PAN AFRICA INSURANCE HOLDINGS LIMITED

Annual Report & Financial Statements 2013

Celebrating our Kenyan Heritage


Pan Africa & Kenya
Pan Africa life was in kenya at independence, we have grown as the country has grown, and this year we would like to commemorate the kenyan heritage we have shared over the years.
Celebrating our kenyan Heritage

HEAD OFFICE

Pan Africa Life Assurance Limited
Pan Africa Life House, Kenyatta Avenue
P.O. Box 10493 - 00100 Nairobi
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0722 206900 / 1 0733 418807
SMS helpline number: 0720 632000

BRANCH DETAILS

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EMBU
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palalcitycenter@pan-africa.com

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P.O. Box 15163 - 20100 Nakuru
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KISUMU
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P.O. Box 1884 - 40100 Kisumu
Tel: 057 2020780
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MACHAKOS
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P.O. Box 1852 - 90100 Machakos
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P.O. Box 1144 - 01000 Thika
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meru@pan-africa.com

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nyeri@pan-africa.com


PAN AFRICA INSURANCE
HOLDINGS LIMITED

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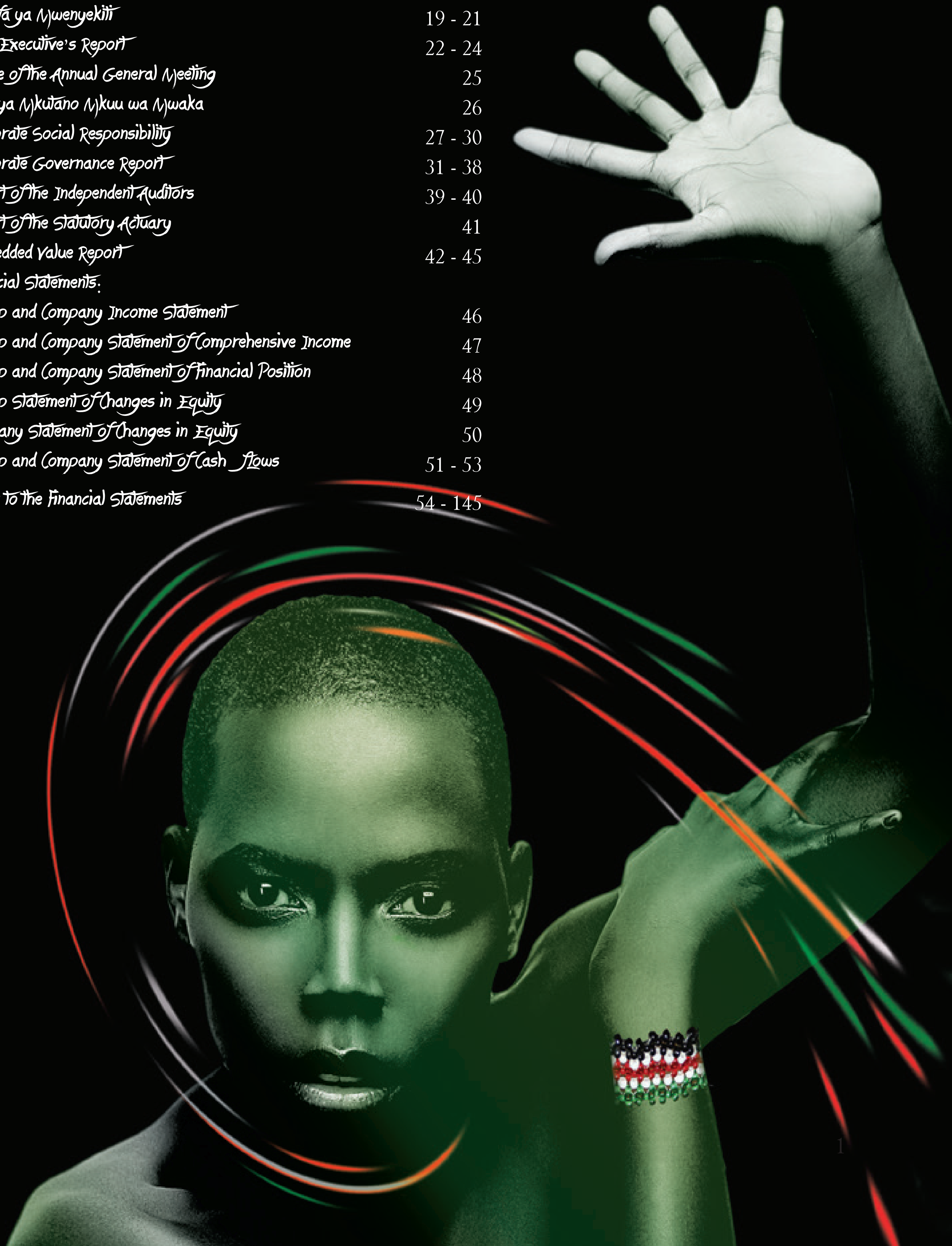
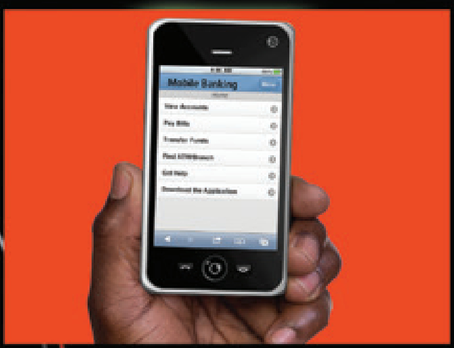


Our Journey

YEAR	EVENT
1946	Pan Africa Insurance Holdings Limited is incorporated on 26th October as Indo Africa Insurance Company Limited.
1947	The Company begins writing life insurance business.
1963	The Company is listed on the Nairobi Stock Exchange (the first insurance Company to be quoted).
1972	Commences general insurance business.
2000	Pan Africa Insurance Company Limited enters into a strategic partnership with African Life Assurance of South Africa. A change in the structure of the Company is effected thus forming two companies namely; Pan Africa Life Assurance Limited and Pan Africa General Insurance Limited whose business merges with Apollo Insurance to form APA Insurance Company Limited. After incorporating these two companies, Pan Africa Insurance Company Limited changes its name to Pan Africa Insurance Holdings Limited to reflect its present role as a holding Company.
2011	The group disposes off its stake in APA Company Limited to focus on life insurance business.



Celebrating our Kenyan Heritage

Our Core Values

Dynamism
We are committed to creating an inclusive business culture that welcomes the strengths of our diverse workforce and supports everyone's involment. We strive to be relevant at all times and responsive to t

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

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

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

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

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

Company Information

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

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

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

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

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

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

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

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

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

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

Muriu Mungai Advocates
MMC Arches
Spring Valley Crescent
NAIROBI

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

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

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

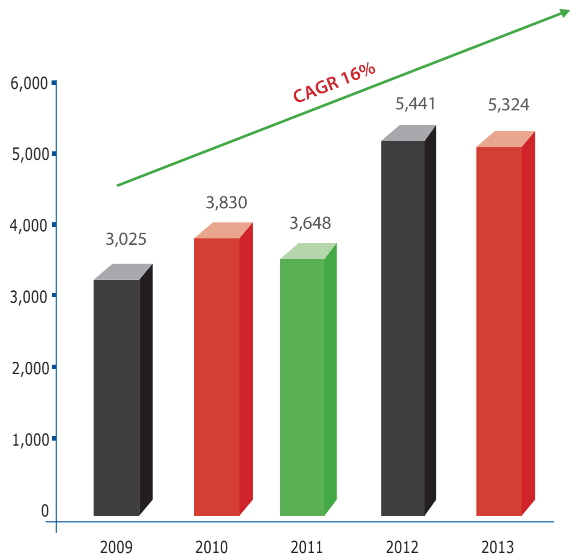
Muchoki, Kangata & Njenga Advocates
11th Floor, Bruce House
Standard Street
NAIROBI

Five Year Group Review

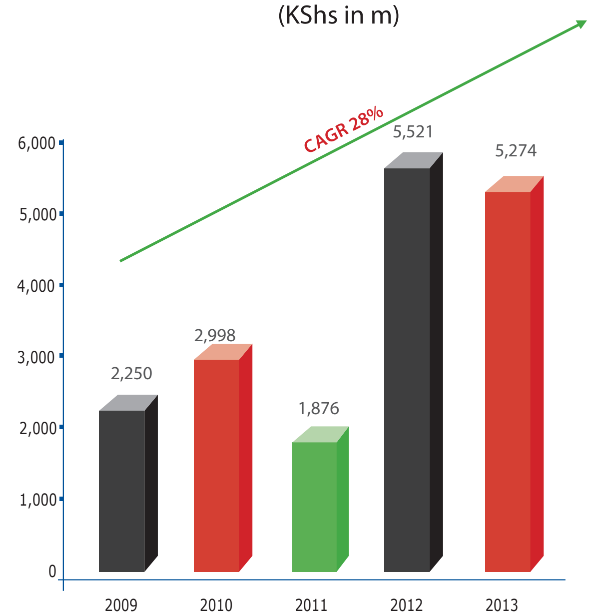
	2009	2010	2011 Restated	2012 Restated	2013
	KShs.m	KShs.m	KShs.m	KShs.m	Kshs.m
Income statement:					
Total other revenue	574	1,308	1,056	595	685
Operating profit before tax and share of associate	107	359	551	833	1,514
Profit attributed to shareholders	139	589	286	600	1,253
Long term insurance business:					
Gross premium income	3,025	3,830	3,648	5,441	5,324
Net premium income	2,821	3,542	3,300	5,126	5,102
Net benefits and claims paid	2,250	2,998	1,876	5,521	5,274
Statement of financial position:					
Total equity	1,325	1,832	1,965	2,373	3,338
Long term policy liabilities	5,136	7,200	7,860	11,902	14,938
Share capital	240	240	480	480	480
Total assets	7,681	10,671	11,514	16,474	21,158
	KShs.	KShs.	KShs.	KShs.	KShs.
Key indicators:					
Basic earnings per share	3	6	3	6	13
Dividends per share	2	3	2	3	4.5
Dividends	82	144	192	288	432
Market capitalisation at year end(KShs. m)	2,160	3,144	1,992	3,864	8,640
Group share prices at the NSE:					
Annual High	62	87	110*	45	100
Annual Low	44	45	18	18	39
Share price at year end	45	66	21	40	90

* Price before bonus issue

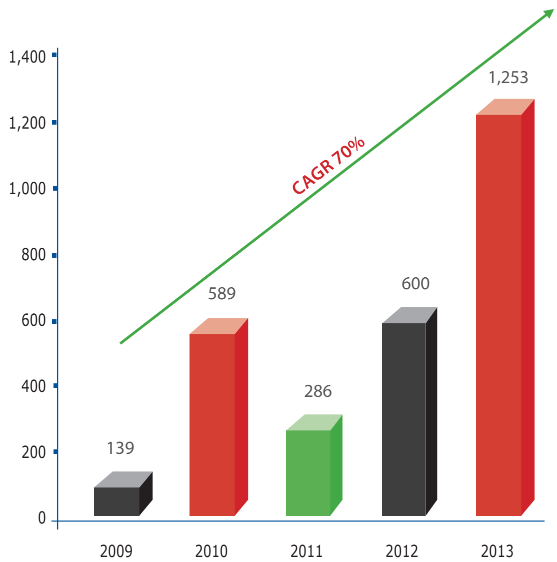
GROSS PREMIUM INCOME
(KShs in m)



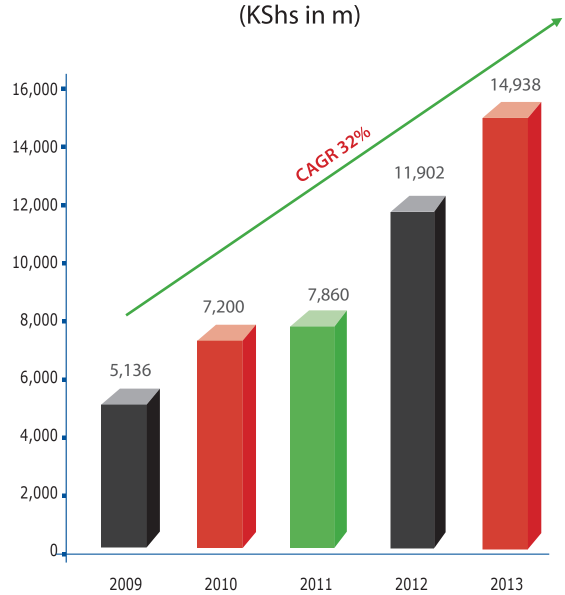
NET BENEFITS AND CLAIMS PAID
(KShs in m)



PROFIT ATTRIBUTED TO SHAREHOLDERS
(KShs in m)



LONG TERM BUSINESS FUNDS
(KShs in m)



The Directors submit their report together with the audited financial statements for the year ended 31 December 2013 which disclose the state of affairs of the Company and its subsidiaries.

Incorporation

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

Principal Activities

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

Results

The results of the year are set out on page 46 of this Annual Report.

The profit after tax for the year of KShs 1,253,179,000 (2012: KShs 600,240,000) has been added to the retained earnings.

Dividends

Subject to the approval of the shareholders, the Directors will recommend the payment of a dividend of KShs 4.50 per share (2012: KShs 3.00) at the 68th Annual General Meeting of the Company.

Financial Risk Management Objectives and Policies

The activities of the Company and its subsidiaries expose it to a variety of financial risks, including underwriting risk, credit risk and the effects of changes in debt and equity market prices, and interest rates. Therefore the risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance. These include the use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place to enable optimal liquidity management and to maximise returns within an acceptable level of risk.

Authorisation

The consolidated financial statements of Pan Africa Insurance Holdings Limited for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 18th February 2014 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:

The Board of 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	: Alternate : Rohan Patel
Susan Mudhune	: Non – executive	
Thomas Wixley	: Non – executive	
Jonathan Paul Wrench	: Non – executive	
Bhekithemba Thabo Gamedze	: Non – executive	

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

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

Auditors

The Group's auditors, Ernst & Young, are serving their last year in the office as PriceWaterhouseCoopers would be taking over from the next financial period.

By Order of the Board

Emma Wachira
Company Secretary

3 March 2014

Statement of Directors' Responsibilities

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the 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.

John P N Simba
Chairman
3 March 2014

Tom Gitogo
Director
3 March 2014

Our Awards

2012 AWARDS

COYA AWARDS

CEO of the Year – Tom Gitogo

Winner – Leadership and Mana... nt

THINK BUSINESS

Winner – Customer S... rd

1st Runner Up – Life ... Year

1st Runner Up – ... ive

1st Runner Up – Fraud D...

2nd Runner Up – Risk Man...

