Traditionally pots have been the centre of african day to day life. Pots were mainly used to cook and serve food, but had other functions such as storage of water milk and other consumables. Decorating certain pots enhanced their beauty and therefore their prominence.

Just as it would have been difficult to sustain day to day traditional life without pots it would be improbable to function as an insurance company without good viable systems and products.

We have therefore used different pots in this report in the different segments that make up Pan africa Insurance holdings ltd.

Our Core Values

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

SECRETARY
Emma Wachira
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

Family Bank Limited
Kenyatta Avenue Branch
P.O. Box 74145 - 00200
NAIROBI

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

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

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
P.O. Box 40111 - 00100
NAIROBI

Muriu Mungai Advocates
MMC Arches
Spring Valley Crescent
P.O. Box 75362 - 00200
NAIROBI

Simba & Simba Advocates
6th Floor, Finance House
Loita Street
P.O. Box 10312, 00100
NAIROBI

Muthaura Mugambi
Ayugi & Njonjo Advocates
4th Floor, Capital Hill Square, Upper Hill
P.O. Box 8418 - 00200
NAIROBI

Waruhiu & Company Advocates
12th Floor, International Life House
Mama Ngina Street
P.O. Box 12507 - 00100
NAIROBI

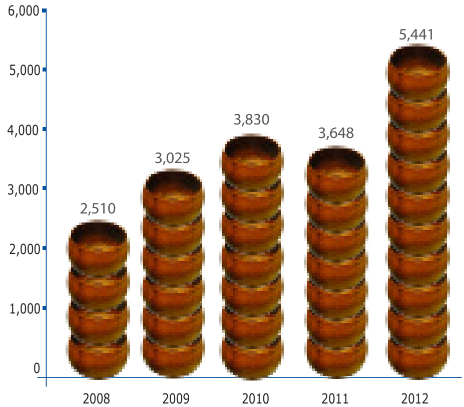
TAX ADVISERS
KPMG Kenya
6th Floor, Lonrho House
Standard Street,
P.O. Box 40612-00100
NAIROBI

Five Year Group Review

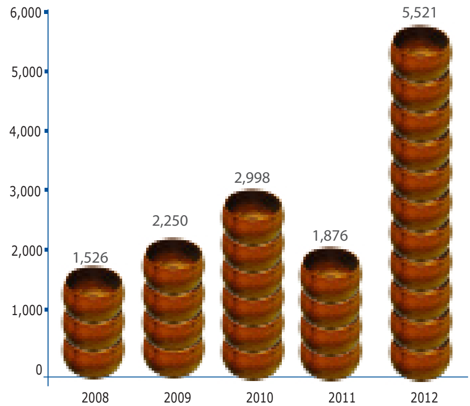
	2008 KShs.m	2009 KShs.m	2010 KShs.m	2011 KShs.m	2012 KShs.m
Income statement:					
Other operating revenue	258	574	1,308	1,056	595
Operating profit before tax and share of associate	117	107	359	551	833
Profit/ (loss) attributed to shareholders	(96)	139	589	443	698
Long term insurance business:					
Gross premium income	2,510	3,025	3,830	3,648	5,441
Net premium income	2,318	2,821	3,542	3,300	5,126
Net benefits and claims paid	1,526	2,250	2,998	1,876	5,521
Statement of financial position:					
		-			
Total equity	1,186	1,325	1,832	2,123	2,629
Long term policy liabilities	3,694	5,136	7,200	7,860	11,902
Share capital	240	240	240	480	480
Total assets	6,094	7,681	10,671	11,514	16,474
Key indicators:					
	KShs.	**KShs.**	**KShs.**	**KShs.**	**KShs.**
Basic (loss)/earnings per share	(1.99)	2.89	6.14	4.62	7.27
Dividends per share	-	2	3	2	3
Dividends (KShs. m)	-	82	144	192	288
Market capitalisation at year end (KShs. m)	2,976	2,160	3,144	1,992	3,864
Group share prices at the NSE:					
Annual High	99	62	87	110*	45
Annual Low	62	44	45	18	18
Share price at year end	62	45	66	21	40

* Price before bonus issue of 1:1

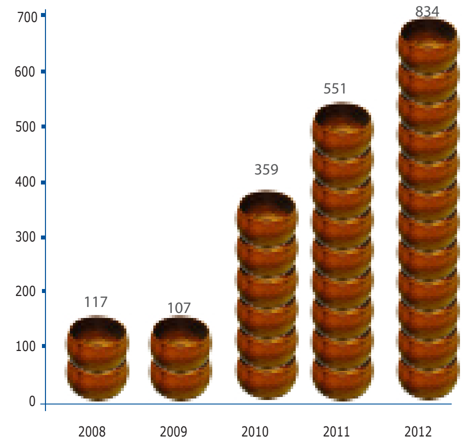
GROSS PREMIUM INCOME



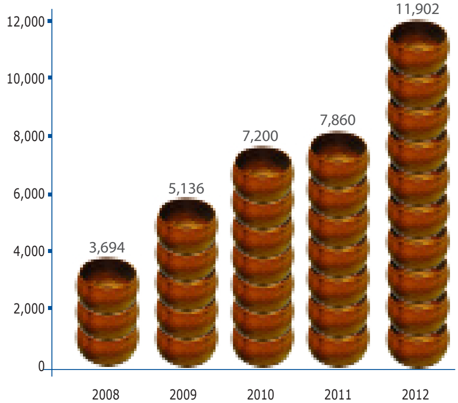
NET BENEFITS AND CLAIMS PAID



OPERATING PROFIT BEFORE TAX



LONG TERM POLICY LIABILITIES



The directors submit their report together with the audited financial statements for the year ended 31 December 2012 that discloses the state of affairs of the company and its subsidiaries.

INCORPORATION

Pan African Insurance Holdings Limited is a company whose shares are traded publicly on the Nairobi Securities Exchange (NSE). It was incorporated in Kenya on 26 October 1946 under certificate of incorporation number C.10/46 under the Kenyan Companies Act (Chapter 486 of the Laws of Kenya) and is domiciled in Kenya.

PRINCIPAL ACTIVITIES

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

RESULTS

The profit for the year of KShs. 698,271,000 (2011: KShs. 443,405,000) has been added to the retained earnings.

DIVIDENDS

Subject to the approval of the shareholders, the directors recommend a dividend of KShs. 3.00 per share (2011: KShs. 2.00) to the shareholders at the 67th Annual General Meeting.

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 2012 were authorised for issue in accordance with a resolution of the directors on 19 February 2013. 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 directors who served during the year and up to the date of this report are:

John P N Simba	: Non – executive	: Chairman
Tom Gitogo	: Executive	: Chief Executive Officer
Margaret Dawes	: Non – executive	
James Gitoho	: Non – executive	
Baloobhai Patel	: Non – executive	
Susan Mudhune	: Non – executive	
Thomas Wixley	: Non – executive	
Robert James Ward	: Non – executive	: Resigned 15 May 2012
Jonathan Paul Wrench	: Non – executive	
Bhekithemba Thabo Gamedze	: Non – executive	: Appointed 21 August 2012

AUDITORS

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

By Order of the Board

Emma Wachira
Company Secretary
19 February 2013

Statement Of Directors' Responsibilities

For the year ended 31 December 2012

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

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 Company and the Group 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.

....
Chairman
19 February 2013

....
Director
19 February 2013

Customer Service
Award
WINNER

Life Insurer of the Year
1ST RUNNERS -UP

Fraud Detection &
Prevention Intiative
of the Year
1ST RUNNERS -UP

Risk Mamnagement
Award
2ND RUNNERS -UP

COYA Leadership and
Management Award

COYA CEO of the Year
Award

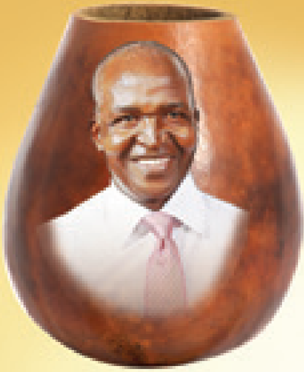
AKI Group Life Best Practice
Award

FiRe Award
Overall Winner
Insurance Category

AKI Individual Life
Award
1ST RUNNERS-UP

Education Achievement
Award

Board of Directors



Dr. John P N Simba MBS, OGW (68) (Chairman)

Appointed : December 2001
Appointed as Chairman in March 2002
Occupation: Lawyer, Partner in Simba & Simba, Advocates
Academic Qualifications: Bachelor of Law (University of Dar-es-Salaam)
Professional Qualification: Advocate of the High Court of Kenya, Honorary Doctorate of Laws Degree (University of Nairobi)

Jonathan Paul Wrench (39)

Appointed : 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

James Gitoho (56)

Appointed: December 2001
Occupation: Architect
Academic Qualifications: Bachelor of Architecture
Professional Qualification: Fellow of the Architect Association of Kenya

Margaret Dawes (55)

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

Susan Mudhune (63)

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

Board of Directors

Tom Gitogo (44)	*Thomas Wixley (73)*	*Baloobhai Patel (74)*	*Bhekithemba Thabo Gamedze (54)*
Appointed: 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)	**Appointed:** 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)	**Appointed:** December 2001 **Occupation:** Managing Director, Trans-world Safaris Kenya Limited.	**Appointed:** 21 August 2012 **Occupation:** Actuary **Academic Qualifications:** Bachelor of Arts (Hons) in Pure Mathematics,Msc in Pure Maths **Professional Qualifications:** Fellow of the Institute of Actuaries, Fellow of the Actuarial Society of South Africa

1. Luke Magambo, Divisional Manager - Finance and Administration
2. Emma Wachira, Legal and Company Secretary
3. Ezekiel Owuor, GM – Individual Life Marketing
4. Martin Nzomo, Divisional Manager – Corporate Business Marketing
5. Nelson Kabau , Actuarial and Risk Manager – Finance and Administration
6. Pius Kitela, Divisional Manager – Agency Services Manager, Individual Life
7. Samson Kamau, Divisional Manager – Business Development Manager, Individual Life
8. Lucy Munjuga, Divisional Manager – Business Development Manager, Independent Agents

9. Miriam Gathura, HR Manager
10. Joseph Wamwea, GM – ICT and Operations
11. James Muiruri, GM – Corporate Business
12. Gwen Kinisu, Divisional Manager – Alternative Channels and Bancassurance
13. Martin Omido, Divisional Manager – ICT and Operations
14. Stephen Kamanda, GM – Finance and Administration
15. Linda Were, Assistant General Manager – Operations
16. Tom Gitogo, Principal Officer and CEO
17. Ibrahim Ololo, Divisional Manager – Corporate Business

Chairman's Statement

Fellow Shareholders, On behalf of the board of directors, I am pleased to present the 2012 Annual Report together with Financial Statements of Pan Africa Insurance Holdings Limited. During the period under review,the company recorded solid results in a year that saw significant business challenges both globally and locally.

GLOBAL ECONOMY

Economies of most developed countries struggled in 2012 leading to growth constraints in the developing world. In fact even at year end doubts existed as to whether the global economy had bottomed out. Given that developed countries may no longer provide a foundation upon which to base their own growth, the developing world could, however, create more independent and sustainable growth by focusing on long-term impact investments such as in infrastructure, education, public health and food security.

GDP growth in sub-Saharan Africa was robust at 4.6 percent in 2012, driven by strong domestic demand, increased export volumes and exploitation of new mineral discoveries.

In its World Economic Outlook(January 2013), the IMF projects that global growth will improve modestly to 3.5 percent in 2013, up from 3.2 percent in 2012.

This global growth is expected to stem mainly from emerging market economies. Indeed, developing countries were responsible for more than half of the global growth in 2012 and will continue to be engines of growth. The World bank places this growth at 5.1 per cent in 2012, estimating that it will accelerate to 5.8 percent in 2015.

KENYAN ECONOMY

The year had its fair share of challenges, including high interest rates earlier in the year, which constrained credit growth. Additionally, due to terrorism and piracy concerns there was a 2 percent fall in tourist arrivals between January and December 2012, which saw the cancellation of charter flights to Kenya.

However, tight monetary policies put in place following the economic pressures of 2011 have helped Kenya regain economic credibility. This is best illustrated in Central Bank's figures which show that inflation has decreased considerably to 3.2 percent at the end of 2012 compared to 18.9 percent at the end of 2011. The exchange rate volatility witnessed in 2011 involving the local currency, was largely absent in 2012.

The NSE index shows movement in a positive direction too; it increased to 4188 in the last week of December 2012, a marked improvement from the 3205 at the close of the previous year.

This growth is fuelled by the increasing middle class in Kenya, which is attracting increasing investment flows to the rapidly expanding consumer sector.

The East African Community is one of the fastest growing economic regions in the world. The Kenyan economy, currently the biggest within the bloc, is poised to take advantage of opportunities likely to arise from the merging and consolidation of the economies within the bloc to create a single market.

Kenya's per capita income is close to USD 800, and is hence well on the way to middle-income status. If Kenya maintains a growth rate of 6 percent per annum the country is projected to attain the middle-income status of per capita income of USD 1000, by the year 2020. Both the private and public sectors are unanimous in endorsing Vision 2030 as the blue print- the road map – that will enable the economy attain a middle income status within the envisaged period.

All in all, future prospects for the country are bright, especially now that the rains are back with greater prospects of lower food prices. Indications are that even with heitghened political activities leading to general elections early in the year, domestic stability may not be disturbed. In addition, if oil prices remain stable the economy will continue to register growth.

INSURANCE INDUSTRY

The Association of Kenya Insurers (AKI) 2011-2016 strategy has the overarching objective of accelerating the growth and development of the insurance industry in the 5-year period.

A number of initiatives in 2012 will contribute to the efforts of increasing the low penetration levels of insurance in Kenya going forward. For instance the Finance Bill 2012 seeks to amend the Banking Act to cater for the introduction of new concepts such as bancassurance, a move that will widen insurance distribution channels. Microinsurance was also incorporated in the Insurance Act as a new class of business, which provides protection accessible to the low income population. This is significant as one of the contributing factors for the low penetration of life insurance in Kenya is low disposable incomes for a large part of the population.

Robust regulation is key to the health of the insurance industry, safeguards the interests of policyholders and hence contributes to building long-term public confidence in the sector. The IRA has increased its regulatory oversight of the industry in recent years, including instituting mandatory specialized positions within the risk, compliance and actuarial areas. Our organization has made the changes necessary to meet this challenge and has made significant strides and investments in complying with the new requirements. One of the steps already implemented is the institution of a new independent risk department. As a Pan Africa Group, we are committed to supporting strong institutions within the industry, observance of proper corporate governance, embedding a culture of adherence to regulations, giving value to our policyholders and shareholders, and supporting efforts by IRA geared towards meeting these goals.

GROUP PERFORMANCE

I am pleased to report that the company performed strongly in 2012. Earnings per share rose to Kshs 7.27, up from Kshs 4.62. The share price increased by over 90 percent during the course of the year. The group recorded an operating profit before tax of Kshs. 834 million for the year.

The management continues to focus on growing revenues while keeping operating costs low.

In recognition of the group's strong performance and confidence in its long term prospects, the board has recommended a dividend of Kshs 3.00 per share, a 50 percent increase over the 2011 dividend payout of Kshs 2.00.

STATEMENT OF CORPORATE GOVERNANCE

Pan Africa continues to lead in adherence to corporate governance standards. New board members are taken through the functioning of the board while the board evaluates its performance annually. The board operates through several Board committees chaired by non executive directors as detailed in the corporate governance report.

2012 AWARDS AND RECOGNITIONS

Pan Africa has a history of being acknowledged by business and the insurance industry for excellence in our daily work, and 2012 was no exception.

AKI Award

One of Pan Africa's strengths is skilled and professional underwriting within group life business. This year the company was recognized for this by being awarded the first AKI award for Group Life Best Practice. **We were also the 1st Runner's up in Individual Life.**

Company of the Year Award (COYA)

In the Company of the Year Awards (COYA) 2012 organized by Kenya Institute of Management (KIM), Pan Africa Life scooped the Leadership & Management Award, with Tom Gitogo, the Managing Director, bringing home the coveted CEO of the year Award. Congratulations to Tom for this honour.

FiRe Competition

We were also the winners in the insurance category of the Financial Reporting (FiRe) Awards 2012. FiRe competition is sponsored by the Institute of Certified Public Accountants (ICPAK) and the Nairobi Stock Exchange (NSE). Since its inception in 2000, Pan Africa continues to win these awards, a manifestation of the Groups continued focus on professionalism, transperancy and excellence in financial reporting.

Think Business Insurance Survey

Customer service is at the heart of our operations and we were vindicated by winning the Think Business customer service award. In the same awards we were first runners up in the Life Insurer of the year, training and fraud detection and prevention categories. In addition we won the second runners up position for risk management.

Deloitte Survey

We strive to be an employer of choice, and were therefore proud to be recognized by Deloitte as the winner in the insurance category of Best Company to Work for 2012, and number 8 overall. We shall strive to retain the honours awarded or better them as we believe that in such honours there is no plateau – rather a lounging pad for the next level.

CHANGES TO THE BOARD

During the year, Robert Ward resigned from the board to pursue other interests. Robert was representing Sanlam interests in the board and has since been replaced by Themba Gamedze. Themba is a Fellow of the Institute of Actuaries and a Fellow in the Actuarial Society of South Africa and is currently the Sanlam Group Chief Executive: Strategic Projects. Themba's academic qualifications include BA (Hons) in Pure Mathematics and Msc in Pure Mathematics. He brings to the Board a wealth of knowledge and experience and we look forward to working with him.

