2011 ANNUAL REPORT AND FINANCIAL STATEMENTS

Perfecting service through years of experience

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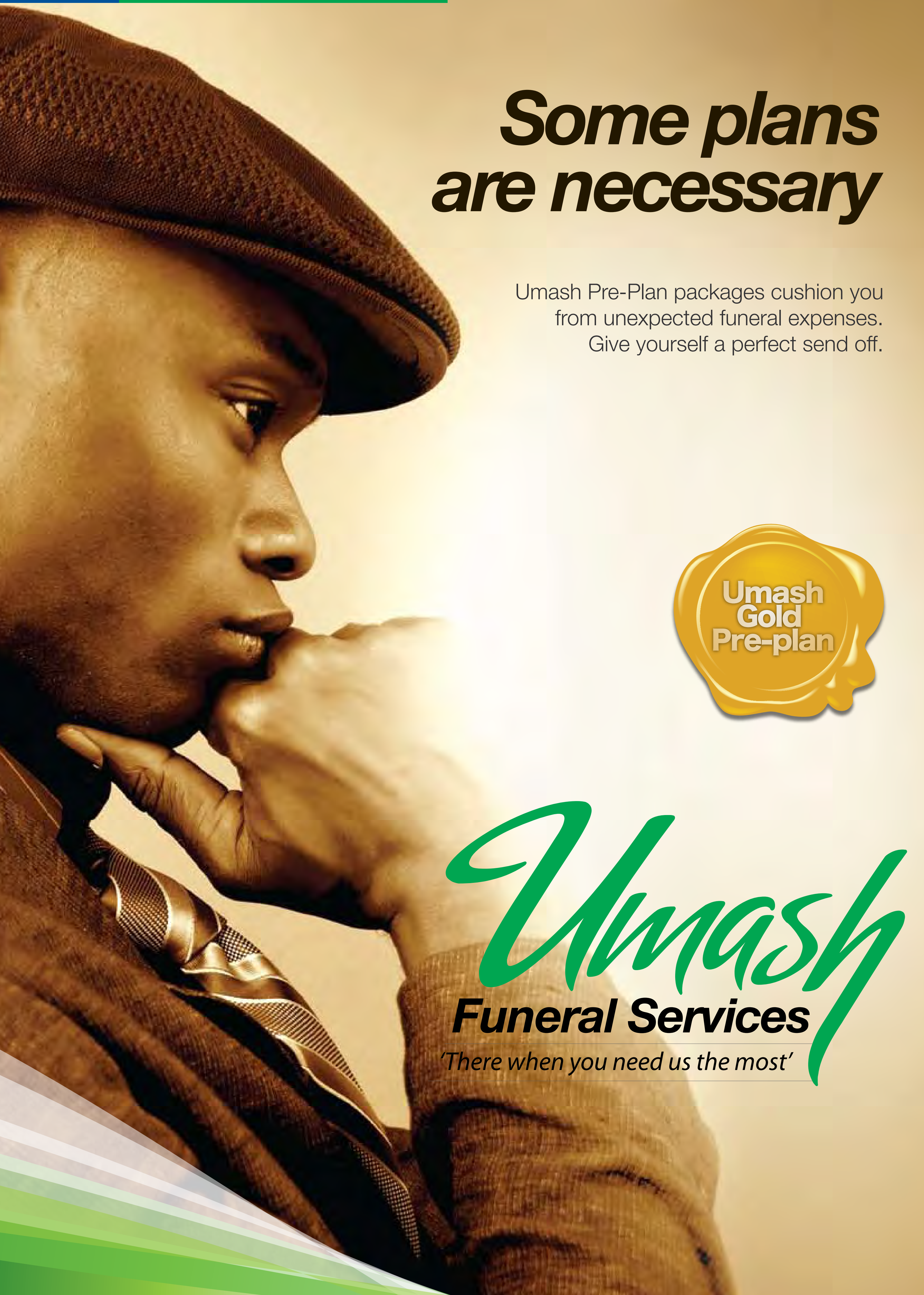

Some plans
are necessary
Umash Pre-Plan packages cushion you
from unexpected funeral expenses.
Give yourself a perfect send off.
Umash
Gold
Pre-plan
Umash
Funeral Services
'There when you need us the most'

Our Vision

To be the provider of choice in wealth creation and protection

Our Mission

We create and secure wealth for the changing needs of our clients and other stakeholders. We achieve this through continuous provision of:

- Innovative client solutions that improve their quality of life across generations
- Competitive returns to our investors that ensure growth
- Conducive working environment that promotes creativity, self expression and personal development
- Support and involvement in community activities that enhance 'a sense for life' while taking the risks so that our clients can have peace of mind.

Our Quality Policy

Our quality policy revolves around our clients;

- Understanding our client's needs,
- Providing solutions that satisfy these needs,
- Achieving our commitment on service delivery at all times.

We cultivate a culture of total quality where continuous improvement of our people, our processes and our products is a way of life.

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

Co-operative Bank of Kenya Limited
Ukulima Branch
P.O. Box 74956 - 00200
NAIROBI

Family Bank Limited
Kenyatta Avenue Branch
P.O. Box 74145 - 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

Muriu Mungai Advocates
MMC Arches
Spring Valley Crescent
NAIROBI

Simba & Simba Advocates
6th Floor, Finance House
Loita Street
NAIROBI

Muthaura Mugambi
Ayugi & Njonjo Advocates
4th Floor, Capital Hill Square, Upper Hill
NAIROBI

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

Pan Africa Life enjoys over 65 years of service to Kenyans, which by any measure is no simple feat, standing firm through the best and worst of times and still maintaining a graceful balance.

Five Year Group Review

Income statement:

	2007 KShs. m	2008 KShs. m	2009 KShs. m	2010 KShs. m	2011 KShs. m
Total other revenue	422	258	574	1,308	550
Operating profit before tax and share of associate	136	117	107	359	551
Profit/ (loss) attributed to shareholders	147	(96)	139	589	443

Long term insurance business:

Gross premium income	2,070	2,510	3,025	3,830	3,648
Net premium income	1,834	2,318	2,821	3,542	3,300
Net benefits and claims paid	1,424	1,526	2,250	2,998	1,876

Statement of financial position:

Total equity	1,362	1,186	1,325	1,832	2,123
Long term policy liabilities	3,237	3,694	5,136	7,200	7,860
Share capital	240	240	240	240	480
Total assets	5,863	6,094	7,681	10,671	11,499

Key indicators:

	KShs	KShs	KShs	KShs	KShs
Basic earnings/ (loss) per share	3	(2)	3	12	5
Dividends per share	2	-	2	3	2
Dividends	76	-	82	144	192
Market capitalisation at year end(KShs. m)	4,776	2,976	2,160	3,144	1,992

Group share prices at the NSE:

Annual High	122	99	62	87	110*
Annual Low	75	62	44	45	18
Share price at year end	100	62	45	66	21

*Price before 1:1 bonus issue

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 2011 which disclose the state of affairs of the company and its subsidiaries.

Incorporation

Pan Africa Insurance Holdings Limited is a company whose shares are traded publicly on the Nairobi Securities Exchange (NSE). The company was incorporated in Kenya on 26 October 1946 under certificate of incorporate 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 its subsidiary Pan Africa Life Assurance Limited, is the underwriting of all classes of long-term insurance business as defined by the Insurance Act – (Chapter 487 of the Laws of Kenya), with the exception of industrial life insurance. The Group has interests in a wholly owned investment company (PA Securities Limited), Mae Properties Limited (dormant) and Chem Chemi Mineral Water Limited (dormant).

Results

The results of the year are set out on page 44 of this Annual Report.

The profit after tax for the year of KShs 443m (2010: KShs 589m) 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 2 per share (2010: KShs 3.00) at the 66th 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 2011 were authorised for issue in accordance with a resolution of the directors on 20 February 2012. 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) Susan Mudhune
7) Thomas Wixley
8) Jonathan Paul Wrench (Appointed: 9 August 2011)
9) Robert James Ward (Appointed: 9 August 2011)
10) Nelius Bezuidenhout (Retired: 9 August 2011)
11) William R Dommisse (Retired: 9 August 2011)

- In accordance with the Company's Articles of Association Baloobhai Patel retires by rotation at the forthcoming Annual General Meeting and he offers himself for re-election.
- In accordance with the Company's Articles of Association, Jonathan Paul Wrench, who was appointed a director on 9 August 2011, retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election.
- In accordance with the Company's Articles of Association, Robert James Ward, who was appointed a director on 9 August 2011, retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself 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

20 February 2012

Statement of Directors' Responsibilities

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the profits of the Group and the Company for that year. It also requires the directors to ensure that the Group and the Company keep proper accounting records, which disclose with reasonable accuracy, the financial position of the Group and the Company. They are also responsible for safeguarding the assets of the Group and the Company.

The directors accept responsibility for the annual consolidated financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Company and of its profits. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

John P N Simba

Chairman

20 February 2012

Tom Gitogo

Director

20 February 2012

Crowned life's best choice twice in a row!!

At Pan Africa Life we share the same kind of grace, firmly rooted in providing our customers tried and tested products that are relevant. Here is yet another testament to the fact that we are 'Life's best choice'

1st Runner-up

Best Training Initiative

1st Runner-up

Best Life Company In Claims Settlement

Winner

Best Insurance Company in ICT
from Runners-up previous year

Winner

Fraud Detection and Prevention Initiative
2nd year running

Winner

Life Insurance Company of the Year
2nd year running

JOHN P N SIMBA (67) (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 Qualifications: Advocate of the High Court of Kenya

JOSH WRENCH (38)

Appointed to the Board on 9 August 2011
Occupation: Head of Actuarial - Rest of Africa Sanlam Emerging Markets
Academic Qualifications: Bachelor of Science (Hons) in Actuarial Science.
Professional Qualifications: Fellow of the Institute of Actuaries, Fellow of the Actuarial Society of South Africa

THOMAS WIXLEY (72)

Appointed to the Board on 23 February 2010
Occupation: Chartered Accountant (SA),
Academic Qualifications: Bachelor of Commerce, University of Cape Town.
Professional Qualifications: Fellow of the Institute of Directors, Chartered Accountant (SA)

SUSAN MUDHUNE (62)

Appointed to the Board on 18 August 2009
Occupation: Banker
Academic Qualifications: MBA (UoN), Bachelor of Arts Degree (Education option) - UoN
Professional Qualifications: Fellow of the Institute of Bankers (Kenya), Fellow of the Kenya Institute of Management

Board of Directors

MARGARET DAWES (54)
Appointed to the Board in March 2005
Occupation: Executive Director – Rest of Africa- Sanlam Emerging Markets
Academic Qualifications: BSc (Biology) and University of London and Higher Diploma in Tax Law (University of the Witwatersrand)
Professional Qualifications: ACA (England & Wales), Chartered Accountant (SA)

TOM GITOGO (43)
Appointed to the Board on 1 April 2008
Occupation: Insurance Executive
Academic Qualifications: MBA (Strategic Management), Bachelor of Science (Civil Engineering)
Professional Qualifications: CPA (K), CPS (K), ACA (England & Wales)

JAMES GITOHO (55)
Appointed to the Board in December 2001
Occupation: Architect
Academic Qualifications: Bachelor of Architecture
Professional Qualifications: Member of Kenya Architect Association

ROB JAMES WARD (51)
Appointed to the Board on 9 August 2011
Occupation: Insurance Executive and Strategic Advisor
Academic Qualifications: Bachelor of Commerce, Business Administration and Industrial Psychology

BALOOBHAI PATEL (73)
Appointed to the Board in December 2001
Occupation: Managing Director, Trans-world Safaris Limited.

Emma Wachira,
Company Secretary/Chief Legal Officer

Joined Pan Africa Life in December 2007. She holds a Bachelor of Laws degree and CPS (K)

James Muiruri,
General Manager, Corporate Business

Joined Pan Africa Life in November 1999. He holds a BSc Degree, AIIK, ACII, ACIArb. He is also an Associate, Customer Service of LOMA (USA)

Tom Gitogo,
Chief Executive

Joined Pan Africa Life in May 2007. He holds an MBA in Strategic Management and a Bachelor of Science Degree in Civil Engineering. He is a CPA (K), CPS (K) as well as a member of the Institute of Chartered Accountants in England and Wales

Miriam Gathura,
Human Resources Manager

Joined Pan Africa Life June 2010 Qualifications: MSCCR, BSc and Higher National Diploma CHR

Senior Management

Stephen Kamanda,
General Manager, Finance & Administration

Joined Pan Africa Life in August 2005. He holds an MBA in Finance and a Bachelor of Arts Degree in Economics. He holds further qualifications in FCCA (UK), ICSA (UK), CPA(K)

Ezekiel Owour,
National Sales Manager

Joined November 2011
Qualifications: MBA (Strathmore), BA(Moi), Postgraduate Diploma (CIM)

Joseph Wamwea,
General Manager, Operations & IST

Joined Pan Africa Life in September 1999. He holds an MBA and a Bsc (Hons). He holds further qualifications in CISA, Dip FM, Dip CS

Fellow shareholders, it gives me much pleasure to present to you our audited Financial Statements and various accompanying reports for our Group in respect of the Financial year ended 31st. December, 2011.

Global Economy

IMF September 2011 Global Economic Outlook showed a slowing global economic activity as a result of crisis hit Europe, Great East Japan earthquake, as well as the spreading unrest in the Middle East and North Africa (MENA) region and the related surge in oil prices. The financial volatility in the world arena is thus projected to lower the global growth from 4% in 2010 to 3.6% in 2011.

Kenyan Economy

The Kenyan GDP in 2011 slowed down from the 5.6% achieved in 2010 mainly due to drought, higher food and oil prices (leading to increased inflation) and volatile exchange rate. The growing trade deficit (imports exceeding exports) continued to increase the current account deficit, thus contributing to major fluctuation in the Kenyan shilling. The CBK reacted to the prevailing economic environment through tightening of the monetary policy in order to tame the high inflation. This led to a significant increase in short term interest rates, heightening fears of possible increases in loan defaults.

The Annual Average Inflation increased from 3.96% recorded in December 2010 to settle at 14.02% by close of 2011. Financial market conditions worsened with the NSE index declining by 28% to 3205.02. Interest rates continued to increase with the 91 days Treasury bill climbing to 20% in December 2011. The Kenya Shilling weakened by 5% against the US Dollar to close at KShs 85.06 in December 2011.

The 2012 prospects remain good with interest rates expected to decline following decrease in inflationary pressures in January and February 2012. We remain optimistic that the increased political activity in 2012 will not reverse the strengthening Kenya shillings and declining interest rates.

Insurance Industry

The AKI 2010 Insurance Industry Report indicates that the World premium volume grew by 2.7% in real terms with Life business growing at a faster rate of 3.2% compared to the Non life insurance at

2.1%. Emerging markets (incorporating Developing Countries) continued to show increased growth potential of 11% compared to industrialized countries at 1.4%.

The insurance market penetration (as a percentage of GDP) in Kenya has improved to 3.10% in 2010 compared to 2.84% realized in 2009. Life Insurance penetration has improved to 1.05% (2009: 0.94%) while General insurance penetration has improved to 2.05%. South Africa continues to have the best market penetration in Africa at 14.8%.

The lower penetration levels continue to show that there is a large untapped insurance market in Kenya that requires a lot of sensitization to the insuring public in order to facilitate sales. Insurance players, AKI and the office of the Insurance Regulatory Authority must continue to explore and engage the public on various insurance needs that exist.

Group Performance

The PAIHL Group achieved profit before tax of KShs 552m compared to KShs 665m achieved in 2010. The reduced profitability is attributable to significant unrealized losses from our marked to market bond and equities portfolios. Our Life business remains resilient despite reduced purchasing power of our individual and corporate clients. The sale of Runda houses is now complete and this has helped cushion the losses from the NSE. The Chief Executive Report provides details of the Group performance.

Dividend

In keeping with our Dividend Policy, the Directors will be recommending a first and final dividend of KShs 2.00 per share (2010: KShs 3.00 per share before the 1:1 bonus shares issue) payable to the shareholders appearing in the Register of Members at the close of business on 16 May 2012. A proposal to approve this distribution will be presented to the AGM on 16 May 2012. The Share Register will be closed from 17 May 2012 to 4 June 2012, both days inclusive to facilitate dividend payment.

Statement of Corporate Governance

As a publicly listed company, Pan Africa complies with the Capital Markets Authority Guidelines on Corporate Governance. The Insurance Regulatory Authority has, in the recent past, required that all directors in the Insurance Sector undergo a course in Corporate Governance. Our directors have taken appropriate actions to comply with this requirement. In addition, they continue to comply with Global Standards on Corporate Governance.

2011 Awards and recognitions

In 2011, Pan Africa continued its tradition of being recognized by various examining bodies in different aspects due to its dedication to quality in the following areas:

Think Business Insurance survey

In the 2nd Annual Insurance survey (2011) conducted by Think Business for all Insurance companies in Kenya, Pan Africa Life won in 5 classes as follows:

- The Life Insurer of the year- for the 2nd year running
- Fraud detection and prevention initiative- the only company recognized in this area
- Best ICT-Improved from the 1st Runner up the previous year
- Training initiative-1st Runners up
- Claims settlement-1st runners up

These winnings continue to confirm our dominant role in providing 1st class wealth creation solutions to our policyholders and other stakeholders.