FiRe AWARDS

Winner – I... Category

Runner Up – Listed Companies Award

Runner Up Corporate Governance

AKI AWARDS

1st Runner Up – Individual Life Category

Winner – Group Life Best Practice Award

DELOITTE SURVEY

Employer of Choice – Insurance Category

LOMA

Education Achievement Award

2013 AWARDS

THINK BUSINESS

1st Runner Up – Marketing Initiative

1st Runner Up – ICT Award

1st Runner Up – Risk Management

1st Runner Up – Fraud Detection

2nd Runner Up – Customer Service

2nd Runner Up – Life Insurer of the Year

FiRe AWARDS

...inner – Insurance Category

...ated – Listed Companies Award

AKI AWARDS

...unner Up – Company of the Year

...unner Up – Agent of the Year Business Production (Patrick Kimemia)

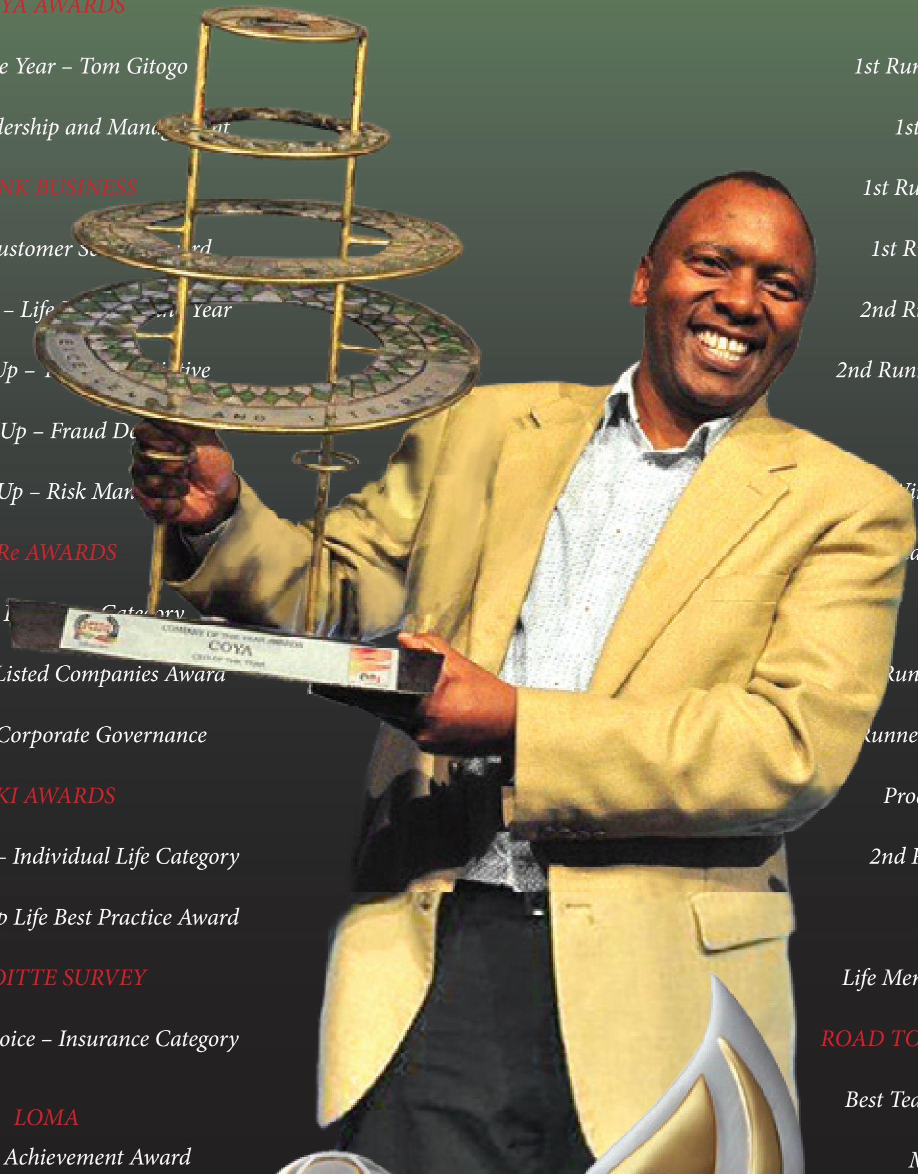
2nd Runner Up – Group Life Best Practice Award

Life Member Award – Patrick Kimemia

ROAD TO ANFIELD - Standard Chartered Bank

Best Team - Representing Kenya in UK

Most Valued Player 2013



Board of Directors

Thomas Wixley (74)
Appointed to the Board on 23 February 2010
Occupation: Chartered Accountant (SA)
Academic Qualifications: Bachelor of Commerce, University of Cape Town.
Professional Qualifications: Fellow of the Institute of Directors, Chartered Accountant (SA)

Jonathan Paul Wrench (40)
Appointed to the Board on 9 August 2011
Occupation: Head of Actuarial-Rest of Africa Sanlam Emerging Markets
Academic Qualifications: Bachelor of Science (Hons) in Actuarial Science
Professional Qualifications: Fellow of the Institute of Actuaries, Fellow of the Actuarial Society of South Africa

Margaret Dawes (56)
Appointed to the Board in March 2005
Occupation: Executive Directors- 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)

Tom Gitogo (45)
Appointed to the Board on 1 April 2008
Occupation: Insurance Executive
Academic Qualifications: MBA (Strategic Management), Bachelor of Science (Civil Engineering)
Professional Qualifications: CPA (K), CPS (K), ACA (England & Wales)

James Gitoho (57)
Appointed to the Board in December 2001
Occupation: Architect
Academic Qualifications: Bachelor of Architecture
Professional Qualification: Fellow of the Architect Association of Kenya

Dr. John P N Simba (69)
(Chairman)
Appointed to the Board in December 2001
Appointed as Chairman in March 2002
Occupation: Lawyer, Partner in Simba & Simba, Advocates
Academic Qualifications: Bachelor of Law (University of Dar-es-Salaam)
Professional Qualification: Advocate of the High Court of Kenya

Susan Mudhune (64)
Appointed to the Board on 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

Baloobhai Patel (75)
Appointed to the Board in December 2001
Occupation: Managing Director, Trans-world Safaris Limited

Bhekithemba Thabo Gamedze (55)
Appointed to the Board on 21 August 2012
Occupation: Actuary
Academic Qualifications: Bachelor of Arts (Hons) in Pure Mathematics, Msc in Pure Maths
Professional Qualifications: Fellow of the Actuarial Society of South Africa

Senior Management

Tom Gitogo
Chief Executive
Academic Qualifications:
MBA (Strategic Management),
Bachelor of Science (Civil
Engineering)
Professional Qualifications:
CPA (K), CPS (K), ACA (England &
Wales)

Emma Wachira
Company Secretary/ Chief Legal
Officer
Academic Qualifications:
Bachelor of Law degree
Professional Qualifications:
CPS(K)

James Muiruri
General Manager- Coprorate
Business
Academic Qualifications:
BSC Degree
Professional Qualifications:
AIIK, ACII, ACIArb, Associate
LOMA(USA)

Stephen Kamanda
General Manager- Finance and
Administration
Academic Qualifications:
MBA in Finance, BA (Economics)
Professional Qualifications:
FCCA(UK), ICSA(UK), CPA(K)

Miriam Gathura

Human Resources Manager
Academic Qualifications:
MSCCR, BSc
Professional Qualifications:
Higher National Diploma CHR

Ezekiel Owuor

General Manager - Individual Life
Academic Qualifications:
MBA, BA
Professional Qualifications:
Postgraduate Diploma (CIM)

Joseph Wamwea

General Manager- Operations & IST
Academic Qualifications:
MBA, BSC (Hons)
Professional Qualifications:
CISA, Dip FM, Dip CS

Introduction

I am delighted to present to you the annual report and audited financial statements of our company for the financial year ended 31st December 2013.This was a great year for the company as both income and profits surpassed expectations. We are confident that given our strategy,people and culture we shall continue to deliver sustained value for our shareholders.

Global Economy

The world economy had a good 2013. This notwithstanding, for many, it was still a struggle with the euro zone in recession for much of the year and living standards in most of the developed world still below their 2007 peak.

2013 saw the Euro area and European Union exhibit a continued economic recovery mainly driven by improved industrial performance and better consumer confidence. The Gross Domestic Product (GDP) in the Euro area expanded by 0.5 % in the fourth quarter of 2013 over the same period in 2012.The annual growth rate has averaged 1.58 %since 1995 while 2013 growth rate is estimated to be -0.4. United States forecast is 1.7% for 2013 and at 2.9% for 2014. It is expected that the global growth of Gross Domestic Product (GDP), adjusted for inflation, will rebound from 2.9 percent in 2013 to 3.5 percent in 2014.

Africa on the other hand has shown steady economicperformance over the past years, achieving an estimated growth of 4.8% in 2013 up from 3.5% in 2012, occasioned by domestic demand and commodity prices that remain high.The actual GDP stood at 2,830,620Million USD in 2012. Despite the slow global recovery, Foreign Direct Investment increased in sub-Saharan Africa by 5.5 percent to over $37 billion. In fact, it continued to grow in Africa while falling elsewhere in the developing world. However, the decline in export revenue and slow structural adjustments among other reasons somewhat dampened Africa's economic activities.

Improvement in energy, the environment, infrastructure, health and education is necessary for Africa economic growth. These have presented complex challenges in the past and must be addressed. The 2013 world development report by the UN for example has shown a need to avail jobs, more importantly to the younger population, citing a connection between this and uprisings. Other growth initiatives will include strengthening the export markets and placing emphasis on effective industrial policiesfor growth, jobs and economic transformation.

Kenya Economy

The first quarter of 2013 was characterized by aggressive liquidity uptake by the central bank in an effort to cushion the domestic currency against expected liquidity flight ahead of the general elections. The government's initiatives to tighten liquidity in the second and third quarters pushed interest rates up and bond prices lower. Inflation shot up substantially at the tail end of the 3rd quarter in response to the raft of value added tax law amendments and increased collection of funds for allocation to fiscal projects by the Treasury.At the end of the year, annual inflation stood at 7.15%. Bond returns remained flat for a better part of the of the year. The FTSE Kenya Government Bond index was up 10% in December 2013 year on year compared to the same period in the previous year. The Kenya Shilling remained stable against the USD averaging between 83 and 87 throughout the year.

The Kenyan economy is expected to continue expanding from the 4.8% growth in 2013. This will be fuelled by the discovery of natural resources, the expansion of the agricultural sector and the informal sector in general. Implementation of the new constitution andproper management of government debt will provide the much needed platform for economic growth across the country. The Eastern Africa Community also continues to offer good business opportunities for the member countries, and the recently launched visa free travel will go a long way in enhancing business relationships.

Even though access to credit by small and medium business remains a challenge mainly because of high lending rates, it is hoped that appeals by business and government leaders to banks and other lending institutions to address this concern in order to accelerate economic growth will bear fruit. This notwithstanding, prospects for future growth remain bright.

The Insurance Industry

The Kenyan Insurance industry has been on a steady growth path over the past five years. According to the 2012 AKI (Association of Kenya Insurers) statistics, the total insurance industry premium atKshs 108billionwas 18% up from Kshs91billion achieved in 2011.

Some of the initiatives that will boost the industry's growth include leveraging on technology and provision of low cost products to increase penetration of insurance which is still at a low of 3.16%. Partnerships with mobile phone companies as well as banks whose penetrations are much higher present a huge opportunity for insurance distribution in Kenya and even the region. Client service is also expected to go a notch higher with the increased use of technology where interaction between the service providers and clients will be real time and cost efficient.

The government has offeredgood supportto the industry in creating awareness among the public, on importance of insurance and consumer rights. Further, there have been several regulatory amendments to foster good practice within the industry and enhance equitable growth. Such efforts include the Proposed amendment to Section 203 of the Insurance Act where, in a bid to clean up the image of the industry (non-payment of claims), the Insurance Regulatory Authority has sought to get insurance companies to pay all admitted claims within 90 days. Any outstanding claim after 90 days (from notification) will attract a penalty of 5%. This mayhowever have an impacton business in cases where outstanding claims remain unpaid for reasons beyond the control of the underwriter, e.g. non-submission of requisite documents. Underwriters are currently in talks with the relevant authorities to address this concern. The government has also proposed excise duty of 10% on "fees and commissions". The Bill released on 24 June 2013 proposes an amendment to the Customs and Excise Act (with effect from 18 June 2013) to include (among others) persons licensed under the Insurance Act in the requirement to levy a 10% excise duty on any "fees" and "commissions" that they charge. The industry is in discussion with the government to seek clarityand amendments to this asit may negatively impact the already fragile industry.

Group Performance

In the year under review, the group delivered strong results building further on the good performance achieved in 2012. We grew well above the market.

Profit before tax increased by 81% from Ksh. 834 Million to Ksh. 1.5 Billion.We have delivered a robust business performance in 2013through relentless focus on revenue growth, customer service and operational excellence. The chief executive report gives details of the group performance.

Dividend

In keeping with our Dividend policy, the Directors will recommend to the shareholders the payment of a first and final dividend of Ksh. 4.50(2012:Ksh. 3) per share payable to the shareholders appearing in the register of members at the close of business on 20th May 2014. Upon approval from the shareholders, the dividend will be paid less applicable taxes on 12th June 2014. The share register will be closed from 17th may 2014 to 4th June 2014 both days inclusive to facilitate dividend payment.

Statement of Corporate Governance

Good governance is a key component of our business model and essential for the long-term success of the Group. As a public listed company, Pan Africa complies with the Capital Markets Authority Guidelines on Corporate Governance. We are alert to the regulatory environment and operate in accordance with internationally accepted standards of good corporate governance. The board is performance is evaluated annually.

2013 Awards and Recognitions

The strong performance of the company within the industry continues to be noticed. We won several accolades including the following:

• Insurance Awards

We won a total of five awards at the Insurance awards, organised by Think Business, including runner up in customer service, ICT, Marketing and risk management. We also were merged the third best life insurer of the year 2012.

• FiRe Awards 2013

We emerged top in the Insurance category at the prestigious FiRe awards. The awards , which are organised by the Nairobi Securities Exchange together with the Institute of Certified Public Accountants Kenya (ICPAK) involvea vigorous review and assessment of the Financial Reports from various companies. The assessors benchmark the local reports against International Financial Reporting Standards (IFRS) among other standards of good reporting. Apart from scooping this award we were also nominated for the Listed Companies award.

• Sanlam Bancassurance Awards 2013

Pan Africa was ranked best overall within the Sanlam group of companies at annual bancassurance awards for the year 2013, achieving the biggest API in this channel within the group.

Road To Anfield

Our soccer team participated in the Standard Chartered Bank Road to Anfield tournament. The team emerged the best among 48 teams and represented Kenya at the global finals held in Liverpool.

Closing Note

Pan Africa Group performed well in 2013, thanks to a stable management team, great employees, supportive clients and shareholders. My gratitude goes out tothe Board, Management and staff for making 2013 yet another successful year for the Group. I call upon them to continue offering maximum value to clients, shareholders and other stakeholders. I also thank our shareholders, clients and business associates for their non relenting support in our journey of delivering consistent, competitive, profitable and responsible growth.

The Board has confidence in the strategy of the business, whose focused execution will ensure optimal yet sustainable growth.

Dr. John P.N. Simba,
MBS, OGW,LLB (Dar- es- Salaam),
Hon. LL.D (Nairobi),
Advocate.

Chairman

Utangulizi

Nina furaha kuwasilisha kwenu ripoti ya kila mwaka na taarifa za kifedha zilizokaguliwa za kampuni yetu kwa mwaka uliomalizikia tarehe 31 Desemba 2013. Huu ulikuwa mwaka wa kufana kwa kampuni kwani mapato na pia faida ziliongezeka kupita matarajio. Tuna imani kwamba kutokana na mkakati wetu, watu na utamaduni tutaendelea kutoa huduma za thamani kwa wenyehisa wetu.

Uchumi Duniani

Uchumi duniani ulikuwa na mwaka mzuri wa 2013. Licha ya hayo, kwa wengi, hali ilikuwa ngumu kutokana na kudorora kwa uchumi katika maeneo ya Euro kwa kipindi kirefu mwaka huo na hali ya maisha katika mataifa mengi yaliyostawi ikiwa ingali chini ya kiwango chao cha juu mnamo mwaka wa 2007.