CLOSING NOTE

The company performed well in the face of a challenging economic environment. This performance would not have been possible without the support from the Board, Management, and staff. I sincerely thank all of them for their commitment to the business and the efforts they made towards our success. I wish them all the best as they continue to deliver value to our customers and shareholders. To our policy holders and other business associates, we value the business relationship between us - we shall ensure that it is mutually beneficial to us all.

I thank the shareholders for their continued support. The company's share price increased by 90

percent during the year, which reflects the confidence that you continue to have in us.

The board is confident that the strategic direction adopted by the company, together with a focused execution to realize those strategies will ensure sustainability of our business going forward thereby positioning us as the provider of choice in wealth creation and protection.

Dr. John P N Simba, MBS OGW
Chairman

19 February 2013

Tom celebrating the CEO of the year award at the 2012 COYA Gala night

Wenyehisa Wenzangu, Kwa niaba ya Halmashauri ya wakurugenzi, nina furaha kuwasilisha Ripoti ya Mwaka ya 2012 pamoja na taarifa za kifedha za Kampuni ya Pan Africa Life Insurance Holdings. Wakati wa kipindi kinachoangaziwa, kampuni ilipata matokeo thabiti katika mwaka ambao ulishuhudia changamoto muhimu za kibiashara kote duniani na pia humu nchini.

UCHUMI DUNIANI

Chumi za nchi nyingi zilizostawi zilikabiliwa na hali ngumu mwaka wa 2012 na kupelekea matatizo ya ukuaji katika mataifa yanayostawi. Kwa kweli hata kufikia mwisho wa mwaka kulikuwa na tashwishi iwapo uchumi duniani umesita kudorora. Kwa kuwa nchi zilizostawi huenda zisiweze kutoa msingi wa kuhimili ukuaji wao, mataifa yanayostawi hata hivyo yanaweza kubuni ukuaji huru zaidi na endelevu kwa kuzingatia uwekezaji wa muda mrefu kama vile muundo msingi, elimu, afya ya umma na kujitosheleza kwa chakula.

Ukuaji wa Pato la Taifa, GDP katika mataifa yaliyo Kusini mwa Sahara barani Afrika ulikuwa wa juu kwa asilimia 4.6 mwaka wa 2012, kutokana na mahitaji thabiti nchini, kuongezeka kwa viwango vya uuzaji nje na uchimbaji madini mapya yaliyogunduliwa.

Katika Matarajio yake ya Uchumi Duniani (Januari 2013), Shirika la Fedha Ulimwenguni, IMF linatarajia kwamba ukuaji duniani utaimarika kwa wastani hadi asilimia 3.5 mwaka wa 2013, kutoka asilimia 3.2 mwaka wa 2012.

Ukuaji huu duniani unatarajiwa hasa kutokana na chumi za masoko yanayoibuka. Kwa kweli mataifa yanayostawi ndiyo yaliyochangia zaidi ya nusu ya ukuaji duniani mnamo mwaka wa 2012 na yataendelea kuwa msukumo wa ukuaji. Benki ya Dunia inaweka ukuaji huu katika asilimia 5.1 mwaka wa 2012, na kukadiria kwamba utaongezeka na kufikia asilimia 5.8 mwaka wa 2015.

UCHUMI WA KENYA

Mwaka huu ulikuwa na changamoto kadha wa kadha ikiwemo viwango vya juu vya riba mapema mwaka huu ambavyo vilitatiza ukuaji wa mikopo. Pamoja na hayo, kutokana na tishio la ugaidi na uharamia, kiwango cha kuwasili kwa watalii kilipungua kwa asilimia 2 kati ya mwezi Januari na Desemba 2012, jambo lililosababisha kufutiliwa mbali kwa ndege za kukodishwa kwenda Mombasa.

Hata hivyo, sera thabiti za kifedha zilizowekwa kufuatia shinikizo za kiuchumi za mwaka wa 2011 zimeisaidia Kenya kurejesha hadhi ya kiuchumi. Hii inadhihirishwa wazi na takwimu za Benki Kuu ambazo zinaonyesha kwamba mfumko wa bei ulipungua kwa kiwango kikubwa hadi asilimia 3.2 kufikia mwisho wa mwaka wa 2012 ikilinganishwa na asilimia 18.9 kufikia mwisho wa mwaka wa 2011. Kugeukageuka kwa kiwango cha ubadilishanaji fedha kulikoshuhudiwa mwaka wa 2011 kuhusiana na sarafu ya humu nchini hakukuwepo kwa kiasi kikubwa mwaka wa 2012.

Kiwango cha uuzaji katika Soko la Uuzaji Hisa la Nairobi kinaonyesha mwelekeo ufaao pia; kiliongezeka hadi 4188 katika wiki ya mwisho ya Desemba 2012, likiwa ongezeko kubwa kutoka 3205 kufikia mwisho wa mwaka uliotangulia.

Ukuaji huu unachochewa na tabaka la kati linaloongezeka humu nchini, ambalo linavutia ongezeko la mtiririko wa uwekezaji katika sekta inayopanuka kwa haraka ya bidhaa za utumizi.

Jumuiya ya Afrika Mashariki ni mojawapo ya maeneo ya kiuchumi yanayokua kwa haraka zaidi ulimwenguni. Uchumi wa Kenya, ambao ndio mkubwa zaidi katika jumuiya hiyo, unajiandaa kuchukua fursa ya nafasi ambazo huenda zikaibuka kutokana na kuungana na kuunganishwa kwa chumi za jumuiya hiyo kubuni soko moja.

Pato kwa kila mtu nchini Kenya ni takriban dola 800 za Marekani, na hivyo basi linaelekea hadhi ya mapato ya wastani. Ikiwa Kenya itadumisha ukuaji wa kiwango cha asilimia 6 kwa mwaka nchi hii inakisiwa kuafikia hadhi ya mapato ya wastani ya pato la kila mtu la dola 1000 za Marekani kufikia mwaka wa 2020. Sekta ya kibinafsi pamoja na ile ya umma zinakubaliana katika kuidhinisha ruwaza ya maendeleo ya 2030 kama mwongozo au mpango madhubuti - ramani ya mwelekeo - ambao utawezesha uchumi kuafikia hadhi ya mapato ya wastani katika kipindi kilichodhamiriwa.

Kwa ujumla, kuna matumaini mema kwa hali ya baadaye ya nchi hii, hasa ikizingatiwa kwamba kwa sasa mvua imeanza kunyesha huku kukiwa na matumaini makubwa ya bei za vyakula kupungua. Dalili zinaonyesha kwamba licha ya shughuli nyingi za kisiasa zilizopelekea uchaguzi mkuu mapema mwaka huu, udhabiti nchini huenda hautatatizwa. Pamoja na hayo, ikiwa bei za mafuta zitasalia thabiti, basi uchumi utaendelea kukua.

SEKTA YA BIMA

Mkakati wa 2011-2016 wa Chama cha Kampuni za Bima Nchini (AKI) una madhumuni muhimu ya kuimarisha ukuaji na ustawi wa sekta ya bima katika muda wa miaka mitano.

Mipango kadhaa ya mwaka wa 2012 itachangia katika juhudi za kuongeza kiwango cha upenyaji wa chini wa bima nchini Kenya na kuendelea mbele. Kwa mfano Mswada wa Kifedha 2012 unatafuta kurekebishwa kwa Kifungu cha sheria za Benki kuwezesha kuanzishwa kwa dhana mpya kama vile bimabenki yaani bancassurance, hatua ambayo itapanua njia za ugawaji bima. Bima za kiwango cha chini yaani Microinsurance pia zilihusishwa kwenye Kifungu cha sheria za Bima kama daraja jipya la biashara, ambalo linatoa ulinzi ambao watu wenye mapato ya chini wanaweza kumudu. Hii ni muhimu kwani mojawapo ya sababu zinazochangia upenyaji wa chini wa bima ya maisha nchini Kenya ni mapato ya chini kwa idadi kubwa ya watu.

Udhibiti imara ni muhimu kwa ubora wa sekta ya bima, unalinda maslahi ya wenye bima na hivyo basi kuchangia kujenga imani ya muda mrefu ya umma katika sekta hii. Halmashauri ya Udhibiti wa sekta ya Bima, IRA, imeongeza udhibiti wake wa sekta hii katika miaka ya hivi majuzi, ikiwa ni pamoja na kuanzishwa kwa nyadhifa maalum za lazima katika nyanja za mashaka, utimizaji na utakwimu bima. Kampuni yetu imefanya mabadiliko yanayohitajika kukabiliana na changamoto hii na imepiga hatua muhimu na kuwekeza katika kutimiza mahitaji hayo mapya. Mojawapo ya hatua ambazo tayari zimetekelezwa ni kuanzishwa kwa idara mpya huru ya mashaka. Kama Kundi la Pan Africa, tumejitolea kuunga mkono taasisi madhubuti katika sekta hii, kuzingatia usimamizi bora wa ushirika, kuzingatia maadili ya kutii kanuni, kuwathamini wenye bima wetu na wenyehisa, na kuunga mkono juhudi za IRA zinazonuiwa kutimiza malengo haya.

UTENDAJI WA KUNDI

Nina furaha kutangaza kwamba kampuni ilifanya vyema na kupata matokeo bora katika mwaka wa 2012. Mapato kwa kila hisa yaliongezeka na kufikia shilingi 7.27, kutoka shilingi 4.62. Bei ya hisa iliongezeka kwa zaidi ya asilimia 90 katika kipindi cha mwaka. Kundi lilipata faida ya uendeshaji kabla ya kutozwa ushuru ya shilingi milioni 834 kwa mwaka huo.

Wasimamizi wanaendelea kuzingatia ukuaji wa mapato huku wakidumisha kiwango cha chini cha gharama ya uendeshaji.

Kwa kutambua utendaji bora wa kundi na imani katika matarajio yake ya muda mrefu, halmashauri imependekeza mgao wa faida wa shilingi 3.00 kwa kila hisa, ambao ni ongezeko la asilimia 50 kutoka kiwango cha mgao wa faida wa mwaka wa 2011 wa shilingi 2.00.

TAARIFA YA USIMAMIZI WA SHIRIKA

Kampuni ya Pan Africa inaendelea kuongoza katika kutimiza viwango vya usimamizi wa shirika. Wanachama wapya wa halmashauri hufahamishwa kikamilifu kuhusu kazi na shughuli za halmashauri ilhali halmashauri hutathmini utendaji kazi wake kila mwaka. Halmashauri hutekeleza kazi yake kupitia kwa kamati kadhaa za Halmashauri zinazosimamiwa na wenyeviti ambao ni wakurugenzi wasiokuwa na nyadhifa za utendaji kama ilivyofafanuliwa kwenye taarifa ya usimamizi wa shirika.

TUZO NA UTAMBUZI MWAKA WA 2012

Kampuni ya Pan Africa ina historia ya kutambuliwa na biashara na sekta ya bima kwa ubora wa kazi yetu ya kila siku, na mwaka wa 2012 haukuwa tofauti.

Tuzo la AKI

Mojawapo ya nyanja imara ya kampuni ya Pan Africa ni ujuzi na utaalamu wa kuchukulia bima biashara ya maisha ya kundi. Mwaka huu kampuni ilitambuliwa kwa kutuzwa tuzo la kwanza la AKI kwa Maongozi Bora ya Maisha ya Kundi. Kadhalika tulichukua nafasi ya pili bora katika Maisha ya Kibinafsi.

Tuzo la Kampuni Bora ya Mwaka (COYA

Kwenye tuzo za Kampuni Bora ya Mwaka (COYA) mwaka wa 2012 zilizoandaliwa na Taasisi ya Usimamizi Nchini (KIM), Pan Africa Life ilinyakua tuzo la Uongozi na Usimamizi, huku Mkurugenzi Mkuu Tom Gitogo, akichukua tuzo la kuvutia la Afisa Mkuu Mtendaji, CEO, wa mwaka. Pongezi kwa Tom kwa heshima hii.

Mashindano ya FiRe

Pia tulikuwa washindi katika kiwango cha bima cha tuzo za uandishi wa taarifa za kifedha (FiRe) za mwaka wa 2012. Mashindano ya FiRe yanadhaminiwa na taasisi ya wahasibu, Institute of Certified Public Accountants of Kenya (ICPAK) na Soko la Uuzaji Hisa la Nairobi (NSE). Tangu kuanzishwa kwa tuzo hizo mwaka wa 2000, Pan Africa imeendelea kushinda tuzo hizo dhihirisho wazi kuwa Kundi limeendelea kuzingatia utaalamu, uwazi na ubora katika uandishi wa taarifa za kifedha.

Uchunguzi wa Think Business Insurance

Huduma kwa wateja ni muhimu sana kwa shughuli zetu na tulithibitishiwa hayo kwa kushinda tuzo la huduma bora kwa wateja la Think Business customer service. Kwenye tuzo hizo pia tulikuwa mshindi wa pili katika tuzo la, mwekaji bima ya maisha wa mwaka, Life Insurer of the year, na viwango vya mafunzo, ugunduzi na uzuiaji udanganyifu. Isitoshe, tulishinda nafasi ya tatu kwa usimamizi wa mashaka.

Uchungunzi wa Deloitte

Tunajizatiti kuwa mwajiri anayependelewa zaidi, na hivyo basi tunajivunia kutambuliwa na Deloitte kama mshindi katika kiwango cha bima cha Kampuni Bora zaidi ya kufanyia kazi mwaka wa 2012, na nambari 8 kwa ujumla. Tutajitahidi kudumisha heshima tulizokabidhiwa au kuziimarisha kwa kuwa tunaamini kuwa katika heshima kama hizo tunalo jukwaa la kujiendeleza hadi katika kiwango kingine cha juu zaidi.

MABADILIKO KATIKA HALMASHAURI

Katika kipindi cha mwaka, Robert Ward alijiuzulu kutoka kwa halmashauri kufuatilia maslahi mengine. Robert alikuwa akiwakilisha maslahi ya Sanlam kwenye halmashauri na nafasi yake tayari imeshachukuliwa na Themba Gamedze. Themba ni Msomi wa Taasisi ya Utakwimu bima na Msomi katika chama cha Utakwimu bima cha Afrika Kusini na kwa wakati huu ndiye Afisa Mkuu wa Kundi la Sanlam, anayehusika na miradi mikuu kimkakati. Sifa za kimasomo za Themba ni pamoja na shahada ya digrii ya BA (Hons) katika hisabati na digrii ya uzamili, Msc, katika hisabati. Analeta kwenye halmashauri maarifa na ujuzi wa hali ya juu na tunatazamia kufanya kazi naye.

HITIMISHO

Kampuni ilifanya vyema licha ya changamoto za hali ya kichumi. Utendaji huu bora haungepatikana bila usaidizi kutoka kwa Halmashauri, Wasimamizi, na Wafanyakazi. Nawashukuru wote kwa dhati kwa kujitolea kwao kwa biashara hii na kwa juhudi walizofanya kuifanikisha. Nawatakia kila la kheri wanapoendelea kuwasilisha huduma ya thamani kwa wateja wetu na wenyehisa. Kwa wenye bima na washirika wengine wa kibiashara, tunathamini uhusiano wa kibiashara uliopo baina yetu – tutahakikisha kwamba unatufaidi sisi sote.

Nawashukuru wenyehisa kwa kuendelea kutuunga mkono. Bei ya hisa za kampuni iliongezeka kwa asilimia 90 wakati wa kipindi cha mwaka, jambo ambalo linadhihirisha imani ambayo mmeendelea kuwa nayo kwetu.

Halmashauri ina imani kwamba mwelekeo wa kimkakati uliochukuliwa na kampuni, pamoja na utekelezaji unaozingatia kuafikiwa kwa mikakati hiyo utahakikisha uendelevu wa biashara yetu siku zijazo na hivyo basi kutuweka katika nafasi ya kuwa mtoaji anayependelewa katika kubuni mali na ulinzi.

Dkt. John P N Simba, MBS OGW

Mwenyekiti

19 Februari 2013

Chief Executive's Report

BUSINESS ENVIRONMENT

Our business grew remarkably in 2012 despite the challenging operating environment.

In the first half of 2012, the Kenya economy experienced turmoil brought about by spillover effects of high inflation, high interest and weak exchange rate position from 2011. Thankfully the second half saw steady improvement in all indicators. Inflation declined from 18.9% in December 2011 to end at 3.2% in December 2012 partly aided by lower food prices resulting from good rains. The local currency strengthened against the US Dollar to close the year at KShs 85 from a high of Kshs 107 in October 2011. The Central Bank Monetary committee gradually lowered the Central Bank Rate (CBR) from 18% (December 2011) to 11% (December 2012) in line with positive market sentiments. Following the reduction of CBR, the 91-day T-bill eased from the highs of above 20% beginning 2012 to close the year at just above 8%.

2012 was a year of mixed political environment. We witnessed sporadic labour unrest especially from the public sector. Teachers and Health workers all demanded better employment terms. Towards the end of the year, the country was also submerged in the impeding general elections slated for 4 March 2013. Although there was general concerns that we were not likely to witness the level of Post Election Violence seen in 2008, nonetheless there was apprehension that slowed down major investments.

PERFORMANCE HIGHLIGHTS

The group delivered strong results in 2012 despite the challenging environment.

- Profit before tax up 51% to 834 million
- Earnings per share up 57%
- Value of New Business up 33%
- Dividend per share up 50%
- Total assests up by 43%

FINANCIAL PERFORMANCE

Our Life business delivered positive results on the back of new business acquisitions in Corporate Business and improved performance by the investments in the Life Business. The improved return on shareholders' assets is partly attributable to good deposit rates in the 1st half of the year. Our Runda project progressed well and we were able to sell the targeted number of plots.