GCR Rating

Following a review of Pan Africa financial ability in 2011, the Global credit rating firm based in South Africa improved our rating from A+ achieved in 2010 to AA- in 2011. This achievement continues to demonstrat our continued financial strength and ability to honour policyholder obligations over the medium term.

ISO 9001:2008

In 2011, Pan Africa Life underwent an ISO 9001:2008 certification process as a vindication that our organization meets the service standards required internationally. We are glad to report that following a review of our certification process by SGS Kenya Ltd, we have received the ISO 9001:2008 certification.

Changes to the Board

In 2011, we had two resignations from the board - that of WR Dommisse and CN Bezuidenhout. These two directors represented Sanlam, our majority shareholder, in the board. WR Dommisse took more responsibility at Sanlam Emerging Markets as the Chief Finance Officer while CN Bezuidenhout was reassigned to Shriram, a Sanlam interest in India for Actuarial support. The two directors were replaced by RJ Ward- previously CEO of Sanlam Sky in South Africa and JP Wrench, the head of Actuarial (Rest of Africa) in Sanlam Emerging Markets. We believe the new directors will bring additional critical skills to the board thus strengthening the Board's capacity to deal with diverse organizational and insurance challenges .

Disposal of our shares in APA Insurance Ltd.

During 2011, we completed the disposal of our interest in APA Insurance Ltd., a general insurance company, in order to focus more on our life insurance business. You will remember that our intention since the reorganization of the business portfolio in 2002 was always to focus on life insurance.

Closing Note

The financial year ended 2011 was difficult for most organizations arising mainly from poor investment returns in both bond and quoted stocks at NSE. 2012 has started well with economic recovery prospects remaining bright. However, it is important in our planning, to factor the fact that the year will witness increased political activity in the run up to the forthcoming general elections which will be held under the new constitution. For most of the insuring public, purchasing of long term insurance products is likely to be negatively impacted as a wait and see attitude settles in for the duration of those activities. Notwithstanding these anticipated challenges, the Board remains bullish that the prospects for 2012 and beyond remain good mainly because structures together with systems are being put in place by the government to ensure that policies which are business friendly will not just be talked about but also implemented.

My gratitude goes; firstly, to you our shareholders for your support through continued investment in the Group; secondly, to my colleagues on the board for their focus, commitment and generation of strategic ideas enabling growth and sustainability of our business; thirdly, to Management and staff for their dedication, effective deployment of their knowledge and skills to ensure that we achieved our targets for 2011 and; finally, to our policy holders, business partners, suppliers and all those who enabled us to attain our objectives for without your custom we would not be running a sustainable business.

Finally, 2012 will see our company implement a new Life Administration system which we believe will enhance efficiency in the way we do business. I wish all the staff involved in this critical task every success.

John P N Simba, OGW, MBS.

Chairman

20 February 2012

Stacking pebbles, is an art, for some a passion. Some of the pebbles you'd stumble upon are sometimes actually naturally set.

Wenye hisa wenzangu, ina nipa furaha kuwasilisha taarifa zilizoko za hesabu zilizokaguliwa na ripoti nyingine kadhaa zinazoandamana nazo za kikundi chetu kuhusu mwaka wa fedha unaoisha tarehe 31 December 2011.

Uchumi wa ulimwengu

Ripoti ya shirika la fedha ulimwenguni IMF la mwezi September 2011 lilionyesha kushuka kwa shillingi kwa sababu ya matatizo yaliokumba uchumi wa nchi zilizoendelea, tetemeko la adhi lilioikumba Japan, pamoja na ghasia zilizoenea kote mashariki ya kati na eneo la Afrika kazikazini, pamoja na kupanda kwa bei ya petroli. Kutotulia kwa pesa katika ulingo wa ulimwengu umetabiriwa kushusha ukuaji wa kimataifa kutoka silimia 4% mnamo mwaka 2010 hadi ailimia 3.6% mnamo 2011.

Uchumi wa Kenya

Jumla ya mazao yote ya nchi ya Kenya yalishuka kutoka kiwango cha asilimia 5.6% kilichofikiwa mwaka 2010 hasa kwa sababu ya ukame, bei ya juu ya chakula, na bei ya petroli, iliyopelekea ongezeko ya hali ngumu ya maisha na kiwango cha ubadilishanaji pesa kinachoyumbayumba.

Kiwango kinachoongezeka cha hasara (tunanunua zaidi kutoka nje kuliko tunavyouza nje) kiliendelea kuongeza upungufu katika akiba ya Current Account, na hivyo kuchangia msukosuko mkubwa wa shilling ya Kenya.

Benki kuu ya Kenya ilijibu hali hii ya kiuchumi kwa kutilia mkazo maongozi ya fedha kwa kuweka masharti magumu ili kutuliza hali hii ngumu ya maisha. Hii ilipelekea kupanda kwa kiasi kikubwa viwango vya riba vya muda mfupi, na kupandisha hofu ya uwezekano wa uongezeko wa visa vya watu kushindwa kulipa mikopo yao. Kiwango cha wastani cha kila mwaka cha hali ngumu ya maisha kilipanda kutoka asilimia 3.96% kilichorekondiwa mnamo December 2010 na kutulia katika asilimia 14.02% kufikia mwaka wa 2011.

Hali ya masoko ya fedha ilisorota na kiwango cha NSE INDEX kilishuka kwa asilimia 28% hadi 3205.02. Viwango vya riba viliendelea kushuka na hati za dhamana za serikalli za siku 91 zikipanda hadi asilimia 20% mnamo mwezi December 2011.

Shilingi ya Kenya ilipungua thamani kwa asilimia 5% dhidi ya dola ya Marekani na kufunga siku ikibadilishwa kwa Kshs. 85.06 mnamo December 2011.

Matarajio ya mwaka 2012 ni mazuri na viwango vya riba vikitarajiwa kushuka kufuatia kupungua kwa mkazo wa hali ngumu ya maisha mnamo mwezi January na February

2012. Bado tuna matumaini kwamba kuongezeka kwa shughuli za kisiasa mnamo mwaka 2012 hazitarundisha nyuma shilingi ya Kenya inyoimarika na viwango vya riba vinavyoshuka.

Biashara ya bima

Ripoti ya AKI (2010) inaonyesha kwamba jumla ya biashara ya bima ilikuwa kwa kiwango cha asilimia 2.7% na biashara ya bima ya maisha ikikuwa kwa kiwango cha asilimia 3.2% ikilinganishwa na kiiwango cha bima isiyo ya maisha cha asilimia 2.1%. Masoko mapya (yanojumuisha nchi zinazoendelea) yanaendelea kuonyesha uwezo wa kukua wa asilimia 11% ikilinganishwa na nchi zilizoendelea kwa asilimia 1.4%.

Upenyaji wa soko la bima (kama sehemu ya mazao yote ya nchi GDP) hapa Kenya kumeongezeka asilimia 3.10% mnamo 2010 ikilinganishwa na asilimia 2.84% kilichofikiwa mnamo 2009. Upenyezaji wa bima ya maisha imenawiri hadi 1.05% (2009: 0.94%) hili hali upenyezaji wa bima ya kawaida imenawiri na kufikia asilimia 2.05%. Nchi ya Afrika Kusini inaendelea kuwa na upenyezaji bora zaidi wa soko la bima katika Afrika la asilimia 14.08%.

Viwango vya chini vya upenyesaji vinaendelea kuonyesha kwamba bado kuna soko kubwa la biashara bima hapa nchini Kenya linalohitaji Uhamasisho mkubwa wa wananchi wanaoweka bima ili kufanikisha mauzo. Washika dau wa biashara ya bima, AKI na afisi ya halmashauri unayosimania bima nchini sharti iendelee kuchunguza na kuelimisha wananchi kuhusu haja ya bima tofauti zilizopo.

Utendaji wa kikundi

Kikundi cha PAIHL kilipata faida kabla ya kodi ya Shilingi 552 millioni likilinganishwa na Shilingi 665 milioni ilichopata mnamo 2010. Faida hii ya chini imesababishwa na biashara yetu ya bima ya maisha bado ni kakamavu licha ya uwezo mdogo wa kununua wa wateja wetu wa kibinafsi na wale wa mashirika makubwa. Uuzaji wa nyumba zetu za Runda sasa umekamilika na hii imesaidia kukinga hasara kutoka soko la hisa la Nairobi NSE. Ripoti ya mkurugenzi wetu mkuu inatoa maelezo kamili kuhusu utendaji wa kikundi.

Mgawo

Kulingana na muongozo wetu kuhusu mgawo, wakurugenzi watapendekeza mgawo wa kwanza na wa mwisho wa Shilingi 2 kwa kila hisa moja (mwaka 2010: shilingi 3 kwa hisa kabla mauzo ya hisa ya bonsai ya shilingi moja kwa hisa) yanayolipwa wenye hisa walio orodheshwa kwenye sajili ya wanachama kufikia mwisho wamasaa ya kazi mwezi Mei 16 2012. Pendekezo la kupitisha mgawo huu utawasilishwa katika mkutano wa mwaka mnamo Mei 16 2012 Sajili ya hisa itafunguliwa kuanzia Mei 17, 2012 hadi June 2012 ili kuwezesha malipo ya mgawo.

Taarifa ya usimamizi wa kampuni

Kama kampuni ya uma iliyo orodheshwa , Pan Africa inatekeleza hitaji la mwongozo wa halmashauri ya mitaji kuhusu usimamizi mwema wa makampuni. Almashauri linalosimamia kampuni za bima, hivi karibuni imetoa agizo wakurugenzi wote katika sekta ya bima wapewe mafunzo kuhusu usimamizi wa kampuni. Wakurugenzi wetu wamechukua hatua mwafaka kutekeleza hitaji hili. Kuongezea, wanaendelea kutimiza viwango vya kimataifa vya usimamizi bora wa makampuni.

Zawadi na kutambuliwa mnamo 2011

Mnamo mwaka 2011 Pan Africa iliendelea na mtindo wake wa kutambuliwa na mashirika kadha ya kusimamia mitihani katika sehemu tofauti kwa sababu ya kujitolea kwake kwa kuhakikisha ubora katika maeneo yafuatayo.

Uchunguzi wa "Think Business Survey"

kwenye uchunguzi wa pili wa kila mwaka wa Insurance Survey (2011) uliofanywa na kampuni ya Think Business kwa kampuni zote za bima za Kenya, Pan Africa Life ilijinyakulia ushindi katika viwango 5 kama ifuatavyo;

- Mwana bima wa mwaka – kwa mwaka wa pili mfululizo.
- Hatua za kupeleleza na kukinga vitendo vya jinai vinvyusu pesa (kampuni ya pekee iliyotamuliwa katika kitengo hiki).
- ICT – bora zaidi imeendelea kutoka Runners up wa kwanza mwaka uliotangulia.
- Juhudi za utoaji mafunzo.
- Ulipaji wa marupurupu – ruuners up wa kwanza -ushindi tuu unaendelea kuthibitisha uwezo wetu mkubwa wa kutoa suluhisho kwa nafasi adimu za uzalishaji mali. Kwa wana bima wetu na wahikadau wangine

Ukadiaji wa uwezo wetu wa kifedha

Kufuatia kuchunguzwa upya kwa uwezo wa kifedha wa Pan Africa mnamo 2011, tasisi ya kimataifa ya kutathimini uwezo wa kampuni wa kutoa mikopo, lililo na makao yake Afrika kusini, ilipandisha kiwango chetu kutoka A+ tulichokifikia mnamo 2010 hadi AA- mnamo 2011. Fanikio hili linaendelea kudhibitisha kuendelea kwa uwezo wetu wa kifedha na uwezo wetu wa kutekeleza ahadi yetu kwa wanabima katika kikundi cha wastani.

ISO 9001: 2008

Mnamo mwaka 2011, Pan Africa Life ilifanyiwa uchunguzi wa ukadiliaji wa ubora ujulikanao kama – ISO 9001: 2008 Certification – kua dhibitisho kwamba kampuni yetu imefikia viwango vya utoaji huduma vinavyohitajika kimataifa.

Tunafuraha kuripoti kwamba, kufuatia ukadiriaji upya wa huduma zetu wa halmashauri ya ukadiriaji ubora wa bidhaa – SGS Kenya Ltd – ime tukabidhi hati ya usajili ya utoaji huduma bora ya ISO 9001: 2008 Certification.

Mabadiliko katika Halmashauri

Mnamo mwaka 2011, WR DOMMINISSE na CN Bezuidenhout walistaafu kutoka kwa halmashauri. Wakurugenzi hawa wawili waliwakilisha Sanlam, mwanahisa wetu mkuu, katika Halmashauri. WR DOMMINISSE alichukua mamlaka zaidi katika Sanlam Emerging Markets ilhali CN Bezuidenhout alipelekwa uhamishoni Shriram, biashara ya Sanlam huko India kama mhasibu. Wakurugenzi hawa wawili walibadilishwa na RJ Ward – ambaye hapo awali alikuwa msimamizi mkuu wa Sanlam Sky ilioko Africa Kusini, na JP Wrench, msimamizi wa Uhasibu huko Sanlam Emerging Markets. Sisi tunaamini kwamba wakurugenzi hawa wawili wataongeza ujuzi muhimu kwenye Halmashauri na hivo kuipa Halmashauri uwezo zaidi wa kuiwezesha kukabiliana na maswala ya kikazi nay yale yanayo husu changamoto za bima.

Uondoaji wa hisa zetu katika APA Insurance Ltd

Mnamo mwaka wa 2011 tulikamilisha uodoaji wa hisa zetu pamoja na rasilimali zingine katika APA Insurance Ltd, Kampuni ya bima za kawaida, ili tushughulikie biashara yetu ya maisha kwa ukamilifu zaidi.

Utakumbuka kwamba nia yetu tangu tubadilishe mfumo wa mwelekeo wa kampuni yetu mnamo mwaka wa 2002, imekuwa ni kulenga bima ya maisha.

John PN Simba, OGW, MBS,

Mwenyekiti

20 February 2012

Chief Executive's Statement

Kenya Economy 2011

Operating Environment

The Kenya economy has been severely tested for endurance over the last few years and 2011 was no different. Drought ravaged the country for the better part of the year followed by significant weakening of the Kenya Shilling resulting in a complete recipe for high inflation. The Central Bank Monetary Policy Committee (MPC) introduced a number of measures aimed at curbing the high inflation and stabilizing the currency which included raising the Central Bank Rate (CBR) to 18%. The 91 day Treasury bills increased 8 fold from 2.357% to 18.948% at the close of the year. As would be expected, marked to market bonds lost value as short term lending became more attractive. The NSE 20 Share index declined by 28% compared to December 2010, further signifying the stormy conditions that permeated most of the year. Against this backdrop, I am delighted that the group returned solid results.

Performance Highlights

- Profit before tax at KShs 552m is down 17%
- Value of New business up 6% to KShs 166m
- Group Embedded Value up 11% to KShs 4.2b
- Premium Income down 5% at KShs 3.6b
- Over 600,000 lives covered by Pan Africa Life
- Dividend Per Share (DPS) up 33%

Key Achievements

Despite the difficult economic environment, the Group profit before tax declined by only 17%. The results from our individual life portfolio were the most affected by market volatility. Our investment diversification strategy paid off as the sale of the remaining high end residential houses at Mae Ridge Runda, Nairobi, as well as some land helped cushion the significant unrealised losses from the NSE.

Embedded Value

The embedded value (EV) gives a more comprehensive measure of the value of the Group's assets and the intrinsic value of the in-force book of long term insurance business, by incorporating the net present value of future profits expected to arise from policies in place as at year end.

The Group embedded value as at 31 December 2011 stood at Shs. 4.2 billion, an increase of 11% over the previous year. This increase arises mainly from the growth in the value of in-force business which was mainly contributed by our credit life business.

This EV translates to an EV earnings per share of KShs. 43.3 (2010: KShs. 39.0) which indicates the resiliency of the group in the face of difficult economic conditions.

Life Business

Notwithstanding the tough operating environment, premium income was down by only 5%. Individual life grew by 20% on the back of improved average premiums albeit in the face of a general increase in withdrawal rates as our customers came to terms with the subdued state of the economy. We registered a decline in retirement annuities and group risk volumes due to thinning of rates to levels considered uneconomical. Our policy has always been to underwrite business at profitable premium levels.

The profitability of business written in the year (Value of new business) improved by 6% due to a combination of prudent underwriting standards, improved volumes and costs containment. In the year, we introduced two new products into the market. The FlexiLife is a revolutionary endowment product that provides protection and savings. It pays twice along life's journey at retirement and on bereavement. The policyholder does not pay premium at all after retirement but continues to enjoy the cover. We also introduced a funeral product in partnership with Umash funeral home. For considerably low premiums, the client gets significant benefits towards decent send off for their loved ones.

Our corporate business continued to claim the market leadership position thanks in part to our efforts to build lasting relationships with brokers and other corporate partners through whom the bulk of our group business comes.