Mwaka wa 2013 ulishuhudia eneo la Euro na Muungano wa Ulaya zikidhihirisha kuendelea kuimarika kwa uchumi haswa kutokana na kuimarika kwa matokeo ya kiviwanda na imani bora ya wateja. Pato la Jumla la Kitaifa (GDP) katika eneo la Euro liliongezeka kwa asilimia 0.5 katika robo ya mwisho ya mwaka wa 2013 ikilinganishwa na kipindi sawa na hicho mnamo mwaka wa 2012. Kiwango cha ukuaji kwa mwaka kimefikia kiwango cha wastani cha asilimia 1.58 tangu mwaka wa 1995 ilhali kiwango cha ukuaji cha mwaka wa 2013 kinakisiwa kuwa -0.4. Inabashiriwa kiwango cha ukuaji huko Marekani ni asilimia 1.7 kwa mwaka wa 2013 na asilimia 2.9 kwa mwaka wa 2014. Inatarajiwa kwamba ukuaji duniani wa Pato la Jumla la Kitaifa (GDP) likirekebishwa kulingana na kupanda kwa gharama ya maisha litapanda kutoka asilimia 2.9 mnamo 2013 hadi asilimia 3.5 mwaka wa 2014.

Bara la Afrika kwa upande mwingine limedhihirisha matokeo thabiti ya kiuchumi katika muda wa miaka iliyopita, likiafikia ukuaji wa takriban asilimia 4.8 mnamo 2013 kutoka kiwango cha asilimia 3.5 mwaka wa 2012, hali iliyotokana na kuongezeka kwa mahitaji nchini na bei za bidhaa zinazosalia juu. Pato halisi la kitaifa, GDP, lilikuwa dola milioni 2,830,620 za Marekani mwaka wa 2012. Licha ya uimarikaji taratibu wa uchumi duniani, uwekezaji wa moja kwa moja kutoka nchi za kigeni hadi mataifa yaliyo Kusini mwa jangwa la Sahara barani Afrika uliongezeka kwa asilimia 5.5 na kufikia zaidi ya dola bilioni 37 za Marekani. kwa kweli, uliendelea kukua barani Afrika huku ukizorota katika maeneo mengine yanayostawi. Hata hivyo kupungua kwa mapato ya uuzaji nje na hatua za pole pole za marekebisho ya kichumi miongoni mwa sababu nyingine kuliathiri kwa kiasi fulani shughuli za kiuchumi barani Afrika.

Kuimarika kwa kawi, mazingira, muundo msingi, afya na elimu ni muhimu kwa ukuaji wa kiuchumi barani Afrika. Nyanja hizi zimedhihirisha changamoto tata katika siku zilizopita na ni lazima zishughulikiwe. Ripoti ya maendeleo duniani ya mwaka wa 2013 iliyotayarishwa na Umoja wa Mataifa kwa mfano imedhihirisha haja ya kubuni nafasi za kazi haswa kwa vijana ikitaja uhusiano uliopo kati ya ukosefu wa kazi na maasi. Mipango mingine ya ukuaji itajumuisha kuimarisha masoko ya uuzaji bidhaa nje na kusisitiza kuwepo kwa sera zifaazo za kiviwanda kwa ukuaji, kubuni nafasi za kazi na kukuza uchumi.

Uchumi Nchini Kenya

Robo ya kwanza ya 2013 ilishuhudia uthibiti madhubuti wa fedha na Benki Kuu katika juhudi za kulinda sarafu ya Kenya dhidi ya uwezo mkubwa wa kupatikana na kusambaa kwa fedha kabla ya uchaguzi mkuu uliotarajiwa kufanywa. Juhudi za serikali za kuthibiti fedha katika robo ya pili na ya tatu zilipelekea viwango vya riba kupanda na vile vya hati za dhamana kupungua. Gharama ya maisha ilipanda kwa kiwango kikubwa mwishoni mwa robo ya tatu kufuatia mapendekezo ya kufanyia marekebisho sheria ya ushuru ziada wa thamani na ongezeko la ukusanyaji fedha za kutengea miradi mbalimbali katika mwaka wa fedha na Hazina kuu. Kufikia mwisho wa mwaka, mfumko wa bei kwa mwaka ulikuwa umefikia asilimia 7.15. Mapato ya Hati za dhamana yalisalia bila kuongezeka kwa kipindi kirefu cha mwaka huo. Kiwango cha dhamana za serikali ya Kenya FTSE kiliongezeka kwa asilimia 10 mwezi Desemba 2013 ikilinganishwa na kipindi sawa na hicho mwaka uliotangulia. Shilingi ya Kenya ilibakia thabiti dhidi ya dola ya Marekani ikifikia wastani wa kati ya shilingi 83 na 87 mwaka wote.

Uchumi wa Kenya unatarajiwa kuendelea kupanuka kutoka ukuaji wa asilimia 4.8 mwaka wa 2013. Hii itachochewa na kupatikana kwa rasilimali asili, kupanuka kwa sekta ya kilimo na sekta isiyo rasmi kwa ujumla. Utekelezaji wa katiba mpya na usimamizi ufaao wa deni la serikali utatoa nafasi inayohitajika sana kwa ukuaji wa kiuchumi kote nchini. Jumuiya ya Afrika Mashariki kadhalika inaendelea kutoa nafasi nzuri za biashara kwa nchi wanachama, na usafiri usiohitaji visa ulioanzishwa hivi majuzi utasaidia kwa kiasi kikubwa katika kuimarisha uhusiano wa kibiashara.

Hata ingawa upataji mikopo kwa biashara ndogo na za kadri umebakia kuwa changamoto hasa kutokana na viwango vya juu vya riba, inatarajiwa kwamba maombi ya viongozi wa kibiashara na serikali kwa benki na taasisi nyingine zinazotoa mikopo kushughulikia changamoto hii ili kuimarisha ukuaji wa kiuchumi yatafanikiwa. Licha ya hayo kuna matumaini bora ya ukuaji katika siku zijazo.

Sekta ya Bima

Sekta ya bima nchini Kenya imeendelea kukua kwa muda wa miaka mitano iliyopita. Kilingana na takwimu za Chama cha kampuni za Bima Nchini, AKI, za mwaka wa 2012, jumla ya malipo ya sekta ya bima yalikuwa shilingi bilioni 108 likiwa ongezeko la asilimia 18 kutoka shilingi bilioni 91 zilizopatikana mwaka wa 2011.

Baadhi ya mikakati ambayo itaimarisha ukuaji wa sekta hii ni pamoja na uimarishaji tekinolojia na utoaji wa bidhaa za gharama nafuu ili kuongeza kiwango cha kupenya kwa bima ambacho kingali cha chini kwa asilimia 3.1. Ushirika baina ya kampuni za simu za mkononi pamoja na benki ambazo zina kiwango cha upenyaji cha juu zaidi unatoa nafasi kubwa kwa usambazaji bima nchini Kenya na hata katika eneo hili. Huduma kwa wateja pia inatarajiwa kupiga hatua mbele kutokana na utumizi wa tekinolojia ambapo mawasiliano baina ya watoaji huduma na wateja yatakuwa bora ikizingatiwa wakati unaotumika na gharama.

Serikali imetoa usaidizi mzuri kwa sekta hii kwa kuhamasisha umma kuhusu umuhimu wa bima na haki za wateja. Kadhalika, kumekuwa na marekebisho kadhaa ya kanuni za usimamizi ili kuimarisha usimamizi bora katika sekta hiyo na kuendeleza ukuaji sawa. Juhudi hizo ni pamoja na marekebisho yaliyopendekezwa kufanyiwa kifungu cha 203 cha sheria za bima ambapo katika jitihada za kurekebisha sifa za sekta hii (kuhusu madai yasiyolipwa) Halmashauri ya Usimamizi wa Sekta ya Bima inataka kampuni za bima ziwe zikilipa madai yaliyokubaliwa katika muda wa siku 90. Madai yoyote yatakayokuwa hayajalipwa baada ya siku 90 (baada ya arifa kutolewa) yatatozwa asilimia 5 kama adhabu. Hatua hii hata hivyo huenda ikaathiri biashara katika visa ambapo madai yanakosa kulipwa kutokana na sababu ambazo haziwezi kuepukika na mtoaji bima kwa mfano kutowasilishwa kwa hati zinazohitajika. Watoaji bima kwa wakati huu wanashauriana na maafisa wanaohusika ili kushughulikia suala hilo. Serikali kadhalika imependekeza ushuru wa asilimia 10 kutozwa "malipo na ada". Mswada huo uliotolewa tarehe 24 Juni 2013 unapendekeza marekebisho yafanyiwe kifungu cha sheria cha ushuru (kuanzia tarehe 18 Juni 2013) ili kujumuisha (miongoni mwa wengine) watu waliopewa leseni kuambatana na kifungu cha sheria cha bima katika hitaji la kutoza ushuru wa asilimia 10 "malipo" na "ada" wanazotoza. Sekta hii inashauriana na serikali kutafuta ufafanuzi na marekebisho kwa suala hili kwani huenda likaathiri vibaya sekta hii ambayo tayari ni dhaifu.

Matokeo ya Kundi

Katika mwaka unaoangaziwa, kundi liliwasilisha matokeo thabiti yaliyotiliwa nguvu na matokeo bora yaliyoafikiwa mwaka wa 2012. Tulikua vyema na hata kupita ukuaji katika soko.

Faida kabla ya kutozwa ushuru iliongezeka kwa asilimia 81 kutoka shilingi milioni 834 hadi shilingi bilioni 1.5. Tumewasilisha matokeo bora ya biashara katika mwaka wa 2013 kutokana na juhudi zisizokuwa na kikomo za kuzingatia ukuzaji mapato, huduma kwa wateja na uendeshaji bora. Taarifa ya Afisa Mkuu inaelezea kwa kina matokeo ya kundi.

Mgao wa Faida

Kulingana na sera yetu ya mgao wa faida, Wakurugenzi watapendekeza kwa wenyehisa malipo ya mgao wa faida wa kwanza na wa mwisho wa shilingi 4.50 (2012:shilingi

3) kwa kila hisa inayopaswa kulipwa wenyehisa walioko kwenye kitabu cha usajili wa wanachama kufikia kufungwa kwa biashara tarehe 20 Mei 2014. Baada ya kuidhinishwa na wenyehisa, mgao wa faida utalipwa baada ya kutozwa ushuru unaohitajika, mnamo tarehe 12 Juni 2014. Kitabu cha usajili kitafungwa kuanzia tarehe 17 mei 2014 hadi tarehe 4 Juni 2014 huku siku zote mbili zikijumuishwa ili kuwezesha kulipwa kwa mgao wa faida.

Taarifa ya Usimamizi wa Kampuni

Usimamizi bora ni kipengee muhimu cha kielelezo cha biashara yetu na ni muhimu kwa ufanisi wa Kundi katika kipindi cha muda mrefu. Ikiwa kampuni ya umma iliyoorodheshwa, Pan Africa inatii kanuni za Halmashauri ya Masoko ya Hisa nchini kuhusiana na usimamizi wa kampuni. Tunafahamu kikamilifu mazingira ya udhibiti na tunaendesha shughuli zetu kuambatana na viwango vilivyokubalika kimataiifa vya usimamizi bora wa kampuni. Utendaji wa Halmashauri hukadiriwa kila mwaka.

Tuzo na Utambuzi Mwaka wa 2013

Utendaji thabiti wa kampuni katika sekta hii unaendelea kutambuliwa. Tulishinda tuzo kadhaa zikiwemo zifuatazo:

• Tuzo za Bima

Tulishinda jumla ya tuzo tano katika tuzo za bima zilizoandaliwa na Think Business, ikiwa ni pamoja na kuchukua nafasi ya pili katika huduma kwa wateja, tekinolojia ya habari na mawasiliano, uuzaji na usimamizi wa mashaka. Kadhalika tuliibuka wa tatu bora katika bima ya maisha mwaka wa 2012.

• Tuzo za FiRe 2013

Tuliibuka wa kwanza katika kiwango cha bima kwenye tuzo zenye hadhi kuu za FiRe. Tuzo hizo zinazoandaliwa na Soko la Hisa la Nairobi likishirikiana na Taasisi ya Mahasibu wa umma nchini (ICPAK) inahusisha uchunguzi na ukadiriaji kabambe wa ripoti za kifedha kutoka kampuni mbalimbali.Wakadiriaji hulinganisha ripoti za humu nchini na viwango vya kimataifa vya taarifa za kifedha (IFRS) miongoni mwa viwango vingine vya utayarishaji bora wa ripoti. Kando na kunyakua tuzo hili kadhalika tuliteuliwa kwa tuzo la Kampuni iliyoorodheshwa.

• Tuzo za Sanlam Bancassurance 2013

Pan Africa iliorodheshwa ya kwanza bora miongoni mwa kundi la kampuni za Sanlam katika sherehe ya mwaka ya tuzo za bancassurance kwa mwaka wa 2013, na kupata ufahari mkubwa zaidi miongoni mwa kampuni za kundi hili.

Barabara Kuelekea Anfield

Timu yetu ya kandanda ilishiriki kwenye shindano la Standard Chartered Bank Road to Anfield. Timu hiyo iliibuka bora zaidi miongoni mwa timu 48 na kuiwakilisha Kenya katika mchuano wa fainali wa kimataifa uliofanyika huko Liverpool.

Hitimisho

Kundi la Pan Africa lilikuwa na utendaji bora mwaka wa 2013, kutokana na kuwepo kwa kundi thabiti la usimamizi, wafanyakazi bora, wateja na wenyehisa wanaounga mkono kampuni. Natoa shukurani zangu kwa Halmashauri, Wasimamizi na wafanyakazi kwa kufanya mwaka wa 2013 kuwa mwaka mwingine wa ufanisi kwa Kundi hili. Natoa wito kwao kuendelea kutoa huduma ya thamani kuu zaidi kwa wateja, wenyehisa na wadau wengine. Pia nawashukuru wenyehisa wetu, wateja na washirika wa biashara kwa usaidizi wao usio na kikomo katika safari yetu ya kuwasilisha ukuaji thabiti, wenye ushindani, faida na uwajibikaji.

Halmashauri ina imani katika mkakati wa biashara, ambao utekelezaji wake utahakikisha ukuaji endelevu na wa hali ya juu.

Dkt. John P.N.Simba,
MBS, OGW,LLB (Dar- es- Salaam),
Hon. LL.D (Nairobi), Wakili
Mwenyekiti

Operating Environment

In 2013, the country held its first General Election under the new constitution, ushering in a devolved system of Government. In many ways, 2013 could be regarded as a transition year where various county governments were laying foundation structures of governance. The central government was also transitioning from the Grand coalition administration to Jubilee. A number of the functions performed by the Central Government were devolved to county Governments which had a profound effect on our business with respect to affected ministries.

The overhauled VAT Act removing most exemptions that were previously granted resulted in a rise in consumer prices pushing inflation up sharply just after the enactment of the Act. The impact to our business was a reduction in the disposable income of our existing policyholders which led to a spike in policy cancelations. The inflation however eased off as the year progressed due to favourable weather conditions, steady exchange rates and oil prices to close the year lower than 2012 at 5.7%. Despite fairly stable T-bill rates during the year, borrowing rates remained defiantly high stifling credit growth. Credit life business therefore did not pick-up as expected despite the favourable operating environment.

