	-	4,295	-	4,295
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 amortization costs, have been charged to the respective operating segments.

2. BUSINESS SEGMENT INFORMATION (continued)

Segment statement of financial position:

At 31 December 2010:	Ordinary life KShs.'000	Super annuation KShs.'000	Investments KShs.'000	Elimination on consolidation KShs.'000	Group KShs.'000
ASSETS					
Intangible assets	23,195	-	-	-	23,195
Investment properties	435,600	-	-	-	435,600
Equity accounted investments	-	-	864,831	-	864,831
Investments in subsidiaries	-	-	967,870	(967,870)	-
Financial instruments	3,953,907	1,992,040	14,223	-	5,960,170
Long term reinsurance assets	-	139,410	-	-	139,410
Insurance receivables	85,604	95,422	-	-	181,026
Land and development	-	-	502,790	(37,449)	465,341
Other assets	1,860,195	815,877	724,750	(798,774)	2,602,048
Total assets	6,358,501	3,042,749	3,074,464	(1,804,093)	10,671,621
LIABILITIES					
Insurance contract liabilities	874,635	2,304,176	-	-	3,178,811
Investment contract liabilities	4,022,147	-	-	-	4,022,147
Deposit administration contracts	-	706,181			706,181
Other liabilities	686,105	8,582	1,036,048	(798,774)	931,961
Total liabilities	5,582,887	3,018,939	1,036,048	(798,774)	8,839,100
NET ASSETS	775,614	23,809	2,038,416	(1,005,319)	1,832,520
At 31 December 2009:					
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	-	116,703	-	-	116,703
Insurance receivables	43,694	166,437	-	-	210,131
Land and development	-	-	538,658	-	538,658
Other assets	485,443	422,353	30,575	-	938,371
Total assets	4,245,453	2,293,568	2,605,788	(1,464,291)	7,680,518
LIABILITIES					
Insurance contract liabilities	917,325	1,557,827	-	-	2,475,152
Investment contract liabilities	2,661,182	-	-	-	2,661,182
Deposit administration contracts	-	469,204	-	-	469,204
Other liabilities	191,600	194,997	859,943	(496,422)	750,118
Total liabilities	3,770,107	2,222,028	859,943	(496,422)	6,355,656
NET ASSETS	475,346	71,540	1,745,845	(967,869)	1,324,862

3. a) 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:

	2010 KShs.'000	2009 KShs.'000
New business: Recurring		
Individual life	241,168	205,824
Group business	201,545	97,294
New business: Single premiums		
Individual life	5,896	9,434
Group business	1,569,278	1,107,072
Total new business	2,017,887	1,419,624
Renewal recurring		
Individual life	1,450,343	1,296,913
Group business	362,463	308,614
Total renewal premium income	1,812,806	1,605,527
Total premium income	3,830,693	3,025,151

b) PREMIUMS CEDED TO REINSURERS

Section 29(1) of the Insurance Act requires all registered underwriters to have in place appropriate reinsurance arrangements being arrangements approved by the Commissioner of Insurance in respect of Insurance business underwritten in the course of the business. The Insurance Regulatory Authority requires all reinsurance treaties in respect of Long-Term Insurance business written in Kenya be locally placed. The Company has complied with this regulation.

	2010 KShs.'000	2009 KShs.'000
Ordinary life	14,074	13,247
Super annuation	273,670	190,724
	287,744	203,971

4. FEES AND COMMISSION INCOME

	2010 KShs.'000	2009 KShs.'000
Fees	3,987	3,614
Commission received	65,652	44,854
	69,639	48,468

5. INVESTMENT RETURN

a) INVESTMENT INCOME

	Group		Company	
	2010 KShs.'000	2009 KShs.'000	2010 KShs.'000	2009 KShs.'000
Rental income:				
Gross rental income	29,063	31,944	-	-
Net rental expenses	(9,675)	(14,370)	-	-
	19,388	17,574	-	-
Financial assets designated at fair value through profit or loss				
Interest income	119,432	177,657	-	848
Dividend income	39,525	27,403		1
Held-to-maturity financial assets interest income	180,874	99,815	-	-
Loans to related parties interest income	-	1,827	-	-
Loans and receivables interest income	50,713	37,026	-	-
Cash and cash equivalents interest income	10,466	199	-	-
Total investment income	420,398	361,501	-	849

b) FAIR VALUE GAINS /(LOSSES)

	Group 2010 KShs.'000	Group 2009 KShs.'000	Company 2010 KShs.'000	Company 2009 KShs.'000
Fair value gains on investment properties	44,600	34,000	-	-
Financial assets at fair value through profit or loss (designated upon initial recognition)				
Realised gains and losses on disposals				
Equity securities	10,987	(113,462)	-	(6)
Debt securities	254,566	17,516	-	16
Unrealised gains and losses	379,731	160,485	-	280
Total fair values gains and losses	689,884	98,539	-	290

The realized gains and losses on disposals relate to the gains/loss made on financial instruments since the last reporting date.

c) OTHER INCOME

	Group		Company	
	2010 KShs.'000	2009 KShs.'000	2010 KShs.'000	2009 KShs.'000
Sale of houses	327,500	-	327,500	-
Cost of sales	(200,753)	-	(220,918)	-
Plot sales	-	65,344	-	65,511
Other income	1,937	-	-	-
	128,684	65,344	106,582	65,511

6. DETAILS OF EXPENSES

(a) Claims and benefits paid

	Group 2010 KShs.'000	Group 2009 KShs.'000
Death and disability claims	595,815	651,050
Maturity and survival benefits	257,598	224,269
Policy surrenders	105,636	90,368
Annuities	108,806	54,774
Gross benefits and claims paid	1,067,855	1,020,461
Claims ceded to reinsurers	(110,874)	(96,305)
Gross change in actuarial value of insurance contract liabilities	2,064,625	1,330,358
Change in contract liabilities ceded to reinsurers	(22,707)	(4,295)
Net benefits and claims	2,998,899	2,250,219

(b) Fee and commission expense

	Group 2010 KShs.'000	Group 2009 KShs.'000
Payable to tied agents	310,151	276,471
Payable to brokers and other intermediaries	579,892	343,967
Fee and commission expense	890,043	620,438

7. OPERATING EXPENSES

	Group		Company	
	2010 KShs.'000	2009 KShs.'000	2010 KShs.'000	2009 KShs.'000
Other operating charges include:				
Staff costs (note 8)	239,126	231,306	13,109	14,167
Depreciation (note 12)	20,990	22,699	872	140
Amortisation (note 13)	2,330	4,271	-	-
Fees for managerial and administrative services:				
Auditors' remuneration	5,263	3,097	1,652	1,103
Tax audit	4,468	4,152	308	412
Legal fees	4,229	5,371	2,699	2,719
Actuarial fees	5,196	5,400	-	-
Total fees for managerial and administrative services:	19,156	18,020	4,659	4,234
Premium tax and stamp duty	19,167	21,027	-	-
Premium collection charges	61,578	62,479	-	-
Advertising	47,134	18,077	8,440	4,706
Office rent	26,100	22,868	2,020	1,441
Repairs and maintenance	8,039	5,141	96	18
Provisions written back (note 9)	-	(86,613)	-	(39,924)
Other expenses	159,691	97,817	56,980	22,571
Total operating expenses	603,311	417,092	86,176	7,353

8. STAFF COSTS

	Group		Company	
	2010	2009	2010	2009
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Staff costs include the following:				
Defined contribution pension costs	17,474	20,210	1,337	1,502
Social security benefit costs	261	236	13	14
Salaries and other short term benefits	221,391	210,860	11,759	12,651
	239,126	231,306	13,109	14,167

9. PROVISIONS WRITTEN BACK

	Group 2010 KShs.'000	Group 2009 KShs.'000	Company 2010 KShs.'000	Company 2009 KShs.'000
Reinsurance creditor	-	13,500	-	-
General/Specific provision	-	66,482	-	29,423
Obligations settled in full or not recoverable	-	6,631	-	10,501
	-	86,613	-	39,924

The provisions were created in 2002 and were in respect of short term insurance business that was sold off. Management has decided to write back the provisions as no claims have arisen to date in respect of these.