Our People

Pan Africa is an Equal opportunity employer. The group does not discriminate against individuals on the basis of race, colour, sex, gender identity, religion, disability, age or ethnicity in the recruitment process. The company employs 113 full time employees and a team of 700 tied financial advisors. In 2011, we continued to pursue the objective of attracting, developing and retaining the best talent. The group continues to place a strong emphasis on skills development, training and certification as a way of empowering our staff to realize their maximum potential.

Pan Africa Life is a recognized Life Office Management Association (LOMA) examination centre. A large number of our employees are writing this examination and are at various stages of attaining full certification. We are encouraged by the commitment shown by the staff as exemplified by high pass rates with top honours. The institute recognised Pan Africa's commitment to training in 2011 in recognition of outstanding participation in LOMA education programs at the annual awards in Toronto, Canada.

The group has introduced a talent academy aimed at nurturing bright young professionals. The trainees under this initiative will undergo a three year all round program covering all aspects of the business. At the expiry of this period, they will be taken into the business initially but with time and as the number grows, we expect that they will be absorbed by the wider insurance industry.

Looking ahead

I have mentioned the significance of business diversification for the group to remain resilient going forward. This will be achieved through establishing the right partnerships, distribution channels and broad based investment strategies. We are progressing with a new software system for our Life Business that will bring in increased efficiency that will add value to our customers and accommodate our growth plans. We are targeting this implementation to go live in the 3rd Quarter of 2012.

We have started to work on the infrastructure of our Runda Phase II development as we pursue our strategic intent to diversify investment income.

Appreciation

I wish to thank our clients for choosing pan Africa life as their preferred insurance provider of choice as well as our business partners and other stakeholders for their support through good and bad times. From the Pan Africa life team, we will endeavor to continue making your experience with us a very pleasant one indeed.

Tom Gitogo
Chief Executive
20 February 2012

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the 66th Annual General Meeting of the Company will be held at the Tsavo Room, Hilton Hotel, Mama Ngina Street Nairobi on Wednesday, 16 May 2012 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 17 May 2011.
4. To consider, and if approved, adopt the Balance Sheet and Accounts for the year ended 31 December 2011 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 2 per share for the financial year ended 31 December 2011 and approve the closure of the register of Members on 17 May 2012 to 4 June 2012.
6. To elect directors:
   - 6.1 Baloobhai Patel, retires by rotation in accordance with the Company's Articles of Association and he offers himself for re-election.
   - 6.2 Jonathan Paul Wrench, who was appointed a director on 9 August 2011, retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election.
   - 6.3 Robert James Ward, who was appointed a director on 9 August 2011, retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election.
7. To approve the Directors' remuneration.
8. To note that the auditors, Ernst & Young, will continue in office in accordance with Section 159(2) of the Companies Act (Cap 486) and to authorise the Directors to fix their remuneration.
9. To transact any other business with the permission of the Chair for which 48 hours notice had been given to the Company Secretary at the registered office of the Company.

By Order of the Board

Emma Wachira

Company Secretary

20 February 2012

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 Monday 14 May 2012 at 10.00 am.

Ilani ya Mkutano Mkuu wa Mwaka

Ilani inatolewa hapa kwamba mkutano mkuu wa mwaka wa 66 utafanywa katika ukumbi wa Tsavo Room, Hilton Hotel, Mama Ngina Street Nairobi, siku ya Jumanne, tarehe 16 Mei 2012 saa nne asubuhi kutekeleza shugulu zifuatazo:

1. Kuwasilisha fomu za uwakilishi wa kubaini kwamba kuna hesabu kamili kulinganan na kanuni za halmashauri
2. Kusoma ilani iliyo itisha mkutano
3. Kuthibitisha mambo yaliyosemwa na kupitishwa kwenye mkutano wa mwaka uliopita uliofanyika mwezi Mei 17, 2011.
4. Kuzingatia na ikiwa itapitishwa kubali taarifa ya pesa zilizopokelewa na matumizi yake pamoja na hesabu za mwaka uliomalizika tarehe 31 Desemba, 2011 pamoja na ripoti ya mwenyekiti, msimamizi mkuu mtendaji, wakurugenzi, wakuguzi na wahasibu wa kampuni.
5. Kutangaza mgao wa KShs 2 kwa hisa kwa mwaka wa pesa uliomalizika Desemba 31, 2011 na idhimisho kufungwa kwa sajili ya wanachama kwanzia tarehe 17 Mei 2012 hadi tarehe 4 Juni 2012.
6. Kuwachagua Wakurugenzi

   6.1 Bwana Baloobhai Patel anastaafu kwa zamu, kulinganan na sheria za kampuni na amejitolea kuchaguliwa tena

   6.2 Bwana Jonathan Paul Wrench, aliyeteuliwa mnamo tarehe 9 Agosti 2011, anastaafu huu ukiwa mkutano wake wa kwanza wa mwaka kufanwa tangu kuteuliwa kwake na akiwa anastahili amejitolea achaguliwe tena.

   6.3 Bwana Robert James Ward, aliyeteuliwa mnamo tarehe 9 Agosti 2011, amestaafu huu ukiwa mkutano wake wa kwanza tangu kuteuliwa kwake, na akiwa anastahili amejitolea achaguliwe tena.
7. Kuidhimisha malipo ya wakurugenzi
8. Kubuni kwamba wakaguzi Ernst & Young wataendelea kushika hatamu kulingana na sehemu ya 159 (2) ya sheria za makampuni (Cap 486) na kuwapatia wakurugenzi uwezo wa kuidhimisha marupurupu yao.
9. Kutekeleza shuguli zingine zozote kwa ruhusa ya mwenye kiti ambazo ilani ya masaa 48 imetolewa kwa katibu wa kampuni katika afisi iliyo sajiliwa ya kampuni.

Kwa amri ya halmashauri,

Emma Wachira

Katibu wa Kampuni

20 Februari, 2012

Kumbuka:

Mwanachama mwenye haki ya kupiga kura kwenye mkutano huu na ambaye awezi kuhudhuria, anaweza kuchagua mwakilishi kuhudhuria na kupiga kura kwa niaba yake. Mwakilishi haitaji kuwa mwanachama wa kampuni. Ili kukubalika, fomu ya mwakilishi ambaye imeambatanishwa mwisho wa ripoti hii sharti ijazwe na ijazwe na kuwekwa sahihi na mwanachama na irundishwe katika afisi za katibu wa kampuni Pan Africa House Kenyatta Avenue, P.O. BOX 10493-00100 nairobi, AMA ITUMIWE KWA NJIA YA POSTA ILI IFIKE KABLA YA IJUMAA TAREHE 14 Mei 2012 saa nne asubuhi.

OVERVIEW

Our Corporate Social Responsibility program is 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: Education, conserving our environment and lifting the living standards of our communities.

In 2011, we were involved in various CSR activities in line with our three pillars as detailed below:

EDUCATION

Financial Support to needy students

The company continues to sponsor 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. On an ongoing basis, the company receives sponsorship requests across the country from needy students. These are evaluated based on needs analysis, the potential of each student and geographical spread.

Empowering the Youth

AIESEC

We continue to partner with AIESEC, the world's largest student-run organization focused on providing a platform for youth leadership development. Among other donations, we sponsor the Kenya chapter during their annual conferences and offer internship opportunities for students from other countries on the exchange program.

Patience M. Mukeli
Actuarial Graduate Trainee
Holds a Bachelors Degree in Actuarial Science - First Class Honours. Also holds CPA (K), CISA

"The graduate trainee program is a great initiative for a freshman from college as it seeks to build one in major facets of their career by assisting them to transition smoothly into the corporate world without major hurdles that one would otherwise face. This program will be a platform for me to grow professionally and acquire the core value of Career Development and Ethics. It will be a fast track for me to achieve my ultimate career destination in Actuarial".

Leap Academy

Leap is Pan Africa Life's Talent Academy. This is an initiative that demonstrates our commitment to our country's national skills development agenda by focusing on talent development programs.

Our program is one of the ways in which Pan Africa Life contributes to the development of youth talent in Kenya. Intake to any of these programs is impacted by a number of variables which include market and the business' skill needs.

Cindy Were
Actuarial Graduate Trainee
Holds a Bachelor Degree in Actuarial Science - First Class Honours

"What most graduates are looking for is experience and I believe Leap Talent Academy Graduate Trainee Program gives an opportunity to get that experience. One thing I like about it is it gives the trainee a holistic view of the operations of the Company not just in the specified field they have specialized in. I believe this would help make me, as one of the Graduate Trainees, more efficient since I'll have a better understanding of why the Acturial department does what it does and how it affects the company as a whole. I look forward to the challenges ahead".

The programs currently available include:

Leap Internship Program

Pan Africa Life offers work integrated learning for graduate students for their qualification and for those who would like to experience the world of working during their school vacation.

Due to the training nature of this program, the intern will be based at a specific business unit for a period of 3 to 6 months. As an intern you will be assigned to a Manager whose role will be to provide support as well as regular feedback on your performance and development.

We look for the best talents to help us develop cutting edge ideas and achieve growth. In return, we invest in their intellectual

Fatuma Taib
ICT Graduate Trainee
Holds a Bachelor of business Information Technology Degree (BBIT) - Second Class Upper Division
Also holds CCNA & ICDL

"It is a privilege to be one of the pioneers of the Leap Talent Academy and am sincerely grateful for having been given the opportunity to be part of it. I expect to undergo training and development so as to exploit and fully utilize my skills and ability in the field of IT. Apart from training, I expect to contribute positively towards the Company's development by performing tasks assigned to me diligently and efficiently in order to achieve individual desired goals as well as corporate goals. I believe at the end of it all I would have gained enough skills and experience that will be beneficial towards my career development"

ability, encourage early responsibility and support their ambition and progress. With our coaching, guidance and global reach, the future is yours to explore!

Graduate Trainee Program

Pan Africa Life gives a fresh graduate the opportunity to be a young professional by offering specific technical skills and professional experience to the graduants. This will be achieved through a comprehensive two (2) years development plan that ensures structured and blended learning - including on-the-job learning experience and professional certifications e.g. ICDL, IHRM, LOMA. Projects and specific work assignment across Pan Africa Life's business units will not only broaden their understanding of the Life Insurance industry, but will also help them to understand the various career opportunities within the industry.

Available graduate career paths are:

Finance, Accounting, Insurance, Human Resources, ICT, Marketing and Actuarial

Beyond Borders Experiential Learning

Beyond Borders is a program that targets critical and unique talent among our staff for 3 to 6 months overseas placement depending on availability in any one of the Sanlam Emerging Markets including Botswana, Namibia, Zambia, Tanzania, Ghana, Nigeria and Uganda.

ENVIRONMENTAL CONSERVATION

Tree planting initiatives

Pan Africa Life prides itself in conserving our environment. To this end, we actively participate in tree planting exercises across the country, which we do in collaboration with local authorities, schools and communities. This year, our staff were involved in planting over 3,200 trees in Mombasa, Kisumu and Eldoret among others.

Kenyatta Avenue Beautification

In the last quarter of the year, a partnership was forged between Pan Africa Life and The City Council of Nairobi to beautify and maintain the garden along Kenyatta Avenue for the next five years. The project will entail beautification and management of the gardens along the avenue. This is in line with our objective to conserve out environment and maintain the beauty of our city.

CARING FOR OUR COMMUNITY

Kenyans for Kenya

In the month of August 2011, the Pan Africa Life family participated in the 'KENYANS for KENYA' campaign that was geared towards raising funds to feed those who were starving in the Eastern and Northern Kenya. Our staff and sales force spanning across the

Race Course Primary School, Eldoret

country contributed generously towards the above fund to which the company also made a generous top up.

Kibos Prisons Primary School, Kisumu

UNICEF

We have been supporting UNICEF through purchase of their seasonal greeting cards over the past four years. Last year we purchased 2,667 cards. We endeavor to continue supporting such programs.

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.

Other CSR initiatives in the year 2011

The company supports The Cerebral Palsy Society of Kenya's rehabilitation program whose main objective is to raise funds to support children who are affected by the condition. Another contribution was also made towards Faraja Cancer Support program to support those who have been affected by cancer.

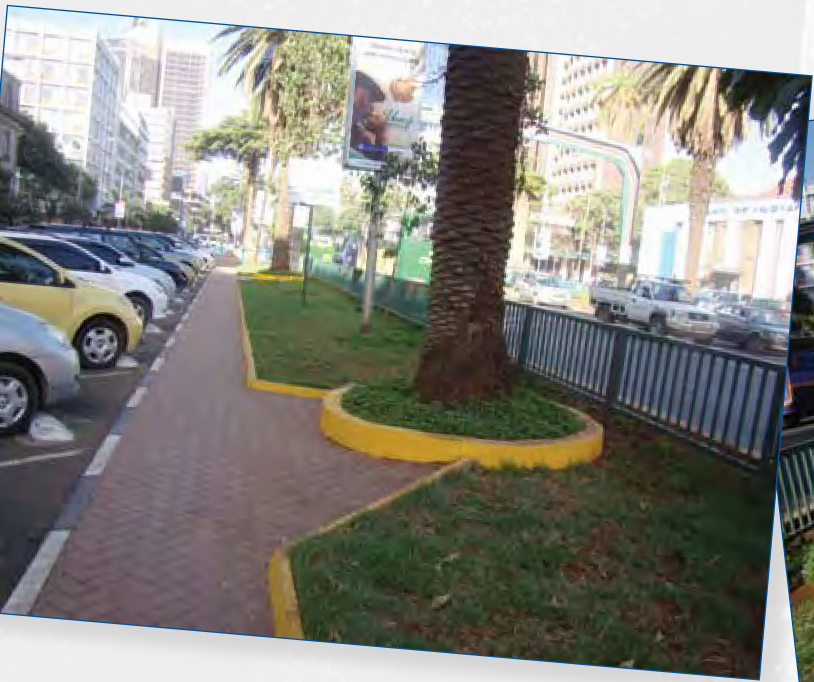
Chairman's Fund

Apart from our CSR fund, we have the Chairman's fund whose objective is to support corporate citizenship endeavors that the Chairman may deem worthwhile. This year, we sponsored the National prayer breakfast and partnered with various churches including ACK St. Peter's Church and Archdiocese of Nairobi to support their community projects.

The fund was also utilized to support various golf tournaments and other events whose aim was to raise funds geared towards improving the living standards of our community.

Pan Africa Life Staff warm up before taking the Mater Heart Run at the Nyayo National Stadiu

Kenyatta Avenue Beautification Project



Nairobi's Kenyatta Avenue finally got a new face lift from Pan Africa Life, restoring the street to its former glory. Pan Africa has helped transform the heart of the city into a truly remarkable spectacle that the city's residents can take pride in.

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

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

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

Board of Directors

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

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

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

Board Responsibilities

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

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

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

Board Composition

The current Board consists of Nine directors comprising of the Chairman, one independent non-executive director, the Chief Executive as the only executive director, three 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. The directors abridged biographies appear on page 10-11 of this Annual Report.

Changes to the Board during 2011

In 2011, Robert Dommisse and Nelius Bezuidenhout resigned as Directors of the Company and Jonathan Paul Wrench and Robert James Ward were appointed directors to replace them.

Re-election to the Board

In accordance with the provisions of the Company's Articles of Association, all the directors retire by rotation every three years and are eligible to offer themselves for re-election. In every year, new directors who are appointed during the year to fill any casual vacancies, are subject to election by the shareholders during the Annual General Meeting and thereafter offer themselves for re-election every three years. In the 2011 Annual General Meeting, John Simba and Margaret Dawes resigned as directors and were unanimously re-elected to the Board.

Responsibility for Financial Reporting

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

Remuneration

In remunerating the directors, the Group 's policy has been to consider, the demands and requirements made on the directors in relation to the business of the Group, the availability of the directors for ad hoc consultation, professional and business counsel as and when the need arises, industry and related companies benchmarks, international experiences and the calibre of directors needed to run this Group. The directors have always, are, and will be expected to continue to add value to the business. The financial results indicate that the financial performance of the Group 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. The Directors are not eligible for pension scheme membership and do not participate in any of the Group's remuneration schemes.

Details of the directors' remuneration are set out on Note 36

Service Contracts and Compensation

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

Disclosure of Interests

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

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

Role of the Chairman vs. the Chief Executive

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

Role of the Board Vs the Executive Management

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

Committees of the Board

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

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

Members and attendance of these committees are provided on page 31-32

The Board has three committees as follows:

Audit Committee

The proceedings of the Committee are governed by an annual plan hat details the specific matters that it must discuss at each quarterly meeting and the Audit Committee charter m a n d ate 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 2011 were as follows:

Table 1: Audit Committee Membership

	Member	Directorship Status	Attendance at Meetings
1	Thomas Wixley (Chairman)	Non-Executive Director	100%
2	Margaret Dawes	Non-Executive Director	75%
3	Robert Dommisse	Non-Executive Director	75%
4	Baloobhai Patel	Non-Executive Director	100%
5	Susan Mudhune	Non-Executive Director	75%
6	Nelius Bezuidenhout	Non-Executive Director	75%

Investment Committee

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

The members of the Committee, and their attendance to the four meetings held in the year were as follows:

Table 2: Investment Committee Membership

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

Human Resources Committee

The members of the Human Resources Committee are described in Table 3 below. In 2006 this Committee developed a new charter and an annual plan to guide the agenda of meetings throughout the year. This committee changed its name from the 'Remuneration' Committee to the 'Human Resources Committee' to reflect its new charter and expanded mandate. Specifically, its new responsibilities are to ensure that an effective management succession process exists; to regularly evaluate the long-term availability of management expertise; and to give careful attention to succession planning for the positions of the senior management, including making recommendations with regard to the position of Chief Executive.