The group Embeded value realised a growth of 8% for the period.

LIFE BUSINESS

The Life Business performed well with a profit before tax of Kshs 326.7m. The total gross premium at Kshs.5.4b grew by 50% compared to the Kshs.3.6b achieved in 2011. Corporate business premium at Kshs 3.2b doubled on account of new business acquisition during the year. Individual life premiums at Kshs 2.2b grew by 10%.

During the year, we launched two new endowment products: FlexiAcademic Plus which is an education endowment product and FlexiCash which is a savings type endowment product, both with auxiliary benefits for life and personal accident attached.

We have declared a 5%(2011:2.5%) bonus for 'With profit' policyholders and 12.5% (2011:5%) interest declaration on deposit administration schemes.

STRATEGIC FOCUS

Our key focus is centered on our customers, growing sales sustainably and increasing efficiencies.

Customer Service

We have continued to invest in people and systems to ensure that our customers' experience whenever they engage with us is both refreshing and unmatched. Our customer service centers will continue to be upgraded to meet growing customer needs. It is pleasing to note that Pan Africa Life received the customer service awards two years in a row from 'Think Business' signifying our strategy is working well.

Sustainable Sales

As noted above, the group policy is to underwrite quality life business within the armpit of the guidelines laid down by the regulators. Corporate business in Kenya is competitive and is marred by rate undercutting to secure business. Our philosophy has always been to compete on service delivery rather than price. In this regard, we are happy that the Association Kenya Insurers (AKI) has awarded Pan Africa Life as the winner of the Group Life best practice award in recognition of exemplary professionalism in writing business.

I have previously mentioned that we value our relationships with banks, insurance brokers, insurance agents, mobile phone companies, micro finance institutions to name just a few. We will continue investing in these relationships to grow and solidify them.

Alternative Channels of distribution especially for our individual life products is increasingly gaining importance and we will continue to research and invest in new ways to penetrate new and existing markets.

Improving efficiency

In an increasingly complex world, the business is faced with a multitude of challenges today. Yet, it is expected to respond and at all times protect customer interests. That's why at Pan Africa Life we talk of sustainability. The Group's robust investment in systems answers the question of managing growing business volumes, anticipating changing customer dynamics, and ever changing compliance requirements from regulators and international financial reporting (IFRS 4 revised), without a significant increase in costs relating to staff, consultancy and other operational areas.

OUR STAFF

Pan Africa life is an equal opportunity employer. In 2012, we received recognition as one of the best companies to work for following a survey conducted by Deloitte. Training and development is a key pillar in growing our staff. The group encourages staff to write professional exams. Our core business being life insurance, a good number of our staff are writing the Life Office Management Institute exams (LOMA). The institute awarded Pan Africa Life with Education achievement for Africa/Europe/Middle East region in recognition of outstanding participation in Loma educational programs in 2011 and 2012.

Our Leap Academy program is in its second year now and we are happy that it is rewarding as we anticipated. At the end of the third year, the trainees will graduate from the academy.

We encourage open interaction at all levels. The social club event where members of staff get away every quarter for team building exercise has proved popular over the years.

LOOKING AHEAD

Our focus this year will be to implement our alternative business distribution strategy initiated last year through partnerships with various stakeholders in the micro-finance sector and mobile telephony. We will also be completing the implementation of our new Administration system by the 3rd Quarter of the year. The Runda Phase 3 project is in progress with the infrastructural development having started in February 2013.

APPRECIATION

I would like to thank our clients, Board Members and shareholders for supporting our commitment to deliver the value they expect. I also thank our employees and financial advisors for their diligence and loyalty that has helped the group expansion over the years.

The year ahead will not be an easy one. We expect to face many challenges, especially this being an election year. I am however confident that our focused approach and experience will enable us to continue withstanding more turmoil while at the same time enabling us to provide growth and value on a sustainable basis.

Tom Gitogo

Chief Executive

19 February 2013.

2012 Company of the Year Award (COYA)

The Pan Africa team celebrating the COYA wins in Leadership & Management and the C.E.O of the Year 2012

NOTICE IS HEREBY GIVEN that the 67th Annual General Meeting of the Company will be held at the Tsavo Room, Hilton Hotel, Mama Ngina Street Nairobi on Friday, 17 May 2013 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 16 May 2012.

4. To consider, and if approved, adopt the Balance Sheet and Accounts for the year ended 31 December 2012 together with the reports of the Chairman, the Chief Executive, the Directors, the Auditors and the Statutory Actuary.

5. To declare a dividend of KShs 3 per share for the financial year ended 31 December 2012 and approve the closure of the register of Members on 20 May 2013 to 3 June 2013.

6. To elect directors:

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

    6.2 Ms Susan mudhune, retires by rotation in accordance with the Company's Articles of Association and she offers herself for re-election.

    6.3 Bhekithemba Thabo Gamedze, who was appointed a director on 21 August 2012, 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

Date: 19 February 2013

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's Share Registrar's, Image Registrars Limited, 8th Floor Transnational Plaza, Mama Ngina Street, P.O. Box 9287- 00100, Nairobi or be posted, so as to reach not later than Wednesday 15 May 2013 at 10.00 am.

Ilani ya Mkutano Mkuu wa Mwaka

ILANI INATOLEWA HAPA KWAMBA Mkutano mkuu wa mwaka wa 67 utafanyika katika ukumbi wa Tsavo, Hoteli ya Hilton, kwenye barabara ya Mama Ngina mjini Nairobi Ijumaa tarehe 17 Mei 2013 saa nne asubuhi kuendesha shughuli zifuatazo:

1. Kuwasilisha wawakilishi na kuhakikisha idadi inayohitajika.

2. Kusoma tangazo la kuandaa mkutano.

3. Kuthibitisha kumbukumbu za Mkutano Mkuu wa Mwaka uliofanyika tarehe 16 Mei 2012.

4. Kufikiria na ikikubaliwa, kuidhinisha mizania na hesabu za kifedha kwa mwaka uliomalizika tarehe 31 Desemba 2012 pamoja na taarifa za Mwenyekiti, Afisa Mkuu Mtendaji, Wakurugenzi, Wakaguzi wa hesabu za fedha na Sheria ya Mtakwimu Bima.

5. Kutangaza mgao wa faida wa shilingi 3 kwa kila hisa kwa mwaka uliomalizikia tarehe 31 Desemba 2012 na kuidhinisha kufungwa kwa kitabu cha usajili wa wanachama tarehe 20 Mei 2013 hadi tarehe 3 Juni 2013.

6. Kuchagua wakurugenzi:

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

6.2 Bi.Susan mudhune, anastaafu kwa zamu kulingana na Kifungu cha Sheria za kampuni na anajiwasilisha kuchaguliwa tena.

6.3 Bhekithemba Thabo Gamedze, ambaye aliteuliwa kuwa mkurugenzi tarehe 21 Agosti 2012, anastaafu kwa kuwa huu ndio Mkutano Mkuu wa Mwaka wa kwanza tangu ateuliwe na kwa kuwa anahitimu, anajiwasilisha kuchaguliwa upya.

7. Kuidhinisha malipo ya Wakurugenzi.

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

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

Kwa Amri ya Halmashauri

Emma Wachira
Katibu wa Kampuni

Tarehe: 19 Februari 2013

Kumbuka:

Mwanachama anayeruhusiwa kuhudhuria na kupiga kura katika mkutano huo na ambaye hawezi kuhudhuria anaweza kumteua mwakilishi kuhudhuria na kupiga kura kwa niaba yake. Mwakilishi sio lazima awe mwanachama wa Kampuni. Ili ikubaliwe fomu ya mwakilishi, ambayo imeambatanishwa mwisho wa taarifa hii ni lazima ijazwe na kutiwa sahihi na mwanachama na kuwasilishwa katika afisi za Wasajili wa Hisa wa Kampuni, Image Registrars Limited, Orofa ya 8 Jumba la Transnational Plaza, barabara ya Mama Ngina, S.L.P. 9287- 00100, Nairobi au kutumwa kwa njia ya posta ili kufika kabla ya Jumatano tarehe 15 Mei 2013 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 two main pillars: Education and conserving our environment which inculcate lifting the living standards of the community in which we operate. Our programs are also aligned with the National Vision 2030 objectives.
In 2012, we were involved in various CSR activities some of which are detailed below:

EDUCATION

Financial Support to needy students

The company continues to sponsor several bright but needy students around the country to go through their education. The aim of this program is to give them and their communities hope and opportunity for a bright future. Continuously, the company receives sponsorship requests from needy students across the country. These are evaluated based on needs analysis, potential for each student, gender balance and geographical spread.

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 on exchange program from other countries. This year we partnered with other stakeholders to empower these youth realize their entrepreneurial potential, a project that we hope will benefit them in their future endeavours.

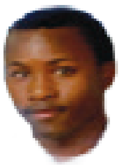
Leap Academy

Pan Africa Life's Leap Talent Academy is an initiative that demonstrates our commitment to skills and talent development within the industry and for our country at large.

The programs currently running include:

- Graduate Trainee program
- Internship program
- Beyond Borders experiential learning

The main motivation of these programs is the skills required to keep the insurance industry sustainable in Kenya and the region. We therefore focus on benchmarking the knowledge that these young people are exposed to with global standards.



It has been a fantastic experience that I have gained this week I have been in the company. I have gained firsthand experience of the world of work and what is expected of me to thrive……

What Joel, a beneficiary from St Andrew's Turi School in Molo had to say after a one week work experience program

The Leap Talent Program has given me the opportunity to apply the knowledge gained through my actuarial studies in a working environment giving me a platform to acquire the necessary skills and experience required in the actuarial profession. One of the good things about the Leap Talent Program is you get to experience different departments through a rotation program which enables a greater understanding of the company. Also, Pan Africa Life has a great reputation as a 'people' company, and I definitely feel that it lives up to it- the atmosphere is very friendly and supportive.

Samuel Wamae, Graduate trainee 2012-2014

EMPLOYEE SKILL IMPROVEMENT PROGRAM

Pan Africa Life's employee skill improvement programs centers on company sponsored in-house training, professional training and professional development.

In year 2012, 12 in-house training programs were conducted for all staff depending on the training needs identified through our continuous appraisal system.

The majority of employees were enrolled to pursue different professional training from institutions such as LOMA, CII, CIM, ACCA, Institute and Faculty of Actuaries, CPA, CIPS, IIK, IHRM, IRM and CFA.

Employees are also required to join and actively participate in at least one professional body related to their professional qualification, in order to keep afloat with new development in their fields of operation.

To enhance the effectiveness of education and training, Pan Africa Life seeks to link these programs with other initiatives that add value to our stakeholders needs.

Samson Kamau, Business development Manager, plants a tree at the school of combat engineering in Isiolo

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 trees in Isiolo.

Pan Africa Life Staff hand over the kits to Colonel Ng'ang'a of Kahawa Garrison

Kenyatta Avenue Beautification

During the year, the company went into partnership with The City Council of Nairobi to beautify and maintain the garden along Kenyatta Avenue for the next five years. The project entails beautification and management of the gardens along the avenue. This is in line with our objective to conserve our environment and maintain the beauty of our city. We continue to keep the project active.

CARING FOR OUR COMMUNITY

We engaged in various initiatives that are geared towards improving the standards of the community we operate in:

Kahawa Garrison

In the last quarter of 2012, we sponsored a marathon event which brought together officers, the community (school and local civilians) as well as various corporate bodies. The Kenya Defense Forces have been our partner for many years in various projects.

Pan Africa Life Staff gear up before taking the Standard Chartered Nairobi Marathon at the Nyayo National Stadium

Standard Chartered Nairobi Marathon

As we have done in the past, our staff together with other stake holders continue to participate in the SCB Nairobi Marathon whose proceeds go towards giving children a chance to sight treatment.

Kenyatta National Hospital

Pan Africa Life partnered with Aon Kenya in raising funds for the Gender Based Violence Recovery Centre at Kenyatta National Hospital. The sponsorship package included the nomination of two children from our staff dependants and one coach of our choice to be trained at the Skills and Drills Event, a football clinic, facilitated by coaches of Manchester United. This was aimed at developing football talent from the grassroots.

Laikipia East Community

Pan Africa Life sponsored a golf tournament at Nanyuki Sports Club to raise funds for the library based at Laikipia East Community.

In Other CSR initiatives in the year 2012, the company donated two computers to Nyeri High School to equip the school library.

Pan Africa Life's Social Club, is a welfare club which was established in 2008 to organize and direct social, recreational and cultural activities for the employees.

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, the fund sponsored the National prayer breakfast. We also partnered with Palm House Foundation whose objective is to assist bright student from needy families pursue their education and donated towards Rotary Club of Nairobi which went towards a sight treatment project.

In partnership with churches and other humanitarian bodies, 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 across the country.

Pan Africa Life staff present the cheque to the Administrator of Laikipia Community Library

The Audit Exercise

In a bid to establish the sustainability of our corporate social initiatives across the country and advise our future initiatives, an audit exercise was carried out. Below is some of the feedback that was received:

Abuntu Children's home Gigil- Water Project in 2010

The school administration had this to say "This project has been of great help to us and all people living near us. We get water from the local water project and reserve it here. We cannot get rain water because our roof is quite low, but we are thankful. We are able to water vegetables."

Eldoret Tree Planting CSR Project at Racecourse Primary School - 2011

The school administration had this to say "We are thankful that Pan Africa Life considered us among all the other schools. We shall give the project full support. For future CSR, we hope that Pan Africa Life can consider growing the project since the school still has alot of bare land." The company planted over 5000 trees in various regions across the country.

Abuntu Children's home Gigil

PRINCIPLES OF CORPORATE GOVERNANCE

At the Pan Africa Group, our culture and values are deeply embedded within the organisation. Our culture stimulates responsibility, accountability, fairness and transparency. It also sets out the standards, discipline, systems and processes which ensure that our Group operates on a transparent, just and equitable manner.

We strive to create an inclusive environment for all employees. This helps us attract, retain and develop the best talent, and creates an environment where a diverse range of people are motivated to be at their best every day. This enables us to sustain strong business performance for the long-term.

The Pan Africa Group understands that good corporate governance is fundamental to earning the trust of all our stakeholders, itself critical to sustaining the organisation's success while preserving shareholder value. In line with this philosophy, the Board is committed to adopt sound governance practices.

The Board of Directors is also accountable to shareholders for ensuring that the Company complies with the law and the highest standards of corporate governance and business ethics. In ensuring that good corporate governance is practiced so that the Company remains a sustainable and viable business venture, the Company has continuously implemented the following policies to guide the operations of the Group:

1. Code of Ethics: This outlines 10 ethical principles which comply with the highest standards of integrity, honesty and ethics in dealing with all its stakeholders, including directors, managers, employees, customers, suppliers, competitors, shareholders and society at large. The principles are designed to prevent an employee from engaging in any activity that would raise questions as to the Group's integrity, respect for diversity, impartiality or reputation.
2. Gift Policy: This outlines the policy of giving and receiving gifts by employees and is designed to prevent the unfair granting of a gift or a favour.
3. Financial Crime Combating Policy: This outlines the guidelines of combating financial crime and unlawful conduct and provides a framework for which this can be prevented, detected, investigated and dealt with.
4. Zero Tolerance Approach: Financial crimes and unlawful conduct are not tolerated in the Company as stipulated by this policy. The policy further outlines the consequences of committing a financial crime and unlawful conduct.
5. Schedule of Offences: This policy defines the different instances of unlawful conduct by directors, managers, employees, customers, suppliers, competitors, shareholders and the sanctions meted thereto.
6. Self-Evaluation: The Board continues to undertake annual self evaluations and reviews of its performance, which includes the review of the suitability of its composition, the diversity of skills and experience on the Board performance against the terms of reference and succession planning, together with the performance of the Committees, Chairman, Chief Executive and Company Secretary. The results of the evaluations are discussed and action plans tabled to strengthen the Board, Committees and evaluation processes.

BOARD OF DIRECTORS

The Group is led by independent members of the Board who, by their skills and diversity, contribute to the efficient running of the Group. The Board is committed to ensuring that the business is run in a professional, transparent, just and equitable manner so as to protect and enhance shareholder value and satisfy the interests of other stakeholders. The principles and standards adhered to by the Board have been developed with close reference to guidelines on corporate governance issued by the Centre for Corporate Governance and the Capital Markets Authority for publicly listed companies in Kenya.

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.

Board responsibilities

The primary responsibility of the Board of Directors is to lead and control the Company. The members are responsible for the enforcement of the corporate vision and mission, and for ensuring financial soundness of the company. Of particular importance to the Company is the observance of shareholders' interest, efficient practices and open corporate communication. The Board deliberates upon and approves strategy and business plans, and monitors the performance of the company against set objectives. 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.

It also plays a critical oversight role in the way business is generally managed and conducted, and on how risk is evaluated and managed. It will also confirm that company's due compliance with the relevant legal and statutory requirements

Board meetings

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 the 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, as an independent non-executive director, the Chief Executive as the only executive director, four directors representing the strategic partner Sanlam and three non-executive directors thus balancing the board composition.

The Board members have a broad range of skills, expertise and experience and each brings independent judgment and valuable contribution to the business. The directors' abridged biographies appear on pages 10 and11 of this Annual Report.

Appointments to the board

During the year 2012, Robert Ward resigned as a director of the Company and was subsequently replaced by Themba Gamedze.

Re-election to the board

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

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 Fee 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.

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 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.