10. FINANCE COSTS

	Company	
	2010	2009
	KShs.'000	KShs.'000
PA Securities Limited	12,931	16,172
Pan Africa Life Assurance Limited	6,360	8,493
	19,291	24,665

The finance costs are for inter – company loans from PA Securities Limited and Pan Africa Life Assurance Limited of KShs. 315 million and KShs. 355 million respectively. The loans are at an interest rate of 12.5% per annum and are secured. The value of collateral is KShs. 2.2 billion.

11. INCOME TAX

	2010 KShs.'000	2009 KShs.'000
Statement of financial position:		
At start of the year:	30,389	23,292
Instalment tax paid	38,203	41,828
Current income tax charge	(104,872)	(34,731)
At the end of the year:		
ASSETS: Income tax receivable	-	30,389
LIABILIITES: Current tax liability	36,280	-
Income statement:		
Current income tax	104,872	34,731
Deferred income tax (note 29)	(28,930)	-
Current year tax charge	75,942	34,731

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

	2010 KShs.'000	2009 KShs.'000
Reconciliation of income tax expense to tax based on accounting profit:-		
Profit /(loss)before income tax	665,200	173,647
Tax calculated at a statutory rate of 30%	199,560	52,094
Tax effect of:		
Income not subject to tax	(199,560)	7,430
Expenses not deductible for tax	49,373	32,161
Transfer to shareholders	55,500	
Deferred income tax liability	(28,931)	-
Deferred income tax credit	-	(56,954)
Income tax charge	75,942	34,731

12. a) GROUP PROPERTY AND EQUIPMENT

Year ended 31 December 2010:

	Motor vehicles KShs.'000	Computer equipment KShs.'000	Furniture and equipment KShs.'000	Total KShs.'000
Cost / valuation				
At 1 January	8,726	96,060	76,829	181,615
Adjustment	168	-	-	168
Additions	-	6,162	19,265	25,427
At 31 December	8,894	102,222	96,094	207,210
Depreciation and impairment				
At 1 January	(6,346)	(70,556)	(44,740)	(121,642)
Adjustment	(163)	(1,254)	2,240	823
Charge for the year	(1,133)	(9,956)	(9,901)	(20,990)
At 31 December	(7,642)	(81,766)	(52,401)	(141,809)
Carrying amount				
At 1 January	2,380	25,504	32,089	59,973
At 31 December	1,252	20,456	43,693	65,401

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

12. a) GROUP PROPERTY AND EQUIPMENT (continued)

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

Year ended 31 December 2009:

	Computer Motor vehicles KShs.'000	Furniture and equipment KShs.'000	equipment KShs.'000	Total KShs.'000
Cost / valuation				
At 1 January	8,726	85,244	70,177	164,147
Additions	-	10,816	6,652	17,468
At 31 December	8,726	96,060	76,829	181,615
Depreciation and impairment				
At 1 January	(5,209)	(57,698)	(36,036)	(98,943)
Charge for the year	(1,137)	(12,858)	(8,704)	(22,699)
At 31 December	(6,346)	(70,556)	(44,740)	(121,642)
Carrying amount				
At 1 January	3,518	27,686	34,001	65,205
At 31 December	2,380	25,504	32,089	59,973

b) COMPANY PROPERTY AND EQUIPMENT

Year ended 31 December 2010:

	Computer equipment KShs.'000	Furniture and equipment KShs.'000	Total KShs.'000
Cost / valuation:			
At 01 January	560	-	560
Additions	469	11,250	11,719
At 31 December	1,029	11,250	12,279
Accumulated depreciation:			
At 01 January	(532)	-	(532)
Charge for the year	(41)	(831)	(872)
At 31 December	(573)	(831)	(1,404)
Carrying amount			
At 31 December	456	10,419	10,875

12. b) COMPANY PROPERTY AND EQUIPMENT (continued)

Year ended 31 December 2009:

	Computer 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)
Carrying amount		
At 31 December	28	28

13. GROUP INTANGIBLE ASSETS (SOFTWARE)

	2010			2009
	Work in progress KShs.'000	Software KShs.'000	Total KShs.'000	Total KShs.'000
Cost:				
At 01 January	-	19,166	19,166	17,084
Additions	19,474	-	19,474	2,082
31 December	19,474	19,166	38,640	19,166
Accumulated depreciation:				
At start of year	-	(13,115)	(13,115)	(8,844)
Charge for the year	-	(2,330)	(2,330)	(4,271)
At 31 December	-	(15,445)	(15,445)	(13,115)
Carrying amount				
At 31 December	19,474	3,721	23,195	6,051

The additions relate to work in progress for the implementation of the new life administration system

14. INVESTMENT PROPERTY

	Group		Company	
	2010 KShs.'000	2009 KShs.'000	2010 KShs.'000	2009 KShs.'000
At 01 January	391,000	374,500	-	6,000
Additions from companies within the group	-	-	-	11,500
Reclassification from Property and equipment	-	-	-	-
Reclassification from other receivables	-	-	-	-
Fair value gain	44,600	34,000	-	-
Disposals	-	(17,500)	-	(17,500)
At 31 December	435,600	391,000	-	-

Investment properties are stated at fair value, which has been determined based on valuations performed by Knight Frank Limited as at 31 December 2010. 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 2010 KShs.'000	2009 KShs.'000
Pan Africa Life Assurance Limited	100%	230,261	230,261
PA Securities Limited	100%	679,009	679,009
		909,270	909,270

15. INVESTMENTS (continued)

b) INVESTMENTS IN ASSOCIATES

	Group		Company	
	2010 KShs.'000	2009 KShs.'000	2010 KShs. '000	2009 KShs. '000
Movement in carrying amount:				
At 1 January	567,327	508,158	9,003	7,311
Share of results before tax	326,996	91,703	1,772	1,692
Share of tax	(21,097)	(25,339)	(132)	-
Share of profit/(loss) of an associate	305,899	66,364	1,640	1,692
Dividends received	(8,395)	(7,195)	-	-
Movements in carrying amount	297,504	59,169	1,640	1,692
At 31 December	864,831	567,327	10,643	9,003
Share of associates' statement of financial position:				
Assets	2,941,670	2,290,078	16,705	14,108
Liabilities	(2,076,839)	(1,722,751)	(6,062)	(5,105)
Net assets	864,831	567,327	10,643	9,003
Share of associates' revenue and profit:				
Revenue	106,183	119,959	10,235	8,921
Profit	116,998	120,185	1,772	1,692

Investments comprise:	Principal activity	2010 Share holding	2009 Share holding
APA Insurance Limited	General Insurance	39.97%	39.97%
Runda Water Limited	Water distribution	24.90%	24.90%

APA Insurance limited and Runda Water Limited are private entities incorporated in Kenya and are not listed on any public exchange and there are no published price quotations for the fair value of these investments.