Table 3: Human Resources Committee Membership

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

Management Committees

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

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

Professional Advisors

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

Statutory Actuary

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

Llyod Masika

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

Shareholding

Prevention of Insider Trading

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

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

Details of the directors' shareholding in the Group are summarised in Table 6 below.

Table 4: Director's shareholding as at 31 December 2011

	Name of Director	Shareholding
1	Baloobhai Patel	19,198,800
2	John Simba (Chairman)	102,000
3	Tom Gitogo (Chief Executive)	30,000
4	James Gitoho	8,000

Disclosure of Information to shareholders

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

The Group has an authorised share capital of KShs 500 Million divided into 100 Million shares of KShs 5/= each. 96 Million shares are currently issued.

Top 10 shareholders in the Group

The top 10 shareholders, based on the Group's Register of Members, as at 31 December 2011 are shown in Table 5 below:

Table 5: Top Ten Shareholders as at 31st December 2011

	2011	%	2010	%
	Number of Shareholders		Number of Shareholders	
Hubris Holdings Limited	48,000,000	50.00	24,000,000	50.00
Baloobhai Patel	19,198,800	20.00	9,599,400	20.00
Kancher Kenya Limited	5,215,484	5.43	2,025,028	4.22
Thammo Holdings Limited	1,392,086	1.45	1,709,943	3.56
APA Insurance Limited	1,329,938	1.39	658,069	1.37
Apollo Life Assurance	732,514	0.76	0	-
Mayfair Insurance Company	700,000	0.73	0	-
Financial Fixtures Limited	574,474	0.60	325,695	0.68
Standard Chartered Bank A/c 9397	568,400	0.59	264,600	0.55
Anjay Vithabhai Patel	430,000	0.45	0	-
TOTAL	78,141,696	81.40	38,869,972	80.98

Distribution of shareholders

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

Table 6: Distribution Schedule

	Number of Shareholders	Number of Shares	%
Less than 1,000	685	272,190	0.28
1,001 - 5,000	2,146	4,377,374	4.56
5,001 - 10,000	207	1,543,282	1.61
10,001 - 50,000	217	4,589,130	4.78
50,000 - 100,000	34	2,335,428	2.43
More than 100,000	50	82,882,596	86.34
TOTAL	3,339	96,000,000	100

Table 7: Shareholder's Profile

	Number of Shareholders	Number of Shares	%
Local Corporate	70	67,508,271	70.32
Local Individual	3,066	27,301,569	28.44
Foreign Investors	203	1,190,160	1.24
TOTAL	3,339	96,000,000	100

Immobilisation of shares

The Central Depository System came into effect on 1 June 2003. The CDS is a computer system that facilitates the holding of shares in electronic accounts created at the offices of the Central Depository and Settlements Corporation Limited, a Group regulated by the Capital Markets Authority. The CDS functions shall include holding jumbo certificates, clearing and settlement for funds and securities, registration with transfer secretaries and corporate actions processing. What this means is that instead of the share registrar processing transfers for shareholders, preparing share certificates and processing dividend cheques, for example, these responsibilities now lie with the CDS. Details of the process of immobilisation and the advantages of this system can be obtained from the Nairobi Securities Exchange website: www.nse.co.ke. The Group commenced operations in February 2005. A progress report on the immobilisation is presented in Table 10 below.

Table 8: Immobilisation Report as at 31 December 2011

Item	Amount	%
Company's Authorised Shares	100,000,000	100.00
Number of Un-Issued Shares	4,000,000	4.00
Total Number of Issued Shares	96,000,000	96.00
Total Number of Shares Immobilised by the CDSC	22,076,651	23.00
Total Number of Non-immobilised Shares	73,923,349	77.00

GOING CONCERN

The Board submits this annual report and audited financial statements for the year ending 31 December 2011. The annual report and audited financial statements present, in the opinion of the directors, a fair, balanced and understandable assessment of the state of the affairs of the Group's position and prospects. The Board reports that the business is a going concern and they have no reason to believe that the Group and its subsidiaries will not be a going concern into the foreseeable future.

John P N Simba

Chairman

20 February 2012

Tom Gitogo

Chief Executive

20 February 2012

Kit-Mikayi, also spelled Kit Mikayi, Kitmikayi, and Kitmikaye, is a large rock formation situated about 29 km west of the town of Kisumu. It is about 1 km from the Kisumu-Bondo road.
Kit-mikayi means "Stones of the first wife" or "First Wife Rocks" in Dholuo, the Luo language. This naturally well laid rock formation is a 70 meter high tor (A prominent rock or pile of rocks on a hill).

Locals living around the stones are known as the Luo-Kakello clan. The site is associated with sacrifices and many legends from pre-Christian times, especially stories explaining the meaning of the name.
Kit-Mikayi is a regional point of sightseeing interest, especially among the neighbouring Luo tribes.

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 2011, 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 44 to 126.

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 2011, 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
Nairobi
5 April 2012

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 2011.

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 2011.

Giles T Waugh

Statutory Actuary

Fellow of the Actuarial Society of South Africa

20 February 2012

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; less
- The cost of the capital required to maintain the business, where the capital required is as per the Kenyan Insurance Act.

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 (2005).

2. Embedded Value Results	2011 KShs '000	Restated 2010 KShs '000	2010 KShs '000
a) Group embedded value			
Shareholders' adjusted net assets	2,919,735	2,690,762	3,493,229
Net value of in-force business	1,239,494	1,057,447	1,057,447
Gross value of in-force business	1,985,781	1,678,553	1,678,553
Tax provision	(595,734)	(503,566)	(503,566)
Cost of Capital Required	(150,553)	(117,540)	(117,540)
Embedded value	4,159,229	3,748,209	4,550,676
b) Embedded Value Earnings			
The embedded value earnings are derived as follows:			
Embedded value at end of year	4,159,229	3,748,209	4,550,676
Embedded value at beginning of year	(3,748,209)	(3,037,110)	(3,810,711)
Change in embedded value	411,020	711,099	739,965
Transfer from Shareholder's	9,287	-	-
Dividends paid in the year	144,000	81,600	81,600
Embedded value earnings	564,307	792,699	821,565

2. Embedded Value Results (continued)

b) Embedded Value Earnings (continued)

These earnings can be analysed as follows:

	2011 KShs '000	Restated 2010 KShs '000	2010 KShs '000
Adjustment to fair value of subsidiary	(51,981)	208,761	237,627
Roll forward	156,216	157,608	157,608
Investment return on free assets	32,495	21,375	21,375
Expected return on life business in-force	123,721	136,233	136,233
Change over the period	460,071	426,330	426,330
Value of new business at year end	183,245	161,159	161,159
Value of new business at point of sale	266,726	247,807	247,807
Tax on value of new business	(80,018)	(74,342)	(74,342)
Cost of required capital on new business	(19,915)	(21,279)	(21,279)
Expected return on new business to end of year	16,452	8,973	8,973
Changes in assumptions and methodology	97,570	(119,813)	(119,813)
Experience variations	(241,006)	48,262	48,262
Increase in NAV for other subsidiaries	420,262	336,722	336,722
Total earnings	564,307	792,699	821,565

The Embedded Value has been restated to reflect the present value of future holding company expenses.

3. Value of New Business

	2011 KShs '000	2010 KShs '000
Value at point of sale (gross of tax)	266,726	247,807
Tax on value at point of sale	(80,018)	(74,342)
Cost of required capital at point of sale	(19,915)	(21,279)
Value of new business at point of sale	166,794	152,186
Expected Return	16,452	8,973
Value of new business at year end	183,245	161,159

4. Sensitivity to the Risk Discount Rate

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

Risk Discount Rate	19.70% KShs '000	20.70% (basis) KShs '000	21.70% KShs '000
Shareholders' net assets	3,339,735	3,339,735	3,339,735
Value of in-force business	1,282,995	1,239,494	1,187,067
Embedded value	4,622,730	4,579,229	4,526,802
Value of one year's new business at valuation date	206,180	183,245	162,902

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 based on the investment scenario at the date of calcultion are as follows:

	2011	2010
	% p.a.	% p.a.
Risk discount rate	20.70	11.7
Overall investment returns (pre tax)	15.44	7.73
Expense Inflation Rate	12.70	3.7

The effect of the above economic assumptions on embedded value is as follows:

	KShs '000	KShs '000
Risk discount rate	(475,278)	146,858
Overall investment returns (pre tax)	875,593	(288,747)
Expense Inflation Rate	(185,568)	48,786
Total	214,747	(93,103)

b) Mortality Rates

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

c) Expenses

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

d) Premium Escalations

The embedded value of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business. The value of new business includes the expected value of future premium increases resulting from premium indexation arrangements on new business written during the year to 31 December 2011.

e) Persistency / Surrender Basis

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

f) Tax

Allowance was made for the current life office taxation basis

6. Sensitivities

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

	Value of in force KShs '000	% change over base
Values as at 31 December 2011	**1,239,494**	
Investment return (and inflation) decreased by 1,0% and with bonus rates and discount rates changing commensurately	1,219,056	-1.65%
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	1,234,444	-0.41%
Increase expected return on equities/property assets by 10% p.a. due to a change in the equity/property risk premium with no consequential changes to discount rates	1,250,504	0.89%
*Shock scenario	1,419,772	14.54%
Expenses and persistency		
Non commission maintenance unit expenses (excluding investment expenses) decrease by 10%	1,351,290	9.02%
Discontinuance rates decrease by 10%	1,229,295	-0.82%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	1,242,645	0.25%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	1,234,910	-0.37%
The sensitivity of the value of new business is as follows:		
Value of one year's new business as at 31 December 2011	**183,245**	
Investment return (and inflation) decreased by 10% and with bonus rates and discount rates changing commensurately	186,945	2.02%
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	223,065	21.73%
Shock scenario *	249,936	36.39%
New business volumes decrease by 10%	137,977	-24.70%
Expenses and persistency		
Maintenance unit expenses (excluding investment expenses) decrease by 10%	216,463	18.13%
Non-commission acquisition expenses decrease by 10%	214,930	17.29%
Discontinuance rates decrease by 10%	185,506	1.23%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	227,708	24.26%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	180,922	-1.27%

6. Sensitivities (continued)

Notes:

Shock scenario:*

Shock scenario is defined as an immediate 30% drop in equity values, 15% drop in property values 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

Statutory Actuary,

Fellow of the Institute of Actuaries of South Africa

20 February 2012

	Note	GROUP 2011 KShs '000	GROUP 2010 KShs '000	COMPANY 2011 KShs '000	COMPANY 2010 KShs '000
Gross premium income	3 (a)	3,648,492	3,830,693	-	-
Premium ceded to reinsurers	3 (b)	(348,437)	(287,744)	-	-
Net Premium Income		3,300,055	3,542,949	-	-
Fee and commission income	4	84,589	69,639	-	-
Investment income	5 (a)	697,015	420,398	20,322	-
Fair value (losses) and gains	5 (b)	(895,668)	689,884	-	-
Other operating revenue	5 (c)	664,793	128,684	637,127	106,582
Total Other revenue		550,729	1,308,605	657,449	106,582
Total revenue		3,850,784	4,851,554	657,449	106,582
Gross benefits and claims paid	6 (a)	(1,408,415)	(1,067,855)	-	-
Claims ceded to reinsurers	6 (a)	154,142	110,874	-	-
Gross change in contract liabilities	6 (a)	(290,695)	(653,660)	-	-
Gross change in investment liabilities	6 (a)	(368,150)	(1,410,965)	-	-
Change in contract liabilities ceded to reinsurers	6 (a)	36,643	22,707	-	-
Net benefits and claims		(1,876,475)	(2,998,899)	-	-
Fee and commission expense	6 (b)	(690,346)	(890,043)	-	-
Other operating and administrative expenses	7	(733,046)	(603,311)	(105,918)	(86,176)
Finance costs	9	-	-	(82,124)	(19,291)
Total benefits, claims and other expenses		(3,299,867)	(4,492,253)	(188,042)	(105,467)
Profit before share of profit of associate		550,917	359,301	469,407	1,115
Share of profit of associate	14(b)	1,518	305,899	1,518	1,640
Profit before tax		552,435	665,200	470,925	2,755
Income tax expense	10	(109,030)	(75,942)	(101,640)	-
Profit for the year		443,405	589,258	369,285	2,755
Profit attributable to:					
Equity shareholders of the parent		443,405	589,258	369,285	2,755
		443,405	589,258	369,285	2,755
Earnings per share					
Basic	31	4.62	6.14	3.85	0.03
Diluted	31	4.62	6.14	3.85	0.03

Statement of Comprehensive Income
For the year ended 31 December 2011

	GROUP		COMPANY	
	2011	2010	2011	2010
	KShs '000	KShs '000	KShs '000	KShs '000
Profit for the year	443,405	589,258	369,285	2,755
Other comprehensive income	-	-	-	-
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 Equity holders	443,405	589,258	369,285	2,755

Statement of Financial Position
As at 31 December 2011

	Note	GROUP 2011 KShs '000	GROUP 2010 KShs '000	COMPANY 2011 KShs '000	COMPANY 2010 Restated KShs '000
ASSETS					
Intangible assets	12	43,950	23,195	-	-
Property and equipment	11	80,156	65,401	10,091	10,875
Investment property	13	766,618	435,600	285,618	-
Land & Development	21	91,584	465,341	91,584	502,790
Investment in subsidiaries	14(a)	-	-	909,270	909,270
Investment in an associate	14(b)	12,161	864,831	12,161	10,643
Loans	16	793,082	613,443	-	-
Financial instruments:					
Held to maturity financial assets	15 (a)	2,453,528	2,056,052	-	-
Available-for-sale financial assets	15 (a)	3,827	3,827	3,827	3,827
Financial assets at fair value through profit or loss	15 (a)	3,449,297	3,900,292	-	-
Reinsurance assets	25	176,052	139,410	-	-
Income tax receivable	10	-	-	-	13,680
Insurance receivables	22	151,630	181,027	-	-
Receivables and other financial assets	17	436,346	274,483	427,667	279,724
Deposit with financial institutions	23	2,807,818	1,255,979	-	-
Cash and Bank balances	23	233,180	392,740	4,032	22,193
TOTAL ASSETS		11,499,229	10,671,621	1,744,250	1,753,002
EQUITY AND LIABILITIES					
CAPITAL AND RESERVES					
Issued share capital	24	480,000	240,000	480,000	240,000
Share premium	24	124,431	364,431	124,431	364,431
Revaluation reserves	24	-	7,507	-	-
Statutory fund	24	525,387	494,837	-	-
Retained earnings		992,822	725,746	492,634	267,349
TOTAL CAPITAL AND RESERVES		2,122,640	1,832,521	1,097,065	871,780
LIABILITIES					
Insurance contract liabilities	25	3,469,504	3,178,811	-	-
Investment contract liabilities	25	4,390,298	4,022,147	-	-
Amounts payable under deposit administration contracts	25	681,547	706,181	-	-
Provisions	29	56,813	85,924	-	-
Current tax liabilities	10	73,332	36,280	87,960	-
Insurance payables	27	270,341	255,813	-	-
Payables and other charges	30	434,754	553,944	559,225	881,222
TOTAL LIABILITIES		9,376,589	8,839,100	647,185	881,222
TOTAL EQUITY AND LIABILITIES		11,499,229	10,671,621	1,744,250	1,753,002

The financial statements were approved by the Board of Directors on 20 February 2012 and signed on its behalf by:

John P N Simba
Chairman
20 February 2012

Tom Gitogo
Chief Executive
20 February 2012

Group Statement of Changes in Equity

For the year ended 31 December 2011

Year ended 31 December 2011:

	Note	Share capital KShs '000	Share premium KShs '000	Revaluation surplus KShs '000	Statutory fund KShs '000	Retained earnings KShs '000	Total KShs '000
At 1 January		240,000	364,431	7,507	494,837	725,746	1,832,521
Total comprehensive income:							
Profit for the year		-	-	-	-	443,405	443,405
Transactions with owners:							
Bonus issue		240,000	(240,000)	-	-	-	-
Dividends paid during the year		-	-	-	-	(144,000)	(144,000)
Transfer to statutory fund		-	-	-	30,550	(30,550)	-
Transfer to/from retained earnings	24	-	-	(7,507)	-	7,507	-
Transfer to Deposit Adminstration	25	-	-	-	-	(9,286)	(9,286)
At 31 December		480,000	124,431	-	525,387	992,822	2,122,640
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 during the year		-	-	-	-	(81,600)	(81,600)
Transfer to shareholders fund		-	-	-	(185,000)	185,000	-
Transfer to Statutory fund	24	-	-	-	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 2011