Succession planning

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

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]

The Board has three committees as follows:

Audit Committee

The proceedings of the Committee are governed by an annual plan that details the specific matters that it must discuss at each quarterly meeting. The Audit Committee's mandate is 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 2012 were as follows:

Table 1: Audit Committee Membership

Member	Directorship Status	Attendance at Meetings	Attendance at Meetings
1	Thomas Wixley (Chairman)	Non-Executive Director	75%
2	Margaret Dawes	Non-Executive Director	100%
3	Baloobhai Patel	Non-Executive Director	100%
4	Josh Wrench	Non-Executive Director	100%
5.	Themba Gamedze	Non-Executive Director	50%

Investment Committee

The primary functions of the Investment Committee are: To establish appropriate investment guidelines for the the 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	Attendance at Meetings
1	Baloobhai Patel (Chairman)	Non-Executive Director	100%
2	Tom Gitogo	Chief Executive	100%
3	James Gitoho	Non-Executive Director	75%
4	John Simba	Chairman of the Board	100%

Human Resources Committee

The members of the Human Resources Committee are described in Table 3 below. The proceedings of the Human Resources Committee are guided by the Human Resource Charter and the annual plan. Human Resources Committee responsibilities are to ensure that an effective management succession process exists; to regularly evaluate the long-term availability of management expertise; and to give careful attention to succession planning for the positions of the senior management, including making recommendations with regard to the position of Chief Executive

Table 3: Human Resources Committee Membership

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

Management Committees

The Chief Executive has several committees that 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
- Project Committees: seats to oversea specific projects like new ICT system

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 year 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.

Image Registrars

The share register of Pan Africa Insurance Holdings Limited is kept and managed by Image Registrars Limited. Image Registrars maintains records on the changes in ownership of the shares, makes statutory returns to the regulators and manages dividend process. Image Registrars is available to provide the share holders with excemplorary customer service.

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 4 below.

Table 4: Directors Shareholding as at 31st December 2012

	Name of Director	Shareholding
1	Baloobhai Patel	19,186,800
2	John Simba (Chairman)	102,000
3	Tom Gitogo (Chief Executive)	100,000
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 2012 are shown in Table 5 below:

Table 5: Top Ten Shareholders as at 31st December 2012

	2012 Number of Shares	%	2011 Number of Shares	%
Hubris Holdings Limited	53,464,700	55.69	48,000,000	50
Baloobhai Patel	19,186,800	19.99	19,198,800	20
APA Insurance Limited	1,354,938	1.41	1,329,938	1.39
Thammo Holdings Limited	1,101,886	1.15	1,392,086	1.45
Mayfair Insurance Company	800,000	0.83	700,000	0.73
Apollo Life Assurance	621,490	0.65	732,514	0.76
Financial Fixtures Limited	574,474	0.60	574,474	0.73
Standard Chartered Bank A/c 9595	568,400	0.59	287,237	0.60
Cannon Assurance (Kenya) Limited	509,576	0.53	0	-
Anjay Vithabhai Patel	473,800	0.49	430,000	0.45
TOTAL	**78,656,696**	**81.93**	**72,645,049**	**76.11**

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.

STRATEGIC DRIVE

The company maintains a three year strategic plan at that is developed by Staff and Management in liason with the Board. The strategy is reviewed annually and built into the budgeting process for the respective year. At each quarterly Board meeting, the Board is briefed by the Management of the progress made to achieve the various checkpoints as detailed in the three year strategic plan.

GOING CONCERN

The Board submits this annual report and audited financial statements for the year ending 31 December 2012. 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
19 February 2013

Tom Gitogo
Chief Executive
19 February 2013

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 2012, 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 41 to 129

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 from 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 2012, 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 Company and the Group, so far as appears from our examination of those books; and

(iii) Company's and Group'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
05 April 2013

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 2012.

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 2012.

Giles T Waugh FASSA FIA
Statutory Actuary
Fellow of the Actuarial Society of South Africa
19 February 2013

1. a) Definition of Embedded Value

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

- The value of the life company's shareholders' net assets; plus
- The value of the in-force business.

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

b) European Embedded Value Principles (EEV)

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

2. Embedded Value Results

	2012 KShs.'000	2011 KShs.'000
a) Group embedded value		
Shareholders' adjusted net assets	3,085,704	2,919,735
Net value of in-force business	1,408,853	1,239,494
Gross value of in-force business	2,319,132	1,985,781
Tax provision	(695,739)	(595,734)
Cost of Capital Adequacy Requirement (CAR)	(214,539)	(150,553)
Embedded value	4,494,557	4,159,229

(b) Embedded Value Earnings

The embedded value earnings are derived as follows:

	2012 KShs.'000	2011 KShs.'000
Embedded value at end of year	4,494,557	4,159,229
Embedded value at beginning of year	(4,159,229)	(3,748,209)
Change in embedded value	335,328	411,020
Transfer from shareholders	-	9,287
Dividends paid in the year	192,000	144,000
Embedded value earnings	527,328	564,307

2. Embedded Value Results (Continued)

(b) Embedded Value Earnings

These earnings can be analysed as follows:

	2012 KShs.'000	2011 KShs.'000
Adjustment to fair value of subsidiary	(242,272)	(51,981)
Roll forward	282,561	156,216
Investment return on free assets	25,986	32,495
Expected return on life business in-force	256,575	123,721
Change over the period	487,038	460,071
Value of new business at year end	240,638	183,245
Value of new business at point of sale	386,802	266,726
Tax on value of new business	(116,040)	(80,018)
Cost of required capital on new business	(48,292)	(19,915)
Expected return on new business to end of year	18,168	16,452
Changes in assumptions and methodology	(108,469)	97,570
Experience variations	(20,585)	(241,006)
Increase in NAV for other subsidiaries	375,455	420,262
Total earnings	527,328	564,307

3. Value of New Business

	2012 KShs.'000	2011 KShs.'000
Value at point of sale (gross of tax)	386,802	266,726
Tax on value at point of sale	(116,040)	(80,018)
Cost of CAR at point of sale	(48,292)	(19,915)
Value of New Business at point of sale	222,470	166,793
Expected Return	18,168	16,452
Value of new business	240,368	183,245

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	16.00% KShs.'000	17.00% (basis) KShs.'000	18.00% KShs.'000
Shareholders' net assets	3,085,704	3,085,704	3,085,704
Value of in-force business	1,468,404	1,408,853	1,344,164
Embedded value	4,554,107	4,494,557	4,429,868
Value of one year's new business at valuation date	258,159	240,638	224,931

5. Assumptions

The assumptions used in the calculation of the embedded value are based on the Company's best estimate of future experience. The main assumptions used are as follows:

a) Economic Assumptions

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

	2012 % p.a.	2011 % p.a.
Risk discount rate	17.00	20.70
Overall investment returns (pre tax)	12.11	15.44
Expense Inflation Rate	9.00	12.70

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

	KShs.'000	KShs.'000
Risk discount rate	214,927	(475,278)
Overall investment returns (pre tax)	(246,265)	875,593
Expense Inflation Rate	81,216	(185,568)
Total	49,878	214,747

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 2012.

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 2012	**1,408,853**	
Investment return (and inflation) decreased by 1.0% and with bonus rates and discount rates changing commensurately	1,407,971	-0.1%
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	1,434,707	1.8%
Increase expected return on equities/property assets by 1.0% p.a. due to a change in the equity/property risk premium with no consequential changes to discount rates	1,381,105	-2.0%
Shock scenario *	1,389,176	-1.4%
Expenses and persistency		
Non commission maintenance unit expenses (excluding investment expenses) decrease by 10%	1,520,676	7.9%
Discontinuance rates decrease by 10%	1,395,670	-0.9%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	1,436,381	2.0%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	1,577,976	12.0%

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

Value of one year's new business as at 31 December 2012	**240,638**	
Investment return (and inflation) decreased by 10% and with bonus rates and discount rates changing commensurately	128,323	-46.7%
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	238,930	-0.7%
Shock scenario *	258,238	7.3%
New business volumes decrease by 10%	221,680	-7.9%
Expenses and persistency		
Maintenance unit expenses (Excluding investment expenses) decrease by 10%	266,822	10.9%
Non-commission acquisition expenses decrease by 10%	260,981	8.5%
Discontinuance rates decrease by 10%	242,169	0.6%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	251,883	4.7%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	240,850	0.1%

Notes:

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

Assumed Management Action

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

GTWaugh

Giles T Waugh FASSA FIA
Statutory Actuary
Fellow of the Actuarial Society of South Africa.
19 February 2013

Income Statement

For the year ended 31 December 2012

		Group		Company	
		2012	2011	2012	2011
	Note	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Gross premium income	3(a)	5,440,654	3,648,492	-	-
Premium ceded to reinsurers	3(b)	(315,020)	(348,437)	-	-
Net premium income		5,125,634	3,300,055	-	-
Fee and commission income	4	75,866	84,589	-	-
Investment income	5(a)	1,244,574	697,015	17,335	20,322
Fair value gains/ (losses)	5(b)	879,863	(895,668)	-	-
Other operating revenue	5(c)	594,904	1,055,534	508,540	1,065,317
Total other revenue		2,795,207	941,470	525,875	1,085,639
Total revenue		7,920,841	4,241,525	525,875	1,085,639
Gross benefits and claims paid	6(a)	(1,674,761)	(1,408,415)	-	-
Claims ceded to reinsurers	6(a)	174,333	154,142	-	-
Gross change in insurance contract liabilities	6(a)	(1,751,861)	(290,695)	-	-
Gross change in market linked insurance liabilities	6(a)	(2,290,403)	(368,150)	-	-
Change in contract liabilities ceded to reinsurers	6(a)	21,297	36,643	-	-
Net benefits and claims		(5,521,395)	(1,876,475)	-	-
Cost of sales	5 (d)	(40,210)	(390,741)	(40,210)	(428,190)
Fee and commission expense	6(b)	(669,678)	(690,346)	-	-
Other operating and administrative expenses	7	(856,582)	(733,046)	(135,700)	(105,918)
Finance costs	9	-	-	(41,186)	(82,124)
Total benefits, claims and other expenses		(7,087,865)	(3,690,608)	(217,096)	(616,232)
Profit before share of profit of associate		832,976	550,917	308,779	469,407
Share of profit of associate	14(b)	1,670	1,518	-	1,518
Profit before tax		834,646	552,435	308,779	470,925
Income tax expense	10	(136,375)	(109,030)	(87,658)	(101,640)
Profit for the year		698,271	443,405	221,121	369,285
Profit attributable to:					
Equity Holders of the parent		698,271	443,405	221,121	369,285
Earnings per share:					
Basic	31	7.27	4.62	2.30	3.85
Diluted	31	7.27	4.62	2.30	3.85

Statement of Comprehensive Income

For the year ended 31 December 2012

	Group		Company	
	2012	2011	2012	2011
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Profit for the year:	698,271	443,405	221,121	369,285
Total comprehensive income for the year attributable to the owners of the company	698,271	443,405	221,121	369,285
Attributable to:				
Equity Holders of the parent	698,271	443,405	221,121	369,285

Statement of Financial Position

As at 31 December 2012

		Group		Company	
		2012	2011	2012	2011
	Note	KShs.'000	KShs.'000	KShs.'000	KShs.'000
ASSETS					
Intangible assets	12	104,142	43,950	-	-
Property and equipment	11	96,646	80,156	8,446	10,091
Investment properties	13	820,000	766,618	-	285,618
Investment in subsidiaries	14(a)	-	-	909,270	909,270
Investment in associate	14(b)	13,831	12,161	4,861	12,161
Loans	16	964,427	793,082	-	-
Financial instruments:					
Held to maturity financial assets	15 (a)	4,078,995	2,453,528	-	-
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)	5,038,609	3,449,297	-	-
Reinsurance asset	25	197,348	176,052	-	-
Land and development	21	106,280	91,584	106,280	91,584
Income tax receivable	10	53,784	14,628	37,826	-
Insurance receivables	22	186,773	151,630	-	-
Receivables and other financial assets	17	355,851	436,346	319,467	427,667
Deposits with financial institutions	23	4,169,370	2,807,818	229,665	-
Cash and bank balances	23	283,639	233,180	30,358	4,032
TOTAL ASSETS		16,473,522	11,513,857	1,650,000	1,744,250
EQUITY AND LIABILITIES					
CAPITAL AND RESERVES					
Issued share capital	24	480,000	480,000	480,000	480,000
Share premium	24	124,431	124,431	124,431	124,431
Statutory fund	24	852,157	525,387	-	-
Retained earnings		1,172,323	992,822	521,755	492,634
TOTAL CAPITAL AND RESERVES		2,628,911	2,122,640	1,126,186	1,097,065
LIABILITIES					
Insurance contract liabilities	25	5,221,365	3,469,504	-	-
Market linked insurance liabilities	25	6,680,701	4,390,298	-	-
Amounts payable under deposit administration contracts	25	1,071,633	681,547	-	-
Provisions	29	41,676	56,813	-	-
Current tax Liabilities	10	38,399	87,960	-	87,960
Insurance payables	27	255,377	270,341	-	-
Payables and other charges	30	535,460	434,754	523,814	559,225
TOTAL LIABILITIES		13,844,611	9,391,217	523,814	647,185
TOTAL EQUITY AND LIABILITIES		16,473,522	11,513,857	1,650,000	1,744,250

The financial statements were approved by the Board of Directors on 19 February 2013 and signed on its behalf by:

John P N Simba
Chairman
19 February 2013

Tom Gitogo
Chief Executive
19 February 2013

Group Statement of Changes in Equity

For the year ended 31 December 2012

	Note	Share capital KShsh.'000	Share Premium KShs.'000	Revaluation Surplus KShs.'000	Statutory fund KShs.'000	Retained earnings KShs.'000	Total KShs.'000
Year Ended 31 December 2012:							
At 1 January		480,000	124,431	-	525,387	992,822	2,122,640
Total comprehensive income:							
Profit for the year		-	-	-	-	698,271	698,271
Transactions with owners:							
Dividends paid		-	-	-	-	(192,000)	(192,000)
Transfer to statutory fund	24	-	-	-	326,770	(326,770)	-
At 31 December		480,000	124,431	-	852,157	1,172,323	2,628,911
Year Ended 31 December 2011:							
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		-	-	-	-	(144,000)	(144,000)
Transfer to shareholders	24	-	-	(7,507)	-	7,507	-
Transfer to deposit administration	25	-	-	-	-	(9,286)	(9,286)
Transfer to statutory fund	24	-	-	-	30,550	(30,550)	-
At 31 December		480,000	124,431	-	525,387	992,822	2,122,640

Company Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital KShs.'000	Share premium KShs.'000	Retained earnings KShs.'000	Total KShs.'000
Year Ended 31 December 2012:				
At 1 January	480,000	124,431	492,634	1,097,065
Total comprehensive income:				
Profit for the year	-	-	221,121	221,121
Transactions with owners:				
Dividends paid	-	-	(192,000)	(192,000)
At 31 December	480,000	124,431	521,755	1,126,186
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	-	-	(144,000)	(144,000)
At 31 December	480,000	124,431	492,634	1,097,065

Statement of Cash Flows
For the year ended 31 December 2012

	Note	Ordinary life KShs.'000	Super annuation KShs.'000	Investment KShs.'000	Group KShs.'000
OPERATING ACTIVITIES					
Net cash generated from/(utilised in) operations	35(a)	925,159	2,418,001	(232,067)	3,111,093
INVESTING ACTIVITIES					
Purchase of property and equipment		(37,226)	(2,265)	-	(39,491)
Purchase of intangible assets		(61,511)	-	-	(61,511)
Purchase of investment property		(301,840)	-	285,618	(16,222)
Disposal of motor vehicle		2,200	-	-	2,200
Net purchase of financial assets through (profit and loss)		217,605	(551,369)	-	(333,764)
Purchase of government securities		-	(1,635,904))	-	(1,635,904)
Sale of government securities		-	60,400	-	60,400
Investment in land and development		-	-	(14,696)	(14,696)
Mortgage loans advanced		(95,279)	-	-	(95,279)
Repayment of mortgage loans		39,302	-	379	39,681
Interest received from government securities		403,490	13,810	170,204	587,504
Net cash generated from/(utilised in) investing activities		166,741	(2,115,328)	441,505	(1,507,082)
FINANCING ACTIVITIES					
Dividends paid		-	-	(192,000)	(192,000)
Net cash used in financing activities		-	-	(192,000)	(192,000)
Increase in cash and cash equivalents		1,091,900	302,673	17,438	1,412,011
Cash at start of year		1,164,859	966,546	909,593	3,040,998
Cash at end of year		2,256,759	1,269,219	927,031	4,453,009

a) GROUP (continued)

	Note	Ordinary life KShs.'000	Super annuation KShs.'000	Investment KShs.'000	Group KShs.'000
OPERATING ACTIVITIES					
Net cash generated from / (used 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 assets through profit and loss		(252,071)	169,604	-	(82,467)
Net purchase of government securities		-	(400,930)	-	(400,930)
Sale 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 from government securities		71,201	10,534	102,549	184,284
Net cash/(used in) generated from investing activities		(286,475)	(187,953)	1,134,490	660,062
FINANCING ACTIVITIES					
Dividends paid		-	-	(144,000)	(144,000)
Dividends from subsidiaries		(74,218)	-	74,218	-
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

Statement of Cash Flows

For the year ended 31 December 2012

b) COMPANY

	Note	2012 KShs.'000	2011 KShs.'000
OPERATING ACTIVITIES			
Net cash generated from operations	35(b)	200,920	62,903
INVESTING ACTIVITIES			
Investment income		17,335	20,322
Disposal of investment property		285,618	-
Purchase of investment property		-	(285,618)
Investment in land and development		(14,696)	411,206
Purchase of property and equipment		-	(850)
Net cash generated from investing activities		288,257	145,060
FINANCING ACTIVITIES			
Intra group charge		(41,186)	(82,124)
Dividends paid		(192,000)	(144,000)
Net cash used in financing activities		(233,186)	(226,124)
Increase / (decrease) in cash and cash equivalents		255,991	(18,161)
Cash at start of year		4,032	22,193
Cash at end of year		260,023	4,032

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 (ad).