The reporting date and reporting year of APA Insurance Limited and Runda Water Limited is the same as the Group and both use uniform accounting policies accept as follows:

APA Insurance adopted IAS 39 (amended) that permitted equity instruments to be reclassified from 'financial instruments through profit or loss' to 'available for sale'. 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 are summarized by categories as follows:

	Designated as at fair value through profit or loss KShs.'000	Held to maturity KShs.'000	Available for sale KShs.'000	Total KShs.'000
As at 31 December 2010:				
Public sector stocks and loans	2,292,875	2,056,052	-	4,348,927
Equities and similar securities	1,607,417	-	3,827	1,611,244
	3,900,292	2,056,052	3,827	5,960,171
As at 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
	3,107,001	1,167,909	3,827	4,278,737

MATURITY ANALYSIS:

	< 1 year KShs.'000	1 - 5 years KShs.'000	> 5 years KShs.'000	Open ended KShs.'000	Total KShs.'000
As at 31 December 2010:					
Public sector stocks and loans	138,202	956,215	3,254,510	-	4,348,927
Equities and similar securities	-	-	-	1,611,244	1,611,244
	138,202	956,215	3,254,510	1,611,244	5,960,171
As at 31 December 2009:					
Public sector stocks and loans	249,943	653,110	2,430,185	-	3,333,238
Equities and similar securities	-	-	3,827	941,672	945,499
	249,943	653,110	2,434,012	941,672	4,278,737

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. The fair value as at 31 December 2010 of Held-to-maturity investments was KShs. 2.567 billion (2009: KShs 1.459 billion).

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 the forseeable future.

16. FINANCIAL INSTRUMENTS (continued)

a) SUMMARY PER CATEGORY (continued)

ii) COMPANY

The Company transferred its financial instruments to Pan Africa Life Assurance Limited at the beginning of the year. The Company's financial instruments are summarised by categories as follows:

	Designated as at fair value through profit or loss KShs.'000	Held to maturity KShs.'000	Available for sale KShs.'000	Total KShs.'000
As at 31 December 2009:				
Public sector stocks and loans	8,753	-	-	8,753
Equities and similar securities	48	-	3,827	3,875
	8,801	-	3,827	12,628

MATURITY ANALYSIS:

	< 1 year KShs.'000	1 - 5 years KShs.'000	Open ended KShs.'000	Total KShs.'000
As at 31 December 2009:				
Public sector stocks and loans	-	8,753	-	8,753
Equities and similar securities	-	-	3,875	3,875
	-	8,753	3,875	12,628

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 such as discounted cash flows, 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

16. FINANCIAL INSTRUMENTS (continued)

b) DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

i) GROUP

As at 31 December 2010:	Level 1 KShs.'000	Level 2 KShs.'000	Level 3 KShs.'000	Total fair value KShs.'000
Financial assets :				
Equities and similar securities	1,607,417	-	-	1,607,417
Public sector stocks and loans	2,292,875	2,056,052	-	4,348,927
	3,900,292	2,056,052	-	5,956,344
Financial liabilities:				
Deposit administration contracts	-	706,181	-	706,181
	-	706,181	-	706,181
As at 31 December 2009:				
Financial assets:				
Equities and similar securities	941,671	-	-	941,671
Public sector stocks and loans	2,165,330	1,167,909	-	3,333,239
	3,107,001	1,167,909	-	4,274,910
Financial liabilities:				
Deposit administration contracts	-	469,204	-	469,204
	-	469,204	-	469,204

ii) COMPANY

The financial instruments for the company were all Level 1.

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

17. LOANS

	Group	
	2010 KShs.'000	2009 KShs.'000
Mortgage loans (note 19)	254,140	218,953
Policy loans (note 20)	359,303	217,539
Total Loans	613,443	436,492

Loans, receivables and other financial assets, cash and cash equivalence, mortgage loans and policy loans make up the loans and receivables category. The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

18. OTHER RECEIVABLES

	Group		Company	
	2010	2009	2010	2009
	KShs.'000	KShs. '000	KShs.'000	KShs. '000
Amounts due from related parties (note 37)	5,427	4,318	38,274	33,967
Rent outstanding	5,887	8,711	-	-
Runda development debtors	230,357	-	230,357	-
Other financial assets	9,433	108,444	9,433	56,872
Prepayments	23,379	11,782	1,660	3,881
Total	274,483	133,255	279,724	94,720

The carrying amounts disclosed above reasonably approximate fair value at the reporting date due to their short-term nature. Refer to note 21 for effective interest rates.

Loans, receivables and other financial assets, cash and cash equivalence, mortgage loans and policy loans make up the loans and receivables category.

19. GROUP MORTGAGE LOANS

	2010	2009
	KShs. '000	KShs. '000
At start of year	229,445	146,750
Accrued interest	13,174	13,572
Loans advanced	54,171	91,080
Loan repayments	(36,297)	(21,957)
At end of year	260,493	229,445
Impairment:		
At 01 January	(10,492)	(10,192)
(Increase)/Decrease during the year	4,139	(300)
At 31 December	(6,353)	(10,492)
At end of year (note 17)	254,140	218,953
Maturity profile of mortgage loans		
Loans maturing:		
Within 1 year	1,461	170
In 1 - 5 years	5,395	7,950
After 5 years	253,637	221,325
Provision for Impairment	(6,353)	(10,492)
	254,140	218,953
Loans at:		
Market rate	44,211	33,392
Concessionary rate	216,282	5,144
Staff loans	-	190,909
Provision for Impairment	(6,353)	(10,492)
	254,140	218,953

These loans are carried at amortized cost. None of the above loans have had their terms renegotiated. The fair value of collateral (charged buildings) on the mortgage loans amounted to KShs. 721,100,00 (2009: KShs. 590,300,000).The Group can liquidate the collateral in case of default. The average concessionary rate was at 5% (2009: 5%). The loans at concessionary rate are based on rates published by Kenya Revenue Authority on a quarterly basis.

Loans, receivables and other financial assets, cash and cash equivalence, mortgage loans and policy loans make up the loans and receivables category. The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

20. GROUP POLICY LOANS

	2010 KShs. '000	2009 KShs. '000
At start of year	217,839	131,550
Additions	214,940	131,389
Repayments	(110,626)	(67,842)
Interest accrued	37,150	22,742
At end of year	359,303	217,839
Provision for impairment:		
At start of the year	(300)	(157)
(Increase)/Decrease during the year	300	(143)
At end of the year	-	(300)
Net policy loans	359,303	217,539

The collateral for the policy loans is the cash surrender value of the underlying policy. In case of default the loan is written off against the cash surrender value. Loans, receivables and other financial assets, cash and cash equivalence, mortgage loans and policy loans make up the loans and receivables category. The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

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.

	2010	2009
Treasury bills	2%	11%
Treasury bonds	8%	14%
Mortgage loans and commercial papers	6%	11%
Deposits with financial institutions	5%	11%
Policy loans	14%	14%

22. LAND AND DEVELOPMENT

	Group		Company	
	2010 KShs.'000	2009 KShs.'000	2010 KShs.'000	2009 KShs.'000
At start of year	538,658	88,525	538,658	88,525
Additions	127,436	450,133	164,885	450,133
Disposals	(200,753)	-	(200,753)	-
As at December	465,341	538,658	502,790	538,658

The above amounts relate to the Runda Housing Development project.

23. GROUP INSURANCE RECEIVABLES

	2010 KShs.'000	2009 KShs.'000
Due from policyholders	158,389	177,695
Provision for doubtful debts	(51,474)	(65,910)
Amount due from policyholders	106,915	111,785
Amounts due from reinsurers	47,417	34,553
Amounts due from agents, brokers and intermediaries	26,695	63,793
	181,027	210,131

The amounts receivable do not carry interest and are due within period ranging from 30 days to 180 days.