	Note	Share capital KShs '000	Share premium KShs '000	Retained earnings KShs '000	Total KShs '000
Year ended 31 December 2011:					
At 1 January		240,000	364,431	267,349	871,780
Total comprehensive income:					
Profit for the year		-	-	369,285	369,285
Transactions with owners:					
Bonus issue		240,000	(240,000)	-	-
Dividends paid during the year		-	-	(144,000)	(144,000)
At 31 December		480,000	124,431	492,634	1,097,065
Year ended 31 December 2010:					
At 1 January		240,000	364,431	346,194	950,625
Total comprehensive income:					
Profit for the year		-	-	2,755	2,755
Transactions with owners:					
Dividends paid during the year		-	-	(81,600)	(81,600)
At 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/ (utilised in) operations	35(a)	353,449	716,579	(60,898)	1,009,130
INVESTING ACTIVITIES					
Purchase of property and equipment		(25,257)	(9,231)	(850)	(35,338)
Purchase of Intangible assets		(22,284)	-	-	(22,284)
Net purchase of financial assests though profit and loss		(252,071)	(169,604)	-	(82,467)
Purchase of government securities		-	(400,930)	-	(400,930)
Disposal of government securities		-	42,070	-	42,070
Investments in land and development		-	-	(26,072)	(26,072)
Proceeds from sale of houses		-	-	202,449	202,449
Proceeds from sale of associate		-	-	855,000	855,000
Mortgage loans advanced		(103,677)	-	-	(103,677)
Repayment of mortgage loans		45,613	-	1,414	47,027
Interest received		71,201	10,534	102,549	184,284
Net cash generated from/(used in) investing activities		(286,475)	(187,953)	1,134,490	660,062
FINANCING ACTIVITIES					
Dividends received from a subsidiary		(74,218)	-	74,218	-
Dividends paid		-	-	(144,000)	(144,000)
Repayment of loan		-	-	(132,913)	(132,913)
Net cash used in financing activities		(74,218)	-	(202,695)	(276,913)
Increase in cash and cash equivalents		(7,244)	528,626	870,897	1,392,279
Cash at start of year		1,172,103	437,920	38,696	1,648,719
Cash at end of year		1,164,859	966,546	909,593	3,040,998

a) GROUP (continued)

	Note	Ordinary life KShs '000	Super annuation KShs '000	Investments KShs '000	Group KShs '000
OPERATING ACTIVITIES					
Net cash generated from operations	35(b)	510,794	814,768	24,411	1,349,973
INVESTING ACTIVITIES					
Purchase of property and equipment		(10,989)	(3,663)	(10,775)	(25,427)
Net sale of financial assets through profit and loss		35,232	86,556	94,759	216,547
Purchase of government securities		-	(1,161,346)	-	(1,161,346)
Disposal of government securities		-	202,923	-	202,923
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		88,257	162,798	-	251,055
Net cash generated from/(used in) investing activities		92,489	(712,732)	106,067	(514,176)
FINANCING ACTIVITIES					
Dividends paid		-	-	(81,600)	(81,600)
Dividends from associate		-	-	8,395	8,395
Net cash used in financing activities		-	-	(73,205)	(73,205)
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

a) COMPANY

	Note	2011 KShs '000	2010 KShs '000
OPERATING ACTIVITIES			
Net cash generated from operations	35(c)	62,903	168,156
INVESTING ACTIVITIES			
Investment income		20,322	-
Net Purchase of financial assets through profit and loss		-	10,490
Runda sales collection		202,449	-
Increase in land and development		(26,072)	(37,948)
Purchase of property and equipment		(850)	(11,719)
Net cash generated from/ (utilised in) investing activities		195,849	(39,177)
FINANCING ACTIVITIES			
Repayment of loan		(132,913)	-
Dividends paid		(144,000)	(81,600)
Net cash used in financing activities		(276,913)	(81,600)
(Decrease)/increase in cash and cash equivalents		(18,161)	47,379
Cash at start of year		22,193	(25,186)
Cash at end of year		4,032	22,193

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 (af).

b) New and amended standards, interpretations and improvements

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 2011:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time adopters (amendment) effective 1 July 2010
- IAS 24 Related Party Disclosures (revised) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (amendment) effective 1 February 2010
- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- Improvements to IFRSs (May 2010)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective 1 July 2010

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.

The principal effects of these changes are as follows:

- IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendment): IFRS 1 has been amended to allow first-time adopters to utilise the transitional provisions of IFRS 7 as they relate to the March 2009 amendments to the standard. These provisions give relief from providing comparative information in the disclosures required by amendments to IFRS1 in the first year of application. The adoption of this amendment had no impact on the Group, as it already reports in terms of IFRS.

- IAS 24 Related Party Transactions (Revised): The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group as the definitions were already applied according to these amendments and the Group is not government related.
- IAS 32 Classification of Rights Issues (Amendment): The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment): The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The group does not have any defined benefit plans and ass such were not impacted by this Amendment.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments: When an equity instrument is issued to a creditor to extinguish a financial liability, it is regarded as consideration paid in accordance with IAS 39.41. The equity instruments issued are measured at their fair value, unless this cannot be reliably measured, in which case, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. This interpretation had no impact on the Group, as the Group didn't issue any equity instruments as payment for financial liabilities.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- IFRS 7 Financial Instruments — Disclosures (Clarification of Disclosures): The amendment emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendments to quantitative and credit risk disclosures involve:
  - Clarify that only financial assets with carrying amounts that do not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk
  - Require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements, including the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk)
  - Remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired
  - Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired
  - Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets held at the reporting date

  The Group reflects the revised disclosure requirements in Note 39.
- IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Group chose to provide these disclosures in the Notes to the annual financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on

1. PRINCIPAL ACCOUNTING POLICIES (continued)

b) New and amended standards, interpretations and improvements (continued)

the accounting policies, financial position or performance of the Group:

- IFRS 1 First-time Adoption of International Financial Reporting Standards (Accounting policy changes in the year of adoption)
- IFRS 1 First-time Adoption of International Financial Reporting Standards (Revaluation Basis as Deemed Cost)
- IFRS 1 First-time Adoption of International Financial Reporting Standards (Use of "Deemed Cost" for operations subject to Rate Regulation)
- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 Business Combinations (Measurement of Non-controlling Interests)
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements (Transitional Requirements for Amendments made as a result of IAS 27 (as revised in 2008))
- IAS 34 Interim Financial Statements (Significant Events and Transactions)
- IFRIC 13 (Fair Value of Award Credits)

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 of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment does not change the nature of items that are currently recognised in OCI, nor does it impact the determination of whether items of OCI are reclassified through profit or loss in future periods. The amendment becomes effective for annual periods beginning on or after 1 July 2012. In terms of classification the revaluation reserve would not be reclassified and the available-for-sale reserve would.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012. This amendment would not have an impact on the Group as taxation of Insurance companies is not based on the conventional method that would under normal circumstances give rise to deferred tax on property carried at fair value.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The more significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognised in OCI when they occur. Amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognised in OCI with no subsequent recycling to profit or loss.
- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.
- Termination benefits will be recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37 Liabilities.
- The distinction between short-term and other long-term employee benefits will be based on expected timing of settlement rather than the employee's entitlement to the benefits.

The Group does not have any defined benefit plans and will therefore not be impacted by a number of these amendments. The Group is currently assessing the full impact of the remaining amendments (termination benefits and definitions of short-term and long-term employee benefits). The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and does not impact the accounting in separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Group as the revised standard does not change the rules in applying equity accounting and the Group does not have any interests in joint arrangements.

IAS 32 Financial Instruments: Presentation (Amendment) – Offsetting Financial Assets and Financial Liabilities

The IASB issued an amendment to clarify the meaning of "currently has a legally enforceable right to set off the recognised amounts" (IAS 32.42(a)). This means that the right of set-off:

- must not be contingent on a future event; and
- must be legally enforceable in all of the following circumstances:
    - the normal course of business;
    - the event of default; and
    - the event of insolvency or bankruptcy of the entity and all of the counterparties.

The amendment is effective for annual periods beginning on or after 1 January 2014 and the Group is still in the process of determining how it will impact the Statement of Financial Position and Income Statement upon adoption.

IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The IASB has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. When an entity's date of transition to IFRS is on, or after, the date its functional currency ceases to be subject to severe hyperinflation (the functional currency normalisation date), the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, and that were subject to severe hyperinflation, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.

The amendment also removes the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions. The amended standard has these dates coinciding with the date of transition to IFRS. The amendment becomes effective for annual periods beginning on or after 1 July 2011 and will not impact the Group as the Group already reports in terms of IFRS and has no interests in Zimbabwean entities.

IFRS 7 Financial Instruments: Disclosures (Amendment) – Transfers of Financial Assets

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when:

- Financial assets are derecognised in their entirety, but the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets)
- Financial assets are not derecognised in their entirety

The amendment becomes effective for annual periods beginning on or after 1 July 2011 and will not impact the Group as the Group does not regularly enter into transactions subject to the new disclosure requirements upon applying the IAS 39 derecognition model on financial assets.

IFRS 7 Financial Instruments: Disclosures (Amendment) – Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendment amends the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment is effective for annual periods beginning on or after 1 January 2013 and the Group is still in the process of determining how it will impact the note disclosures upon adoption.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

b) New and amended standards, interpretations and improvements (continued)

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 32. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2012 or the first half of 2013. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Financial assets

All financial assets are measured at fair value at initial recognition. Debt instruments may, if the Fair Value Option (FVO) is not invoked, be subsequently measured at amortised cost if:

- The asset is held within a business model that has the objective to hold the assets to collect the contractual cash flows

And

- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding

All other debt instruments are subsequently measured at fair value.

All equity investment financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity instruments held for trading must be measured at fair value through profit or loss. However, entities have an irrevocable choice to recognise fair value changes in OCI by instrument for all other equity financial assets.

Financial liabilities

For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other IAS 39 classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities.

Control exists when an investor has:

- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee

And

- The ability to use its power over the investee to affect the amount of the investor's returns

IFRS 10 also provides a number of clarifications on applying this new definition of control, including the following key points:

- An investor is any party that potentially controls an investee; such party need not hold an equity investment to be considered an investor.
- An investor may have control over an investee even when it has less than a majority of the voting rights of that investee (sometimes referred to as de facto control).
- Exposure to risks and rewards is an indicator of control, but does not in itself constitute control.
- When decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether a decision-maker is a principal or an agent to determine whether it has control.
- Consolidation is required until such time as control ceases, even if control is temporary.

The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013 and the Group is still busy assessing the impact upon adoption of this new standard.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 and SIC-13. Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. The reference to 'control' in 'joint control' refers to the definition of 'control' in IFRS 10.

IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

Joint operation - An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. Joint operations are accounted for by showing the party's interest in the assets, liabilities, revenues and expenses, and/or its relative share of jointly controlled assets, liabilities, revenue and expenses, if any.

Joint venture - An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity accounting method.

The option to account for joint ventures (as newly defined) using proportionate consolidation has been removed. Under this new classification, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to considered whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

This standard becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Group as it is not party to any joint arrangements.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013 and the impact of adopting this new standard is still being assessed.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted as well as providing clarification on certain areas. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

c) Consolidation (continued)

i) Subsidiaries (continued)

- 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.

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 entity)

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 start up operations may be operating segments before earning revenues.

e) Revenue 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 in 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.

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

Reinsurance claims

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

g) Reinsurance

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

Reinsurance assets represent balances due from reinsurance 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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

g) Reinsurance (continued)

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 is 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 measured at fair value and is included in the statement of financial position. Deposits, withdrawals and investments returns are recorded directly as an adjustment to the liability in the statement of financial position and are not recognised as gross premium and investments income in the consolidated income statement.

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, 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. Day-to-day 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.

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 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 or 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 reporting date.

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

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

k) Investment property

Investment property is property held to earn rentals or for capital appreciation or both. Investment property, including interest in leasehold land, is initially recognised at cost including the transaction costs. Subsequently, investment property is carried at fair value representing the open market value at the reporting 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 2011.

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.

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.

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 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.

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.

Softwares under implementation are recognised as work in progress at historical costs less any accumulated impairment loss. The cost of such softwares includes professional fees and costs directly attributable to the software. The softwares are not amortised until they are ready for the intended use.

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.

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 being 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 surplus 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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

m) Borrowing costs (continued)

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:

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 and government securities.

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

Derecognition of financial assets

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 value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices and offer prices for liabilities, at the close of business on the reporting date, without any deductions for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques because current market transaction or observable market data are not available. The fair value is determined using a valuation model that has been tested against prices of inputs to actual market transactions using the Group's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the special bid and ask prices to reflect cost to close positions, counterparty and liquidity spread and limitations in the models.

For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market- related rate for similar instrument. The use of different pricing model and assumptions could produce materially different estimates of fair values.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investments.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 15.

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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

n) Financial instruments (continued)

Financial Assets Carried at Amortised Cost

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.

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.

Due from loans and advances to customers

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

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a 'significant or prolonged' decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

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 reporting 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 and are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease payment is allocated between the liability and finance cost using the interest rate implicit in the lease.

The finance cost is charged to the 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 and lessee

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 paid are recognised as assets and are subsequently amortised over the lease period. If a prepayment is received, it is recognised as a liability and 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.

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

s) Financial and insurance liabilities (continued)

Insurance contract liabilities (continued)

the contract, whereas losses are fully recognised in the income statement during the first year of run-off. The liability is derecognised when the the contract expires, 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(Present Value of In Force) and DAC (deferred acquisition cost – refer to policy aa), by using an existing liability adequacy test as laid out under the Kenyan 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, 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 the Kenyan Insurance Act requirements.

To the extent that the test involves discounting of cash flows, the interest rate applied may be prescribed by the Kenyan 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 the Kenyan Insurance Act.

t) Investment contract liabilities

Investment contracts are insurance contracts which are market related. The accounting policies for investment contract liabilities are the same as those for life insurance contract liabilities.

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 vesting. 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 reporting date is recognised as an expense accrual.

v) Other financial liabilities and insurance payables

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

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

Gains and losses on financial liabilities at amortised cost are 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. In respect of temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Deferred income tax is 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 reporting date and expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

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 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.

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 reporting date are dealt with as a non-adjusting event after the reporting 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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

z) 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.

aa) 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.

ab) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An 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 expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other 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 reporting 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.

ac) Provisions

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.

ad) Cash and cash equivalent

Cash and cash equivalents include cash in hand and on 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.

ae) Revaluation reserve

This represents the Group's share of the associate's revaluation reserve emanating from revaluations of certain assets. The resreve has been transferred to retained in the year after the disposal of the associate.

af) 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.

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.

The key sources of estimation uncertainity include:

a. Valuation of insurance contract liabilities

Critical assumptions are made by the actuary in determining the present value of actuarial liabilities.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

af) Significant judgements and key sources of estimation uncertainty (continued)

a. Valuation of insurance contract liabilities (continued)

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.

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.

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.

ag) Events after the reporting date.

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

ah) 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 2011: 30% (2010:30%) is incurred.

2. 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.

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 2011 and 2010 are detailed in notes 9 and 36. Transfer prices between operating 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 segments which are then eliminated on consolidation.