The stock market was bullish on the back of renewed investor confidence following the peaceful general election and stable economic fundamentals. The NSE 20 share index gained 19.2% to close at 4,927. The combination of high yielding long-term Government debt instruments and good performance from the stock market lifted our investment returns remarkably.

A high level summary of other key business indicators are summarised below.

Key Highlights

Key Indicator	2013 KShs. (Mns)	2014 KShs. (Mns)	Change
New Business Recurring Annual Premium Income - API	1,019	947	8%
New Business Single Premiums	2,622	2,904	-10%
Investment Income	3,441	2,795	23%
Total benefits, claims and other expenses	(7,028)	(7,088)	-1%
Value of New Business (VNB)	293	222	32%
Profit for the year	1,516	835	82%
Earnings Per Share (EPS) in Shillings	14.26	7.27	96%
Dividend Per Share (DPS) in Shillings	4.50	3.00	50%

Performance

During the year, we launched Bima Mkononi with Airtel a life product covering death and disability. The product targets the informal sector that is currently poorly covered by other insurance products. The growth in uptake of other existing products was encouraging in the year that helped grow API by 8% over previous year.

Unfortunately, the corporate group risk business is still under intense pressure due to undercutting in the industry, leading to unsustainable pricing. The group philosophy is to underwrite business at levels we consider profitable. The 10% decline in single premium business was expected due to a large volume of bulk annuities received in 2012 that was not expected to recur in 2013.

Profitability

The embedded value of a life insurance business is an estimate of the value of both its net assets and the income stream expected from policies already in force. Pan Africa Life Embedded Value (EV) increased by 20.8% to KShs. 2.67b while Group EV increased by 18% to KShs. 5.3b. The Value of New Business (VNB) which is a measure of profitability of new business written in the year also grew by 32% contributing to the growth in EV.

In terms of operating profit, the group's two key pillars namely insurance and investments performed quite well in the period under review. The combined profit before tax at KShs. 1,516 Million (2012: KShs. 617 Million) grew by a remarkable 246% over 2012 on the back of good returns from our endowment products and interest on loans business. We also had good returns from the plot sales in Runda. Our two insurance lines, Individual Life and Corporate business continue to be profitable with increased good prospects for growth. Investment income on shareholders assets grew significantly as a result of unrealised earnings mainly from unlisted stock.

Profit Before tax (Millions)

Segment Contribution

Profit before Tax (Millions)	2013	2012	Change %
Life insurance Business	422	326	29
Investments	1,094	509	215
Total profit before tax	1,516	835	182

Life Business

The Life business performed well with a profit before tax of KShs. 422m up by 29% from KShs. 326m in 2012. The total gross premium at KShs. 5.3b is 2% shy of the KShs. 5.4b achieved in 2012 because of fewer bulk annuities in 2013. We have declared a 4% (2012: 5%) bonus for 'With Profit' policies and 10% (2012: 12.5%) interest on Deposit Administration schemes.

In compliance with international reporting standards (IFRS), the group recognised for the first time deferred tax on life business surplus held as statutory reserve. The insurance Act allows only 30% of the surplus arising out of life business to be distributed to shareholders with the balance 70% being held in a statutory reserve.

Our solvency position remained robust in 2013 and all of the group operations remain well capitalised. The group's statutory capital adequacy requirement (CAR) ratio remained strong at 3.84 times the minimum regulatory requirement. This means the group remains well positioned to honour benefit payments due to its policyholders as they fall due.

Diversification

The group continues on its transformation agenda into a fully diversified financial services group. In 2013, we achieved yet another milestone by the acquisition of Sanlam Investment Management (K) Limited, a fund management company with extensive technical support from Sanlam Asset Management of South Africa. The group now stands in a good position to offer wealth creation solutions in line with our vision of 'wealth creation and protection'. The Group is committed to deliver balanced growth sustainably in all lines of business.

The group acquired a stake in Family Bank to tap into the ever expanding demand for credit as well as to enhance our banc assurance initiatives. The group also partners with other financial institutions to provide complementary services to bank customers.

Distribution

As mentioned in my previous communications, we are continuously reviewing our distribution channels to keep them relevant to the current operating environment. This is more urgent than ever in light of the devolved system of governance which brings with it new challenges as well as opportunities for the business. We are still aligning our operations to tap opportunities presented in all the counties. We believe there is a lot of scope for innovation in this area.

Our individual life products predominantly distributed by traditional agents is based on the assumption that insurance is 'sold' not 'bought'. While this method of distribution is important in making a personalised contact, we have to allow ourselves to consider alternatives. The Finance Bill 2013 relaxed restrictions in distributing insurance products through banks. This opens a lot of scope for innovation in this area.

For our corporate products, we will continue building on partnerships that last.

Efficiency

While our focus is to grow the top line, we have to do it sustainably by managing costs. We are making our operations leaner to efficiently serve our customers better. The new life administration system is now nearing completion and we expect it will be fully implemented by the end of the 1st Quarter of 2014. We are excited at the efficiencies that will be realised after complete switch over.

Looking ahead

Our focus this year will be to improve efficiencies and contain costs. We will also continue to pursue our strategy of diversifying our distribution channels specifically both bancassurance and mobile telephony. The development of our new Head Office on Waiyaki Way in Westlands will commence in the first half of the year.

Closing remarks

Finally, I wish to thank all policyholders who have continued to put their trust in the Group. I am also grateful to our insurance brokers, agents and business partners for their continued support I assure you that you made the right choice.

We could not have done it without the support from our staff and the wise counsel and direction from our directors – many thanks!

We will do all we can to ensure that all our stakeholders are proud of our achievements and service to them.

Tom Gitogo
Chief Executive

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the 68th Annual General Meeting of the Company will be held at the Tsavo Room, Hilton Hotel, Mama Ngina Street Nairobi on Friday, 16 May 2014 at 10.00 am to conduct the following business:

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

2. To read the Notice convening the meeting.

3. To confirm the minutes of the previous Annual General Meeting held on 17 May 2013.

4. To consider, and if approved, adopt the Balance Sheet and Accounts for the year ended 31 December 2013 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 4.50 per share for the financial year ended 31 December 2013 and approve the closure of the register of Members on 19 May 2014 to 2 June 2014.

6. To elect directors:

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

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

7. To approve the Directors' remuneration.

8. To appoint PricewaterhouseCoopers as the Company's auditors, in accordance with Section 159(1) 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

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 14 May 2014 at 10.00 am.

Ilani ya Mkutano Mkuu wa Mwaka

ILANI INATOLEWA HAPA kwamba Mkutano Mkuu wa Kila Mwaka wa 68 wa Kampuni utafanyika katika ukumbi wa Tsavo Room, Hoteli ya Hilton, iliyoko barabara ya Mama Ngina mjini Nairobi siku ya Ijumaa tarehe 16 Mei 2014 saa nne asubuhi kuendesha shughuli zifuatazo:

1. Kuwatambua wawakilishi na kukagua idadi ya watu inayohitajika kuendeleza mkutano.

2. Kusoma ilani ya kuandaa mkutano.

3. Kuthibitisha kumbukumbu za Mkutano Mkuu wa Mwaka uliopita uliofanywa tarehe 17 Mei 2013.

4. Kufikiria na iwapo itaidhinishwa, kupitisha mizania na taarifa za kifedha kwa mwaka uliomalizika tarehe 31 Desemba 2013 pamoja na ripoti za Mwenyekiti, Afisa Mkuu Mtendaji, Wakurugenzi, Wakaguzi na Watakwimu Sheria za Bima.

5. Kutangaza mgao wa faida wa shilingi 4.50 kwa kila hisa kwa mwaka wa kifedha uliomalizika tarehe 31 Desemba 2013 na kuidhinisha kufungwa kwa sajili ya wanachama tarehe 19 Mei 2014 hadi tarehe 2 Juni 2014.

6. Kuchagua wakurugenzi:

6.1 Bw. John PN Simba, anastaafu kwa zamu kulingana na sheria za kampuni na anajitokeza ili kuchaguliwa tena.

6.2 Bi. Margaret M Dawes, anastaafu kwa zamu kulingana na sheria za kampuni na anajitokeza ili kuchaguliwa tena.

7. Kuidhinisha malipo ya Wakurugenzi.

8. Kuteua PricewaterhouseCoopers kuwa wakaguzi wa hesabu wa Kampuni kuambatana na Sehemu ya 159(1) ya Sheria za Kampuni (kifungu nambari 486) na kuidhinisha Wakurugenzi kuamua malipo yao.

9. Kutekeleza shughuli nyingine zozote kwa idhini ya Mwenyekiti ambazo ilani ya saa 48 ilikuwa imetolewa kwa Katibu wa Kampuni katika afisi iliyosajiliwa ya Kampuni.

Kwa Amri ya Halmashauri

Katibu wa Kampuni

Kumbuka:

Mwanachama anayestahili kuhudhuria na kupiga kura kwenye mkutano na ambaye hana nafasi ya kuhudhuria ana haki ya kumteua mwakilishi kuhudhuria na kupiga kura kwa niaba yake. Mwakilishi si lazima awe mwanachama wa kampuni. Ili kuwa halali, fomu ya uwakilishi ilioambatishwa mwisho wa ripoti hii, ni lazima ijazwe kikamilifu na kutiwa sahihi na mwanachama na kupelekwa katika afisi za Msajili wa Hisa za kampuni, Image Registrars Limited, Orofa ya 8, Transnational Plaza, Barabara ya Mama Ngina, S.L.P 9287-00100, Nairobi au kutumwa kwa njia ya posta ili kufika kabla ya siku ya Jumatano tarehe 14 Mei 2014 saa nne asubuhi.

OVERVIEW

Our Corporate Social Responsibility (CSR) program is committed to activities that echo our brand essence 'We have a sense for life.' The CSR policy revolves around two main pillars: Education and conserving of the environment. Our programs are aligned to the Millennium Development Goals and Vision 2030 objectives. They are also geared towards lifting the living standards of the communities around us. Some of the CSR initiatives we executed in 2013 are as detailed below:

EDUCATION

Financial support to needy and bright students

We continued to support a number of needy and bright students around the country through their Secondary education. The purpose of this program is to give the beneficiaries together with their families and communities hope and opportunity for a bright future. Continuously, the company receives sponsorship requests from needy students across the country. These are normally vetted based on level of need, performance, gender and geographical balance. Most needy yet brightest students are given highest priority. In 2013, we adopted 4 boys into this program as follows:

1. Geoffrey Owuor who is in Form 3 at Lenana School
2. Ian Muthoni who is in Form 3 at Lenana School
3. Stephen Kairu who is in Form 2 at Turasha Secondary school
4. John Kabutha who is in Form 2 at Kimuyu Boys Secondary school

One of the beneficiaries of this program, Marthar Obote, sat her KCSE at Loreto Limuru Girls in 2013 and she awaits her results. The program has now been improved to include career guiding and mentoring from volunteer members of staff.

Biogas Kit for Thika School for the blind

We donated a biogas kit worth Kes 240,000 to Thika School for the blind on 7 June 2013. The kit is enabling them conserve energy and stop the use of firewood.

EMPOWERING THE YOUTH

One year Personal Accident cover to Miss University Kenya 2012-2013

We awarded a one year Personal Accident Cover worth Kes 2M to Miss University Kenya. This initiative, aside from being a gesture of corporate responsibility, was to encourage the young people to appreciate life insurance both as a life necessity and as a source of employment, as they prepare to step out of college.

AIESEC

Aiesec is a global student-run organization whose objective is to provide a platform for youth leadership development. We support AISEC programs in cash or kind. In 2013 we sponsored their Eastern Africa annual congress by providing them with branding and sent 3 mentors to talk at their Youth-to-Business session, where they are given an understanding of what employers look for in new employees.

Human Resources Manager, Miriam Gathura presents a bio gas kit to the management of Thika School for the blind.

CEO Mr Gitogo presents a cheque of Kes 2 million worth of Personal Accident cover to Eunice Kamau, Miss University Kenya 2012-2013.

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 the country at large. The programs currently running include:

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

The essence of these programs is transfer of 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.

Leap Graduate Trainee Program

Through this program, Pan Africa Life gives fresh graduates the opportunity to transition from class to a work environment. We offer them the exposure to specific technical skills or professional experience required to effectively perform in the business environment, which is not acquired in school. To achieve this, we have a comprehensive two (2) years development plan in place that ensures a structured and blended learning - including on-the-job learning experience and professional certifications e.g. ICDL, IHRM, LOMA etc. Each beneficiary is assigned a mentor (member of staff) to coach and give them support along the way in form of regular feedback on performance and development. Projects and specific work assignment across Pan Africa Life's business units not only broaden their understanding of the Life Insurance industry, but also help them understand the various career opportunities within the industry.

This year we graduated three trainees from this program and absorbed all of them as members of staff. They are Samuel Wamae, Cindy Were and Fatma Taib.

Our graduate career paths include the following areas:

Finance & Accounting/Insurance/Human Resources/ICT/ Marketing and Actuarial.

Leap Internship Program

Pan Africa Life offers work integrated learning for graduate students specific to their qualification and for those who would like to get work experience during school vacation.

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

What we look for

We are looking for current university students pursuing the following degrees:

Actuarial: Must be a top 3rd or 4th year BSC Actuarial student and pursuing Institute of Actuaries' professional papers

Finance & Accounting: Must be a 3rd or 4th year BCOM Finance/ Accounting student and pursuing ACCA/CPA

ICT: Must be a 3rd or 4th year IST/Computer Science student

Samuel, Cindy and Fatma hold their certificates after graduation in December 2013.

HE Governor Evans Kidero flags off the clean up exercise along Kenyatta Avenue.

Marketing: Must be a 3rd or 4th year Marketing student and pursuing CIM

Operations: Must be a 3rd or 4th year Insurance student and pursuing CII/IIK HR: Must be a 4th year HR student and pursuing a Diploma in HR

We look for the best talents to help us develop cutting edge ideas and achieve growth. In return, we invest in their intellectual ability, encourage early responsibility and support their ambition and progress. With our coaching, guidance and global reach, the future is yours to explore!

Beyond Borders Experiential Learning

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

ENVIRONMENTAL CONSERVATION

Internal Environmental campaign

At Pan Africa Life, we have developed a culture of conserving resources. To keep members of staff reminded, we normally hold an annual environmental campaign. During this month members of staff are sent constant reminders on conservation of water, electricity, paper as well as responsible littering and are encouraged to practice the same at work and home.

Kenyatta Avenue Beautification

Since 2011, the company has been in partnership with The Nairobi City County Government (NCCG) to beautify and maintain the garden along Kenyatta Avenue. This is in line with our objective to conserve our environment and maintain the beauty of our city.

PALAL CSR Day – Kenyatta Avenue clean up

To commemorate our commitment to CSR, the PALAL CSR day successfully took place on 22 June 2013. In partnership with NCCG, our members of staff were involved in cleaning Kenyatta Avenue. The event was graced by HE the Governor, Evans Kidero and preceded the launch of Clean City initiative by the Governor.

CARING FOR OUR COMMUNITY

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

Stand Up for African Mothers

On 9 February, we sponsored a walk in partnership with Chase Group Foundation who had partnered with Stand Up for African Mothers, an AMREF initiative to raise funds to reduce maternal death rates in rural areas through the training of midwives.

Mater Heart Run

As has been our practice, a good number of staff took part in the Mater Heart Run whose proceeds go towards treating needy kids with heart illnesses. The event took place in May 2013.