The impairment was written off to expenses in the respective periods. The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

24. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2010	2009	2010	2009
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Cash and bank balances	392,740	266,775	22,193	-
Deposits with financial institutions	1,255,979	645,027	-	489
	1,648,719	911,802	22,193	489
Overdraft (note 31)	-	(25,675)	-	(25,675)
	1,648,719	886,127	22,193	(25,186)

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 2% (2009: 4.8%).

The carrying amounts disclosed above reasonably approximate fair value at the reporting date. The cash and cash equivalents stated above are fully available for the use by the Group.

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	
	2010	2009
	KShs.'000	KShs.'000
At start and end of the year	7,507	7,507

Revaluation of buildings held at amortised cost was released upon reclassification of property held as prepaid operating lease rentals to investment property in 2008. There were no movements in the course of the year.

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 18.

	Group	
	2010	2009
	KShs.'000	KShs.'000
Balance at the beginning of the year	351,359	388,831
Surplus for the year	328,478	51,898
Net transfers to shareholders during the year	(185,000)	(89,370)
Closing fund	494,837	351,359

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 value 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.

Current value of unit linked fund is determined by multiplying the number of units purchased by the policyholder from premium by the unit price as at the valuation date. This is done at a policy by policy level. The number of units purchased is a function of allocated premium using factors based on age, term and defined allocation criteria.

	2010			2009		
	Total	Insurance & Investment contracts	Deposit admin contracts	Total	Insurance & Investment 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)	3,742,643	3,542,949	199,694	2,926,965	2,821,180	105,785
Investment income	1,390,849	1,292,089	98,760	608,872	571,256	37,616
Asset management fees (include with fees below)	(87,126)	(80,210)	(6,916)	(32,217)	(28,967)	(3,250)
Net investment income	1,303,723	1,211,879	91,844	576,655	542,289	34,366
Income	5,046,366	4,754,828	291,538	3,503,620	3,363,469	140,151
Policy benefits (net)	(1,005,917)	(956,980)	(48,937)	(947,508)	(924,156)	(23,352)
Sales remuneration and administrative expenses	(1,433,076)	(1,427,452)	(5,624)	(1,061,351)	(1,061,351)	-
Transfer to statutory fund	(328,478)	(328,478)	-	(51,898)	(51,898)	-
Outflow	(2,767,471)	(2,712,910)	(54,561)	(2,060,757)	(2,037,405)	(23,352)
Net movement for the year	2,278,895	2,041,918	236,977	1,442,863	1,326,064	116,799
Balance at beginning of the year (net of reinsurance)	5,488,834	5,019,630	469,204	4,045,972	3,693,567	352,405
Contract liabilities ceded to reinsurers	139,410	139,410	-	116,703	116,703	-
Balance at end of year	7,907,139	7,200,958	706,181	5,605,538	5,136,334	469,204

26. GROUP LONG-TERM POLICY LIABILITIES (continued)

Maturity analysis of long term policy liabilities:

	KShs.'000 < 1 year	KShs.'000 1-5 years	KShs.'000 >5 years	KShs.'000 open ended	KShs.'000 Total
As at December 2010:					
Investment contract liabilities:					
Linked and market-related liabilities	109,548	1,196,380	2,508,061	208,158	4,022,147
Insurance contract liabilities:					
Reversionary bonus policies	210,597	215,681	448,357	-	874,635
Other non-participating liabilities	269,390	336,357	649,393	1,049,036	2,304,176
Total insurance contracts liabilities:	479,987	552,038	1,097,750	1,049,036	3,178,811
Deposit administration contracts	-	-	-	706,181	706,181
Total long term policy liabilities	589,535	1,748,418	3,605,811	1,963,375	7,907,139
As at December 2009:					
Investment contract liabilities:					
Linked and market-related liabilities	62,667	867,486	1,584,180	146,849	2,661,182
Insurance contract liabilities:					
Reversionary bonus policies	120,525	520,715	276,085	-	917,325
Other non-participating liabilities	244,759	416,780	340,982	555,306	1,557,827
Total insurance contract liabilities:	365,284	937,495	617,067	555,306	2,475,152
Deposit administration contracts	-	-	-	469,204	469,204
Total long term policy liabilities	427,951	1,804,981	2,201,247	1,171,359	5,605,538

The maturity analysis for the long term policy liabilities is derived from the contract period of the underlying policies.
The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

The following is a summary of the contract provisions and related reinsurance assets as at 31 December 2010

	Gross provisions KShs. '000	Reinsurance assets KShs. '000	Net KShs. '000
Long-term business			
Insurance contracts	3,178,811	(139,410)	3,039,401
Investment contracts	4,022,147	-	4,022,147
Deposit administration contracts	706,181	-	706,181
	7,907,139	(139,410)	7,767,729

26. GROUP LONG-TERM POLICY LIABILITIES (continued)

The following is a summary of the contract provisions and related reinsurance assets as at 31 December 2009.

	Gross provisions KShs.'000	Reinsurance assets KShs.'000	Net KShs.'000
Long-term business			
Insurance contracts	2,475,152	(116,703)	2,358,449
Investment Contracts	2,661,182	-	2,661,182
Deposit administration contracts	469,204	-	469,204
	5,605,538	(116,703)	5,488,835

The following is a summary of the movements in the reinsurance asset.

	2010 KShs.'000	2009 KShs.'000
Opening Balance	116,703	112,408
Business acquired	22,707	4,295
	139,410	116,703

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 12.5% (2009:10%).

INSURANCE CONTRACTS

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

	2010	2009
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

	2010 KShs.'000	2009 KShs.'000
Outstanding claims	167,673	109,262
Payables arising out of direct insurance	25,603	893
Payables arising out of reinsurance operations	62,537	24,223
Total insurance payables	255,813	134,378

The amounts payable do not carry interest and are due within period ranging from 30 days to 180 days.

29. DEFERRED INCOME TAX

GROUP

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2009: 30%). The movement on the deferred income tax account is as follows:

	2010 KShs. '000	2009 KShs. '000
At start of year	28,930	28,930
Deferred tax charge (note 11)	(28,930)	-
At end of year	-	28,930

For the year ended 31 December 2010

	At start of year KShs. '000	Charge/ (credit) to Income statement KShs. '000	At end of year KShs. '000
Property and equipment	(6,039)	4,234	(1,805)
Investment property fair value gains	31,500	(31,500)	-
Quoted shares – fair value gain	29,307	(24,177)	5,130
Provisions	(57,998)	27,193	(30,805)
Tax losses carried forward	(56,559)	20,240	(36,319)
	(59,789)	(4,010)	(63,799)
Pan Africa Life Assurance Limited	-	-	0
PA Securities Limited	61,555	(24,335)	37,220
Mae Properties Limited	3,234	-	3234
Pan Africa Insurance Holdings Limited	23,930	(585)	23,345
Deferred income tax not recognised	88,719	(24,920)	63,799
Deferred income tax liability on the statement of financial position	28,930	(28,930)	-

29. DEFERRED INCOME TAX continued

For the year ended 31 December 2010

COMPANY

	At start of year KShs.'000	Charge/ (credit) to Income statement KShs.'000	At end of year KShs.'000
Plant & equipment	(32)	108	76
Provisions	(1,567)	1,114	(453)
Tax losses carried forward	(22,331)	(637)	(22,968)
	(23,930)	585	(23,345)
Deferred income tax not recognised	23,930	(585)	23,345
Deferred income tax asset on the statement of financial position	-	-	-