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 2012:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters IFRS 7 Financial Instruments: Disclosures
- IFRS 7 Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements

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.

Notes to the Financial Statements

For the year ended 31 December 2012

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The principal effects of these changes are as follows:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
  The amendment clarified the determination of deferred tax on investment property measured at fair value and 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. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group's financial position, performance or its disclosures.

- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters: The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

- IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements: The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

Improvements to IFRSs

These improvements will not have an impact on the Group, but include:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.
- IAS 1 Presentation of Financial Statements: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.
- IAS 16 Property Plant and Equipment: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- IAS 32 Financial Instruments, Presentation: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- IAS 34 Interim Financial Reporting: The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

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 disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 Employee Benefits (Revised)

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 amendment has no impact on the Group's financial position or performance.

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

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, 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 revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

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 IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. 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 not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses 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. 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. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013, and is to be applied retrospectively for joint arrangements held at the date of initial application. The standard will not have an impact on the group.

IFRS 12 Disclosure of Interests in 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, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.

1) PRINCIPAL ACCOUNTING POLICIES (Continued)

c) Consolidation

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

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

i) Subsidiaries

Subsidiaries are all entities over which the company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the company. They are de-consolidated from the date the control ceases.

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

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

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

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

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 comprehensive profit/(loss).

1. **PRINCIPAL ACCOUNTING POLICIES (Continued)**

c) **Consolidation (Continued)**

ii) **Associates (Continued)**

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 with discretionary participating features are 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 written premiums under short term life insurance contracts 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. 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

e) Revenue recognition (Continued)

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 written premiums under short term life reinsurance contracts comprise the total premiums payable 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 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.

Fee and commission income

Insurance and Market linked insurance liabilities policyholders are charged for policy administration services, investment management services, surrenders and other contract Fee. These Fee are recognised as revenue over the period in which the related services are performed. If the Fee 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. Fee 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 Market linked insurance 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

g) Reinsurance

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

j) Property and equipment (Continued)

Freehold land	-	Nil
Computers	-	25%
Motor Vehicles	-	25%
Furniture and Equipment	-	12.5%

Depreciation on an item of property and equipment commences when it is available for use and continues 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 Properties

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 2012.

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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

l) Intangible assets

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

n) Financial instruments (continued)

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, government securities, commercial paper and corporate bonds.

ii) Loans and receivables

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

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Gains and losses on loans and receivables are recognised on impairment, derecognition and through the amortisation process.

iii) Held–to-maturity investments

Held–to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company has the positive intention and ability to hold to maturity. Held-to-maturity investments comprise bonds on lien. Investments are initially recognised at fair value plus transaction costs. 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

n) Financial instruments (Continued)

Derecognition of financial assets

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

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

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the amount of the asset and the maximum amount of consideration that the Group could be required to repay.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Amortised cost

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and Fee 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 for assets 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 can not 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

n) Financial instruments (Continued)

Fair value (Continued)

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.

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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

n) Financial instruments (Continued)

Available-for-sale financial investments (Continued)

'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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

q) Land and development

Land and development, comprising plots held for resale is stated at the lower of cost and net realisable value. The cost of land and development includes infrastructure costs incurred in respect of unsold plots, which are capitalised and released to income as the plots are sold. Cost is calculated on specific costs incurred to bring land and development to its present condition.

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, 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.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. It is assumed that premiums are earned uniformly over the contract period. The group used the twelfth method in computing this reserve. The estimate of the incurred claims that have not yet been reported to the Group (IBNR) is computed using the basic chain ladder method. The basic assumption using this method is that claims will emerge in a similar way in each development year.

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

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, net of related PVIF and DAC (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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

s) Financial and insurance liabilities (continued)

Insurance contract liabilities (continued)

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) 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.

u) 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

v) 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 nor loss. In respect taxable 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. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

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. The accounting of deferred tax movements is driven by the accounting treatment of the underlying transaction that lead to the temporary differences. Deferred tax relating to items recorded in profit or loss is recognised in profit or loss, while deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss in other comprehensive income or 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

w) 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.

x) 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.

y) Deferred acquisition cost

Incremental costs directly attributable to the acquisition of insurance and investment contracts with discretionary participating features and 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.

z) 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.

aa) 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

aa) Impairment of non-financial assets (continued)

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.

ab) 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.

ac) Cash and cash equivalents

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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

ad) 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.

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

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

a. Whether it is probable that that future taxable profits will be available against which temporary differences can be utilised; and
b. Whether the Group has the ability to hold 'held-to maturity' investments until they mature. If the Group were to sell other than an insignificant amount of such investments before maturity, it would be required to classify the entire class as 'available-for-sale' and measure them at fair value.

ii. Key sources of estimation uncertainty

a) Valuation of insurance contract liabilities

Critical assumptions are made by the actuary in determining the present value of actuarial liabilities. These assumptions are set out in accounting policy (s) above and in 5(a) of the embedded value report The liability for life insurance contracts is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

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

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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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 29.

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. Estimates are required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and the deferred tax provisions in the period in which such determination is made.

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

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

a) The classification of financial assets and leases
b) Classification of contracts as insurance or investments contracts
b) Whether assets are impaired.
c) Whether land and buildings meet the criteria to be classified as investment property.

ae) 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.

af) 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.

ag) 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 advises on the amount to be transferred to the shareholders. When a transfer is made to the shareholders, tax at the prevailing corporation rate 2012: 30% (2011:30%) 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.

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 2012 and 2011 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 2012:

	Ordinary life KShs.'000	Super annuation KShs.'000	Investment KShs.'000	Consolidation adjustment KShs.'000	Total KShs.'000
Gross written premiums from external customers	2,295,876	3,144,778	-	-	5,440,654
Premiums ceded to reinsurers	(15,027)	(299,993)	-	-	(315,020)
Net premium Income	2,280,849	2,844,785	-	-	5,125,634
Fee and commission income	4,133	71,733	-	-	75,866
Interest income	280,020	291,449	129,389	(41,061)	659,797
Investment income	333,728	207,670	43,379	-	584,777
Fair value gains and losses	879,863	-	-	-	879,863
Other operating revenue	23,974	-	570,930	-	594,904
Total other revenue	1,521,718	570,852	743,698	(41,061)	2,795,207
Total revenue	3,802,567	3,415,637	743,698	(41,061)	7,920,841
			-		
Gross benefits and claims paid	(555,898)	(1,118,863)	-	-	(1,674,760)
Claims ceded to reinsurers	40,047	134,286	-	-	174,333
Gross change in insurance contract liabilities	(1,173,747)	(578,114)	-	-	(1,751,861)
Gross change in market linked insurance liabilities	(1,085,571)	(1,204,832)	-	-	(2,290,403)
Change in contract liabilities ceded to reinsurers	-	21,297	-	-	21,297
Net benefits and claims	(2,775,169)	(2,746,226)	-	-	(5,521,395)
Cost of sales	-	-	(40,210)	-	(40,210)
Fee and commission expense	(493,610)	(176,068)	-	-	(669,678)
Other operating and administrative expenses	(574,314)	(126,049)	(163,519)	7,300	(856,582)
Finance cost	-	-	(41,061)	41,061	-
Total benefits, claims and other expenses	(3,843,093)	(3,048,343)	(244,790)	48,361	(7,087,865)
Profit before share of profit of associate	(40,526)	367,294	498,908	7,300	832,976
Share of profit of associate	-	-	-	1,670	1,670
Profit before tax	(40,526)	367,294	498,908	8,970	834,646
Income tax expense	(3,242)	(711)	(132,422)	-	(136,375)
Profit for the year	(43,768)	366,583	366,486	8,970	698,271

All expenses, including depreciation and amortization costs, have been charged to the respective operating segments. All adjustments and eliminations relate to inter-segment revenues.

2. SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2011:

	Ordinary life KShs.'000	Super annuation KShs.'000	Investment KShs.'000	Consolidation adjustment 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	-	1,093,661	(74,218)	1,055,534
Total other revenue	(520,893)	423,523	1,195,182	(156,342)	4,241,525
Total revenue	1,494,547	1,708,138	1,195,182	(156,342)	4,241,525
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 Market Linked liabilities	(221,283)	(437,462)	-	-	(658,845)
Change in contract liabilities ceded to reinsurers	-	36,643	-	-	36,643
Net benefits and claims	(676,254)	(1,200,221)	-	-	(1,876,475)
Cost of sales	-	-	(428,190)	37,447	(390,741)
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)	(638,045)	119,573	(3,690,608)
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. All adjustments and eliminations relate to inter-segment revenues.

2. SEGMENT INFORMATION (continued)

Segment statement of financial position as at 31 December 2012:

	Ordinary life KShs.'000	Super annuation KShs.'000	Investment KShs.'000	Consolidation adjustment KShs.'000	Total KShs.'000
ASSETS					
Intangible assets	104,142	-	-	-	104142
Investment properties	820,000	-	-	-	820,000
Equity accounted investments	-	-	4,861	8,970	13,831
Investment in subsidiaries	-	-	967,870	(967,870)	-
Financial instruments	5,136,115	3,966,132	19,185	-	9,121,432
Long term reinsurance asset	-	197,348	-	-	197,348
Land and development	-	-	106,280	-	106,280
Insurance receivables	99,314	87,459	-	-	186,773
Other assets	3,625,363	650,675	2,252,609	(604,931)	5,923,716
Total assets	9,784,934	4,901,614	3,350,805	(1,563,831)	16,473,522
LIABILITIES					
Insurance contract liabilities	3,498,315	1,723,050	-	-	5,221,365
Market linked insurance liabilities	3,166,418	3,514,283	-	-	6,680,701
Deposit administration contracts	1,071,633	-	-	-	1,071,633
Insurance Payables	74,451	180,926	-	-	255,377
Other liabilities	275,745	119,833	824,888	(604,931)	615,535
Total liabilities	8,086,562	5,538,091	824,884	(604,931)	13,844,611
Net Assets	1,698,372	(636,478)	2,525,917	(958,900)	2,628,911

2. SEGMENT INFORMATION (continued)

Segment statement of financial position as at 31 December 2011:

	Ordinary life KShs.'000	Super annuation KShs.'000	Investment KShs.'000	Consolidation adjustment KShs.'000	Total KShs.'000
ASSETS					
Intangible assets	43,950	-	-	-	43,950
Investment properties	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	1,791,155	(556,300)	4,365,210
Total assets	6,782,932	3,095,214	3,159,881	(1,524,170)	11,513,857
LIABILITIES					
Insurance contract liabilities	864,544	2,604,960	-	-	3,469,504
Market linked insurance liabilities	4,390,298	-	-	-	4,390,298
Deposit administration contracts	681,547	-	-	-	681,547
Other liabilities	149,429	448,290	808,449	(556,300)	849,868
Total liabilities	6,085,818	3,053,250	808,449	(556,300)	9,391,217
Net Assets	697,114	41,964	2,351,432	(967,870)	2,122,640

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:

	2012 KShs.'000	2011 KShs.'000
New business: Recurring:		
Individual life	753,597	347,305
Group business	156,812	126,460
New business: Single premiums:		
Individual life	7,331	2,884
Group business	2,517,962	1,019,343
Total new business	3,435,702	1,495,992
Renewal recurring:		
Individual life	1,534,948	1,678,634
Group business	470,004	473,866
Total renewal premium income	2,004,952	2,152,500
Total premium income	5,440,654	3,648,492

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.

	2012 KShs.'000	2011 KShs.'000
Ordinary life	15,027	13,383
Super annuation	299,993	335,054
	315,020	348,437

4. FEE AND COMMISSION INCOME

	2012 KShs.'000	2011 KShs.'000
Fee	4,133	4,460
Commission received	71,733	80,129
	75,866	84,589

5. INVESTMENT RETURN

a) INVESTMENT INCOME

	Group		Company	
	2012 KShs.'000	2011 KShs.'000	2012 KShs.'000	2011 KShs.'000
Rental income:				
Gross rental income	51,266	33,750	-	-
Net rental expenses	(30,234)	(19,527)	-	-
	21,032	14,223	-	-
Financial assets designated at fair value through profit or loss (designated upon initial recognition)				
Interest income	275,166	185,216	-	-
Dividend income	74,747	67,509	-	-
Held-to-maturity financial assets interest income	445,621	283,997	-	-
Loans and receivables interest income	67,326	70,784	-	-
Cash and cash equivalents interest income	360,682	75,286	17,335	20,322
Total investment income	1,244,574	697,015	17,335	20,322

b) FAIR VALUE GAINS /(LOSSES)

	Group 2012 KShs.'000	Group 2011 KShs.'000	Company 2012 KShs.'000	Company 2011 KShs.'000
Unrealized Fair value gains on investment properties	37,160	45,400	-	-
Financial assets at fair value through profit or loss (designated upon initial recognition)				
Equity securities	103,397	925	-	-
Debt securities	(2,012)	21,239	-	-
Unrealized gains/(losses)	741,318	(963,232)	-	-
Total fair values gains/(losses)	879,863	(895,668)	-	-

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

c) OTHER OPERATING REVENUE

	Group		Company	
	2012 KShs.'000	2011 KShs.'000	2012 KShs.'000	2011 KShs.'000
Sale of houses	-	605,800	-	605,800
Plot sales	504,500	373,193	504,500	373,193
Other income	90,404	76,541	4,040	86,324
	594,904	1,055,534	508,540	1,065,317

d) COST OF SALES

	Group 2012 KShs.'000	Group 2011 KShs.'000	Company 2012 KShs.'000	Company 2011 KShs.'000
Construction	26,972	362,508	26,972	399,957
Land	8,193	7,319	8,193	7,319
Legal costs	5,045	10,058	5,045	10,058
Other incremental costs	-	10,856	-	10,856
	40,210	390,741	40,210	428,190

Items of cost of sales represent costs incurred in the sale of land and construction of houses sold. These items were previously recorded under operating income.

6. DETAILS OF EXPENSES

(a) Claims and benefits paid

	2012 KShs.'000	2011 KShs.'000
Death and disability claims	850,315	800,190
Maturity and survival benefits	382,273	349,950
Policy surrenders	118,751	101,596
Annuities	323,422	156,679
Gross benefits and claims paid	1,674,761	1,408,415
Claims ceded to reinsurers	(174,333)	(154,142)
Gross change in actuarial value of insurance contract liabilities	1,751,861	290,695
Gross change in actuarial value of market linked insurance liabilities	2,290,403	368,150
Change in contract liabilities ceded to reinsurers	(21,297)	(36,643)
Net benefits and claims	5,521,395	1,876,475

(b) Fee and commission expense

	2012 KShs.'000	2011 KShs.'000
Payable to tied agents	493,610	473,727
Payable to brokers and other intermediaries	176,068	216,619
Fee and commission expense	669,678	690,346

7. OPERATING EXPENSES

	Group		Company	
	2012 KShs.'000	2011 KShs.'000	2012 KShs.'000	2011 KShs.'000
Other operating charges include:				
Staff costs (note 8)	348,878	307,676	39,267	11,276
Depreciation (note 11)	22,985	20,644	1,645	1,634
Amortisation (note 12)	1,319	1,529	-	-
Fees for managerial and administrative services:				
Auditors' remuneration	5,100	4,400	1,310	1,142
Tax audit	3,589	2,973	-	-
Legal Fee	7,165	13,016	4,527	6,142
Actuarial Fee	5,940	5,525	-	-
Total Fee for managerial and administrative services	21,794	26,530	5,837	7,284
Premium tax and stamp duty	25,184	21,423	-	-
Premium collection charges	72,137	67,652	-	-
Advertising	50,493	68,648	15,283	2,177
Office rent	31,608	28,701	2,162	1,425
Repairs and maintenance	13,353	8,103	4	76
Other expenses	268,831	182,140	71,502	82,047
Total operating expenses	856,582	733,046	135,700	105,918

8. STAFF COSTS

	Group 2012 KShs.'000	Group 2011 KShs.'000	Company 2012 KShs.'000	Company 2011 KShs.'000
Staff costs include the following:				
Defined contribution pension costs	27,350	23,455	667	1,136
Social security benefit costs	273	676	6	10
Salaries and other short term benefits	321,255	283,145	38,594	10,130
	348,878	307,276	39,267	11,276

9. FINANCE COSTS

	Company 2012 KShs.'000	Company 2011 KShs.'000
PA Securities Limited	41,186	41,622
Pan Africa Life Assurance Limited	-	40,502
	41,186	82,124

The finance costs are for inter – company loans from PA Securities Limited and Pan Africa Life Assurance Limited of KShs. 265 million (2011: KShs 315 million) and Nil (2011: 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. 1.22 billion (2011: KShs 1.8 billion).

10. INCOME TAX

	Group 2012 KShs.'000	Group 2011 KShs.'000	Company 2012 KShs.'000	Company 2011 KShs.'000
Statement of financial position:				
At start of the year	(73,332)	(36,280)	(87,960)	13,680
Instalment tax paid	225,092	71,978	213,444	-
Current income tax charge	(136,375)	(109,030)	(87,658)	(101,640)
	15,385	(73,332)	37,826	(87,960)
At the end of the year:				
ASSETS: Income tax receivable	53,784	14,628	37,826	-
LIABILITIES: Current tax liability	(38,399)	(87,960)	-	(87,960)
Income statement:				
Current year tax charge	136,375	109,030	87,658	101,640

Income tax recoverable for the year ended 31 December 2011 has been reclassified from current tax liability to conform with the currrent year presentation.