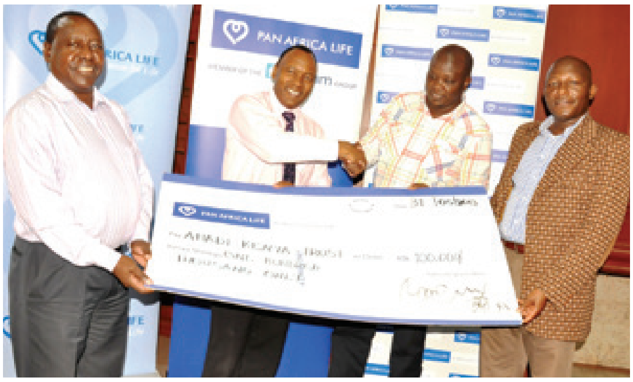
Standard Chartered Nairobi Marathon

The staff and agency participation in the Standard Chartered

Members of staff take the 'Stand up for African Mothers' charity walk through Ngong' forest.

Pan Africa Life team gears up for the Mater Heart Run at Nyayo National Stadium.

Pan Africa Life members of staff pose for a photo with the Kenyatta hospital kids with Cancer.



CEO to Gitogo hands over the cheque donation to Ahadi Kenya CE Dr Stanley Kamau.

Nairobi Marathon was overwhelming. A total of Kes 200,000 was donated towards this noble cause. Proceeds of the marathon go towards the treatment of children under the age of 9 with sight ailments.

A visit at the Kenyatta National Hospital, Kids with Cancer ward

A team of 15-20 members of staff visited the KNH kids' cancer ward 1 E and donated a fridge, toys, reading books among others, spent the day with the kids and participated in various gaming activities. This event took place o 25 October 2013.

Partnership with Ahadi Trust Kenya

Ahadi Trust Kenya is a foundation whose objective is to eradicate the jigger menace in the affected areas in Kenya. In 2013 we donated Kes 100,000 to participate in the KICC staircase relay and conduct an anti jigger outreach in Maragua County. Members of staff were involved in treating jigger infested patients as well as teaching them how to keep their bodies and environment clean in order to keep the jiggers out.

Chairman's Fund

The Chairman's fund objective is to support corporate citizenship endeavors that the Chairman may deem worthwhile. In 2013, the fund sponsored the National prayer breakfast and made donations to Nyandoche Ibere Girls Secondary school and Our Kid Foundation.

PRINCIPLES OF CORPORATE GOVERNANCE

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

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

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

BOARD OF DIRECTORS

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

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

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

BOARD RESPONSIBILITIES

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

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

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

BOARD COMPOSITION

The current Board consists of Nine directors comprising of the Chairman, one independent non-executive director, the Chief Executive as the only executive director, three directors representing the strategic partner Sanlam and three non-executive directors thus balancing the board composition. The Board is composed of directors with a good mix of skills, experience and competences in the relevant fields of expertise and is well placed to take the business to greater heights. The directors abridged biographies appear on page 12 - 13 of this Annual Report.

CHANGES TO THE BOARD DURING 2013

In 2013, Rohan Baloobhai Patel was appointed as an alternate Director to Baloobhai Patel.

RE-ELECTION TO THE BOARD

In accordance with the provisions of the Company's Articles of Association, all the directors retire by rotation every three years and are eligible to offer themselves for re-election. In every year, new directors who are appointed during the year to fill any casual vacancies, are subject to election by the shareholders during the Annual General Meeting and thereafter offer themselves for re-election every three years. In the 2014 Annual General Meeting, Mr John Simba and Ms Margaret Dawes will resign as directors to be unanimously re-elected to the Board.

RESPONSIBILITY FOR FINANCIAL REPORTING

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

REMUNERATION

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

Details of the directors' remuneration are set out on page 115.

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 Board and those of the Executive Management are separate and except for the office of the Chief Executive who acts both as a director and as a member of the Executive Management, the offices are not vested in the same persons. The abridged biographies are as detailed on page 12 - 13 of this Annual Report. The Board is responsible for the long term strategic direction and profitable growth of the Group. While the Executive Management is responsible for the operational day to day running of the Group. The Group adheres to an Approval Framework Policy which clearly sets out the exact decisions which can be made by the Board and those which can be made by the Executive Management.

COMMITTEES OF THE BOARD

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

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

Members and attendance of these committees are provided on page 34 - 35.

The Board has three committees as follows:

AUDIT, RISK AND ACTUARIAL COMMITTEE

The proceedings of the Committee are governed by an annual plan that details the specific matters that it must discuss at each quarterly meeting and the Audit Committee charter. The 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 2013 were as follows:

TABLE 1: AUDIT COMMITTEE MEMBERSHIP

Member	Directorship	Status	Attendance at Meetings
1	Thomas Wixley (Chairman)	Non-Executive Director	100%
2	Margaret Dawes	Non-Executive Director	100%
3	Baloobhai Patel	Non-Executive Director	100%
5	Susan Mudhune	Non-Executive Director	75%
6	Josh Wrench	Non-Executive Director	80%
7	Themba Gamedze	Non-Executive Director	50%

INVESTMENT COMMITTEE

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

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

TABLE 2: INVESTMENT COMMITTEE MEMBERSHIP

Member	Directorship	Status	Attendance at Meetings
1	Baloobhai Patel (Chairman)	Non-Executive Director	100%
2	Tom Gitogo	Chief Executive	100%
3	James Gitoho	Non-Executive Director	100%
4	John Simba	Chairman of the Board	100%
5	Josh Wrench	Non-Executive Director	90%

HUMAN RESOURCES COMMITTEE

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

TABLE 3: HUMAN RESOURCES COMMITTEE MEMBERSHIP

Member	Directorship	Status	Attendance at Meetings
1	James Gitoho (Chairman)	Non-Executive Director	90%
2	Margaret Dawes	Non-Executive Director	100%
3	John Simba	Non-Executive Director	100%
4	Susan Mudhune	Non-Executive Director	80%

MANAGEMENT COMMITTEES

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

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

PROFESSIONAL ADVISORS

The Board is of the view that to carry on its responsibilities in an independent and impartial fashion it should seek and benefit from professional counsel. The directors have full access to the advice of the Company Secretary. They are also entitled to obtain independent professional advice on any matter at Company expense should they deem this necessary.

COMPANY SECRETARY

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

EXTERNAL AUDITORS

Whereas the directors are responsible for preparing the accounts and for presenting a balanced and fair view of the financial position of the Company, the external auditors examine and give their opinion on the reasonableness of the financial statements.

The auditors report independently and directly to the Board at the half year and end year board meetings.

In 2013, Ernst & Young served their last year as the company's external auditors and PricewaterhouseCoopers will take over as the company's auditors from 2014.

INTERNAL AUDITORS

The Company's internal auditors report directly to the Audit Committee.

KPMG

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

STATUTORY ACTUARY

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

SANLAM INVESTMENT MANAGEMENT KENYA LIMITED

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

In 2013, SIM K became a wholly owned subsidiary of Pan Africa Insurance Holdings Limited.

LLYOD MASIKA

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

SHAREHOLDING

PREVENTION OF INSIDER TRADING

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

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

TABLE 6: DIRECTOR'S SHAREHOLDING AS AT 31 DECEMBER 2013

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

Name	No. of Shares
Baloobhai Chhotabhai Patel	19,186,800
JOHN SIMBA	71,300
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 2013 are shown in Table 7 below:

TABLE 6: TOP TEN SHAREHOLDERS AS AT 31ST DECEMBER 2013

Name	2013 No of shares	%age	2012 No of shares	%age
Hubris Holdings Limited	53,585,600	55.82%	53,464,700	55.69%
Patel Baloobhai Chhotabhai	19,186,800	19.99%	19,186,800	19.99%
Apa Insurance Limited	987,238	1.03%	1,354,938	1.41%
Mayfair Insurance Company Ltd	817,700	0.85%	800,000	0.83%
Thammo Holdings Limited	742,242	0.77%	1,101,886	1.15%
Financial Futures Limited	574,474	0.60%	574,474	0.60%
Standard Chartered Nominees A/C 9595	568,400	0.59%	568,400	0.59%
Cannon Assurance (Kenya) Limited	507,576	0.53%	509,576	0.53%
Anjay Vithalbhai Patel	503,100	0.52%	473,800	0.49%
Apollo Life Assurance Limited	488,290	0.51%	621,490	0.65%

DISTRIBUTION OF SHAREHOLDERS

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

TABLE 8: DISTRIBUTION SCHEDULE

Range	Number of Shareholders	Number of Shares	%
Less than 1,000	736	260,677	0.27
1,000-5,000	2,062	4,163,533	4.34
5,001-10,000	198	1,472,465	1.53
10,001-50,000	213	4,403,681	4.59
50,001-100,000	32	2,225,648	2.32
More than 100,000	43	83,473,996	86.95
	3,284	96,000,000	100

TABLE 9: SHAREHOLDER'S PROFILE

Category	Number of Shareholders	Number of Shares	% Shareholding
Local Institutions	148	60,417,688	62.94%
Local Individuals	2,916	34,047,534	35.47%
Foreign Investors	220	1,534,778	1.60%
Total	3,284	96,000,000	100%

IMMOBILISATION OF SHARES

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

TABLE 10: IMMOBILISATION REPORT AS AT 31 DECEMBER 2013

Item	Shares	%
Company's Share Capital	480,000,000	-
Number of Un-Issued Shares	404,000,000	-
Total Number of Issued Shares	96,000,000	
Total Number of Shares Issued by CDSC	24,481,541	25.50
TotalNumber of Non-Immobilised Shares	71,519,299	74.50

GOING CONCERN

The Board submits this annual report and audited financial statements for the year ending 31 December 2013. 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
3 March 2014

Tom Gitogo
Chief Executive
3 March 2014

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Pan Africa Insurance Holdings Limited (the company) and its subsidiaries (together, the Group), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the statement of financial position of the company as at 31 December 2013, statement of comprehensive income of the company, statement of changes in equity of the company and statement of cash flows of the company for the year then ended, and a summary of significant accounting policies and other explanatory information in the financial statements set out on pages 46 - 145 .

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 depended on our professional 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, we considered the internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group and of the company as at 31 December 2013 and of the financial performance and cash flows of the Group and the company for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Kenyan Companies Act, we report to you, based on our audit, that:

i) We have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) In our opinion, proper books of account have been kept by the Group and the company, so far as appears from our exam ination of those books; and,

iii) The Group's and the Company's statement of financial position and statement of comprehensive income are in agree ment with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is:

CPA Churchill Atinda – P/No 1425
Certified Public Accountants of Kenya
Nairobi, Kenya
Monday, March 3, 2014

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 2013.

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 2013.

GTWaugh

Giles T Waugh FASSA FIA
Statutory Actuary
Fellow of the Actuarial Society of South Africa
3 March 2014

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

	2013 KShs.'000	2012 KShs.'000
a) Group embedded value		
Shareholders' adjusted net assets	3,767,197	3,085,704
Net value of in force business	1,574,942	1,408,853
Gross value of in-force business	2,728,504	2,319,132
Tax provision	(818,551)	(695,739)
Cost of Capital Adequacy Requirement (CAR)	(335,011)	(214,539)
Embedded value	5,342,139	4,494,557

b) Embedded Value Earnings

The embedded value earnings are derived as follows:

	2013 KShs.'000	2012 KShs.'000
Embedded value at end of year	5,342,139	4,494,557
Embedded value at beginning of year	(4,494,557)	(4,159,229)
Change in embedded value	847,583	335,328
Dividends paid in the year	288,000	192,000
Embedded value earnings	1,135,583	527,328

2. Embedded Value Results (continued)

(b) Embedded Value Earnings continued

	2013 KShs.'000	2012 KShs.'000
These earnings can be analysed as follows:		
Adjustment to fair value of subsidiary	(280,955)	(242,272)
Roll forward	292,852	282,561
Investment return on free assets	53,347	25,986
Expected return on life business in-force	239,505	256,575
Change over the period	1,123,686	487,038
Value of new business at year end	316,783	240,638
Value of new business at point of sale (gross of tax)	475,264	386,802
Tax on value of new business	(142,579)	(116,040)
Cost of capital on new business	(39,819)	(48,292)
Expected return on new business to end of year	23,917	18,168
Changes in assumptions and methodology	977	(108,469)
Experience variations	(149,007)	(20,585)
Increase in NAV for other subsidiaries	954,933	375,455
Total earnings	1,135,583	527,328

3. Value of New Business

	2013 KShs.'000	2012 KShs.'000
Value at point of sale (gross of tax)	475,264	386,802
Tax on value at point of sale	(142,579)	(116,040)
Cost of CAR at point of sale	(39,819)	(48,292)
Value of New Business at point of sale	292,866	222,470
Expected Return	23,917	18,168
Value of new business (at year end)	316,783	240,368

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%	17.00% (basis)	18.00%
	KShs.'000	KShs.'000	KShs.'000
Shareholders' net assets	3,767,197	3,767,197	3,767,197
Value of in-force business	1,662,636	1,574,942	1,493,292
Embedded value	5,429,833	5,342,139	5,260,489
Value of one year's new business at valuation date	339,605	316,783	295,773

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

a) Economic Assumptions

	2013 % p.a.	2012 % p.a.
Risk discount rate	17.00	17.00
Overall investment returns (pre tax)	12.39	12.11
Expense Inflation Rate	9.00	9.00

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

	2013 KShs.'000	2012 KShs.'000
Risk discount rate	-	214,927
Overall investment returns (pre tax)	17,459	(246,265)
Expense Inflation Rate	-	81,216
Total	17,459	49,878

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 2013.