For the year ended 31 December 2009

GROUP

Property and equipment	(6,335)	296	(6,039)
Investment property fair value gains	31,500	-	31,500
Quoted shares – fair value gain	19,134	10,173	29,307
Provisions	(67,318)	9,320	(57,998)
Tax losses carried forward	(116,394)	59,835	(56,559)
	(139,413)	79,624	(59,789)
Pan Africa Life Assurance Limited	-	-	-
PA Securities Limited	130,412	(68,857)	61,555
Mae Properties Limited	3,234	-	3,234
Pan Africa Insurance Holdings Limited	34,697	(10,767)	23,930
Deferred income tax not recognised	168,343	(79,624)	88,719
Deferred income tax liability on the statement of financial position	28,930	-	28,930

29. DEFERRED INCOME TAX continued

For the year ended 31 December 2009

COMPANY

	At start of year KShs. '000	Charge/ (credit) to Income statement KShs. '000	At end of year KShs. '000
Plant & equipment	(7)	(25)	(32)
Provisions	(1,052)	(515)	(1,567)
Tax losses carried forward	(33,638)	11,307	(22,331)
	(34,697)	10,767	(23,930)
Deferred income tax not recognised	34,697	(10,767)	23,930
Deferred income tax asset on the statement of financial position	-	-	-

30. GROUP PROVISIONS

	2010 KShs.'000	2009 KShs.'000
General provision on outstanding claims	52,344	67,381
Specific provision for outstanding claims	33,580	43,904
	85,924	111,285
The movement in the provisions is as follows:		
At 1 January	111,285	111,285
Additional claim provided	-	-
Unused amounts reversed	(25,361)	-
At end of year	85,924	111,285

The above provisions relates to provisions on outstanding claims under special arrangements and the directors have reason to believe they may crystalise. The carrying amounts disclosed above reasonably approximate fair value at statement of financial position date.

31. OTHER PAYABLES

	Group		Company	
	2010 KShs.'000	2009 KShs.'000	2010 KShs.'000	2009 KShs.'000
Amounts due to related parties (note 37)	67,054	7,405	732,575	449,457
Bank overdrafts	-	25,675		25,675
Unclaimed dividends	43,194	43,268	43,194	43,268
Stale cheques	50,331	44,559		-
Deposits received from sale of houses	50,172	-	50,172	-
Accruals	97,771	116,702	32,424	58,842
Other payables	245,422	237,915	22,857	50,609
	553,944	475,524	881,222	627,851

The carrying amounts disclosed above reasonably approximate fair value at statement of financial position date due to their short-term nature The amounts payable do not carry interest and are due within period ranging from 30 days to 180 days. Payables and other charges are included in financial liabilities at amortised cost.

32. EARNINGS PER SHARE

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

	2010 KShs.'000	2009 KShs.'000
Net profit/(loss) attributable to ordinary shareholders for basic and diluted earnings	589,258	138,916
Weighted average number of ordinary shares for basic earnings per share	48,000	48,000
Basic earnings per ordinary share KShs.	12.28	2.89
Diluted earnings per ordinary share KShs.	12.28	2.89

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

33. 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.

34. 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	
	2010 KShs.'000	2009 KShs.'000	2010 KShs.'000	2009 KShs.'000
Not later than 1 year	5,595	163	3,108	7,097
Later than 1 year but not later than 5 years	11,420	24,411	14,701	15,620
More than 5 years	-	3,109	7,740	243
	17,015	27,683	25,549	22,960

35. DIVIDENDS PAID AND PROPOSED

	2010 KShs.'000	2009 KShs.'000
Final dividends for 2009: KShs. 1.70 (2008:Nil)	-	81,600
Total dividends paid in the year	-	81,600
Proposed for approval as at 31 December (not recognised as a liability before approval at the Annual General Meeting to be held on 17 May 2010): Final dividend for 2010: KShs.3.00 (2009: 1.70)	144,000	-

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

36. CASH GENERATED FROM OPERATIONS

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

a) GROUP

Year Ended 31 December 2010:

	Ordinary life KShs. '000	Super annuation KShs. '000	Investments KShs. '000	Eliminated on consolidation KShs. '000	Group KShs. '000
Profit before tax	149,996	178,481	374,268	(37,545)	665,200
Adjustments for:					
Unrealised Investment income	(830,844)	(105,797)	(16,750)	-	(953,391)
Fair value gains on investment property	(44,600)	-	-	-	(44,600)
Accrued investment income	(21,205)	(160,623)	1,052	-	(180,776)
Depreciation & amortization	22,214	151	955	-	23,320
Provisions written back	-	-	(34,474)	-	(34,474)
Intergroup charge	(47,461)	-	10,012	37,449	-
Tax paid	(38,205)	-	-	-	(38,205)
Share of results of associates before income tax	-	-	(305,899)	-	(305,899)
	(810,105)	(87,788)	29,164	(96)	(868,825)
Changes in working capital:					
Loans	(158,212)	-	1,270	-	(156,942)
Reinsurance asset	-	(22,707)	-	-	(22,707)
Insurance receivables	29,105	-	-	-	29,105
Other receivables	(121,399)	-	(238,985)	219,156	(141,228)
Actuarial value of policyholders liabilities	1,293,957	770,666	-		2,064,623
Payables under deposit admin contracts	-	236,978	-	-	236,978
Insurance payables	121,435	-	-	-	121,435
Trade and other payables	156,013	(82,381)	232,962	(219,060)	87,534
Cash generated from operations	510,794	814,768	24,411	-	1,349,973

36. CASH GENERATED FROM OPERATIONS (continued)

Reconciliation of profit before income tax to cash generated from operations

Year ended 31 December 2009:

	Ordinary 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
Provision 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

36. CASH GENERATED FROM OPERATIONS (continued)

Reconciliation of profit before income tax to cash generated from operations

b) COMPANY

CASH FLOW FROM OPERATIONS	2010 KShs.'000	2009 KShs.'000
Profit before tax	2,755	36,324
Adjustment for;		
Investment income	-	23,815
Fair value loss/(gains) on quoted shares	-	(290)
Depreciation & amortization	872	140
Provisions written back	-	(39,924)
Intergroup charges	76,950	24,665
Share of results of associates before income tax	(1,640)	(1,692)
	78,937	43,038
Changes in working capital		
Other receivables	(109,160)	(59,275)
Trade and other payables	198,379	365,986
At end of year	168,156	349,749

37. RELATED PARTY TRANSACTIONS

	Group		Company	
	2010 KShs.'000	2009 KShs.'000	2010 KShs.'000	2009 KShs.'000
(a) Amounts due from related parties:				
Parent:				
Hubris Holdings Limited	5,427	4,318	-	-
Associates:				
Runda Water Limited	-	-	-	-
Subsidiaries:				
PA Securities Limited	-	-	38,274	33,967
	5,427	4,318	38,274	33,967

There were no provisions made or amounts written off on related party balances during the year (2009: nil).