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	
	2012 KShs.'000	2011 KShs.'000	2012 KShs.'000	2011 KShs.'000
Reconciliation of income tax expense to tax based on accounting profit:-				
Profit before income tax	834,646	552,435	308,779	470,925
Tax calculated at a statutory rate of 30%	250,394	165,731	92,634	141,278
Tax effect of:				
Income not subject to tax	(258,906)	(158,709)	(7,252)	(22,927)
Expenses not deductible for tax	144,887	102,008	2,276	6,264
Transfer to shareholders	-	-	-	-
Deferred income tax liability	-	-	-	(22,975)
Income tax charge	136,375	109,030	87,658	101,640

11. (a) GROUP PROPERTY AND EQUIPMENT

Year ended 31 December 2012:	Motor vehicles KShs.'000	Computer equipment KShs.'000	Furniture and equipment KShs.'000	Total KShs.'000
Cost / valuation:				
At 1 January	8,894	113,085	120,569	242,548
Disposal	(4,530)	-	-	(4,350)
Additions	8,096	3,436	27,959	39,491
At 31 December	12,460	116,521	148,528	277,509
Depreciation and impairment:				
At 1 January	(8,680)	(91,520)	(62,192)	(162,392)
Adjustment	-	(15)	(1)	(16)
Disposal	4,530	-	-	4,530
Charge for the year	(2,233)	(9,494)	(11,258)	(22,985)
At 31 December	(6,383)	(101,029)	(73,451)	(180,863)
Carrying amount:				
At 1 January	214	21,565	58,377	80,156
At 31 December	6,077	15,492	75,077	96,646

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 2011:

	Motor vehicles KShs.'000	Computer equipment KShs.'000	Furniture and equipment KShs.'000	Total KShs.'000
Cost / valuation :				
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

(b) COMPANY PROPERTY AND EQUIPMENT

Year ended 31 December 2012:

	Computer equipment KShs.'000	Furniture and equipment KShs.'000	Total KShs.'000
Cost / valuation:			
At 1 January	1,029	12,100	13,129
Additions	-	-	-
At 31 December	1,029	12,100	13,129
Accumulated depreciation:			
At 1 January	(710)	(2,328)	(3,038)
Charge for the year	(137)	(1,508)	(1,645)
At 31 December	(847)	(3,836)	(4,683)
Carrying amount:			
At 31 December	182	8,264	8,446

11. (b) COMPANY PROPERTY AND EQUIPMENT (Continued)

Year ended 31 December 2011:

	Computer equipment KShs.'000	Furniture and equipment KShs.'000	Total KShs.'000
Cost / valuation:			
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

12. GROUP INTANGIBLE ASSETS (SOFTWARE)

Year ended 31 December 2012:

	Work-in-progress KShs.'000	Software KShs.'000	Total KShs.'000
Cost:			
At 1 January	41,185	19,739	60,924
Additions	61,511	-	61,511
At 31 December	102,696	19,739	122,435
Amortisation and impairment:			
At start of year	-	(16,974)	(16,974)
Charge for the year	-	(1,319)	(1,319)
At 31 December	-	(18,293)	(18,293)
Carrying amount:			
At 31 December	102,696	1,446	104,142

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

12. GROUP INTANGIBLE ASSETS (SOFTWARE)(Continued)

Year ended 31 December 2011:

	Work-in-progress KShs.'000	Software KShs.'000	Total KShs.'000
Cost:			
At 01 January	19,474	19,166	38,640
Additions	21,711	573	22,284
At 31 December	41,185	19,739	60,924
Accumulated depreciation:			
At start of year	-	(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

13. INVESTMENT PROPERTY

	Group		Company	
	2012 KShs.'000	2011 KShs.'000	2012 KShs.'000	2011 KShs.'000
At 1 January	766,618	435,600	285,618	-
Acquisitions	-	285,618	-	285,618
Additions	16,222	-	-	-
Disposals	-	-	(285,618)	-
Fair value gains	37,160	45,400	-	-
At 31 December	820,000	766,618	-	285,618

Investment properties are stated at fair value, which has been determined based on valuations performed by Knight Frank Limited as at 31 December 2012. Knight Frank Limited are industry specialists in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The valuation takes into account recent prices of similar properties with adjustments been made to reflect any changes in economic conditions since the date of the transactions at those prices.

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.

14. INVESTMENTS

a) INVESTMENT IN SUBSIDIARIES

	Shareholding	Company 2012 KShs.'000	Company 2011 KShs.'000
Pan Africa Life Assurance Limited	100%	230,261	230,261
PA Securities Limited	100%	679,009	679,009
		909,270	909,270

b) INVESTMENT IN ASSOCIATES

	Group 2012 KShs.'000	Group 2011 KShs.'000	Company 2012 KShs. '000	Company 2011 KShs. '000
At 1 January	12,161	864,831	12,161	10,643
Share of results before tax	2,386	2,169	-	2,169
Share of tax	716	(651)	-	(651)
Share of profit of associate	1,670	1,518	-	1,518
Write-down	-	-	(7,300)	-
Disposal	-	(854,188)	-	-
Movements in carrying amount	1,670	(852,670)	(7,300)	1,518
At 31 December	13,831	12,161	4,861	12,161
Share of associates' statement of financial position:				
Assets	30,551	19,492	-	19,492
Liabilities	(16,720)	(7,331)	-	(7,331)
Net assets	13,831	12,161	-	12,161
Share of associates' revenue and profit:				
Revenue	19,984	18,776	-	18,776
Profit	2,386	2,169	-	2,169

Investments comprise:	Principal active	2012 Share holding	2011 Share holding
Runda Water Limited	Water distribution	24.90%	24.90%

Runda Water Limited is a private entity incorporated in Kenya. The entity is not listed on any public exchange and there is no published price quotation for the fair value of this investment.

The reporting date of Runda Water Limited is the same as the Group and both use uniform accounting policies.
The group disposed of 39.97% stake it had in APA Insurance limited in 2011.

15. FINANCIAL INSTRUMENTS

(a) SUMMARY PER CATEGORY

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

	Designated as at fair value through profit or loss KShs.'000	Held-to-maturity KShs.'000	Available- for-sale KShs.'000	Total KShs.'000
As at 31 December 2012:				
Public sector stocks and loans	3,544,467	4,078,995	-	7,623,462
Equities and similar securities	1,494,142	-	3,827	1,497,969
	5,038,609	4,078,995	3,827	9,121,431
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

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 2012:					
Public sector stocks and loans	239,716	1,738,690	5,645,057	-	7,623,462
Equities and similar securities	-	-	-	1,497,969	1,497,969
	239,716	1,738,690	5,645,057	1,497,969	9,121,431
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

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 2012 of Held-to-maturity investments was KShs. 3.962 billion (2011 KShs 2.179 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 instrument does not have a quoted market price in an active market; the fair value of the company is primarily driven by the performance fee earned and the volatility of the market makes it difficult to estimate the fair value based on future discounted cash flows. The investment has therefore been valued at cost. The Group has the positive intention and ability to hold into the foreseeable future.

15. FINANCIAL INSTRUMENTS (Continued)

a) 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 disclosures 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. The Group's level 2 financial assets indicated below comprise of government securities which are held to maturity. They have been value at amortised cost using the effective interest rate method.

Level 3

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

As at 31 December 2012:	**Level 1 KShs.'000**	**Level 2 KShs.'000**	**Level 3 KShs.'000**	**Total l fair value KShs.'000**
Financial assets :				
Equities and similar securities	1,494,142	-	-	1,494,142
Public sector stocks and loans	3,544,467	4,078,995	-	7,623,462
	5,038,609	4,078,995	-	9,117,604
Financial liabilities:				
Market linked insurance liabilities	-	-	-	-
Deposit administration contracts	-	1,071,633	-	1,071,633
	-	1,071,633	-	1,071,633
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:				
Deposit administration contracts	-	681,547	-	681,547
	-	681,547	-	681,547

16. LOANS

	Group	
	2012 KShs.'000	2011 KShs.'000
Mortgage loans (note 18)	377,896	315,595
Policy loans (note 19)	586,531	477,487
Total Loans	964,427	793,082

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

17. OTHER RECEIVABLES

	Group		Company	
	2012 KShs.'000	2011 KShs. '000	2012 KShs.'000	2011 KShs. '000
Amounts due from related parties (note 36)	4,237	2,909	38,946	38,946
Rent outstanding	11,099	12,994	-	-
Runda development debtors	77,082	262,867	77,083	262,867
Other financial assets	235,440	129,142	201,615	118,689
Prepayments	27,993	28,434	1,823	7,165
Total	355,851	436,346	319,467	427,667

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.

18. GROUP MORTGAGE LOANS

	2012 KShs. '000	2011 KShs. '000
At start of year	321,346	260,493
Accrued interest	6,703	4,202
Additional Loans advanced	95,279	103,677
Loan repayments	(39,681)	(47,026)
At end of year	383,647	321,346
Impairment:		
At 1 January	5,751	(6,353)
Decrease during the year	-	(602)
At 31 December	5,751	5,751
At end of year (note 16)	377,896	315,595

18. GROUP MORTGAGE LOANS (Continued)

Maturity profile of mortgage loans	2012 KShs.'000	2011 KShs.'000
Loans maturing:		
Within 1 year	1,917	1,802
In 1 - 5 years	6,383	6,655
After 5 years	375,347	312,889
Provision for Impairment	(5,751)	(5,751)
	377,896	315,595
Loans at:		
Market rate	42,440	54,902
Concessionary rate:		
Staff loans	341,207	266,444
Provision for Impairment	(5,751)	(5,751)
	377,896	315,595

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. 695,300,000 (2011: KShs. 721,100,000).The Group can liquidate the collateral in case of default. The average concessionary rate was at 15% (2011: 6%) The loans at concessionary rate are based on rates published by Kenya Revenue Authority on quarterly basis.

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

19. GROUP POLICY LOANS

	2012 KShs.'000	2011 KShs.'000
At start of year	477,487	359,303
Additions	216,908	236,531
Repayments	(187,958)	(174,521)
Interest accrued	80,391	56,174
At end of year	586,828	477,487
Provision for impairment:		
At start of the year	-	-
Increase during the year	(297)	-
At end of the year	(297)	-
Net policy loans	586,531	477,487

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. The surrender value of the policies adequately covers the outstanding amount of the loan.

20. WEIGHTED AVERAGE EFFECTIVE INTEREST RATE

The following table summarises the fixed average effective interest rates at the year end on the principal interest-bearing investments. The interest contractual rates do not fluctuate during the term of the investments.

	2012	2011
Treasury bills	14%	4%
Treasury bonds	12%	11%
Mortgage loans and commercial papers	15%	8%
Deposits with financial institutions	14%	19%
Group Policy loans	11%	14%

21. LAND AND DEVELOPMENT

	Group		Company	
	2012 KShs.'000	2011 KShs.'000	2012 KShs.'000	2011 KShs.'000
At start of year	91,584	465,341	91,584	502,790
Additions	49,844	26,072	49,844	26,072
Disposals	(35,148)	(399,829)	(35,148)	(437,278)
As at December	106,280	91,584	106,280	91,584

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

22. GROUP INSURANCE RECEIVABLES

	2012 KShs.'000	2011 KShs.'000
Due from policyholders	166,554	134,934
Provision for doubtful debts	(43,128)	(53,692)
Amount due from policyholders	123,426	81,242
Amounts due from reinsurers	56,040	58,381
Amounts due from agents, brokers and intermediaries	7,307	12,007
	186,773	151,630

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	
	2012 KShs.'000	2011 KShs.'000	2012 KShs.'000	2011 KShs.'000
Cash and bank balances	283,639	233,180	30,358	4,032
Deposits with financial institutions	4,169,370	2,807,818	229,665	-
	4,453,009	3,040,998	260,023	4,032

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 interest rate of 14% (2011: 19%).

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

24. GROUP SHARE CAPITAL AND RESERVES

SHARE CAPITAL

	2012 KShs.'000	Ordinary shares KShs.'000	2011 KShs.'000
At start and end of year	480,000	48,000	240,000
Bonus issue	-	48,000	240,000
At the end of the year	480,000	96,000	480,000

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 2011, the company issued 48,000,000 bonus shares in the proportion of 1 new share for one fully paid. The share premium hence reduced from KShs 364,431,000 to KShs 124,431,000.The issued shares were listed at the Nairobi Securities Exchange in July 2011

STATUTORY FUND

The statutory fund represents a reserve maintained within the long term insurance business and represents unallocated surpluses from previous actuarial valuations as required by section 46(5) of the Insurance Act. Transfers from this fund are made upon recommendation of the actuary. This movement has been shown on page 18.

	Group 2012 KShs.'000	Group 2011 KShs.'000
Balance at the beginning of the year	525,387	494,837
Surplus for the year	326,770	30,550
Net transfers during the year	-	-
Closing fund	852,157	525,387

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:

	2012			2011		
	Total KShs.'000	Insurance contracts KShs.'000	Deposit admin contracts KShs.'000	Total KShs.'000	Insurance contracts KShs.'000	Deposit contracts KShs.'000
a) Analysis of movement in policy liabilities:						
Premium income (net)	5,461,387	5,125,634	335,753	3,509,476	3,300,055	209,421
Income/ (loss) on Investment	2,271,358	2,053,238	218,120	(257,968)	(144,887)	(113,081)
Asset management Fee	(37,680)	(32,399)	(5,281)	(37,973)	(32,611)	(5,362)
Net investment income	2,233,678	2,020,839	212,839	(295,941)	(177,498)	(118,443)
Income	7,695,065	7,146,473	548,592	3,213,535	3,122,557	90,978
Policy benefits (net)	(1,648,111)	(1,500,428)	(147,683)	(1,369,993)	(1,254,273)	(115,720)
Sales remuneration and administrative expenses	(1,309,130)	(1,298,307)	(10,823)	(1,224,710)	(1,215,532)	(9,178)
Transfer from shareholders	-	-	-	9,826	-	9,286
Transfer to statutory fund	(326,770)	(326,770)	-	(30,550)	(30,550)	-
Outflow	(3,284,011)	(3,125,505)	(158,506)	(2,615,967)	(2,500,355)	(115,612)
Net movement for the year	4,411,054	4,020,968	390,086	597,568	622,202	(24,634)
Balance at beginning of the year	8,365,297	7,683,750	681,547	7,767,729	7,061,548	706,181
Contract liabilities ceded to reinsurers	197,348	197,348	-	176,052	176,052	-
Balance at end of year	12,973,699	11,902,066	1,071,633	8,541,349	7,859,802	681,547

The assets backing the amounts payable under deposits administration contracts are included in the investments reported by the group under fair value through profit and loss and deposits with financial institutions. The carrying values of the liabilities approximate the fair value of the investments.

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:

	KShs.'000 < 1 year	KShs.'000 1-5 years	KShs.'000 >5 years	KShs.'000 open ended	KShs.'000 Total
As at December 2012:					
Linked and market-related insurance contract liabilities	181,957	1,987,162	4,165,836	345,746	6,680,701
Insurance Contract liabilities:					
Reversionary bonus policies	146,834	150,379	312,608	-	609,821
Other non-participating liabilities	539,154	673,179	1,299,686	2,099,525	4,611,544
	685,988	823,558	1,612,294	2,099,525	5,221,365
Total insurance contracts liabilities:	867,945	2,810,720	5,778,130	2,445,271	11,902,066
Deposit administration contracts	-	-	-	1,071,633	1,071,633
Total long term policy liabilities	867,945	2,810,720	5,778,130	3,516,904	12,973,699
As at December 2011:					
Linked and market-related insurance contract 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
	496,033	579,900	1,146,252	1,247,319	3,469,504
Total insurance contracts liabilities:	615,608	1,885,786	3,883,878	1,474,530	7,859,802
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

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 2012.

	Gross provisions KShs.'000	Reinsurance assets KShs.'000	Net KShs.'000
Long-term business			
Insurance contract liabilities	5,221,365	(197,348)	5,024,017
Market linked insurance liabilities	6,680,701	-	6,680,701
Deposit administration contracts	1,071,633	-	1,071,633
	12,973,699	(197,348)	12,776,351

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

	Gross provisions KShs.'000	Reinsurance assets KShs.'000	Net KShs.'000
Insurance contract liabilities	3,469,504	(176,052)	3,293,452
Market linked insurance liabilities	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 movements in the reinsurance asset.

	2012 KShs.'000	2011 KShs.'000
Opening balance	176,052	139,410
Current year movement	21,296	36,642
	197,348	176,052

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 12.5% (2011: 5%).