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 2013	**1,574,942**	
Investment return (and inflation) decreased by 1,0% and with bonus rates and discount rates changing commensurately	1,550,781	-1.5%
Equity/property assets fall by 10% without a corresponding fall/rise in dividend/rental yield - Assume portfolio asset mix is rebalanced after fall in market values	1,566,725	-0.5%
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	1,622,969	3.0%
'Shock scenario *	1,605,926	2.0%
Expenses and persistency		
Non commission maintenance unit expenses (excluding investment expenses) decrease by 10%	1,701,110	8.0%
Discontinuance rates decrease by 10%	1,573,916	-0.1%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	1,645,784	4.5%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	1,575,401	0%

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

Values of one year new business as at 31 December 2013	**316,783**	
Investment return (and inflation) decreased by 1,0% and with bonus rates and discount rates changing commensurately	294,950	-6.9%
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	333,099	5.2%
'Shock scenario *	357,109	12.7%
New business volumes decrease by 10%	266,625	-15.8%
Expenses and persistency		
Maintenance unit expenses(excluding investment expenses) decrease by 10%	348,196	9.9%
Non commission acquisition expenses decrease by 10%	342,624	8.2%
Discontinuance rates decrease by 10%	318,932	0.7%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	337,100	6.4%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	313,585	-1.0%

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.
3 March 2014

Income Statement

(For the year ended 31 December 2013)

		Group		Company	
		2013	2012 Restated	2013	2012
	Note	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Gross premium income	3(a)	5,324,099	5,440,654	-	-
Premium ceded to reinsurers	3(b)	(222,272)	(315,020)	-	-
Net premium income		5,101,827	5,125,634	-	-
Fees and commission income	4	52,680	75,866	-	-
Investment income	5(a)	1,534,084	1,244,574	39,582	17,335
Fair value gains on investment property	5(b)	1,168,709	879,863	-	-
Other operating revenue	5(c)	685,054	594,904	582,358	508,540
Total other revenue		3,440,527	2,795,207	621,940	525,875
Total revenue		8,542,354	7,920,841	621,940	525,875
Gross benefits and claims paid	6(a)	(2,258,375)	(1,674,761)	-	-
Claims ceded to reinsurers	6(a)	115,711	174,333	-	-
Gross change in insurance contract liabilities	6(a)	(1,644,278)	(1,751,861)	-	-
Gross change in market linked insurance liabilities	6(a)	(1,391,857)	(2,290,403)	-	-
Change in contract liabilities ceded to reinsurers	6(a)	(95,539)	21,297	-	-
Net benefits and claims		(5,274,338)	(5,521,395)	-	-
Fee and commission expense	6(b)	(724,477)	(669,678)	-	-
Cost of sales	6(c)	(68,775)	(40,210)	(68,775)	(40,210)
Other operating and administrative expenses	7	(960,408)	(856,582)	(132,960)	(135,700)
Finance costs	9	-	-	(21,663)	(41,186)
Total benefits, claims and other expenses		(7,027,998)	(7,087,865)	(223,398)	(217,096)
Profit before share of profit of associate		1,514,356	832,976	398,542	308,779
Share of profit of associate	14(b)	2,088	1,670	-	-
Profit before tax		1,516,444	834,646	398,542	308,779
Income tax expense	10	(266,012)	(234,406)	(118,196)	(87,658)
Profit for the year		1,250,432	600,240	280,346	221,121
Profit attributable to:					
Equity Holders of the parent		1,250,432	600,240	280,346	221,121

Statement of Comprehensive Income

(For the year ended 31 December 2013)

		Group		Company	
		2013	2012 Restated	2013	2012
	Note	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Profit for the year:		1,250,432	600,240	280,346	221,121
Other comprehensive income:					
Deferred income tax relating to components of other comprehensive income		-	-	-	-
Other comprehensive income ,net of tax	5(c)	2,747	-	-	-
Total comprehensive income for the year attributable to the owners of the company		1,253,179	600,240	280,346	221,121
Attributable to:					
Equity Holders of the parent		1,253,179	600,240	280,346	221,121
Earnings per share:					
Basic	31	13.05	6.25	2.92	2.30
Diluted	31	13.05	6.25	2.92	2.30

Statement of Financial Position

(As at 31 December 2013)

	Note	Group 2013 KShs.'000	Group Restated 2012 KShs.'000	Group As at 1 January Restated 2012 KShs.'000	Company 2013 KShs.'000	Company 2012 KShs.'000
ASSETS						
Intangible assets	11	123,459	104,142	43,950	-	-
Property and equipment	12	114,749	96,646	80,156	6,820	8,446
Investment properties	13	922,282	820,000	766,618	-	-
Investments in subsidiaries	14(a)	-	-	-	968,784	909,270
Investment in associate	14(b)	15,919	13,831	12,161	4,861	4,861
Deferred tax	10	28,050	-	-	4,108	-
Loans	15	1,006,619	964,427	793,082	-	-
Held to maturity financial assets	16 (a)	5,536,053	4,078,995	2,453,528	-	-
Available for sale financial assets	16 (a)	-	3,827	3,827	-	3,827
Financial assets at fair value through profit or loss	16 (a)	8,181,718	5,038,609	3,449,297	-	-
Reinsurance assets	17	101,809	197,348	176,052	-	-
Land and development	21	145,709	106,280	91,584	145,709	106,280
Income tax receivable	10	31,143	53,784	14,628	-	37,826
Insurance receivables	22	159,290	186,773	151,630	-	-
Receivables and other financial assets	22	102,610	355,851	436,346	62,116	319,467
Deposits with financial institutions	23	4,505,266	4,169,370	2,807,818	561,252	229,665
Cash and bank balances	23	182,831	283,639	233,180	16,436	30,358
TOTAL ASSETS		21,157,507	16,473,522	11,513,857	1,770,086	1,650,000
EQUITY AND LIABILITIES						
CAPITAL AND RESERVES						
Issued share capital	24	480,000	480,000	480,000	480,000	480,000
Share premium	24	124,431	124,431	124,431	124,431	124,431
Statutory fund	24	1,274,251	852,157	525,387	-	-
Retained earnings		1,459,761	916,676	835,206	514,101	521,755
TOTAL CAPITAL AND RESERVES		3,338,443	2,373,264	1,965,024	1,118,532	1,126,186
LIABILITIES						
Insurance contract liabilities	25	6,868,452	5,221,365	3,469,504	-	-
Market linked insurance liabilities	25	8,069,684	6,680,701	4,390,298	-	-
Amounts payable under deposit administration contracts	25	1,355,921	1,071,633	681,547	-	-
Deferred tax	28	382,275	255,647	157,616	-	-
Provisions	27	56,418	41,676	56,813	-	-
Current tax	10	9,972	38,399	87,960	9,972	-
Insurance payables	29	343,199	255,377	270,341	-	-
Payables and other charges	30	733,143	535,460	434,754	641,582	523,814
TOTAL LIABILITIES		17,819,064	14,100,258	9,548,833	651,554	523,814
TOTAL EQUITY AND LIABILITIES		21,157,507	16,473,522	11,513,857	1,770,086	1,650,000

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer Note 28.

The financial statements were approved by the Board of Directors on 3rd March 2014 and signed on its behalf by:

John P N Simba
Chairman
3 March 2014

Tom Gitogo
Chief Executive
3 March 2014

Group Statement of Changes in Equity

(For the year ended 31 December 2013)

	Note	Share capital KShs.'000	Share premium KShs.'000	Statutory Fund KShs.'000	Retained earnings KShs.'000	Total KShs.'000
Year Ended 31 December 2013:						
At 1 January		480,000	124,431	852,157	916,676	2,373,264
Total comprehensive income:						
Profit for the year			-	-	1,253,179	1,253,179
Transactions with owners:						
Dividends paid	34	-	-	-	(288,000)	(288,000)
Transfer to shareholders	24	-	-	-	-	-
Transfer to statutory fund	24	-	-	422,094	(422,094)	-
At 31 December		480,000	124,431	1,274,251	1,459,761	3,338,443
Year Ended 31 December 2012:						
At 1 January		480,000	124,431	525,387	992,822	2,122,640
Prior year adjustment	28	-	-	-	(157,616)	(157,616)
At 1 January restated		480,000	124,431	525,387	835,206	1,965,024
Total comprehensive income						
Profit for the year		-	-	-	600,240	600,240
Transactions with owners:						
Dividends paid	34	-	-	-	(192,000)	(192,000)
Transfer to shareholders	24	-	-	-	-	-
Transfer to statutory fund	24	-	-	326,770	(326,770)	-
At 31 December		480,000	124,431	852,157	916,676	2,373,264

Company Statement of Changes in Equity

(For the year ended 31 December 2013)

	Note	Share capital KShs.'000	Share premium KShs.'000	Retained earnings KShs.'000	Total KShs.'000
Year Ended 31 December 2013:					
At 1 January		480,000	124,431	521,755	1,126,186
Total comprehensive income:					
Profit for the year		-	-	280,346	280,346
Transactions with owners:					
Dividends paid	34	-	-	(288,000)	(288,000)
At 31 December		480,000	124,431	514,101	1,118,532
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	34	-	-	(192,000)	(192,000)
At 31 December		480,000	124,431	521,755	1,126,186

Statement of Cash Flows

(For the year ended 31 December 2013)

a) GROUP

Year Ended 31 December 2013:

	Note	Ordinary life KShs.'000	Super annuation KShs.'000	Investments KShs.'000	Group KShs.'000
OPERATING ACTIVITIES					
Net cash generated from operations	35(a)	1,451,246	687,452	527,217	2,665,915
INVESTING ACTIVITIES					
Purchase of intangible assets	11	(13,849)	(5,386)	-	(19,235)
Purchase of property and equipment	12	(31,667)	(12,315)	-	(43,982)
Purchase of investment property	13	(7,282)	-	-	(7,282)
Net purchase of financial assets through profit and loss	16	(1,088,767)	(642,772)	(346,430)	(2,077,969)
Purchase of government securities	16	-	(1,199,491)	(93,246)	(1,292,737)
Sale/ maturity of government securities	16	-	395,000	-	395,000
Investment in land and development	21	-	-	(39,429)	(39,429)
Mortgage and policy loans repaid	18/19	58,988		779,803	838,791
Mortgage and policy loans advanced	18/19	(41,249)	-	(733,180)	(774,429)
Rental income		-	32,338	-	32,338
Interest received		226,277	579,820	64,260	870,358
Net cash generated from/(utilised in) investing activities		(897,673)	(852,805)	(368,099)	(2,118,577)
FINANCING ACTIVITIES					
Dividends received	5	6,080	21,557	3,800	31,437
Dividends paid	34	-	-	(288,000)	(288,000)
Purchase of SIM Kenya	14	-	-	(55,687)	(55,687)
Net cash generated from/(utilised in) financing activities		6,080	21,557	(339,887)	(312,250)
Increase/(decrease) in cash and cash equivalents		559,777	(143,797)	(180,892)	235,088
Cash at start of year	23	2,256,759	1,269,219	927,031	4,453,009
Cash at end of year	23	2,816,536	1,125,422	746,139	4,688,097

a) GROUP (Continued)

Year Ended 31 December 2012:

	Note	Ordinary life KShs.'000	Super annuation KShs.'000	Investments KShs.'000	Group KShs.'000
OPERATING ACTIVITIES					
Net cash generated from/(utilised in) operations	35(a)	925,159	2,418,001	(232,067)	3,111,093
INVESTING ACTIVITIES					
Purchase of property and equipment	12	(37,226)	(2,265)	-	(39,491)
Purchase of intangible assets	11	(61,511)	-	-	(61,511)
Purchase of investment property	13	(301,840)	-	285,618	(16,222)
Disposal of motor vehicle	12	2,200	-	-	2,200
Net purchase of financial assets through profit and loss	16	217,605	(551,369)	-	(333,764)
Purchase of government securities	16	- -	(1,635,904)	-	(1,635,904)
Sale of government securities	16	-	60,400	-	60,400
Investments in land and development	21	-	-	(14,696)	(14,696)
Mortgage loans advanced	18	(95,279)	-	-	(95,279)
Repayment of mortgage loans	18	39,302	-	379	39,681
Interest received from government securities		403,490	13,810	170,204	587,504
Net cash generated from (used in) investing activities		166,741	(2,115,328)	441,505	(1,507,082)
FINANCING ACTIVITIES					
Dividends paid	34	-	-	(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	23	1,164,859	966,546	909,593	3,040,998
Cash at end of year	23	2,256,759	1,269,219	927,031	4,453,009

b) COMPANY

	Note	2013 KShs.'000	2012 KShs.'000
OPERATING ACTIVITIES			
Net cash generated from operations	35(c)	686,597	200,920
INVESTING ACTIVITIES			
Investment income		39,582	17,335
Disposal of investment property		-	285,618
Investment in land and development	21	(39,429)	(14,696)
Net cash used in investing activities		153	288,257
FINANCING ACTIVITIES			
Purchase of SIM Kenya	14	(55,687)	-
Intra group charge	9	(21,663)	(41,186)
Dividends paid	34	(288,000)	(192,000)
Net cash used in financing activities		(365,350)	(233,186)
Increase in cash and cash equivalents		321,400	255,991
Cash at start of year	23	256,288	4,032
Cash at end of year	23	577,688	260,023

1. PRINCIPAL ACCOUNTING POLICIES

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

a) Basis of preparation

The financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act. The measurement basis used is the historical cost basis, as modified by the carrying of certain property and equipment, investment property and certain investments at fair value, impaired assets at their recoverable amounts and actuarially determined liabilities at their present value. The financial statements are presented in Kenya Shillings (KShs), rounded to the nearest thousand, which is also the functional currency.

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

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

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

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

b) Basis of consolidation

The consolidation of financial statements comprise the financial statements of the group and its subsidiaries as at 31 December 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if and only if the group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure or rights to variable returns from its involvement with the investee and ,
- The ability to use its power over the investee to affect returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all the relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

b) Basis of consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets and liabilities are included from the date of acquisition to the date of sale in the statement of financial position while income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and the non-controlling interests, even if these results in the non controlling interest have a deficit balance. When necessary, adjustments to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

A change in ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. This is by adjusting the carrying amounts of the controlling and non-controlling interest to reflect the changes in their relative interests in the subsidiary.

If the group loses control over the subsidiary it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- 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 OCI to profit or loss or retained earnings, asappropriate, as would be required if the Group had directly disposed of the related assets or liabilities

i) Subsidiaries

Subsidiaries are all entities over which the company has controls when it they are exposed, or the company has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The company is considered to have control if and only all the following criteria are met:

(a) power over the investee
(b) exposure, or rights, to variable returns from its involvement with the investee
(c) the ability to use its power over the investee to affect the amount of the investor's returns

Subsidiaries are fully consolidated from the date on which control is transferred to the company. They are de-consolidated from the date the control ceases.

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

Losses within a subsidiary are attributed to the non-controlling interest even if this results in a deficit balance.
A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

b) Basis of consolidation (continued)

ii) Associates

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

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 differences 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.

c) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The Group's identifiable assets and liabilities are measured at their acquisition-date fair value.

Non-controlling interests in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, are measured at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's net identifiable assets. Non-controlling interests that are not present ownership interests are measured at fair value. This accounting policy choice can be made on an individual business combination basis.

Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

c) Business combinations and goodwill (continued)

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the amount recognised for non-controlling interests, and any previous interest held, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the of the acquiree are assigned to those units.

d) New and amended standards, interpretations and improvements

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

This standard became effective from 1st January 2013. It creates a new, broader definition of control than under current IAS 27. It does not change the consolidation process; rather it changes whether an entity is consolidated by revising the definition of control. The revised definition of control will require consideration of aspects such as de-facto control, substantive vs. protective rights, agency relationships, silo accounting and structured entities when evaluating whether or not an entity is controlled by the investor.

IAS 27 separate financial statements (revised)

It is limited to the accounting for investment in subsidiaries, joint ventures and associates in the separate financial statements of the reporter.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

It replaces IAS 31 and refers to IFRS 10 new definition of control when referring to joint control. A joint arrangement previously known as a joint venture under IAS 31 is accounted for either as

- a joint operation – by showing the investors interest/relative interest in the assets, liabilities, revenue and expenses of the joint arrangement
- Joint venture – by applying the equity method of accounting. Proportionate method is no longer required.

Under IFRS 11 the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or joint venture.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. While the Group has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities.

IFRS 13 Fair Value Measurement

It is effective as and from 1st January 2013. 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. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Group. IFRS 13 requires an entity to disclose additional information that helps users of its financial statements assess both of the following:

- for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements
- for fair value measurements using significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income for the period.

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

This became effective from 1 July 2012. The amendments to IAS 1 require an allocation of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Group's 2013 financial year), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Group has not included comparative information in respect of the opening statement of financial position as at 1 January 2012. The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised 2011)

The 'corridor approach' currently allowed as an alternative basis in IAS 19 for the recognition of actuarial gains and losses on defined benefit plans has been removed. Actuarial gains and losses in respect of defined benefit plans are now recognised in OCI when they occur. For defined benefit plans, the amounts recorded in profit or loss are limited to current and past service costs, gains and losses on non-routine settlements and interest income/ expense. The distinction between short-term and other long term benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits. In many instances this is expected to have a significant impact on the manner in which leave pay and similar liabilities are currently classified.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

IAS 19 Employee Benefits (Revised 2011) (continued)

The Group applied IAS 19 (Revised 2011) retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. The opening statement of financial position of the earliest comparative period presented (1 January 2012) and the comparative figures have been accordingly restated.