37. RELATED PARTY TRANSACTIONS (continued)

	Group		Company	
	2010 KShs.'000	2009 KShs.'000	2010 KShs.'000	2009 KShs.'000
(b) Amounts due to related parties:				
Parent:				
African Life Assurance Group Limited	29,828	4,924	-	-
Hubris Holdings Limited	586	-	-	-
Subsidiaries:				
Pan Africa Life Assurance Limited	-	-	355,020	192,421
PA Securities Limited			314,960	194,409
Mae properties Limited	-	-	62,595	62,627
Other sister companies:				
SIM (K) Limited	36,640	2,481	-	-
	67,054	7,405	732,575	449,457
(c) Key management compensation:				
Salaries and other short-term employment benefits	74,839	70,764	13,470	12,416
Post-employment benefits	9,101	8,037	1,638	1,365
	83,940	78,801	15,108	13,781
Loans to key management where collateral is accepted as security				
Mortgage loans	45,286	66,144	-	-
(d) Directors' remuneration:				
Other emoluments (included in (c) above)	24,656	22,598	4,422	3,645
Fees	8,987	6,104	3,025	1,654
(e) Directors' pension				
The Group does not cater for any director's pension.				
(f) Other related party transactions through the income statement				
Investment income:				
Investment management fees-SIM (K) limited	(84,878)	(33,415)	-	-
Management expenses:				
Interest expense on intergroup borrowings	-	-	(19,291)	(24,665)
Management fees- Sanlam Developing Markets	10,969	6,302	-	-
	10,969	6,302	(19,291)	(24,665)

37. RELATED PARTY TRANSACTIONS (continued)

(g) Investment in associates

No guarantees or collaterals were provided to the associates.

(h) 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

38. 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:	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 11 to 14. 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 11);
(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.

38. CAPITAL MANAGEMENT (continued)

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
(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.

38. CAPITAL MANAGEMENT (continued)

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.

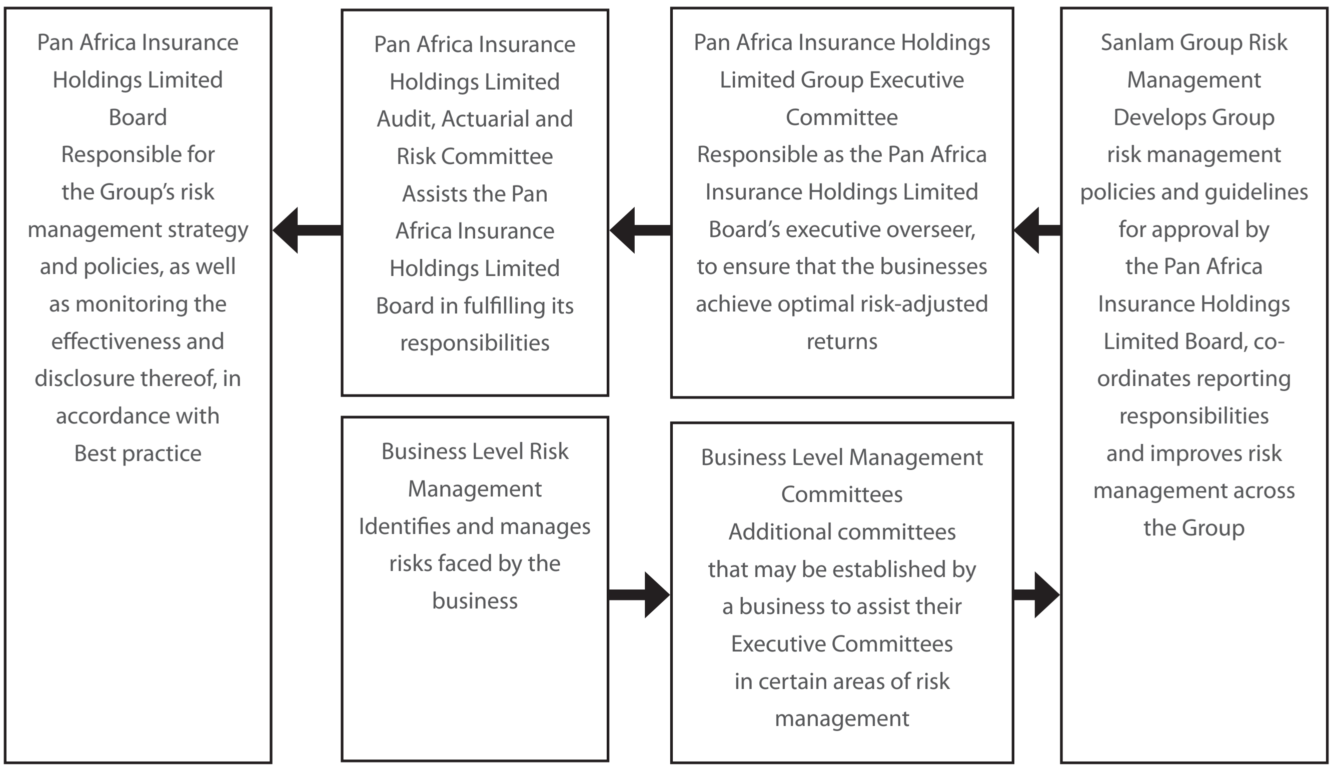
The Group's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Group's overall risk management policies are set out by the board and implemented by the management, and focus on the unpredictability of changes in the business environment and seek to 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.

39. 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.



39. 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

39. 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).

39. RISK MANAGEMENT (continued)

b) Group risk policies and guidelines (continued)

Philosophy (continued)

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

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

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

(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.

39. 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:	
		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 fair value of cash flows 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 fair value or future cash flows of a financial instrument will fluctuate because of 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 Capital markets Short-term insurance
		Reinsurance risk: concentration risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings.	
	Liquidity	Liquidity risk is the risk relating to the difficulty/inability to accessing/raising funds to meet commitments associated with financial instruments or policy contracts.	Life insurance capital mark.
	Insurance	Insurance risk includes:	Life insurance Short-term insurance
		Underwriting risk: the risk that the actual experience relating to mortality, disability and medical risks will deviate negatively from the expected experience used in the pricing of solutions and valuation of policy liabilities.	
		Persistency risk: the risk of financial loss due to negative lapse, surrender and paid-up experience.	
		Expense risk: the risk of loss due to actual expense experience being worse than that assumed in premium rates and the valuation of policy liabilities.	
		Concentration risk: the risk of financial loss due to having written large proportions of business with policyholders of the same/similar risk profile.	
	Capital adequacy	Capital adequacy risk is the risk that there are insufficient assets to provide for variations in actual future experience, worse than that which has been assumed in the valuation bases.	Life insurance

39. 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 7 to 8 of this annual report. The external auditors consider 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 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.

39. 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 tax legislator to comment on changes in legislation and are involved in the development of new products. External tax advice is obtained as required.

The Group consults widely with tax consultants when considering new initiatives to identify tax impact. As much as possible, the Group policy is to negotiate contracts gross of tax. Overseas contracts are negotiated inclusive of taxes and preference is given to parties in countries where Kenya has double taxation agreement.

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 an industry-wide reputational impact are addressed through industry representative groups.

39. RISK MANAGEMENT (continued)

l) Legislation risk

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

m) Strategic risk

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

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

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

n) Risk management - life insurance

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

o) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices, property prices, and foreign currency exchange rates. Market risk arises in business units due to fluctuations in both the value of liabilities and the value of investments held. At Group level, it also arises in relation to the overall portfolio businesses and in the value of investment assets owned directly by the shareholders.

Equity risk

The Group is subject to equity price risk due to daily changes in the market values of its equity securities portfolio. The Group's shareholders are exposed to the following sources of equity risk:

a) Direct equity shareholdings in shareholder funds
b) Group defined benefit pension funds;
c) The indirect impact from changes in the value of equities held in policyholders' funds from which management charges or a share of performance are taken and
d) Its interest in the free estate of long-term with profits funds.

39. RISK MANAGEMENT (continued)

Changes in prices of equities will have the following impact in the income statement.