INSURANCE CONTRACTS

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

	2012	2011
Reversionary bonus	2.5%	1.25%
Terminal bonus	2.5%	1.25%
Total bonus declared	5%	2.5%

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

27. GROUP INSURANCE PAYABLES

	2012 KShs.'000	2011 KShs.'000
Outstanding claims	205,557	202,655
Payables arising out of direct insurance	36,387	34,313
Payables arising out of reinsurance operations	13,433	33,373
Total insurance payables	255,377	270,341

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% (2011: 30%). The movement on the deferred income tax account is as follows:

For the year ended 31 December 2012:

	At start of year KShs. '000	(Charge)/ credit to Income statement KShs. '000	At end of year KShs. '000
Property and equipment	1,495	(148)	1,347
Quoted shares – fair value gain	6,767	(1,309)	5,458
Provisions	23,245	(10,645)	12,600
Tax losses carried forward	12,029	(8,164)	3,865
	43,536	(20,266)	23,270
PA Securities Limited	34,881	(16,455)	18,426
Mae Properties Limited	3,234	-	3,234
Pan Africa Insurance Holdings Limited	5,421	(3,811)	1,610
Deferred tax not recognised	43,536	(20,266)	23,270

b) COMPANY

	At start of year KShs. '000	(Charge)/ credit to Income statement KShs. '000	At end of year KShs. '000
Plant & equipment	(50)	67	17
Provisions	5,471	(3,878)	1,593
Deferred tax not recognised	5,421	(3,811)	1,610

28. DEFERRED INCOME TAX (continued)

b) GROUP

For the year ended 31 December 2011:

	At start of year KShs.'000	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	(1,921)	39,925
Mae Properties Limited	3,234	-	3,234
Pan Africa Insurance Holdings Limited	23,345	(22,968)	377
Deferred tax not recognised	68,425	(24,889)	43,536

c) COMPANY

Plant and equipment	(76)	26	(50)
Provisions	453	5,018	5,471
Tax losses carried forward	22,968	(22,968)	-
Deferred income tax not recognised	23,345	(17,924)	5,421

29. GROUP PROVISIONS

	2012 KShs.'000	2011 KShs.'000
General provision on Insurance claims	41,676	44,240
Specific provision for financial guarantee	-	12,573
	41,676	56,813
The movement in the provisions is as follows:		
At 1 January	56,813	85,924
Additional claim provided	-	-
Unused amounts reversed	(15,137)	(29,111)
At end of year	41,676	56,813

The above provisions relate to provisions on insurance claims under special arrangements and the directors have a reason to believe the amounts provided will be paid out as benefits under the claims. The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

30. PAYABLES AND OTHER CHARGES

	Group		Company	
	2012 KShs.'000	2011 KShs.'000	2012 KShs.'000	2011 KShs.'000
Amounts due to related parties (note 36)	113,813	79,524	421,156	483,112
Unclaimed dividends	32,010	31,951	32,010	31,951
Stale cheques	54,684	49,405	-	-
Deposits received from sale of houses	-	3,397	-	3,397
Accruals	89,126	61,502	32,000	7,127
Other payables	245,827	208,975	38,648	33,638
	535,460	434,754	523,814	559,225

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 a period ranging from 30 days to 180 days. Payables and other charges are included in financial liabilities at amortized 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

	2012 KShs.'000	2011 KShs.'000
Net profit attributable to ordinary shareholders for basic and diluted earnings	698,271	443,405
Weighted average number of ordinary shares for basic and diluted earnings per share	96,000	96,000
Basic earnings per ordinary share KShs.	7.27	4.62
Diluted earnings per ordinary share KShs.	7.27	4.62

b) Company

	2012 KShs.'000	2011 KShs.'000
Net profit attributable to ordinary shareholders for basic and diluted earnings	221,121	369,285
Weighted average number of ordinary shares for basic and diluted earnings per share	96,000	96,000
Basic earnings per ordinary share KShs.	2.30	3.85
Diluted earnings per ordinary share KShs.	2.30	3.85

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	
	2012 KShs.'000	2011 KShs.'000	2012 KShs.'000	2011 KShs.'000
Not later than 1 year	15,991	4,730	9,594	8,910
Later than 1 year but not later than 5 years	81,631	24,146	46,501	43,856
More than 5 years	25,752	7,617	14,017	12,981
	123,374	36,493	70,112	65,747

34. DIVIDENDS PAID AND PROPOSED

	2012 KShs.'000	2011 KShs.'000
Final dividends for 2012: KShs. 3.00 (2011:KShs 2.00)	-	192,000
Total dividends paid in the year	-	192,000

Proposed for approval as at 31 December (not recognised as a liability before approval at the Annual General Meeting to be held on 17 May 2013):

	2011 KShs.'000	2010 KShs.'000
Final dividend for 2011: KShs. 2.00 (2010: 3.00)	192,000	144,000

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 2012:	Ordinary life KShs.'000	Super annuation KShs.'000	Investments KShs.'000	Consolidation adjustment KShs.'000	Group KShs.'000
Profit before tax:	(40,526)	367,294	498,908	8,970	834,646
Adjusted for:					
Interest in financial assets as at fair Value through profit and loss	(312,244)	39,393	(2,315)	-	(275,166)
Interest on held to Maturity financial assets	(423,526)	(22,094)	-	-	(445,620)
Revaluation gain on investment property	-	(37,160)	-	-	(37,160)
Depreciation and amortization	22,455	204	1,645	-	24,304
Dividend Income	(74,747)	-	-	-	(74,747)
Fair value gains on financial assets at fair value through profit or loss	(705,226)	(137,477)	-	-	(842,703)
Rental income	(21,032)	-	-	-	(21,032)
Intergroup charge	-	-	41,186	(41,186)	-
Tax paid	(14,896)	-	(210,196)	-	(225,092)
Investment income	(65,947)	-	(232,966)	41,186	(257,727)
Write-down of associate	-	-	7,300	(7,300)	-
Share of results of associates before Income tax	-	-	-	(1,670)	(1,670)
	(1,635,689)	210,160	103,562	-	(1,321,967)
Changes in working capital:					
Actuarial value of policyholders liabilities	2,217,267	1,824,997	-	-	4,042,264
Payables under deposit admin contracts	-	390,086	-	-	390,086
Reinsurance asset	-	(21,296)	-	-	(21,296)
Policy Loans	477,487	-	(586,531)	-	(109,044)
Insurance receivables	(35,143)	-	-	-	(35,143)
Insurance payables	(14,964)	-	-	-	(14,964)
Other receivables	(137,945)	-	169,766	48,633	80,454
Trade and other payables	54,146	14,055	81,136	(48,633)	100,704
Cash generated from/(utilised in) operations	925,159	2,418,001	(232,067)	-	3,111,093

35. CASH GENERATED FROM OPERATIONS (Continued)

Reconciliation of profit before income tax to cash generated from operations

a) GROUP(Continued)

Year Ended 31 December 2011:	Ordinary life KShs. '000	Super annuation KShs. '000	Investments KShs. '000	Consolidation adjustment KShs. '000	Group KShs. '000
Profit before tax:	(160,816)	191,365	558,655	(36,769)	552,435
Adjusted for:					
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	(49,124)	(2,529)	(312,701)	(242,474)	(606,828)
Cash generated from / (used 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) COMPANY

	2012 KShs. '000	2011 KShs. '000
Profit before tax	308,779	470,925
Adjustment for:		
Investment income	(17,335)	(20,322)
Depreciation and amortization	1,645	1,634
Write down of associate	7,300	-
Intergroup charges	41,186	82,124
Tax paid	(213,444)	-
Share of results of associates before income tax	-	(1,518)
	128,131	532,843
Changes in working capital		
Other receivables	108,200	(147,943)
Trade and other payables	(35,114)	(404,121)
At end of year	201,217	(19,221)

36. RELATED PARTY TRANSACTIONS

	Group		Company	
	2012 KShs.'000	2011 KShs.'000	2012 KShs.'000	2011 KShs.'000
(a) Amounts due from related parties:				
PA Securities Limited (Subsidiary)	-	-	38,946	38,946
Pan Africa Life Assurance (Subsidiary)	-		-	
Hubris Holdings Limited (Parent)	4,237	2,909	-	-
SIM (K) LTD (Sister Company)	-	-	-	-
Total	4,237	2,909	38,946	38,946

There were no provisions made or amounts written off on related party balances during the year (2011: nil). The amounts due from related parties are non interest bearing.

(b) Amounts due to related parties:

	Group		Company	
Payables to related parties	2012 KShs.'000	2011 KShs.'000	2012 KShs.'000	2011 KShs.'000
Pan Africa Life Assurance Limited (Subsidiary)	-	-	65,866	66,194
PA Securities Limited (Subsidiary)*	-	-	292,788	354,354
African Life Assurance Company Limited (Parent)	46,242	73,967	-	-
Mae properties (Subsidiary)	-	-	62,502	62,564
SIM (K) LTD (Sister Company)	67,571	5,557	-	-
Total	113,813	79,524	421,156	483,112

*Amounts due to related parties are interest bearing at 12.5% p.a. All other balances due to related parties are not interest bearing. The amounts are payable within one year.

36. RELATED PARTY TRANSACTIONS (Continued)

	Group		Company	
(c) Key management compensation:	**2012**	**2011**	**2012**	**2011**
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**
Salaries and other short-term employment benefits	104,515	89,807	16,299	14,817
Post-employment benefits	11,012	10,011	1,982	1,802
	115,527	99,818	18,281	16,619
(d) Directors' remuneration:				
Other emoluments (included in (c) above)	28,074	25,756	5,350	4,864
Fee	10,668	10,373	3,001	2,899
Total	38,742	36,129	8,351	7,763
Mortgage loans to key management where collateral is accepted as security	71,150	44,389	-	-

(e) Directors' pension

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

(f) Other related party transactions through the income statement

	Group 2012	Group 2011	Company 2012	Company 2011
Investment income:				
Investment management Fee-SIM (K) limited	(39,005)	(34,501)	-	-
Other operating income				
Plot sale- Aster holdings limited	-	373,193	-	373,193
Management expenses:				
Interest expense on intergroup borrowings	-	-	41,186	82,124
Management Fee- Sanlam Developing Markets	10,864	10,559	-	-
	10,864	10,559	41,186	82,124

(g) Investment in associates

No guarantees or collateral were provided to associates.

(h) Particulars of the Group's principal subsidiaries 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 37 to 40. 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 37);

(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.

a) Capital allocation methodology

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

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

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

The fair value of other Group operations includes the working capital allocated to the respective operations.

The Group's policies to ensure appropriate capital levels is twofold:

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

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

37. CAPITAL MANAGEMENT (continued)

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.

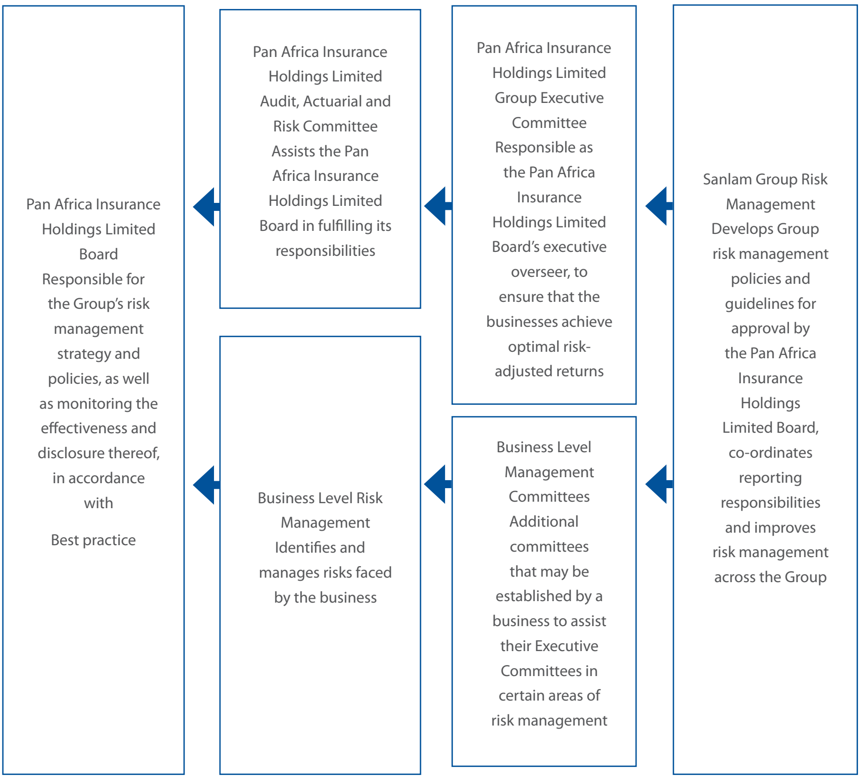
The Group's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Group's overall risk management policies are set out by the board and implemented by the management, and focus on the unpredictability of changes in the business environment and seek to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



38. RISK MANAGEMENT (Continued)

a) Governance structure (Continued)

A number of other risk monitoring mechanisms are operating within the Group as part of the overall risk management structure.

The most important of these are illustrated in the following table.

OTHER RISK MONITORING MECHANISMS

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

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:

(i) The Group Strategic Risk Management (SRM);
(ii) Group Risk Escalation Policy (REP);
(iii) Group Business Continuity Policy (BCP);
(iv) Group Information and Information Technology (I & IT) Risk Management Policy (ITRMP); and
(v) Group Investment Policy

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

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

Pan Africa Insurance Holdings Limited Group Strategic Risk Management

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

(i) All risks which could jeopardise or enhance achievement of the Group's strategic goals are identified;
(ii) Appropriate structures, policies, procedures and practices are in place to manage these risks;
(iii) Sufficient organisational resources are applied to, and corporate culture is fully supportive of, the effective implementation of these structures, policies, procedures and practices;
(iv) The organisation's risks are indeed being managed in accordance with the foregoing; and
(v) The impact of strategic decisions on the risk-adjusted return on Group Embedded Value is considered by way of appropriate modelling techniques prior to such decisions being implemented.

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

Philosophy
SRM is achieved by:

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

38. RISK MANAGEMENT (Continued)

b) Group risk policies and guidelines (Continued)

Philosophy (continued)

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

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

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

(i) Opportunity: managing risk on the upside as an "offensive" function; focusing on actions taken by management to increase the probability of success and decrease the probability of failure.
(ii) Hazard: managing risk on the downside as a "defensive" function; focusing on the prevention or mitigation of actions that can generate losses; and
(iii) Uncertainty: managing the uncertainty associated with risk, focusing on achieving overall financial performance that falls within a defined acceptable range.

Process

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

- Strategic organisational and risk management context:
  - Strategic context (defining the business's strengths, weaknesses, opportunities and threats relative to its environment),
  - Organisational context (understanding the business's goals, strategies, capabilities and values),
  - Risk management context (setting of scope and boundaries),

- Developing risk evaluation criteria, defining a logical framework for risk identification, establishing a risk identification process, analysing the risks identified, evaluating the risks against established risk criteria, deciding on the appropriate action and communication, with the aim of continuous management and improvement.

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
	MARKET	Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price. Market risk includes:	Life insurance Capital markets Short-term insuran
FINANCIAL AND BUSINESS (SPECIFIC RISKS)		Equity risk: the risk that the fair value of cash flows of a financial instrument will fluctuate as a result of changes in equity prices.	
		Interest rate risk: the risk that the value of an unmatched financial instrument will fluctuate as a result of changes in interest rates and the risks that mismatch losses will be incurred in respect of a matched asset/liability position following changes in interest rates.	
		Foreign Exchange Risk: The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.	
		Property risk: the risk that the value of investment properties will fluctuate as a result of changes in the environment.	Life insurance
	Credit	Credit risk is the risk that the group/company will incur a financial loss from the inability or unwillingness of counterparty to a financial instrument to discharge its contractual obligations. Credit risk includes	Life insurance Capital markets Short-term insurance
		Reinsurance risk: concentration risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings.	
	Liquidity	Liquidity risk is the risk relating to the difficulty/inability to accessing/raising funds to meet commitments associated with financial instruments or policy contracts.	Life insurance Capital markets
	INSURANCE	Insurance risk includes:	Life insurance Short-term insurance
		Underwriting risk: the risk that the actual experience relating to mortality, disability and medical risks will deviate negatively from the expected experience used in the pricing of solutions and valuation of policy liabilities.	
		Persistency risk: the risk of financial loss due to negative lapse, surrender and paid-up experience	
		Expense risk: the risk of loss due to actual expense experience being worse than that assumed in premium rates and the valuation of policy liabilities.	
		Concentration risk: the risk of financial loss due to having written large proportions of business with policyholders of the same/similar risk profile.	
	Capital adequacy	Capital adequacy risk is the risk that there are insufficient assets to provide for variations in actual future experience, worse than that which has been assumed in the valuation bases.	Life insurance

38. RISK MANAGEMENT (Continued)

d) Risk management

Operational risk

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

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

The following functionaries assist in mitigating operational risk:

Internal audit

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

External audit

The Group's external auditors are Ernst & Young. The report of the independent auditors for the year under review is contained on page 7 to 8 of this annual report. The external auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances and express an independent opinion on the annual financial statements. Non-audit services rendered by the external auditors are strictly governed by a Group policy in this regard.

External consultants

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

e) Information and technology risk

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

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

f) Going concern / business continuity risk

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

38. RISK MANAGEMENT (Continued)

g) Legal risk

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

h) Compliance risk

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

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

i) Fraud risk

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

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

j) Taxation risk

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

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

38. RISK MANAGEMENT (Continued)

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 and deposit (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.

38. RISK MANAGEMENT (Continued)

n) Risk management - life insurance (Continued)

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

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 shareholders are exposed to the following sources of equity risk:

a) Direct equity shareholdings in shareholder funds
b) The indirect impact from changes in the value of equities held in policyholders' funds from which management charges or a share of performance are taken and
c) Equity assets backing insurance liabilities that are not participating or not fully market linked

Changes in prices of equities will have the following impact in the income statement. The impact is net of tax

	Gross Portfolio KShs.'000	% Change in base	KShs.'000
31 December 2012			
Equities and similar securities	329,236	+(-)4.5%	+(-)14,816
31 December 2011			
Equities and similar securities	314,294	+(-)3.9%	+(-)12,257

Linked and market-related business

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

The risk relating to guaranteed minimum benefits is managed by appropriate investment policies, determined by the Actuarial committee, and by adjusting the level of guarantees for new policies to prevailing market conditions. These investment policies are then reflected in the investment guidelines for the policyholder portfolios.