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. Accordingly, these amendments have been considered while making disclosures for impairment of non-financial assets in Note 19.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36

The amendments clarify the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a consequence of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. An unintended consequence of the amendments was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by the amendment.

In addition, the IASB added two disclosure requirements:

a) Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal.

b) Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendment harmonises disclosure requirements between value in use and fair value less costs of disposal.

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36.

These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied.

The Group has early adopted these amendments to IAS 36 in the current period since the amended/additional disclosures provide useful information as intended by the IASB. Accordingly, these amendments have been considered while making disclosures for impairment of non-financial assets in Note 11.

IAS 28 Investment in associate and joint ventures (revised)

This standard caters for joint ventures (now accounted for by applying the equity accounting method) in addition to prescribing the accounting for investments in associates.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

IFRS 7 Financial Instrument Disclosures (revised)

The amendments require disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

Offsetting of financial assets and financial liabilities

Financial assets and financial liability are offset and the net amount presented in the statement of financial position when and only when, the entity:

(a) has a legally enforceable right to set off the recognised amounts; and
(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

These amendments are applied retrospectively, in accordance with the requirements of IFRS 8 for changes in accounting policy. If an entity chooses to early adopt IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32, it must make the disclosure required by IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS7

The following standards have been issued or revised and will become effective for the December 2014 year end:

1) IFRS 10 consolidated financial statements-
   -The amendment provides an exception to the consolidation requirement for entities that meet the definition of an investment entity.
   -The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments.

2) IAS 32 financial instrument presentation

   The amendment clarifies the meaning of the entity currently having a legally enforceable right to set off financial assets and financial liabilities as well as the application of IAS 32 offsetting criteria to settlement systems (such as clearing houses).

The following Standards have been issued or revised and will become effective after December 2014:

1) IFRS 9 Financial Instruments Classification And Measurement

   In 2013 the standard was amended to include the new general hedge accounting model. IFRS 9 (2013) does not have a mandatory effective date, but it is available for adoption now. A new mandatory effective date will be set when the IASB completes the impairment phase of the project, but will be no earlier than 1 January 2017.

e) 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

f) 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.

Reinsurance premiums

Gross reinsurance premiums on life and investment contracts with discretionary participation features 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.

Fees and commission income

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

Investment income

Interest income is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument. Investment income also includes dividend income which is recognised when the right to receive the payment is established.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

f) Revenue recognition

Rental income is recognised on an accrual basis, apart from operating leases that contain fixed escalation clauses, where it is recognised on a straight-line basis over the lease term. The excess of rental income on a straight-line over cash received is recognised as part of the carrying amount of properties in the statement of financial position.

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.

Financial services income

Financial services income includes income from investment management and related activities. This is based on the value of the assets managed on behalf of clients such as fund management fees, collective investment and linked product administration fees. Initial fees that relate to the future rendering of services are deferred and recognised as those future services are rendered.

g) 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. Reinsurance claims is measured with reference to the corresponding insurance liability recognised and the reinsurance agreement.

h) 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

i) Policyholder benefits

Policyholder benefits incurred comprise benefits paid in the year and changes in the provision for insurance contract liabilities. Benefits paid represent all cash 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.

j) 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 asset and liability in the statement of financial position and are not recognised as gross premium and investments income in the consolidated income statement.

Assets under the deposit administration contracts are registered in the name of the administrator and have therefore been accounted as financial instruments in the statement of financial position.

k) 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:

If the expected residual value is equal to or greater than the carrying value, no depreciation is provided for.

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

k) Property and equipment (continued)

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.

l) 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 2013.

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

The difference between the carrying value and the fair value of the properties at the date of reclassification to investment properties 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)

m) Intangible assets

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

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

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

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

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised.

The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

n) 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

o) Financial instruments

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

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

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

i) Financial assets at fair value though profit or loss

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

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

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

Financial assets at fair value through profit or loss comprise quoted shares, 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

o) Financial instruments (Continued)

iv) Available –for–sale investments

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. They include investments in non-quoted shares. These investments are initially recorded at fair value. After initial measurement, available-for-sale financial assets are measured at fair value. Fair value gains and losses are reported in other comprehensive income and as a separate component in of equity until the investment is derecognised or the investment is determined to be impaired. Where equity instruments do not have a quoted market price in an active market and whose fair value cannot be reliably measured the instruments have been measured at cost. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity are transferred to the income statement.

Derecognition of financial assets

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

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

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

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

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

Derecognition of financial liabilities

A financial liability is derecognised when:

- and only when, it is extinguished— ie when the obligation specified in the contract is discharged or cancelled or expires.
- there is a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor), This is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Amortised cost

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

o) Financial instruments (Continued)

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability, the principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

o) Financial instruments (Continued)

Financial Assets Carried at Amortised Cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognised in profit or loss.

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. The company has evaluated the changes in the underlying assumptions and concluded that they would not have any significant impact on due from loans and advances to customers.

Available-for-sale financial investments

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

'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

Policy receivables

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

p) 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. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined

q) 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.

r) 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. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

Operating leases

Leases where the Group (as lessor) 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 (Group as lessee) 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. When an operating lease is terminated, any payment required by the lessor by way of penalty is recognised as an expense in the period in which termination took place.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

s) 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.

t) 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 (o) have been met.

u) Financial and insurance liabilities

Insurance contract liabilities (including investment contracts with discretionary participation features) and Reinsurance Assets

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 (for non-market linked insurance contracts this item is excluded) 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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

v) Employee entitlements

i) Retirement Benefit Obligations

The Company operates a defined contribution retirement benefit scheme for qualifying employees. The Company 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 Company pays fixed contributions into a separate entity. The Company 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 Company'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 Company 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 Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay qualifying employees the benefits due to them on vestation. The amount expensed each year is based on the increase in value of In-force (VIF) and charged directly to the income statement on approval by the Board of directors. The Company has no claim whatsoever on the amounts that have not vested as this is redistributed to the existing qualifying members.

iii) Bonus

Staff is 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.

iv) Other entitlements

The estimated monetary liability for employees accrued annual leave entitlement at the statement of financial position date is recognised as an expense accrual.

w) 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.

Insurance payables are recognised when due and measured on initial recognition at the fair value of the claim payable plus directly attributable costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

x) 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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

x) Income Taxes (continued)

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 on temporary differences except those arising on the initial recognition of goodwill, 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 of taxable 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 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, or
- receivables and payables that are measured 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)

y) 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.

z) 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.

aa) 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.

ab) Expenses

Expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably and is independent from transactions with equity participants. 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.

ac) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

ac) Impairment of non-financial assets (continued)

Impairment losses of continuing operations are recognised in the income statement in those 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.

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 October at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired

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.

ad) 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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

ae) 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.

af) Significant judgements and key sources of estimation uncertainty

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

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

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.
c. Whether the Group has control over investee in view of the criteria set out under IFRS 10. These are;
    - power over the investee
    - exposure, or rights, to variable returns from its involvement with the investee, and
    - the ability to use its power over the investee to affect the amount of the investor's returns

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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

ii. Key sources of estimation uncertainty (continued)

a) Valuation of insurance contract liabilities (continued)

For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

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

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

b) Property and equipment

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

c) Warranty provision

Estimates made in determining the warranty provision, which is based on past experience and may change based on actual cost of fulfilling the warranty. The carrying amount of the warranty provision is set out in Note 27.

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.

f) Equity investment impairment

In assessing whether equity investments classified as available-for-sale has had a 'significant or prolonged' decline in the fair value of the investment below its cost, the Group would benchmark the performance of the investment against its peers, review three years strategic plan and perform in-depth analysis on key identified ratios.

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

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

a) The classification of financial assets and leases
b) 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

ag) Events after the reporting date.

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

ah) Share capital and share premium.

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received over and above the par value of the shares issued are classified as 'share premium' in equity.
Incremental costs attributable to the issue or cancellation of equity instruments are recognised directly in equity, net of tax if applicable.

ai) Statutory fund.

The Group matches the assets to liabilities, after which there is a surplus/deficit that is transferred to the statutory fund. The Insurance Act regulations stipulate that only a maximum 30% of this can be transferred to the shareholders. The statutory actuary advices on the amount to be transferred to the shareholders. When a transfer is made to the shareholders, tax at the prevailing corporation rate 2013: 30% (2012:30%) is incurred.

2. BUSINESS SEGMENT INFORMATION

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

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

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

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

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

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

(b) That was-

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

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

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

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

Segment performance is evaluated based on profit or loss which in certain respects is measured differently from profit or loss in the consolidated financial statements. Group financing and income taxes are managed on a group basis and are not allocated to individual operating segments.

In the Group, the Ordinary Life and Superannuation segments are the business of Pan Africa Life Assurance Limited while the other companies handle the Investments segment. The inter-segment transactions which occurred in 2010 and 2009 are detailed in notes 10 and 37. Transfer prices between operation segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results include those transfers between business segments which are then eliminated on consolidation.

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

2. SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2013:

	Ordinary life KShs.'000	Super-annuation KShs.'000	Investments KShs.'000	Consolidation adjustment KShs.'000	Total KShs.'000
Gross written premiums	2,581,238	2,742,861	-	-	5,324,099
Premiums ceded to reinsurers	(19,735)	(202,537)	-	-	(222,272)
Net premium Income	2,561,503	2,540,324	-	-	5,101,827
Fee and commission income	3,891	48,789	-	-	52,860
Interest income	360,618	375,337	110,746	(21,538)	825,163
Investment income	290,553	358,522	59,846	-	708,921
Fair value gains and losses	620,688	-	548,021	-	1,168,709
Other operating revenue	8,958	-	676,096	-	685,054)
Total other revenue	1,284,708	782,648	1,394,709	(21,538)	3,440,527
Total revenue	3,846,211	3,322,972	1,394,709	(21,538)	8,542,354
Gross benefits and claims paid	(905,081)	(1,353,294)	-	-	(2,258,375)
Claims ceded to reinsurers	56,712	58,999	-	-	115,711
Gross change in insurance contract liabilities	(1,101,666)	(542,612)	-	-	(1,644,278)
Gross change in market linked insurance liabilities	(659,692)	(732,165)	-	-	(1,391,857)
Change in contract liabilities ceded to reinsurers	-	(95,539)	-	-	(95,539)
Net benefits and claims	(2,609,727)	(2,664,611)	-	-	(5,274,338)
Cost of sales	-	-	(68,775)	-	(68,775)
Fee and commission expense	(525,954)	(190,976)	(7,547)	-	(724,477)
Other operating and administrative expenses	(614,042)	(141,783)	(204,583)	-	(960,408)
Finance cost	-	-	(21,538)	21,538	-
Total benefits, claims and other expenses	(3,749,723)	(2,997,370)	(302,443)	21,538	(7,027,998)
Profit before share of profit of associate	96,488	325,602	1,092,266	-	1,514,356
Share of profit of associate	-	-	-	2,088	2,088
Profit before tax	96,488	325,602	1,092,266	2,088	1,516,444
Other comprehensive income	-	-	-	2,747	2,747
Income tax expense	(29,124)	(97,504)	(139,384)	-	(266,012)
Profit for the year	67,364	228,098	952,882	4,835	1,253,179

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 2012:

	Ordinary life Restated KShs.'000	Super-annuation Restated KShs.'000	Investments KShs.'000	Consolidation adjustment KShs.'000	Total KShs.'000
Gross written premiums	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	(20,888)	(81,096)	(132,422)	-	(234,406)
Profit for the year	(61,413)	286,197	366,486	8,970	600,240

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:

At 31 December 2013: ASSETS	Ordinary life KShs.'000	Super annuation KShs.'000	Investments KShs.'000	Consolidation adjustment KShs.'000	Group KShs.'000
Intangible assets	123,329	-	-	130	123,459
Investment properties	922,282	-	-	-	922,282
Equity accounted investments	-	-	4,861	11,058	15,919
Investments in subsidiaries	-	-	1,027,384	(1,027,384)	-
Financial instruments	6,650,706	6,032,447	1,034,618	-	13,717,771
Long term reinsurance assets	-	101,809	-	-	101,809
Land and development	-	-	145,709	-	145,709
Insurance receivables	91,963	67,327	-	-	159,290
Other assets	3,948,157	685,432	1,836,185	(498,506)	5,971,268
Total assets	11,736,437	6,887,015	4,048,757	(1,514,702)	21,157,507
LIABILITIES					
Insurance contracts liabilities	4,601,863	2,266,589	-	-	6,868,452
Market linked insurance liabilities	3,824,748	4,244,936	-	-	8,069,684
Deposit administration contracts	1,355,921	-	-	-	1,355,921
Other liabilities	910,720	316,696	796,097	(498,506)	1,525,007
Total liabilities	10,693,252	6,828,221	796,097	(498,506)	17,819,064
NET ASSETS	1,043,185	58,794	3,252,660	(1,016,196)	3,338,443

2. SEGMENT INFORMATION (Continued)

Segment statement of financial position: (Restated)

At 31 December 2012: ASSETS	Ordinary life KShs.'000	Super annuation KShs.'000	Investments KShs.'000	Consolidation adjustment KShs.'000	Group KShs.'000
Intangible assets	104,142	-	-	-	104,142
Investment properties	820,000	-	-	-	820,000
Equity accounted investments	-	-	4,861	8,970	13,831
Investments in subsidiaries	-	-	967,870	(967,870)	-
Financial instruments	5,136,115	3,966,132	19,184	-	9,121,432
Long term reinsurance assets	-	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	2,252,610	(604,931)	5,923,716
Total assets	9,784,934	4,901,614	3,350,805	(1,563,831)	16,473,522
LIABILITIES					
Insurance contracts 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
Other liabilities	605,843	300,758	824,889	(604,931)	1,126,559
Total liabilities	8,342,209	5,538,091	824,889	(604,931)	14,100,258
NET ASSETS	1,442,725	(636,477)	2,525,916	(958,900)	2,373,264

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:

	2013 KShs.'000	2012 KShs.'000
New business: Recurring		
Individual life	1,231,076	753,597
Group business	103,279	156,812
New business: Single premiums		
Individual life	3,409	7,331
Group business	2,232,924	2,517,962
Total new business	3,570,688	3,435,702
Renewal recurring		
Individual life	1,346,753	1,534,948
Group business	406,658	470,004
Total renewal premium income	1,753,411	2,004,952
Total premium income	5,324,099	5,440,654

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.