	% change in base	KShs.'000
31 December 2010		
Equities and similar securities	+(-)27%	+(-)1,037,615
31 December 2009		
Equities and similar securities	+(-)16%	+(-)484,135

Equity risk

Linked and market-related business

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

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

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

These policies provide for the payment of an after-tax and after - cost investment return to the policyholder, in the form of bonuses. The use of bonuses is a mechanism to smooth returns to policyholders in order to reduce the effects of volatile investment performance, and bonus rates are determined in line with the product design, policyholder reasonable expectations, affordability and the approved bonus philosophy. Any returns not yet distributed are retained in a bonus stabilisation reserve, for future distribution to policyholders.

In the event of adverse investment performance, this reserve may become negative. Negative bonus stabilisation reserves are allowed for in the valuation of these liabilities to the extent that the shortfall is expected to be recovered by declaring lower bonuses in the subsequent three years. The funding level of portfolios is bolstered through loans from shareholders in instances where negative stabilisation reserves will not be eliminated by these management actions. At end of year 2010, all stable and reversionary bonus business portfolios had a funding level in excess of 98%.

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;

39. RISK MANAGEMENT (continued)

o) Market risk – policyholder solutions (continued)

Equity risk (continued

- 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

Interest rate risk arises primarily from the Group's investments in long-term debt and fixed income securities, which are exposed to fluctuations in interest rates. The Share holder's funds are normally held in shorter maturing instruments for working capital purposes. The Group manages this risk by adopting close asset liability matching criteria, to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements. Interest rate risk is managed as follows with regard to long-term life business.

Changes in interest rates will have the following impact in the income statement.

	% change in base	2010 KShs.'000	% change in base	2009 KShs.'000
Financial assets				
Fair value through profit or loss	+(-)25.94%	+(-)533,340	+(-)11.94%	+(-)139,448
Held to maturity	+(-)25.94%	+(-)1,011,736	+(-)11.94%	+(-)370,976
Deposits with financial institutions	+(-)25.94%	325,801	+(-)11.94%	+(-)77,016

The change in discount rate will not have a significant effect on the Group's financial assets, hence no sensitivity analysis has been prepared.

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 effective 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.

39. RISK MANAGEMENT (continued)

q) Currency risk

The Group has minimal exposure to currency risk from financial instruments held by business units in currencies other than their functional currencies, as nearly all such holdings are backing either unit linked or with profit contract liabilities. For this reason, no sensitivity analysis is given for these holdings.

r) Property risk

The Group is subject to property price risk due to holdings of investment properties in a variety of locations. Investment in property is managed by a professional property manager with regard to liquidity requirements and the expectations of shareholders' and policyholders as well as overall risk appetite. The Group Investment Committee also monitors property assets owned directly by the Group on quarterly basis.

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.

Credit risk

The amount that best represents the Group's maximum exposure to credit risk at end of year 2010 is made up as follows:

	2010 KShs.'000	2009 KShs.'000
Financial Instruments	5,960,170	4,278,737
Reinsurers' share of technical provisions and reserves	139,410	116,703
Receivables arising out of direct insurance arrangements	181,027	210,131
Cash and cash equivalents	1,648,719	911,802
	7,929,326	5,517,373

The fair value of collateral on the loans amounted to KShs. 721,100,00 (2009: KShs. 590,300,000) 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.

39. RISK MANAGEMENT (continued)

s) Market risk – capital (continued)

The amount that best represents the Company's maximum exposure to credit risk at end of year 2010 is made up as follows:

	2010 KShs.'000	2009 KShs.'000
Financial Instruments	3,826	12,628
Receivables and other financial assets	279,725	116,703
Cash and cash equivalents	22,193	489
	305,744	129,820

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 14. The change in VIF relative to the base value is an indication of how the present value of future after-tax profits (including the allowance for the cost of capital at risk) are impacted based on these assumptions.

If investment return (and inflation) assumptions were to decrease by 1%, coupled with a 1% decrease in risk discount rates, and with bonus rates changing commensurately, the impact on the present value of future after(tax profits would be a decrease of KShs. 16.3 million (2009: decrease of KShs. 25.3 million).

The basis of valuation of insurance contracts is prescribed in the insurance Act of Kenya 1984. The Act prescribes Net premium valuation method which is very conservative. Changes in actuarial basis derived from recent experience investigations do not have a significant impact in the actuarially derived reserves.

Changes in economic mortality and expense assumptions will have the following impact in the income statement.

Sensitivities	% change in base	Insurance Participating	Insurance non-participating	Assets backing life shareholders
31 December 2010				
Interest rate	+(-) 1%	+(-)22,122	+(-)33,662	+(-)4,413
Equity/Property	+(-) 10%	+(-)43,663	+(-)32,505	+(-)9,689
Expenses	+(-) 10%	+(-)6,681	+(-)47,059	-
Assurance mortality	+(-) 5%	+(-)9,763	+(-)56,779	-
Annuitant mortality	+(-) 5%	-	+(-)17,749	-

39. RISK MANAGEMENT (continued)

t) Market risk – sensitivities (continued)

Sensitivities	% change in base	Insurance Participating	Insurance non-participating	Assets backing life shareholders
31 December 2009				
Interest rate	+(-) 1%	+(-)17,344	+(-)40,267	+(-)1,549
Equity/Property	+(-) 10%	+(-)39,707	+(-)18,172	+(-)4,803
Expenses	+(-) 10%	+(-)10,629	+(-)33,462	-
Assurance mortality	+(-) 5%	-	+(-)37,018	-
Annuitant mortality	+(-) 5%	-	+(-)9,284	-

The above sensitivity analysis excluded unit linked investments, as the movements in assets and the liabilities will offset each other. Risk discount rate sensitivity analysis is disclosed in note four of the embeded value report.

u) Credit risk – policyholder solutions & capital

Pan Africa Insurance Holdings Limited recognises that a sound credit risk policy is essential to minimise the effect on the Group as a result of loss due to a major corporate failure and the possible systemic risk such a failure could lead to. The Pan Africa Insurance Holdings Limited Investment Risk Policy and Strategy has been established for this purpose.

Credit risk 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.

39. 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 2010:	Fully performing KShs.'000	Past due but not impaired KShs.'000	Past due and impaired KShs.'000	Total KShs.'000
Financial assets:				
Financial instruments	3,904,119	-	-	3,904,119
Held to maturity financial assets	2,056,052	-	-	2,056,052
Reinsurance assets	139,410	-	-	139,410
Receivables and other financial assets	274,483	-	-	274,483
Mortgages	241,843	12,297	6,353	260,493
Policy loans	134,916	224,387	-	359,303
Insurance receivables	129,553	-	51,474	181,027
Cash at bank	392,740	-	-	392,740
Gross financial assets	7,273,116	236,684	57,827	7,567,627

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:				
Financial instruments	3,110,828	-	-	3,110,828
Held to maturity financial assets	1,167,909	-	-	1,167,909
Reinsurance assets	116,703	-	-	116,703
Mortgages	206,656	12,297	10,492	229,445
Policy loans	79,935	137,304	300	217,539
Receivables and other financial assets	133,255	-	-	133,255
Insurance receivables	144,221	-	65,910	210,131
Cash at bank	266,775	-	-	266,775
Gross financial assets	5,226,282	149,601	76,702	5,452,585

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

	Policy loans KShs.'000	Mortgage loans KShs.'000	Total KShs.'000
31 December 2010			
0-3 months	94,674	-	94,674
3-6 months	129,713	12,297	142,010
	224,387	12,297	236,684
31 December 2009			
0-3 months	59,840	-	59,840
3-6 months	77,464	12,297	89,761
	137,304	12,297	149,601

The past due receivables are not impaired and continue to be paid. An impairment provision of KShs 57.8 million (2009: KShs 76.7 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.