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 2012, 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 underfunded 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 is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk. The Group is not exposed to cash flow interest risk as it does hold instruments with a floating rate. The Group is however exposed to fair value interest risk as it holds investments in public sector loans and stocks which are designated at fair value though profit and loss. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

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 prices of public loans and stock as a result of changes in interest rates will have the following impact in the income statement .The impact is net of tax.

38. RISK MANAGEMENT (Continued)

p) Interest rate risk (continued)

	Gross Portfolio	% change in base	2012 KShs.'000	% change in base	Gross Portfolio	2011 KShs.'000
Public sector stocks and loans	3,544,467	+(-)46.0%	+(-) 1,642,353	+(-)13.0%	1,902,114	+(-) 247,274

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 a quarterly basis.

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

s) Market risk – capital

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

Equity and 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.

38. RISK MANAGEMENT (Continued)

s) Market risk – capital (continued)

Credit risk

The amount that best represents the Group's and Company maximum exposure to credit risk at end of year 2012 is tabulated in the industry analysis below:

Group:	Government	Services	Financial Services	Manufacturing	Non Governmental Organizations	Others	Total
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Public sector stocks and loans	2,344,167	1,200,300	-	-	-	-	3,544,467
Held to maturity	4,078,995	-	-	-	-	-	4,078,995
Reinsurers' share of technical provisions and reserves	-	-	197,348	-			197,348
Receivables arising out of direct insurance arrangements	-	-	-	-	-	186,773	186,773
Loans	-	-	-	-	-	964,427	964,427
Receivables and other financial assets	-	-	-	-	-	355,851	355,851
Cash and cash equivalents	-	-	4,453,009	-	-	-	4,453,009
	6,423,162	1,200,300	4,650,3579	-	-	1,507,051	13,780,870
Company							
Receivables and other financial assets	-	-	65,866	-	-	253,601	319,467
Cash and cash equivalents	-	-	260,023	-	-	-	260,023
	-	-	325,889	-	-	253,601	579,490

38. RISK MANAGEMENT (Continued)

s) Market risk – capital (continued)

Credit risk (Continued)

The amount that best represents the Group's and Company maximum exposure to credit risk at end of year 2011 is tabulated in the industry analysis below:

Group:	Government	Services	Financial Services	Manufacturing	Non Governmental Organizations	Others	Total
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Public sector stocks and loans	1,233,879	668,235	-	-	-		1,902,114
Held to maturity	2,453,528						
				2,453,528			2,453,528
Reinsurers' share of technical provisions and reserves	-	-	176,052	-	-	-	176,052
Receivables arising out of direct insurance arrangements	-	-	-	-	-	151,630	151,630
Loans	-	-	-	-	-	793,082	793,082
Receivables and other financial assets	-	-	-	-	-	436,346	436,346
Cash and cash equivalents	-	-	3,040,998	-	-	-	3,040,998
	3,687,407	668,235	3,217,050	-	-	1,381,058	8,953,750
Company							
Receivables and other financial assets	-	-	66,194	-	-	361,473	427,667
Cash and cash equivalents	-	-	4,032	-	-	-	4,032
	-	-	70,226	-	-	316,473	431,699

38. RISK MANAGEMENT (Continued)

s) Market risk – capital (continued)

Credit risk (Continued)

Credit exposure by credit rating
The table below provides information regarding the credit risk exposure of the Group and Company

Group:
31 December 2012:

	Neither past due nor impaired KShs.'000	Past due but not impaired KShs.'000	Impaired KShs.'000	Total KShs.'000
Fair value through profit and loss	3,544,467	-	-	3,544,467
Held to maturity	4,078,995			4,078,995
Reinsurers' share of technical provisions and reserves	197,348	-	-	197,348
Receivables arising out of direct insurance arrangements	186,773	-	43,128	229,901
Policy and mortgage loans	771,303	193,124	6,048	970,475
Receivables and other financial assets	355,851	-	-	355,851
Cash and cash equivalents	4,453,009	-	-	4,453,009
	13,587,746	193,124	49,176	13,830,046
Company				
31 December 2012				
Receivables and other financial assets	319,467	-	-	319,467
Cash and cash equivalents	260,023	-	-	260,023
	579,490	-	-	579,490

The fair value of collateral on the mortgage loans of KShs 377,896,000 (2011: 315,595,000) amounted to KShs. 695,300,000 (2011: KShs. 575,800,000) while the surrender value of the policy loans adequately covers the outstanding loans of KShs 586,531000 (2011: KShs 477,487,000) 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.

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.

38. RISK MANAGEMENT (Continued)

t) Market risk – sensitivities

The following table is a sensitivity analysis showing the impact of change in the various market risks discussed above on the income statement net of tax under the various lines of business.

Sensitivities	% change in base	Insurance Participating	Insurance non-participating	Shareholders' funds
31 December 2012:				
Interest rate	+(-) 1%	+(-)28,563	+(-)67,563	+(-)11,850
Equity/Property		+(-) 10%	+(-)55,563	+(-)29,123
	+(-)5,130			
Expenses	+(-) 10%	+(-)8,029	+(-)62,007	-
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	-

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. 20.9 million (2011: decrease of KShs. 19.9 million).

Sensitivities that illustrate the effect of changes in investment return assumptions on the value of in-force (VIF) business are disclosed on page 40. 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.

The basis of valuation of insurance contract liabilities is prescribed in the insurance Act of Kenya 1984. The Act prescribes Net premium valuation method which is very conservative. The rates prescribed by the Act are applicable for all insurers in the country.

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.

38. RISK MANAGEMENT (Continued)

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

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on a Group-wide basis. The Group does not grade the credit quality of financial assets that are neither past due nor impaired. These activities in the Group are conducted mostly by Sanlam Investments (SIM) in terms of the investment guidelines granted to them by the Investment Committee. The Board of SIM has delegated responsibility for credit risk management to the Central Credit Committee.

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

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

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

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

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

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

38. RISK MANAGEMENT (Continued)

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

At 31 December 2012:	Fully Performing KShs.'000	Past due but not impaired KShs.'000	Past due and impaired KShs.'000	Total KShs.'000
Financial assets:				
Public sectors stocks and loans	3,544,467	-	-	3,544,467
Held to maturity financial assets	4,078,995	-	-	4,078,995
Reinsurance assets	197,348	-	-	197,348
Receivables and other financial assets	355,851		-	355,851
Mortgages	373,973	3,923	5,751	383,647
Policy loans			396,796	189,498
	297	586,531		
Insurance receivables		143,645	-	43,128
	186,773			
Deposits with financial institutions	4,169,370	-	-	4,169,370
Cash at bank	283,639	-	-	283,639
Gross financial assets	13,544,025	193,421	49,176	13,786,622

At 31 December 2011:	Fully Performing KShs.'000	Past due but not impaired KShs.'000	Past due and impaired KShs.'000	Total KShs.'000
Financial assets:				
Financial instruments	3,453,124	-	-	3,453,124
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 at bank	233,180	-	-	233,180
Gross financial assets	10,227,425	223,643	59,443	10,510,511

38. RISK MANAGEMENT (Continued)

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

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 2012:			
0-3 months	117,489	-	117,489
3-6 months	72,009	3,923	75,932
	189,498	3,923	193,421
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

The past due receivables are not impaired and continue to be paid. An impairment provision of KShs 49.1 million (2011: KShs 53.9 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:				
At 1 January 2012	5,751	-	53,692	59,443
Additional provision	-	297	(10,564)	(10,267)
Unused amounts reversed	-	-	-	-
At end of year	5,751	297	43,128	49,176
At 1 January 2011	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

38. RISK MANAGEMENT (Continued)

v) Reinsurance risk

Pan Africa Insurance Holdings Limited makes use of reinsurance to:

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

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

Maximum exposure to credit risk

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

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

w) Liquidity risk

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

38. RISK MANAGEMENT (Continued)

w) Liquidity risk (Continued)

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

Year ended 31 December 2012:

Group	**1 Year KShs.'000**	**1-5 Years KShs.'000**	**>5 Years KShs.'000**	**Open ended KShs.'000**	**Total KShs.'000**
Financial liabilities					
Market linked insurance contracts	181,957	1,987,162	4,165,836	345,746	6,680,701
Non market related insurance contracts	685,988	823,558	1,612,294	2,099,525	5,221,365
Deposit administration contracts	-	-	-	1,071,633	1,071,633
Insurance payables	-	-	-	255,377	255,377
Provisions	-	41,676	-	-	41,676
Payables and other charges	535,460	-	-	-	535,460
Total liabilities	1,403,405	2,852,396	5,778,130	3,772,281	13,806,212
Company					
Payables and other charges	523,814	-	--	-	523,814

Year ended 31 December 2012:

Group	**1 Year KShs.'000**	**1-5 Years KShs.'000**	**>5 Years KShs.'000**	**Open ended KShs.'000**	**Total KShs.'000**
Financial Assets:					
Equities and similar securities	-	-	-	1,497,969	1,497,969
Public sector stocks and loans	239,716	1,738,690	5,645,056	-	7,623,462
Mortgages and policy loans	9,644	569,012	385,771	-	964,427
Long-term reinsurance assets	159,852	33,549	3,947	-	197,348
Insurance receivables	186,773	-	-	-	186,773
Receivables and other financial assets	355,851	-	-	-	355,851
Deposits with financial institutions	4,169,370	-	-	-	4,169,370
Cash and bank balances	283,639	-	-	-	283,639
Total assets	5,404,846	2,341,251	6,034,774	1,497,969	15,278,840
Company					
Receivables and other financial assets	319,467	-	-	-	319,467
Deposits with financial institutions	229,665	-	-	-	229,665
Cash and bank balances	30,358	-	-	-	30,358
Total assets	579,490	-	-	-	579,490

38. RISK MANAGEMENT (Continued)

w) Liquidity risk (Continued)

Year ended 31 December 2011:

	1 Year KShs.'000	1-5 Years KShs.'000	>5 Years KShs.'000	Open ended KShs.'000	Total KShs.'000
Financial liabilities					
Market linked insurance contracts	119,575	1,305,886	2,737,626	227,211	4,390,298
Non market related 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
Company					
Payables and other charges	559,225	-	--	-	559,225

Year ended 31 December 2011:

	1 Year KShs.'000	1-5 Years KShs.'000	>5 Years KShs.'000	Open ended KShs.'000	Total KShs.'000
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
Company					
Receivables and other financial assets	427,667	-	-	-	427,667
Deposits with financial institutions	-	-	-	-	-
Cash and bank balances	4,032	-	-	-	4,032
Total assets	431,669	-	-	-	431,669

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:

Underwriting risk

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

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

Policies and practices: underwriting strategy	
i)	All long-term insurance product additions and alterations are required to pass through the approval framework that forms part of the life insurance business' governance process. The statutory actuaries approve the policy conditions and premium rates of new and revised products;
ii)	Specific testing for HIV/Aids is carried out in all cases where the applications for risk cover exceed a set limit. Product pricing and reserving policies also include specific allowance for the risk of HIV/Aids;
iii)	Applications for risk cover are reviewed by experienced underwriters and evaluated against established standards. Retention limits are applied to limit the exposure per individual life;
iv)	Appropriate income replacement levels apply to disability insurance;
v)	The experience of reinsurers is used where necessary for the rating of substandard risks;
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.

38. RISK MANAGEMENT (Continued)

x) Insurance risk (Continued)

Expense risk

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

Claims risk

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

The 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:

Value of benefits insured per individual: non-participating life business

	Number of lives		Before Reinsurance		After reinsurance	
KShs.'000	2012	2011	2012 KShs.'000	2011 KShs.'000	2012 KShs.'000	2011 KShs.'000
0 – 500	307,598	338,111	3,429,301	3,310,572	2,759,249	2,602,210
500 - 1 000	55,582	61,095	11,582,709	11,181,694	9,240,818	8,714,889
1 000- 5 000	88,634	97,426	31,610,002	30,515,606	16,285,618	15,358,743
5 000- 8000	442	485	113,422,780	109,495,874	59,446,404	56,063,087
>8 000	502	552	170,243,155	164,349,025	90,703,168	85,540,912
	452,757	497,669	330,287,949	318,852,771	178,435,258	168,279,841

Non-participating annuity payable per annum per life insured

	Number of lives		Before Reinsurance		After reinsurance	
KShs.'000	2012	2011	2012 KShs.'000	2011 KShs.'000	2012 KShs.'000	2011 KShs.'000
0 – 20	63	60	684	717	684	717
20 – 40	83	60	2,549	1,778	2,549	1,778
40 – 60	77	44	3,793	2,119	3,793	2,119
60 – 80	67	53	4,846	3,766	4,846	3,766
80-100	59	45	5,366	4,092	5,366	4,092
>100	523	436	165,915	144,836	165,915	144,836
	872	698	183,153	157,308	183,153	157,308

38. RISK MANAGEMENT (Continued)

x) Insurance risk (Continued)

Concentration risk

Value of benefits insured per individual: participating life business

	Number of lives		Before Reinsurance		After reinsurance	
	2012 KShs.'000	2011 KShs.'000	2012 KShs.'000	2011 KShs.'000	2012 KShs.'000	2011 KShs.'000
With profits	5,369	7,559	539,695,508	711,100,138	539,695,508	711,100,138
Unit Linked	76,705	77,237	-	-	-	-
	82,074	84,796	539,695,508	711,100,138	539,695,508	711,100,138

y) Capital adequacy risk

Refer to the capital management section on page 85 for details on the management of the Group's capital base.

All subsidiaries of Pan Africa Insurance Holdings Limited were adequately capitalised, with CAR covered 4.3 times by the excess of assets over liabilities

38. RISK MANAGEMENT (Continued)

z) 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 2006–2012.

	Note	Before 2006 KShs.'000	2006 KShs.'000	2007 KShs.'000	2008 KShs.'000	2009 KShs.'000	2010 KShs.'000	2011 KShs.'000	2012 KShs.'000	Total KShs.'000
At end of the year			784,257	1,274,676	1,003,251	762,994	892,333	1,233,696	1,500,428	
One year later			785,650	1,288,327	1,007,647	889,072	913,483	1,254,273		
Two years later			795,789	1,297,268	1,000,060	892,122	956,981	-		
Three years later			815,286	1,319,302	984,372	924,156	-	-		
Four years later			881,969	1,293,495	1,069,131	-	-	-		
Five years later			909,024	1,278,268	-	-	-	-		
Six years later			886,147							
Current estimate of cumulative claims incurred	**25**		886,147	1,278,268	1,069,131	924,156	956,981	1,254,273	1,500,428	6,368,956
At end of the year			(399,105)	(440,543)	(367,922)	(334,816)	(592,611)	(963,296)	(1,245,052)	
One year later			(406,546)	(511,332)	(484,893)	(405,884)	(609,642)	(983,932)		
Two years later			(437,762)	(521,173)	(498,735)	(400,755)	(701,168)	-		
Three years later			(578,965)	(673,100)	(493,966)	(789,778)	-	-		
Four years later			(662,770)	(661,332)	(865,292)	-	-	-		
Five years later			(683,101)	1,016,570)	-	-	-	-		
Six years later			(704,728)	-	-	-				
Cumulative payments to date			(704,728)	(1,016,570)	(865,292)	(789,778)	(701,168)	(983,932)	(1,245,052)	(5,061,468)
Insurance payables per the statement of financial position	**27**		181,419	261,698	203,839	134,378	255,813	270,341	255,376	1,307,488

39. STATUTORY COMPLIANCE

Insurance Act

Pan Africa Life assurance Limited, a wholly owned subsidiary is licensed under the 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:

	2012 KShs.'000	2011 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

	2012 KShs.'000	2011 KShs.'000
Total life assets	14,686,548	9,878,146
Non admitted assets	(291,655)	(226,909)
Admitted assets	14,394,893	9,651,237
Assets not admitted comprise the following:		
Premium debtors	123,426	81,242
Prepayment	26,105	21,204
Intercompany charges	-	35,776
Fixed assets	142,124	88,687
Total Non-admitted assets	291,655	226,909

39. STATUTORY COMPLIANCE (Continued)

b) Admitted Assets (continued)

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.

	2012 KShs.'000	2011 KShs.'000
Total admitted assets (A)	14,394,893	9,651,237
Total admitted liabilities (B)	13,624,652	(9,139,067)
Surplus assets (A-B)	770,249	512,170
Less		
5% of Admitted liabilities	681,233	456,953
Solvency Margin as per insurance Act	89,008	55,217
No of times solvency cover	8.65	9.28

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

	2012 KShs.'000	2011 KShs.'000
Total assets under lien with IRA (A)	1,738,350	1,798,750
Lien amount required by insurance regulation (B)	719,745	479,297
Number of times lien cover (A/B)	2.42	3.75

To: The Share Registrars
Image Registrars Limited
8th Floor Transnational Plaza, Mama Ngina Street
P.O. Box 9287- 00100
NAIROBI

P R O X Y F O R M

I/We…………………………………………………………………………………..……………………………………..……………………

of …………………………………………. …………………………………………. …………………………………………………………

being member/members of PAN AFRICA INSURANCE HOLDINGS LIMITED

hereby appoint …………..…..………….………….………….…………..…………..…………....…………………………………………. ……….................

of..…………..…………..…………..…………..…………..…………..…………..……….………………………………………………. ………………..

or failing him/her …………..…………..…………..…………..………..…………..……..……………………………………………. ………………

of ………..………..…………..…………..…………..…………..…………..…………….…………………………………………. ………………

as my/our proxy to vote for me/us on my/our behalf at the 67th Annual General Meeting of the company to be held on 17 May 2013 at 10.00 am and at any adjournment thereof.

Signed/Sealed this …………………................ day of …………......................... 2013

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 Share Registrars, 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.