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

2. SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2011:

	Ordinary life KShs '000	Super annuation KShs '000	Investments KShs '000	Elimination on consolidation KShs '000	Total KShs '000
Gross written premiums from external customers	2,028,823	1,619,669	-	-	3,648,492
Premiums ceded to reinsurers	(13,383)	(335,054)	-	-	(348,437)
Net Premium Income	2,015,440	1,284,615	-	-	3,300,055
Fee and commission income	4,460	80,129	-	-	84,589
Interest income	151,927	158,128	21,126	(82,124)	249,057
Investment income	180,463	185,266	82,229	-	447,958
Fair value gains and losses	(893,834)	-	(1,834)	-	(895,668)
Other operating revenue	36,091	-	665,471	(36,769)	664,793
Total other revenue	(520,893)	423,523	766,992	(118,893)	550,729
Total revenue	1,494,547	1,708,138	766,992	(118,893)	3,850,784
Gross benefits and claims paid	(494,920)	(913,495)	-	-	(1,408,415)
Claims ceded to reinsurers	40,049	114,093	-	-	154,142
Gross change in insurance contract liabilities	(97,678)	(193,017)	-	-	(290,695)
Gross change in investments liabilities	(123,705)	(244,445)	-	-	(368,150)
Change in contract liabilities ceded to reinsurers	-	36,643	-	-	36,643
Net benefits and claims	(676,254)	(1,200,221)	-	-	(1,876,475)
Fee and commission expense	(473,727)	(216,619)	-	-	(690,346)
Other operating and administrative expenses	(505,382)	(99,933)	(127,731)	-	(733,046)
Finance cost	-	-	(82,124)	82,124	-
Total benefits, claims and other expenses	(1,655,363)	(1,516,773)	(209,855)	82,124	(3,299,867)
Profit before share of profit of associate	(160,816)	191,365	557,137	(36,769)	550,917
Share of profit of associate	-	-	1,518	-	1,518
Profit before tax	(160,816)	191,365	558,655	(36,769)	552,435
Income tax expense	(6,170)	(1,220)	(101,640)	-	(109,030)
Profit for the year	(166,986)	190,145	457,015	(36,769)	443,405

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

2. 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
Gross written premiums from external customers	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 insurance contract liabilities	(409,667)	(243,993)	-	-	(653,660)
Gross change in investments liabilities	(884,290)	(526,675)	-	-	(1,410,965)
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 associate	149,996	178,482	68,272	(37,449)	359,301
Share of profit of 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. SEGMENT INFORMATION (continued)

Segmental statement of financial position as at 31 December 2011:

	Ordinary life KShs '000	Super annuation KShs '000	Investments KShs '000	Elimination on consolidation KShs '000	Total KShs '000
ASSETS					
Intangible assets	43,950	-	-	-	43,950
Investment property	481,000	-	285,618	-	766,618
Equity accounted investments	-	-	12,161	-	12,161
Investment in subsidiaries	-	-	967,870	(967,870)	-
Financial instruments	3,457,808	2,437,351	11,493	-	5,906,652
Long term reinsurance asset	-	176,052	-	-	176,052
Land and development	-	-	91,584	-	91,584
Insurance receivables	102,373	49,257	-	-	151,630
Other assets	2,697,801	432,554	1,776,527	(556,300)	4,350,582
Total assets	6,782,932	3,095,214	3,145,253	(1,524,170)	11,499,229
LIABILITIES					
Insurance contract liabilities	864,545	2,604,960	-	-	3,469,505
Investment contract liabilities	4,390,298	-	-	-	4,390,298
Deposit adminstration contracts	681,547	-	-	-	681,547
Other liabilities	149,428	448,290	793,821	(556,300)	835,239
Total liabilities	6,085,818	3,053,250	793,821	(556,300)	9,376,589
	697,114	41,964	2,351,432	(967,870)	2,122,640

2. SEGMENT INFORMATION (continued)

Segmental statement of financial position as at 31 December 2010:

	Ordinary life	Super annuation	Investments	Elimination on consolidation	Total
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
ASSETS					
Intangible assets	23,195	-	-	-	23,195
Investment property	435,600	-	-	-	435,600
Equity accounted investments	-	-	864,831	-	864,831
Investment in subsidiaries	-	-	967,870	(967,870)	-
Financial instruments	3,953,907	1,992,040	14,224	-	5,960,171
Long term reinsurance asset	-	139,410	-	-	139,410
Insurance receivables	85,604	95,423	-	-	181,027
Land and development	-	-	502,790	(37,449)	465,341
Other assets	1,860,195	815,875	724,750	(798,774)	2,602,046
Total assets	6,358,501	3,042,748	3,074,465	(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 adminstration 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
	775,614	23,809	2,038,417	(1,005,319)	1,832,521

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:

	2011 KShs '000	2010 KShs '000
New business: Recurring:		
Individual life	347,305	241,168
Group business	126,460	201,545
New business: Single premiums:		
Individual life	2,884	5,896
Group business	1,019,343	1,569,278
Total new business	1,495,992	2,017,887
Renewal recurring:		
Individual life	1,678,634	1,450,343
Group business	473,866	362,463
Total renewal premium income	2,152,500	1,812,806
Total premium income	3,648,492	3,830,693

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.

	2011 KShs '000	2010 KShs '000
Ordinary life	13,383	14,074
Super annuation	335,054	273,670
	348,437	287,744

4. FEES AND COMMISSION INCOME

	2011	2010
Fees	4,460	3,987
Commission received	80,129	65,652
Total fees and commission income	84,589	69,639

5. INVESTMENT RETURN

a) Investment income

	Group		Company	
	2011 KShs '000	2010 KShs '000	2011 KShs '000	2010 KShs '000
Rental income:				
Gross rental income	33,750	29,063	-	-
Net rental expenses	(19,527)	(9,675)	-	-
	14,223	19,388		
Financial assets at fair value through profit or loss (designated upon initial recognition):				
Interest income	185,216	119,432	-	-
Dividend income	67,509	39,525	-	-
Held-to-maturity financial assets interest income	283,997	180,874	-	-
Loans and receivables interest income	70,784	50,713	-	-
Cash and cash equivalents interest income	75,286	10,466	20,322	-
Total investment income	697,015	420,398	20,322	-

b) Fair value gains /(losses)

	Group		Company	
	2011 KShs '000	2010 KShs '000	2011 KShs '000	2010 KShs '000
Unrealised fair value gains on investment properties (note 13)	45,400	44,600	-	-
Fair value gains on financial assets at fair value through profit or loss (designated upon initial recognition):				
Equity securities	925	10,987	-	-
Debt securities	21,239	254,566	-	-
Unrealised (losses) /gains	(963,232)	379,731	-	-
Total fair value (losses) /gains	(895,668)	689,884	-	-

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

c) Other income

	Group		Company	
	2011 KShs '000	2010 KShs '000	2011 KShs '000	2010 KShs '000
Sale of houses	605,800	327,500	605,800	327,500
Cost of sales	(390,741)	(200,753)	(428,190)	(220,918)
Plot sales	373,193	-	373,193	-
Other income	76,541	1,937	86,324	-
	664,793	128,684	637,127	106,582

6. DETAILS OF EXPENSES

a) Claims and benefits paid

	GROUP	
	2011	2010
	KShs '000	KShs '000
Death and disability claims	800,190	595,815
Maturity and survival benefits	349,950	257,598
Policy surrenders	101,596	105,636
Annuities	156,679	108,806
Gross benefits and claims paid	1,408,415	1,067,855
Claims ceded to reinsurers	(154,142)	(110,874)
Gross change in actuarial value of insurance contract liabilities	290,695	653,660
Gross change in actuarial value of investment contract liabilities	368,150	1,410,965
Change in contract liabilities ceded to reinsurers	(36,643)	(22,707)
Net benefits and claims	1,876,475	2,998,899

b) Fee and commission expense

	2011	2010
Payable to tied agents	473,727	310,151
Payable to Brokers and other intermediaries	216,619	579,892
Fee and commission expense	690,346	890,043

7. OPERATING EXPENSES

	GROUP		COMPANY	
	2011	2010	2011	2010
	KShs '000	KShs '000	KShs '000	KShs '000
Staff costs (note 8)	272,465	239,126	11,276	13,109
Depreciation (note 11)	20,644	20,990	1,634	872
Amortisation (note 12)	1,529	2,330	-	-
Fees for managerial and administrative services:				
Auditors' remuneration - Statutory audit	4,925	5,263	1,141	-
Auditors' remuneration - Tax audit	3,589	4,468	-	308
Legal fees	13,016	4,230	6,142	2,699
Actuarial fees	5,525	5,196	-	-
Total fees for managerial and administrative services:	27,055	19,157	7,283	4,659
Premium tax and stamp duty	21,423	19,167	-	-
Premium collection charges	67,652	61,578	-	-
Advertising	68,648	47,134	2,177	8,440
Office rent	28,701	26,100	1,425	2,020
Repairs and maintenance	8,103	8,039	76	96
Other expenses	216,826	159,690	82,047	56,980
Total operating expenses	733,046	603,311	105,918	86,176

8. STAFF COSTS

	Group		Company	
	2011	2010	2011	2010
	KShs '000	KShs '000	KShs '000	KShs '000
Salaries and other short term benefits	248,334	221,391	10,130	11,759
Social security costs	676	261	10	13
Defined contribution schemes	23,455	17,474	1,136	1,337
	272,465	239,126	11,276	13,109

9. FINANCE COSTS

	Company	
	2011	2010
	KShs '000	KShs '000
PA Securities Limited	41,622	12,931
Pan Africa Life Assurance Limited	40,502	6,360
	82,124	19,291

The finance costs are for inter – company loans from PA Securities Limited and Pan Africa Life Assurance Limited of KShs 315 million and KShs 66 million respectively. The loans are at an interest rate of 12.5% per annum and are secured. The value of collateral is KShs 1.8 billion.

10. INCOME TAX

	Group		Company	
	2011	2010	2011	2010
	KShs '000	KShs '000	KShs '000	KShs '000
Statement of financial position:				
At start of the year:	(36,280)	30,389	13,680	13,680
Instalment tax paid	71,978	38,203	-	-
Current income tax charge	(109,030)	(104,872)	(101,640)	-
At the end of the year:				
ASSETS: Income tax receivable	-	-	-	13,680
LIABILITIES: Current tax liability	(73,332)	(36,280)	(87,960)	-
Income statement:				
Current income tax	109,030	104,872	101,640	-
Deferred income tax (note 28)	-	(28,930)	-	-
Current year tax charge	109,030	75,942	101,640	-

10. INCOME TAX (continued)

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

	GROUP		COMPANY	
	2011 KShs '000	2010 KShs '000	2011 KShs '000	2010 KShs '000
Profit before income tax	552,435	665,200	470,925	2,755
Tax calculated at a statutory rate of 30%	165,731	199,560	141,278	827
Tax effect of:				
Income not subject to tax	(158,709)	(199,560)	(22,927)	(18,342)
Expenses not deductible for tax	102,008	49,373	6,264	6,893
Transfer to shareholders	-	55,500	-	-
Tax loss	-	-	(22,975)	10,622
Deferred income tax liability	-	(28,931)	-	-
Income tax charge	109,030	75,942	101,640	-

11. a) GROUP PROPERTY AND EQUIPMENT

Year ended 31 December 2011:

	Motor vehicles KShs '000	Computer equipment KShs '000	Furniture and equipment KShs '000	Total KShs '000
Cost:				
At 1 January	8,894	102,222	96,094	207,210
Additions	-	10,863	24,475	35,338
At 31 December	8,894	113,085	120,569	242,548
Depreciation and impairment:				
At 1 January	(7,642)	(81,766)	(52,401)	(141,809)
Adjustment	-	58	3	61
Charge for the year	(1,038)	(9,812)	(9,794)	(20,644)
At 31 December	(8,680)	(91,520)	(62,192)	(162,392)
Carrying amount:				
At 1 January	1,252	20,456	43,693	65,401
At 31 December	214	21,565	58,377	80,156

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

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

11. a) GROUP PROPERTY AND EQUIPMENT (continued)

Year ended 31 December 2010:

	Motor vehicles KShs '000	Computer equipment KShs '000	Furniture and equipment KShs '000	Total KShs '000
Cost:				
At 1 January	8,726	96,060	76,829	181,615
	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

b) COMPANY PROPERTY AND EQUIPMENT

Year ended 31 December 2011:

	Computer equipment KShs '000	Other assets KShs '000	Total KShs '000
At 1 January	1,029	11,250	12,279
Additions	-	850	850
At 31 December	1,029	12,100	13,129
Accumulated depreciation:			
At 1 January	(573)	(831)	(1,404)
Charge for the year	(137)	(1,497)	(1,634)
At 31 December	(710)	(2,328)	(3,038)
Carrying amount:			
At 31 December	319	9,772	10,091

11. b) COMPANY PROPERTY AND EQUIPMENT (continued)

Year ended 31 December 2010:

	Computer equipment KShs '000	Other assets KShs '000	Total KShs '000
Cost:			
At 1 January	560	-	560
Additions	469	11,250	11,719
At 31 December	1,029	11,250	12,279
Accumulated depreciation:			
At 1 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. GROUP INTANGIBLE ASSETS (SOFTWARE)

Year ended 31 December 2011:

	Work in progress KShs '000	Software KShs '000	Total KShs '000
Cost:			
At 1 January	19,474	19,166	38,640
Additions	21,711	573	22,284
At 31 December	41,185	19,739	60,924
Amortisation and impairment:			
At 1 January	-	(15,445)	(15,445)
Charge for the year	-	(1,529)	(1,529)
At 31 December	-	(16,974)	(16,974)
Carrying amount:			
At 31 December	41,185	2,765	43,950

The work in progress relates to implementation of the new life administration system.

12. GROUP INTANGIBLE ASSETS (SOFTWARE) (continued)

Year ended 31 December 2010:

	Work in progress KShs '000	Software KShs '000	Total KShs '000
Cost:			
At 1 January	-	19,166	19,166
Additions	19,474	-	19,474
At 31 December	19,474	19,166	38,640
Amortisation and impairment:			
At 1 January	-	(13,115)	(13,115)
Charge for the year	-	(2,330)	(2,330)
At 31 December	-	(15,445)	(15,445)
Carrying amount:			
At 31 December	19,474	3,721	23,195

13. INVESTMENT PROPERTY

	Group		Company	
	2011 KShs '000	2010 KShs '000	2011 KShs '000	2010 KShs '000
At 1 January	435,600	391,000	-	-
Acquisitions	285,618	-	285,618	-
Fair value gains	45,400	44,600	-	-
At 31 December	766,618	435,600	285,618	-

Investment properties are stated at fair value, which has been determined based on valuations performed by Knight Frank Ltd. as at 31 December 2011 and 31 December 2010. Knight Frank Ltd is an industry specialist in valuing these types of investment properties. The fair value is supported by market evidence and 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, in accordance with standards issued by the International Valuation Standards Committee. 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.

The additions for the year relate to land acquired by the company in a land swap transaction. The company swapped a portion of land it owns in Runda valued at KShs 400 million in favour of that located in Westlands valued at KShs 280 million and a cash consideration of KShs 120 million. The transaction costs attributable to the land acquired amounted to KShs 5.618 million.

14. INVESTMENTS

a) INVESTMENTS IN SUBSIDIARIES

	Shareholding	Company 2011 KShs '000	Company 2010 KShs '000
Pan Africa Life Assurance Limited	100%	230,261	230,261
PA Securities Limited	100%	679,009	679,009
At 31 December		909,270	909,270

b) INVESTMENT IN ASSOCIATES

	Group 2011 KShs '000	Group 2010 KShs '000	Company 2011 KShs '000	Company 2010 KShs '000
At 1 January	864,831	567,327	10,643	9,003
Share of results before tax	2,169	326,996	2,169	1,772
Share of tax	(651)	(21,097)	(651)	(132)
Share of profit of an associate	1,518	305,899	1,518	1,640
Disposal	(854,188)	-	-	-
Dividends received	-	(8,395)	-	-
Movement in carrying amount	(852,670)	297,504	1,518	1,640
At 31 December	12,161	864,831	12,161	10,643
Share of associates' statement of financial position:				
Assets	19,492	2,941,670	19,492	16,705
Liabilities	(7,331)	(2,076,839)	(7,331)	(6,062)
Net assets	12,161	864,831	12,161	10,643
Share of associates' revenue and profit:				
Revenue	18,776	106,183	18,776	10,235
Profit	2,169	116,998	2,169	1,772

Investments comprise:	Principal activity	2011 Share holding	2010 Share holding
APA Insurance Limited	General Insurance	-	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.

APA Insurance limited was disposed in the period under review.

15. FINANCIAL INSTRUMENTS

a) SUMMARY PER CATEGORY

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

	Designated 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 2011:				
Public sector stocks and loans	1,902,114	2,453,528	-	4,355,642
Equities and similar securities	1,547,183	-	3,827	1,551,010
	3,449,297	2,453,528	3,827	5,906,652
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

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 2011:					
Public sector stocks and loans	136,961	993,395	3,225,286	-	4,355,642
Equities and similar securities	-	-	-	1,551,010	1,551,010
	136,961	993,395	3,225,286	1,551,010	5,906,652
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

Loans and receivables are analyzed in Notes 16 and 17. 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 2011 of Held-to-maturity investments was KShs 2.179 billion (2010 2.567 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.

15. INVESTMENTS (continued)

b) DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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

Level 1

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

Level 2

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

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

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
As at 31 December 2011:				
Financial assets :				
Equities and similar securities	1,547,183	-	-	1,547,183
Public sector stocks and loans	1,902,114	2,453,528	-	4,355,642
	3,449,297	2,453,528	-	5,902,825
Financial liabilities:				
Investment contract liabilities	-	4,390,298	-	4,390,298
Deposit administration contracts	-	681,547	-	681,547
	-	5,071,845	-	5,071,845
As at 31 December 2010:				
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:				
Investment contract liabilities	-	4,022,147	-	4,022,147
Deposit administration contracts	-	706,181	-	706,181
	-	4,728,328	-	4,728,328

16. LOANS

	Group	
	2011	2010
	KShs '000	KShs '000
Mortgage loans (note 18)	315,595	254,140
Policy loans (note 19)	477,487	359,303
Total loans	793,082	613,443

Loans, receivables and other financial assets, cash and cash equivalents, 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.

17. OTHER RECEIVABLES

	Group		Company	
	2011	2010	2011	2010
	KShs '000	KShs '000	KShs '000	KShs '000
Amounts due from related parties (note 36)	2,909	5,427	38,946	38,274
Rent outstanding	12,994	5,887	-	-
Runda development debtors	262,867	230,357	262,867	230,357
Other financial assets	129,142	9,433	118,689	9,433
Prepayments	28,434	23,379	7,165	1,660
Total	436,346	274,483	427,667	279,724

The carrying amounts disclosed above reasonably approximate fair value at reporting date due to their short-term nature.