39. RISK MANAGEMENT (continued)

The movement in the provisions is as follows:

	Mortgages KShs.'000	Policy loans KShs.'000	Insurance receivables KShs.'000	Total KShs.'000
At 1 January 2010	10,492	300	65,910	76,702
Additional provision	-	-	-	-
Unused amounts reversed	(4,139)	(300)	(14,436)	(18,875)
At end of year	6,353	-	51,474	57,827
At 1 January 2009	10,192	157	60,281	70,630
Additional provision	300	143	5,629	6,072
Unused amounts reversed	-	-	-	-
At end of year	10,492	300	65,910	76,702

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.

39. RISK MANAGEMENT (continued)

w) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities and policy holder liabilties. 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.

Other policyholder business

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

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

Year ended 31 December 2010:

	1 Year KShs.'000	1-5 Years KShs.'000	>5 Years KShs.'000	Open ended KShs.'000	Total KShs.'000
Financial liabilities					
Investment contracts	109,548	1,196,380	2,508,061	208,158	4,022,147
Insurance contracts	479,987	552,038	1,097,750	1,049,036	3,178,811
Deposit administration contracts	-	-	-	706,181	706,181
Insurance payables	-	-	-	255,813	255,813
Provisions	-	85,924	-	-	85,924
Payables and other charges	553,944	-	-	-	553,944
Total liabilities	1,143,479	1,834,342	3,605,811	2,219,188	8,802,820
Financial Assets:					
Equities and similar securities	-	-	-	1,611,244	1,611,244
Public sector stocks and loans	38,202	956,215	3,254,510	-	4,248,927
Mortgages and policy loans	1,461	364,698	247,284	-	613,443
Long-term reinsurance assets	113,046	23,675	2,689	-	139,410
Insurance receivables	181,027	-	-	-	181,027
Receivables and other financial assets	274,483	-	-	-	274,483
Cash and cash equivalents	-	-	-	1,648,719	1,648,719
Total assets	608,219	1,344,588	3,504,483	3,259,963	8,717,253

39. RISK MANAGEMENT (continued)

w) Liquidity risk (continued)

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
Financial liabilities:					
Investment contracts	62,667	867,486	1,584,180	146,849	2,661,182
Insurance contracts	365,284	937,495	617,067	555,306	2,475,152
Deposit administration contracts	-	-	-	469,204	469,204
Insurance payables				134,378	134,378
Payables and other charges	475,524	-	-		475,524
Provisions	-	111,285	-	-	111,285
Total liabilities	903,475	1,916,266	2,201,247	1,305,737	6,326,725
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	-	-	-	116,703	116,703
Insurance receivables	210,131	-	-	-	210,131
Receivables and other financial assets	133,255	-	-	-	133,255
Cash and cash equivalents	-	-	-	911,802	911,802
Total assets	593,571	654,304	2,635,017	2,785,115	6,668,007

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:

39. RISK MANAGEMENT (continued)

x) Insurance risk (continued)

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 deteriorate to the extent that such an adjustment is considered necessary.
viii)	Risk profits are determined on a regular basis; and
	Regular investigations into mortality and morbidity experience are conducted to ensure that corrective action, for example re-rating of premiums, is taken where necessary.

Persistency risk

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

Expense risk

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

Claims risk

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

39. RISK MANAGEMENT (continued)

x) Insurance risk (continued)

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.

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	2010	2009	KShs.'000	KShs.'000	KShs.'000	KShs.'000
0 - 500	299,125	290,332	2,798,814	2,196,410	2,322,278	1,964,647
500 - 1 000	54,051	52,462	9,453,194	7,418,531	7,777,389	6,579,669
1 000- 5 000	86,192	83,658	25,798,410	20,245,677	13,706,534	11,595,725
5 000- 8000	429	417	92,569,666	72,645,391	50,032,131	42,327,170
>8 000	488	474	138,943,449	109,037,891	76,338,894	64,582,686
	440,285	427,343	269,563,533	211,543,900	150,177,226	127,049,897

39. RISK MANAGEMENT (continued)

x) Insurance risk (continued)

Claims risk (continued)

Non-participating annuity payable per annum per life insured

	Number of lives		Before Reinsurance		After reinsurance	
KShs.'000	2010	2009	KShs.'000	KShs.'000	KShs.'000	KShs.'000
0 - 20	15	4	141	29	141	29
20 - 40	9	0	276	-	276	-
40 - 60	24	10	1,180	525	1,180	525
60 - 80	31	16	2,143	1,128	2,143	1,128
80-100	32	18	2,891	1,669	2,891	1,669
>100	400	206	131,083	72,207	131,083	72,207
	511	254	137,714	75,558	137,714	75,558

y) Capital adequacy risk

Refer to the capital management section on page 70 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 4.7 times by the excess of assets over liabilities.

40. STATUTORY COMPLIANCE

Insurance Act

Pan Africa Life assurance Limited, a wholly owned subsidiary is licensed under insurance Act. The group is therefore required to comply with the provisions of insurance act.

Some of the key financial requirements are listed below.

a) Minimum Capital Requirement

The minimum paid up capital required for an insurer carrying on the business of life insurance is at least one hundred and fifty million Kenya shillings.
The Group complied with this requirement with respect to long term insurance business as follows:

	2010 KShs.'000	2009 KShs.'000
Paid up share capital	200,000	200,000
Share premium	30,260	30,260
Total paid up capital	230,260	230,260
Required capital	150,000	150,000

40. STATUTORY COMPLIANCE (continued)

Insurance Act (continued)

b) Admitted Assets

Section 41-1 defines what constitutes admitted assets for the purpose of complying with insurance Act

	2010 KShs.'000	2009 KShs.'000
Total Life assets	9,401,249	6,422,317
Non admitted assets	(203,685)	(153,500)
Admitted assets	9,197,564	6,268,817
Assets not admitted comprise the following:		
Premium debtors	106,915	111,785
Prepayment	21,718	-
Intercompany charges	20,874	-
Fixed assets	54,178	41,715
Total Non-admitted assets	203,685	153,500

Included in the admitted assets above are loans valued at KShs. 197 million that the Group has received collateral and is in the process of registering a charge in its favour.

Section 41 Subsection (1) of the insurance Act requires that an insurer carrying on in Kenya long term insurance business but not general insurance business shall keep at all times admitted assets of not less than the aggregate value of its admitted liabilities and ten million shillings or 5% plus admitted liabilities whichever is higher

	2010 KShs.'000	2009 KShs.'000
Total admitted assets(A)	9,239,255	6,268,817
Total admitted liabilities (B)	(8,552,235)	(5,875,430)
Surplus assets (A-B)	687,020	393,387
5% of Admitted liabilities	(427,612)	(293,772)
Solvency Margin as per insurance Act	259,408	99,615
No of times solvency cover	2.65	3.95

The Act further requires the insurer to maintain 5% of the admitted assets in lien with Insurance Regulatory Authority.

	2010 KShs.'000	2009 KShs.'000
Total assets under lien with IRA (A)	540,750	540,750
Lien amount required by insurance regulation (B)	461,963	313,441
Number of times lien cover (A/B)	1.17	1.73


"When I was six, I told my mother I wanted to be a doctor so I could always take care of her. It hasn't changed."
AWARDED LIFE INSURER OF THE YEAR • 2010
Stella Mtapa, 16 years old
At Pan Africa Life your dreams are our dreams
Trust our FlexiPlus product to get you there.

PROXY FORM

synergy with our clients

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

PROXY FORM

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 65th Annual General Meeting of the company to be held on 17 May 2011

at 10.00 am and at any adjournment thereof.

Signed/Sealed this …………………................ day of …………......................... 2011

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.