Refer to note 20 for effective interest rates.

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

18. GROUP MORTGAGE LOANS

	Group	
	2011	2010
	KShs '000	KShs '000
At start of year	260,493	229,445
Loans advanced	103,677	54,171
Accrued interest	4,203	11,037
Loan repayment	(47,027)	(34,160)
At end of year	321,346	260,493
Impairment:		
At 1 January	6,353	10,492
Decrease during the year	(602)	(4,139)
At 31 December	5,751	6,353
At end of year (note 16)	315,595	254,140

18. GROUP MORTGAGE LOANS (continued)

	Group	
	2011 KShs '000	2010 KShs '000
Maturity profile of mortgage loans		
Loans maturing:		
Within 1 year	1,802	1,461
In 1 - 5 years	6,655	5,395
After 5 years	312,889	253,637
Provision for Impairment	(5,751)	(6,353)
	315,595	254,140
Loans at:		
Market rate	54,902	44,211
Concessionary rate:		
Staff loans	266,444	216,282
Provision for Impairment	(5,751)	(6,353)
	315,595	254,140

These loans are carried at amortized costs. None of the above loans have had their terms renegotiated. The fair value of collateral (charged buildings) on the mortgage loans amounted to KShs 575,800,000 (2010: KShs 721,100,00).The Group can liquidate the collateral in case of default. The average concessionary rate was at 8% (2010: 5%) The loans at concessionary rate are based on rates published by Kenya Revenue Authority on quarterly basis.

Loans, receivables and other financial assets, cash and cash equivalents, 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.

19. GROUP POLICY LOAN

	Group	
	2011 KShs '000	2010 KShs '000
At start of year	359,303	217,839
Loans advanced	236,531	214,940
Accrued interest	56,174	37,150
Loan repayment	(174,521)	(110,626)
At end of year	477,487	359,303
Provision for impairment:		
At start of the year	-	(300)
Decrease during the year	-	300
At end of the year	-	-
Net policy loans	477,487	359,303

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 equivalents, 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. 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.

	2011 KShs '000	2010 KShs '000
Treasury bills	4%	2%
Treasury bonds	11%	8%
Mortgage loans and commercial papers	8%	6%
Deposits with financial institutions	19%	5%
Policy loans	14%	14%

21. LAND AND DEVELOPMENT

	Group		Company	
	2011 KShs '000	2010 KShs '000	2011 KShs '000	2010 KShs '000
At 1 January	465,341	538,658	502,790	538,658
Additions	26,072	127,436	26,072	164,885
Disposals	(399,829)	(200,753)	(437,278)	(200,753)
At 31 December	91,584	465,341	91,584	502,790

Land and development refers to land which is held by the company for resale.

22. GROUP INSURANCE RECEIVABLES

	Group	
	2011 KShs '000	2010 KShs '000
Due from policyholders	134,934	158,389
Provision for doubtful debts	(53,692)	(51,474)
Amount due from policyholders	81,242	106,915
Amounts due from reinsurers	58,381	47,417
Amounts due from agents, brokers and intermediaries	12,007	26,695
	151,630	181,027

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.

23. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2011 KShs '000	2010 KShs '000	2011 KShs '000	2010 KShs '000
Cash at bank and in hand	233,180	392,740	4,032	22,193
Deposits with financial institutions	2,807,818	1,255,979	-	-
Total cash and cash equivalents	3,040,998	1,648,719	4,032	22,193

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 19% (2010: 2%).

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

24. GROUP SHARE CAPITAL AND RESERVES

SHARE CAPITAL

	Ordinary shares KShs '000	2011 KShs. '000 KShs '000	2010 KShs. '000 KShs '000
At start of year	48,000	240,000	240,000
Bonus issue	48,000	240,000	-
At end of year	96,000	480,000	240,000

The total number of authorised ordinary shares is 100,000,000, with a par value of KShs 5 per share. There are 96,000,000 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.

In the reporting period, Pan Africa Insurance Holdings Limited issued 48,000,000 bonus shares in the proportion of 1 new share for one fully paid hence reducing the share premium to KShs 124,431,000. The issued shares were listed in the Nairobi Securities Exchange in July 2011.

REVALUATION SURPLUS

	2011 KShs '000	2010 KShs '000
At start of year	7,507	7,507
Transfer to retained earnings	(7,507)	-
At end of year	-	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 . The reserve has been transferred to retained after the disposal of APA Insurance Limited.

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 47.

24. GROUP SHARE CAPITAL AND RESERVES (continued)

STATUTORY FUND (continued)

	2011 KShs '000	2010 KShs '000
Balance at the beginning of the year	494,837	351,359
Surplus for the year	30,550	328,478
Net transfers during the year	-	(185,000)
Closing fund	525,387	494,837

25. 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.

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.

Summary of movements is shown below:

	2011 Total KShs '000	2011 Insurance & investments contracts KShs '000	2011 Deposit admin contracts KShs '000	2010 Total KShs '000	2010 Insurance & investment contracts KShs '000	2010 Deposit Admin contracts KShs '000
a) Analysis of movement in policy liabilities:						
Premium income (net)	3,509,476	3,300,055	209,421	3,742,643	3,542,949	199,694
Investment income	(257,968)	(144,887)	(113,081)	1,390,849	1,292,089	98,760
Asset management fees	(37,972)	(32,611)	(5,361)	(87,126)	(80,210)	(6,916)
Net investment income	(295,940)	(177,498)	(118,442)	1,303,723	1,211,879	91,844
Income	3,213,536	3,122,557	90,978	5,046,366	4,754,828	291,538
Policy benefits (net)	(1,369,993)	(1,254,273)	(115,720)	(1,005,917)	(956,980)	(48,937)
Sales remuneration and administrative expenses	(1,224,710)	(1,215,532)	(9,178)	(1,433,076)	(1,427,452)	(5,624)
Transfer from shareholders	9,286	-	9,286	-	-	-
Transfer to statutory fund	(30,550)	(30,550)	-	(328,478)	(328,478)	-
Outflow	(2,615,967)	(2,500,355)	(115,612)	(2,767,471)	(2,712,910)	(54,561)
Net movement for the year	597,568	622,202	(24,634)	2,278,895	2,041,918	236,977
Balance at beginning of the year (net of reinsurance)	7,767,729	7,061,548	706,181	5,488,834	5,019,630	469,204
Contract liabilities ceded to reinsurers	176,052	176,052	-	139,410	139,410	-
Balance at end of year	8,541,349	7,859,802	681,547	7,907,139	7,200,958	706,181

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

25. GROUP LONG-TERM POLICY LIABILITIES (continued)

b) Maturity analysis of long term policy liabilities:

	< 1 year KShs '000	1 - 5 years KShs '000	> 5 years KShs '000	Open ended KShs '000	Total KShs '000
As at December 2011:					
Investment Contract liabilities:					
Linked and market-related liabilities	119,575	1,305,886	2,737,626	227,211	4,390,298
Insurance Contract liabilities:					
Reversionary bonus policies	175,724	179,967	374,114	-	729,805
Other non-participating liabilities	320,309	399,933	772,138	1,247,319	2,739,699
Total insurance contracts liabilities:	496,033	579,900	1,146,252	1,247,319	3,469,504
Deposit administration contracts	-	-	-	681,547	681,547
Total long term policy liabilities	615,608	1,885,786	3,883,878	2,156,077	8,541,349
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

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.

25. GROUP LONG-TERM POLICY LIABILITIES (continued)

The following is a summary of the contract provisions and related reinsurance assets as at 31 December 2011:

	Gross provisions	Reinsurance assets KShs '000	Net KShs '000
Insurance contracts	3,469,504	(176,052)	3,293,452
Investment contracts	4,390,298	-	4,390,298
Deposit administration contracts	681,547	-	681,547
	8,541,349	(176,052)	8,365,297

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
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

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

	2011 KShs '000	2010 KShs '000
Opening Balance	139,410	116,703
Current year movement	36,642	22,707
	176,052	139,410

26. 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 2% (2010: 12.5%).

INSURANCE CONTRACTS

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

	2011	2010
Reversionary bonus	2.50%	2.50%
Terminal bonus	2.50%	2.50%

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

27. GROUP INSURANCE PAYABLES

	2011 KShs '000	2010 KShs '000
Outstanding claims	202,655	167,673
Payables arising out of direct insurance	34,313	25,603
Payables arising out of reinsurance operations	33,373	62,537
Total insurance payables	270,341	255,813

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

28. DEFERRED INCOME TAX

a) GROUP

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2010: 30%). The movement on the deferred income tax account is as follows:

	2011 KShs '000	2010 KShs '000
At the start of the year	-	28,931
Deferred tax charge (note 10)	-	(28,931)
At the end of the year	-	-

For the year ended 31 December 2011:

	At start of year KShs '000	Charge/(credit) to Income statement KShs '000	At end of year KShs '000
Property and equipment	1,805	(310)	1,495
Quoted shares – fair value gain	(5,130)	11,897	6,767
Provisions	30,805	(7,560)	23,245
Tax losses carried forward	40,945	(28,916)	12,029
	68,425	(24,889)	43,536
PA Securities Limited	41,846	(6,965)	34,881
Mae Properties Limited	3,234	-	3,234
Pan Africa Insurance Holdings Limited	23,345	(17,924)	5,421
Deferred tax not recognised	68,425	(24,889)	43,536

b) COMPANY

For the year ended 31 December 2011:

	At start of year KShs '000	Charge/(credit) to Income statement KShs '000	At end of year KShs '000
Plant & equipment	(76)	26	(50)
Provisions	453	5,018	5,471
Tax losses carried forward	22,968	(22,968)	-
Deferred tax not recognised	23,345	(17,924)	5,421

28. DEFERRED INCOME TAX (continued)

a) GROUP

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	57,997	(27,192)	30,805
Tax losses carried forward	56,559	(15,614)	40,945
	59,788	8,637	68,425
PA Securities Limited	61,555	(19,719)	41,836
Mae Properties Limited	3,234	-	3,234
Pan Africa Insurance Holdings Limited	23,930	(575)	23,355
Deferred tax not recognised	88,729	(20,294)	68,425
Deferred tax liability on the statement of financial position	(28,931)	28,931	-

b) COMPANY

For the year ended 31 December 2010:

Plant and equipment	32	(108)	(76)
Provisions	1,567	(1,114)	453
Tax losses carried forward	22,331	647	22,978
Deferred tax not recognised	23,930	(575)	23,355

29. GROUP PROVISION

	2011 KShs '000	2010 KShs '000
General provision on outstanding claims	44,240	52,344
Specific provision for outstanding claims	12,573	33,580
Total	56,813	85,924

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

The movement in the provisions is follows:

	2011 KShs '000	2010 KShs '000
At 1 January	85,924	111,285
Unused amounts reversed	(29,111)	(25,361)
At 31 December	56,813	85,924

Theabove provisions relate to provisions on outstanding claims under special arrangements and the directors have a reason to believe they may crystalise. The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

30. PAYABLES AND OTHER CHARGES

	Group		Company	
	2011 KShs '000	2010 KShs '000	2011 KShs '000	2010 KShs '000
Amounts due to related parties (note 36)	79,524	67,054	483,112	732,575
Unclaimed dividends	31,951	43,194	31,951	43,194
Stale cheques	49,405	50,331	-	-
Deposits received from sale of houses	3,397	50,172	3,397	50,172
Accruals	61,502	97,771	7,127	32,424
Other payables	208,975	245,422	33,638	22,857
	434,754	553,944	559,225	881,222

The carrying amounts disclosed above reasonably approximate fair value at reporting 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.

31. EARNINGS PER SHARE

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

a) Group	2011 KShs '000	2010 KShs '000 Restated	2010 KShs '000
Net profit attributable to ordinary shareholders for basic and diluted earnings	443,405	589,258	589,258
Weighted average number of ordinary shares for basic earnings per share	96,000	96,000	48,000
Basic earnings per ordinary share KShs	4.62	6.14	12.28
Diluted earnings per ordinary share KShs	4.62	6.14	12.28

b) Company			
Net profit attributable to ordinary shareholders for basic and diluted earnings	369,285	2,755	2,755
Weighted average number of ordinary shares for basic earnings per share	96,000	96,000	48,000
Basic earnings per ordinary share KShs	3.85	0.03	0.06
Diluted earnings per ordinary share KShs	3.85	0.03	0.06

Earnings per share has been restated to reflect the bonus shares issued in the year.

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

32. 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 29). The directors are of the opinion that the outcome of these proceedings and claims will not have a material impact on the financial position of the Group.

The Group operates in the insurance industry and is subject to legal proceeding in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings (including litigations), the directors are of the opinion that the results of the Group, having sought the advice of the 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.

33. CAPITAL COMMITMENTS – GROUP

The Group has no capital commitments as at reporting 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	
	2011	2010	2011	2010
	KShs '000	KShs '000	KShs '000	KShs '000
Not later than 1 year	4,730	5,595	8,910	3,108
Later than 1 year but not later than 5 years	24,146	11,420	43,856	14,701
More than 5 years	7,617	-	12,981	7,740
	36,493	17,015	65,747	25,549

34. DIVIDENDS PAID AND PROPOSED

	2011	2010
	KShs '000	KShs '000
Final dividends for 2011: KShs 2.00 (2010:3.00)	-	144,000
Total dividends paid in the year	-	144,000

Proposed for approval as at 31 December (not recognised as a liability before approval at the Annual General Meeting to be held on wednesday 16 May 2012):

	2010	2009
	KShs '000	KShs '000
Final dividend for 2010: KShs 3.00 (2009: 1.70)	144,000	81,600

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

35. CASH GENERATED FROM OPERATIONS

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

a) GROUP

Year ended 31 December 2011:

	Ordinary life KShs '000	Super-annuation KShs '000	investments KShs '000	Eliminated on consolidation KShs '000	Group KShs '000
(Loss)/profit before tax	(160,816)	191,365	558,655	(36,769)	552,435
Financial Assets as at fair Value					
through profit and loss	(179,750)	(5,362)	-	-	(185,112)
Held to Maturity financial assets	(282,538)	(1,459)	-	-	(283,997)
Revaluation gain	-	(45,400)	-	-	(45,400)
Depreciation and amortization	20,294	171	1,708	-	22,173
Dividend Income	(56,976)	(10,533)	-	-	(67,509)
Fair value gains on financial assets					
at fair value through profit or loss	774,363	164,871	1,833	-	941,067
Rental income	(14,224)	-	-	-	(14,224)
Intergroup charge	(40,628)	-	40,628	-	-
Tax paid	(71,978)	-	-	-	(71,978)
Investment income	-	-	(132,989)	36,769	(96,220)
Provisions write back	-	-	(29,111)	-	(29,111)
Share of results of associates before					
income tax	-	-	(1,518)	-	(1,518)
	(12,253)	293,653	439,206	-	720,606
Changes in working capital:					
Actuarial value of policyholders liabilities	221,382	437,462	-	-	658,844
Payables under deposit admin contracts	-	24,635	-	-	24,635
Policy loans	(118,184)	-	-	-	(118,184)
Reinsurance asset	-	(36,642)	-	-	(36,642)
Insurance receivables	29,397	-	-	-	29,397
Insurance payables	14,258	-	-	-	14,258
Other receivables	267,973	-	(187,403)	242,474	323,044
Trade and other payables	(49,394)	(2,529)	(312,701)	(242,474)	(607,098)
Cash generated from/ (utilised in) operations	353,449	716,579	(60,898)	-	1,009,130

35. CASH GENERATED FROM OPERATIONS (continued)

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

b) 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)
Actuarial value of policyholders liabilities	1,293,957	770,666	-	-	2,064,623
Payables under deposit admin contracts	-	236,978	-	-	236,978
Reinsurance asset	-	(22,707)	-	-	(22,707)
Insurance receivables	29,104	-	-	-	29,104
Other receivables	(121,399)	-	(238,985)	219,156	(141,228)
Insurance payables	121,435	-	-	-	121,435
Trade and other payables	156,014	(82,381)	232,962	(219,060)	87,535
Cash generated from operations	510,794	814,768	24,411	-	1,349,973

35. CASH GENERATED FROM OPERATIONS (continued)

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

c) COMPANY

	2011 KShs '000	2010 KShs '000
Profit before tax	470,925	2,755
Adjustment for;		
Investment income	(20,322)	-
Depreciation and amortization	1,634	872
Intergroup charges	82,124	76,950
Share of results of associates before income tax	(1,518)	(1,640)
	532,843	78,937
Changes in working capital:		
Other receivables	(147,943)	(109,160)
Trade and other payables	(321,997)	198,379
At end of year	62,903	168,156

36. RELATED PARTY TRANSACTIONS

a) Amounts due from related parties:

	Group		Company	
	2011 KShs '000	2010 KShs '000	2011 KShs '000	2010 KShs '000
PA Securities Limited (Subsidiary)	-	-	38,946	38,274
Pan Africa Life Assurance (Subsidiary)	-	-	-	-
Hubris Holdings Limited (Parent)	2,909	5,427	-	-
Total	2,909	5,427	38,946	38,274

The amounts due from related parties are non interest bearing

b) Amounts due to related parties:

	Group		Company	
	2011 KShs '000	2010 KShs '000	2011 KShs '000	2010 KShs '000
Payables to related parties				
PA Securities Limited (Subsidiary)*	-	-	354,354	314,960
Pan Africa Life Assurance (Subsidiary)*	-	-	66,194	355,020
Hubris Holdings Limited (Parent)	-	586	-	-
African Life Assurance Company Limited (Parent)	73,967	29,828	-	-
Mae Properties (Subsidiary)	-	-	62,564	62,595
SIM (K) LTD (Sister company)	5,557	36,640	-	-
Total	79,524	67,054	483,112	732,575

*Amounts due to related parties are interest bearing at 12.5% p.a. All other balances due to related parties are not interest bearing.

36. RELATED PARTY TRANSACTIONS (continued)

c) Key management compensation

	Group		Company	
	2011	2010	2011	2010
	KShs '000	KShs '000	KShs '000	KShs '000
Salaries and other short-term benefits	89,807	74,839	14,817	13,470
Post-employment benefits	10,011	9,101	1,802	1,638
Total	99,818	83,940	16,619	15,108
Loans to key management where collateral is accepted as security: Mortgage loans	44,389	32,710	-	-

d) Directors' remuneration

	Group 2011	Group 2010	Company 2011	Company 2010
Fees	10,373	8,987	2,899	3,025
Other Emoluments (included in (c) above)	25,756	22,598	4,864	4,422
Total	36,129	31,585	7,763	7,447

e) Directors' pension

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

f) Other related party transactions through the income statement

	Group 2011	Group 2010	Company 2011	Company 2010
Investment income:				
Investment management fees-SIM (K) limited	(34,501)	(84,878)	-	-
Other operating Income:				
Plot sale- Aster holdings limited	373,193	-	373,193	-
Management expenses :				
Interest expense on intergroup borrowings	-	-	82,124	19,291
Management fees- Sanlam Emerging Markets	10,559	10,969	-	-
	10,559	10,969	82,124	19,291

g) Investment in associates

No guarantees or collateral were provided to the associates.

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

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

37. 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 businesses of the Group 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 39-43. The Group Embedded Value is the aggregate of the following components:

(i) The embedded value of covered business, which comprises the long - term required capital supporting these operations and their net value of in - force business (refer embedded value report on page 39)

(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.

b) Required Capital

Long-term required capital – covered business

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

The following main strategies are used to achieve this objective:

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

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

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

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

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

Other Group operations

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

Audit Committee

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

c) Discretionary capital

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

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.

38. 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.

Pan Africa Insurance Holdings Limited Board

Responsible for the Group's risk management strategy and policies, as well as monitoring the effectiveness and disclosure thereof, in accordance with Best practice

Pan Africa Insurance Holdings Limited Audit, Actuarial and Risk Committee

Assists the Pan Africa Insurance Holdings Limited Board

Pan Africa Insurance Holdings Limited Group Executive Committee

Responsible as the Pan Africa Insurance Holdings Limited Board's executive overseer, to ensure that the businesses achieve optimal risk-adjusted returns

Sanlam Group Risk Management

Develops Group risk management policies and guidelines for approval by the Pan Africa Insurance Holdings Limited Board, co-ordinates reporting responsibilities and improves risk management across the Group

Business Level Risk Management

Identifies and manages risks faced by the business

Business Level Management Committees

Additional committees that may be established by a business to assist their Executive Committees in certain areas of risk management

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

OTHER RISK MONITORING MECHANISMS

Capital Management	Reviews and oversees the management of the Group's capital base
Asset and Liability Match	Determines appropriate investment policies and guidelines for policyholder portfolios where guarantees are provided
Compliance	Facilitates management of compliance through analysis of statutory and regulatory requirements, and monitoring implementation and execution thereof
Group Risk Forum	Aids co-ordination and transfer of knowledge between businesses and the Group, and assists Group Risk Management in identifying risks requiring escalation to the Pan Africa Insurance Holdings Limited Board
Non-listed Assets	The Audit Committee reviews and approves the valuation of all unlisted assets in the Group for recommendation to the Pan Africa Insurance Holdings Limited Board
General Manager - Finance	Ensures that sound financial practices are followed, adequate and accurate reporting occurs, and financial statement risk is minimised
Actuarial	Monitors and reports on key risks affecting the life insurance operations. Determines capital requirements of the life insurance operations and the potential impact of strategic decisions thereon, by using appropriate modelling techniques
Group Legal and Secretarial	Reviews and reports on corporate governance practices and structures. Reports on applicable legal and compliance matters
Sanlam Forensics	Investigates and reports on fraud and illegal behaviour in businesses
Investment Committee	Determines and monitors appropriate investment strategies for policyholder solutions
IT Risk Management	Manages and reports Group-wide IT risks
Risk Officer	Assists business management in their implementation of the Group risk management process, and to monitor the business' entire risk profile
Internal Audit	Assists the Pan Africa Insurance Holdings Limited Board and management by monitoring the adequacy and effectiveness of risk management in business

38. 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:

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:

(ii) Group Risk Escalation Policy (REP);

(iii) Group Business Continuity Policy (BCP);

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

(v) Group Investment Policy

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

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

Pan Africa Insurance Holdings Limited Group Strategic Risk Management

Definition

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

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

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

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

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

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

Objective

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

Philosophy

SRM is achieved by:

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

(ii) 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.

38. RISK MANAGEMENT (continued)

c) Risk Types

The Group is exposed to the following main risks:

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

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.

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.

38. RISK MANAGEMENT (continued)

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

l) Legislation risk

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

m) Strategic risk

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

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

The Group's strategic direction and success is discussed and evaluated at an annual strategic session of the Pan Africa Insurance Holdings Limited Board as well as at the scheduled Board meetings during the year;

As part of the annual budgeting process, the Group businesses present their strategic plans and budgets to the Pan Africa Insurance Holdings Limited Executive Committee, who ensures that the businesses' strategies are aligned with the overall Group strategy; and

The Pan Africa Insurance Holdings Limited Executive Committee, which includes the chief executive of the various Group businesses, meets on a regular basis to discuss, among others, the achievement of the businesses' and Group's strategies. Any strategic issues are identified at these meetings and corrective actions are immediately implemented.

n) Risk management - life insurance

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

Market risk

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.

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

	% change in base	KShs '000
31 December 2011:		
Equities and similar securities	+(-)3.9%	+(-)60,340
31 December 2010:		
Equities and similar securities	+(-)27%	+(-)1,037,615

Linked and market-related business

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

o) Market risk

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.

38. RISK MANAGEMENT (continued)

o) Market risk (continued)

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 2011, 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;
- 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	2011	% change in base	2010
			KShs '000	KShs '000
Financial assets:				
Fair value through profit or loss	+(-)13.0%	+(-)450,995	+(-)25.94%	+(-)533,340
Held to maturity	+(-)12.0%	+(-)283,704	+(-)25.94%	+(-)1,011,736
Deposits with financial institutions	+(-)24.0%	+(-)661,413	+(-)25.94%	+(-)325,801

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.

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.

38. RISK MANAGEMENT (continued)

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 2011 is made up as follows:

Group:	2011		2010	
	Risk concentration	KShs '000	Risk concentration	KShs '000
Financial Instruments	56%	5,906,652	68%	5,960,170
Reinsurers' share of technical provisions and reserves	2%	176,052	2%	139,410
Receivables arising out of direct insurance arrangements	1%	151,630	2%	181,027
Loans	8%	793,082	7%	613,443
Receivables and other financial assets	4%	436,346	3%	274,483
Cash and cash equivalents	29%	3,040,998	18%	1,648,719
		10,504,760		8,817,252
Company:				
Financial Instruments	1%	3,827	1%	3,827
Receivables and other financial assets	98%	427,667	92%	279,724
Cash and cash equivalents	1%	4,032	7%	22,193
		435,526		305,744

The fair value of collateral held on the loans amounted to KShs 575,800,00 (2010: KShs 721,100,00). No collateral is held for any of the above assets. All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

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

Price risk

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

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

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

The Group has no significant concentration of price risk.

t) Market risk – sensitivities

Sensitivities that illustrate the effect of changes in investment return assumptions on the value of in-force (VIF) business are disclosed on page 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. 19.9 million (2010: decrease of KShs. 16.3 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.

38. RISK MANAGEMENT (continued)

t) Market risk – sensitivities (continued)

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 2011:				
Interest rate	+(-) 1%	+(-)22,403	+(-)52,408	+(-)8,948
Equity/Property	+(-) 10%	+(-)16,702	+(-)32,820	+(-)5,357
Expenses	+(-) 10%	+(-)50,532	+(-)9,985	-
Assurance mortality	+(-) 5%	+(-)19,554	+(-)68,486	-
Annuitant mortality	+(-) 5%	-	+(-)20,616	-
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	-

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 4 of the Embedded 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.

	Fully Performing KShs '000	Past due but not impaired KShs '000	Past due and impaired KShs '000	Total KShs '000
At 31 December 2011:				
Financial assets:				
Financial instruments	3,453,124	-	-	3,453,134
Held to maturity financial assets	2,453,528	-	-	2,453,528
Reinsurance assets	176,052	-	-	176,052
Receivables and other financial assets	436,346	-	-	436,346
Mortgages	312,298	3,297	5,751	321,346
Policy loans	257,141	220,346	-	477,487
Insurance receivables	97,938	-	53,692	151,630
Deposits with financial institutions	2,807,818	-	-	2,807,818
Cash and bank balances	233,180	-	-	233,180
Total	10,227,425	223,643	59,443	10,510,511

38. RISK MANAGEMENT (continued)

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

	Fully Performing KShs '000	Past due but not impaired KShs '000	Past due and impaired KShs '000	Total KShs '000
As at 31 December 2010:				
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
Deposits with fiunancial institutions	1,255,979	-	-	1,255,979
Cash and bank balances	392,740	-	-	392,740
Total	8,529,095	236,684	57,827	8,823,606

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 2011:			
0-3 months	136,615	-	136,615
3-6 months	83,731	3,297	87,028
	220,346	3,297	223,643
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

The past due receivables are not impaired and continue to be paid. An impairment provision of KShs 59.4 million (2010: KShs 57.8 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.

The following is a movement of impairment provision account:

	Mortgages KShs '000	Policy loans KShs '000	Insurance receivables KShs '000	Total KShs '000
The movement in the provisions is as follows:				
Year ended 31 December 2011:				
At start of year	6,353	-	51,474	57,827
Additional provision	-	-	2,218	2,218
Unused amounts reversed	(602)	-		(602)
At end of year	5,751	-	53,692	59,443
Year ended 31 December 2010:				
At start of year	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

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.

38. 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 liabilities. The board has developed a risk management framework for the management of the Group short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due.

The Group manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls.

Liquidity risk – policyholder solutions

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

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

Guarantee plans

Other policyholder business

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

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

Year ended 31 December 2011:

	< 1 year	1 - 5 years	> 5 years	Open ended	Total
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Financial liabilities:					
Investment contracts	119,575	1,305,886	2,737,626	227,211	4,390,298
Insurance contracts	496,033	579,900	1,146,252	1,247,319	3,469,504
Deposit administration contracts	-	-	-	681,547	681,547
Insurance payables	-	-	-	270,341	270,341
Provisions	-	56,813	-	-	56,813
Payables and other charges	434,754	-	-	-	434,754
Total liabilities	1,050,362	1,942,599	3,883,878	2,426,418	9,303,257
Financial Assets:					
Equities and similar securities	-	-	-	1,551,010	1,551,010
Public sector stocks and loans	136,961	993,395	3,225,286	-	4,355,642
Mortgages and policy loans	1,889	471,495	319,698	-	793,082
Long-term reinsurance assets	142,759	29,898	3,396	-	176,053
Insurance receivables	151,630	-	-	-	151,630
Receivables and other financial assets	436,346	-	-	-	436,346
Deposits with financial institutions	2,807,818	-	-	-	2,807,818
Cash and bank balances	233,180	-	-	-	233,180
Total assets	3,910,583	1,494,788	3,548,380	1,551,010	10,504,761

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	3,354,510	-	4,348,927
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
Deposits with fiunancial institutions	1,255,979	-	-	-	1,255,979
Cash and bank balances	392,740	-	-	-	392,740
Total assets	2,256,938	1,344,588	3,604,483	1,611,244	8,817,253

38. RISK MANAGEMENT (continued)

x) Insurance risk

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

The Group manages underwriting risk through:

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

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

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

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.

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: non-participating life business:

	Number of lives		Before reinsurance		After reinsurance	
	2011	2010	2011	2010	2011	2010
KShs '000			KShs '000	KShs '000	KShs '000	KShs '000
0 - 500	338,111	299,125	3,310,572	2,798,814	2,602,210	2,322,278
500 - 1000	61,095	54,051	11,181,694	9,453,194	8,714,889	7,777,389
1 000 - 5000	97,426	86,192	30,515,606	25,798,410	15,358,743	13,706,534
5 000 - 8000	485	429	109,495,874	92,569,666	56,063,087	50,032,131
>8000	552	488	164,349,025	138,943,449	85,540,912	76,338,894
	497,669	440,285	318,852,772	269,563,533	168,279,841	150,177,226

38. RISK MANAGEMENT (continued)

(x) Insurance risk (continued)

Non-participating annuity payable per annum per life insured:

	Number of lives		Before reinsurance		After reinsurance	
	2011	2010	2011	2010	2011	2010
KShs '000			KShs '000	KShs '000	KShs '000	KShs '000
0 - 20	60	15	717	141	717	141
20 - 40	60	9	1,778	276	1,778	276
40 - 60	44	24	2,119	1,180	2,119	1,180
60 - 80	53	31	3,776	2,143	3,776	2,143
80 - 100	45	32	4,092	2,891	4,092	2,891
>100	436	400	144,836	131,083	144,836	131,083
	698	511	157,308	137,714	157,308	137,714

y) Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and incurred but not reported claims (IBNR) for each successive year at each reporting date, together with cumulative payments to date.

The Group has taken advantage of the transitional rules of IFRS 4 that permit only five years of information to be disclosed upon adoption of IFRS. The claims development information disclosed is being increased from five years to ten years over the period 2006–2011.

		2006	2007	2008	2009	2010	2011	Total
	Note	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
At end of the year		784,257	1,274,676	1,003,251	762,994	892,333	1,254,273	
One year later		785,650	1,288,327	1,007,647	889,072	956,981		
Two years later		795,789	1,297,268	1,000,060	924,156			
Three years later		815,286	1,319,302	1,069,131				
Four years later		881,969	1,278,268					
Five years later		886,147						
Current estimate of cumulative claims incurred		886,147	1,278,268	1,069,131	924,156	956,981	1,254,273	6,368,956
At end of the year		(399,105)	(440,543)	(367,922)	(334,816)	(592,611)	(983,932)	
One year later		(406,546)	(511,332)	(484,893)	(405,884)	(701,168)		
Two years later		(437,762)	(521,173)	(498,735)	(789,778)			
Three years later		(578,965)	(673,100)	(865,292)				
Four years later		(662,770)	(1,016,570)					
Five years later		(704,728)						
Cumulative payments to date		(704,728)	(1,016,570)	(865,292)	(789,778)	(701,168)	(983,932)	(5,061,468)
Insurance payables per the statement of financial position	27	181,419	261,698	203,839	134,378	255,813	270,341	1,307,488

z) Capital adequacy risk

Refer to the capital management section on page 100 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 5.04 times by the excess of assets over liabilities.

39. STATUTORY COMPLIANCE

Insurance Act

Pan Africa Life assurance Limited, a wholly owned subsidiary is licensed underthe Kenya 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:

	2011 KShs '000	2010 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

b) Admitted Assets

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

	2011 KShs '000	2010 KShs '000
Total life assets	9,878,146	9,401,249
Non admitted assets	(226,909)	(203,685)
Admitted assets	9,651,237	9,197,564
Assets not admitted comprise the following:		
Premium debtors	81,242	106,915
Prepayment	21,204	21,718
Intercompany charges	35,776	20,874
Fixed assets	88,687	54,178
Total Non-admitted assets	226,909	203,685

Section 41 Subsection (1) of the Kenya Insurance Act requires 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.

39. STATUTORY COMPLIANCE (continued)

b) Admitted Assets (continued)

	2011 KShs '000	2010 KShs '000
Total admitted assets (A)	9,651,237	9,197,564
Total admitted liabilities (B)	(9,139,067)	(8,601,826)
Surplus assets (A-B)	512,170	595,738
Less		
5% of Admitted liabilities	456,953	430,091
Solvency Margin as per insurance Act	55,217	165,647
No of times solvency cover	9.28	3.59

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

	2011 KShs '000	2010 KShs '000
Total assets under lien with IRA (A)	1,798,750	540,750
Lien amount required by insurance regulation (B)	479,297	461,963
Number of times lien cover (A/B)	3.75	1.17

Proxy Form

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

I/We ____

of ____

being a 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 Annual General Meeting of the company to be held on 16 May 2012 at 10.00 am and at any adjournment thereof.

Signed/Sealed this ____________________ day of ____________ 2012

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.

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