	2013 KShs.'000	2012 KShs.'000
Ordinary life	19,735	15,027
Super annuation	202,537	299,993
	222,272	315,020

4. FEES AND COMMISSION INCOME

	2013 KShs.'000	2012 KShs.'000
Fee	3,891	4,133
Commission received	48,789	71,733
	52,680	75,866

5. INVESTMENT RETURN

a) INVESTMENT INCOME

	Group		Company	
	2013 KShs.'000	2012 KShs.'000	2013 KShs.'000	2012 KShs.'000
Rental income:				
Gross rental income	48,578	51,266	-	-
Net rental expenses	(9,135)	(30,234)	-	-
	39,443	21,032	-	-
Financial assets designated at fair value through profit or loss designated upon initial recognition				
Interest income	490,287	275,166	-	-
Dividend income	31,437	74,747		
Held-to-maturity financial assets interest income	581,996	445,621	-	-
Loans and receivables interest income	49,758	67,326	-	-
Cash and cash equivalents interest income	341,163	360,682	39,582	17,335
Total investment income	1,534,084	1,244,574	39,582	17,335

b) FAIR VALUE GAINS /(LOSSES)

	Group 2013 KShs.'000	Group 2012 KShs.'000	Company 2013 KShs.'000	Company 2012 KShs.'000
Unrealized Fair value gains on investment properties	95,000	37,160	-	-
Financial assets at fair value through profit or loss (designated upon initial recognition)				
Equity securities	136,345	103,397		
Debt securities	(1,125)	(2,012)	-	-
Unrealized gains/(losses)	929,920	741,318	-	-
Fair value gain (SIM Kenya)	8,569	-	-	-
Total fair values gains and losses	1,168,709	879,863	-	-

The realized gains and losses on disposals relate to the gains/losses made on financial instruments since the last reporting date. Fair Value Gain on SIM Kenya resulted from remeasurement of the group's previously held equity interest.

c) OTHER OPERATING REVENUE

	Group		Company	
	2013 KShs.'000	2012 KShs.'000	2013 KShs.'000	2012 KShs.'000
Plot sales	581,750	504,500	581,750	504,500
Other income	103,304	90,404	608	4,040
Total Other income through income statement	685,054	594,904	582,358	508,540
Gain on bargain purchase	2,747	-	-	-
Total other income through other comprehensive income statement	2,747	-	-	-

6. DETAILS OF EXPENSES

(a) Claims and benefits paid

	Group 2013 KShs.'000	Group 2012 KShs.'000
Death and disability claims	985,194	850,315
Maturity and survival benefits	645,799	382,273
Policy surrenders	182,390	118,751
Annuities	444,992	323,422
Gross benefits and claims paid	2,258,375	1,674,761
Claims ceded to reinsurers	(115,711)	(174,333)
Gross change in actuarial value of insurance contract liabilities	1,644,278	1,751,861
Gross change in actuarial value of market linked insurance liabilities	1,391,857	2,290,403
Change in contract liabilities ceded to reinsurers	95,539	(21,297)
Net benefits and claims	5,274,338	5,521,395

(b) Fee and commission expense

	Group 2013 KShs.'000	Group 2012 KShs.'000
Payable to tied agents	525,954	493,610
Administration fee	7,547	-
Payable to brokers and other intermediaries	190,976	176,068
Fee and commission expense	724,477	669,678

c) Cost of sales

	Group 2013 KShs.'000	Group 2012 KShs.'000	Company 2013 KShs.'000	Company 2012 KShs.'000
Construction	46,133	26,972	46,133	26,972
Land	14,013	8,193	14,013	8,193
Legal costs	8,629	5,045	8,629	5,045
	68,775	40,210	68,775	40,210

Items of cost of sales represent costs incurred in the sale of land and construction of houses sold.

7. OPERATING EXPENSES

	Group 2013 KShs.'000	Group 2012 KShs.'000	Company 2013 KShs.'000	Company 2012 KShs.'000
Other operating charges include:				
Staff costs (note 8)	426,857	348,878	27,655	39,267
Amortisation (note 11)	81	1,319	-	-
Depreciation (note 12)	28,954	22,985	1,626	1,645
Fees for managerial and administrative services:				
Auditors' remuneration	7,404	5,100	1,404	1,310
Tax audit	3,588	3,589	-	-
Legal fees	18,921	7,165	15,277	4,527
Actuarial fees	4,663	5,940	-	-
Total fees for managerial and administrative services:	34,576	21,794	16,681	5,837
Premium tax and stamp duty	33,269	25,184	-	-
Premium collection charges	85,770	72,137	-	-
Advertising	49,101	50,493	6,647	15,283
Office rent	39,791	31,608	2,577	2,162
Repairs and maintenance	13,279	13,353	64	4
Other expenses	248,730	268,831	77,710	71,502
Total operating expenses	960,408	856,582	132,960	135,700

8. STAFF COSTS

	Group 2013 KShs.'000	Group 2012 KShs.'000	Company 2013 KShs.'000	Company 2012 KShs.'000
Staff costs include the following:				
Defined contribution pension costs	30,963	27,350	802	667
Social security benefit costs	243	273	2	6
Salaries and other short term benefits	395,651	321,255	26,851	38,594
	426,857	**348,878**	**27,655**	**39,267**

9. FINANCE COSTS

	Company 2013 KShs.'000	Company 2012 KShs.'000
PA Securities Limited	21,663	41,186
	21,663	41,186

The finance costs are for inter – company loans from PA Securities Limited of KShs.214 million (2012: KShs 265million). The loan is at an interest rate of 12.5% per annum and is secured. The value of collateral is KShs. 1.237 billion (2012: KShs 1.22 billion).

10. INCOME TAX

	Group 2013 KShs.'000	Group 2012 Restated KShs.'000	Company 2013 KShs.'000	Company 2012 KShs.'000
Statement of financial position:				
At start of the year:	15,385	(73,332)	37,826	(87,960)
Instalment tax paid	156,875	225,092	98,653	213,444
Under/(over)provision from prior years	14,420	-	(24,147)	-
Current income tax charge	(165,509)	(136,375)	(122,304)	(87,658)
	21,171	15,385	(9,972)	37,826
At the end of the year:				
ASSETS:				
Income tax receivable	31,143	53,784	-	37,826
Deferred tax (note 28)	28,050	-	4,108	-
	59,193	53,784	4,108	37,826
LIABILITIES:				
Current tax liability	(9,972)	(38,399)	(9,972)	-
Deferred tax (note 28)	(382,275)	(255,646)	-	-
	(392,247)	(294,045)	(9,972)	-
Income statement:				
Current year tax charge	165,509	136,375	122,304	87,658
Deferred income tax charge (note 28)	126,628	98,031	-	-
Deferred income tax credit (note 28)	(26,125)	-	(4,108)	-
Current year tax charge	266,012	234,406	118,196	87,658

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 2013 KShs.'000	Group 2012 Restated KShs.'000	Company 2013 KShs.'000	Company 2012 KShs.'000
Reconciliation of income tax expense to tax based on accounting profit:-				
Profit before income tax	1,516,444	834,646	398,542	308,779
Tax calculated at a statutory rate of 30% (2012:30%)	454,933	250,394	119,563	92,634
Tax effect of:				
Income not subject to tax	(319,082)	(258,906)	(2,021)	(7,252)
Expenses not deductible for tax	29,658	144,887	4,762	2,276
Deferred income tax charge	100,503	98,031	(4,108)	-
Income tax charge	266,012	234,406	118,196	87,658

11. GROUP INTANGIBLE ASSETS (SOFTWARE)

Year ended 31 December 2013:

	Work-in-progress KShs.'000	Software KShs.'000	Total KShs.'000
Cost:			
At 1 January	102,696	19,739	122,435
Incoming entity	-	240	240
Additions	18,022	1,213	19,235
At 31 December	120,718	21,192	141,910
Amortisation and impairment:			
At start of year	-	(18,293)	(18,293)
Incoming entity	-	(77)	(77)
Charge for the year	-	(81)	(81)
At 31 December	-	(18,451)	(18,451)
Carrying amount:			
At 31 December	120,718	2,741	123,459

The work in progress is on account of implementation of the new life administration system.

11. GROUP INTANGIBLE ASSETS (SOFTWARE) (Continued)

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

12. (a) GROUP PROPERTY AND EQUIPMENT

Year ended 31 December 2013:	Motor vehicles KShs.'000	Computer equipment KShs.'000	Furniture and equipment KShs.'000	Total KShs.'000
Cost:				
At 1 January	12,460	116,521	148,528	277,509
Incoming entity	-	2,584	4,218	6,802
Adjustment	23	-	-	23
Additions	-	12,613	31,369	43,982
At 31 December	12,483	131,718	184,115	328,316
Depreciation and impairment:				
At 1 January	(6,383)	(101,029)	(73,451)	(180,863)
Incoming entity	-	(1,738)	(2,012)	(3,750)
Charge for the year	(2,024)	(10,388)	(16,542)	(28,954)
At 31 December	(8,407)	(113,155)	(92,005)	(213,567)
Carrying amount:				
At 1 January	6,077	15,492	75,077	96,646
At 31 December	4,076	18,563	92,110	114,749

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.

12. (a) GROUP PROPERTY AND EQUIPMENT (Continued)

Year ended 31 December 2012:	Motor vehicles KShs.'000	Computer equipment KShs.'000	Furniture and equipment KShs.'000	Total KShs.'000
Cost:				
At 1 January	8,894	113,085	120,569	242,548
Disposal	(4,530)	-	-	(4,530)
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

(b) COMPANY PROPERTY AND EQUIPMENT

Year ended 31 December 2013:	Computer equipment KShs.'000	Furniture and equipment KShs.'000	Total KShs.'000
Cost:			
At 1 January	1,029	12,100	13,129
Additions	-	-	-
At 31 December	1,029	12,100	13,129
Accumulated depreciation:			
At 1 January	(847)	(3,836)	(4,683)
Charge for the year	(137)	(1,489)	(1,626)
At 31 December	(984)	(5,325)	(6,309)
Carrying amount:			
At 31 December	45	6,775	6,820

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

Year ended 31 December 2013:	Computer equipment KShs.'000	Furniture and equipment KShs.'000	Total KShs.'000
Cost:			
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

13. INVESTMENT PROPERTY

	Group				Company	
	2013 KShs.'000 Under construction	2013 KShs.'000	2013 KShs.'000 Total	2012 KShs.'000	2013 KShs.'000	2012 KShs.'000
At 1 January	-	820,000	820,000	766,618	-	285,618
Additions	7,282	-	7,282	16,222	-	-
Disposals	-	-	-	-	-	(285,618)
Fair value gains	-	95,000	95,000	37,160	-	-
At 31 December	7,282	915,000	922,282	820,000	-	-

13. INVESTMENT PROPERTY (continued)

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. Investment property under construction relates to capitalised costs in respect of the ongoing construction of the group's head quarters at Westlands. The investment has been accounted for at cost as per the requirements of IAS 40 until such a time when the fair value can be reliably determined.

14. INVESTMENTS

	Shareholding	Company 2013 KShs.'000	2012 KShs.'000
Pan Africa Life Assurance Limited	100%	230,261	230,261
PA Securities Limited	100%	679,009	679,009
Sanlam Investment Management (K) Limited	100%	59,514	-
		968,784	909,270

Pan Africa Insurance Holdings Limited acquired 100% stake in Sanlam Investment Management (K) Limited in September 2013 Pan Africa Insurance Holdings Limited acquired 100% stake in Sanlam Investment Management (K) Limited (SIM (K)) in September 2013. SIM (K) is registered in Kenya and its core business is fund management. Previously, the company held a 17.5% stake in SIM (K), which was being treated as available-for-sale investment. The shareholding was acquired in 2008.

The bargain of KShs 11,316 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of Pan Africa Insurance Holdings Limited and Sanlam Investment Management (K) Limited.

The fair value gain has been recognised in the statement of comprehensive income under the line "fair value gains arising from acquisition of a subsidiary and gain on disposal recognised in other comprehensive income. None of the fair value gain recognized is expected to be deductible for income tax purposes.

The fair value gain on the acquisition was estimated by applying a net assets approach less the initial cost.
The following table summarizes the consideration paid for SIM (K) and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the controlling interest in SIM (K).

	KShs.'000
Share Capital	20,000
Retained earnings-Opening	50,830
Net assets	70,830
PAIHL initial cost paid	(3,827)
Purchase price	(55,687)
Bargain	11,316

Acquisition related costs amounting to KShs 231,240 have been recognized in Pan Africa Insurance Holdings Limited's statement of comprehensive income for the year ended 31 December 2013.

The revenue included in the consolidated statement of comprehensive income since September 2013 contributed by SIM (K) was KShs 8,350,893 .SIM (K) also contributed profit of KShs 4,110,824 over the same period.

14. INVESTMENTS (continued)

b) INVESTMENT IN ASSOCIATE

	Group		Company	
	2013 KShs.'000	2012 KShs.'000	2013 KShs. '000	2012 KShs. '000
At 1 January	13,831	12,161	4,861	12,161
Share of results before tax	2,983	2,386	-	-
Share of tax	(895)	(716)	-	-
Share of profit of associate	2,088	1670	-	-
Write-down	-	-	-	(7300)
Movements in carrying amount	2,088	1,670	-	(7300)
At 31 December	15,919	13,831	4,861	4,861
Share of associates' statement of financial position:				
Assets	38,189	30,551	-	-
Liabilities	(21,389)	(17,111)	-	-
Net assets	16,800	13,440	-	-
Share of associates' revenue and profit:				
Revenue	24,980	19,984	-	-
Profit	2,983	2,386	-	-

Investments comprise:	Principal active	2013 Share holding	2012 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.

15. LOANS

	Group	
	2013 KShs.'000	2012 KShs.'000
Mortgage loans (note 18)	366,902	377,896
Policy loans (note 19)	639,717	586,531
Total Loans	1,006,619	964,427

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

The loans have been classified into level two of the fair value hierarchy. They are valued at fair value. Inputs into the valuation are credit risk and fair value of the collateral. The cash flows are discounted using IRR based on the yield of government bonds. Interest rate for the policy loans is on average 12%.

16. 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 2013:				
Public sector stocks and loans	4,406,166	5,536,053	-	9,942,219
Equities and similar securities	3,775,552	-	-	3,775,552
	8,181,718	5,536,053	-	13,717,771

Pan Africa Insurance Holdings Limited acquired 100% stake in Sanlam Investment Management (K) Limited in September 2013 which was previously accounted as Available for sale investment

	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

The movement of financial instruments is as shown below:

	Designated as at fair value through profit or loss KShs.'000	Held to maturity KShs.'000	Available for sale KShs.'000	Total KShs.'000
Opening balance	5,038,609	4,078,995	3,827	9,121,431
Purchases	2,077,969	1,292,737	-	3,370,706
Transfers	-	-	(3,827)	(3,827)
Maturities	-	(395,000)	-	(395,000)
Net investment income:				
Premium	-	559,321	-	559,321
Fair value gains	1,065,140	-	-	1,065,140
Closing balance	8,181,718	5,536,053	-	13,717,771

16. FINANCIAL INSTRUMENTS (continued)

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 2013:					
Public sector stocks and loans	298,267	2,286,710	7,357,242	-	9,942,219
Equities and similar securities	-	-	-	3,775,552	3,775,552
	298,267	2,286,710	7,357,242	3,775,552	13,717,771
As at 31 December 2012:					
Equities and similar securities	-	-	-	1,497,969	1,497,969
	239,716	1,738,690	5,645,057	1,497,969	9,121,431

Loans and receivables are analyzed in Notes 18 and 19. 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 2013 of Held-to-maturity investments was KShs. 5.231 billion (2012 KShs 3.962 billion).

Available - for - sale investments comprised of 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 had therefore been valued at cost. The Group had the positive intention and ability to hold into the foreseeable future.

b) DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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

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. Fair value of the deposit administration liabilities is based on the fair value of the assets backing these liabilities. The assets are traded in an active market and quoted prices are available.

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. Fair value is determined by discounting estimated cash flows with a discount rate based on a market yield for similar instruments at year-end. Inputs applied include a market discount rate and credit risk of the counterparty.

16. FINANCIAL INSTRUMENTS (Continued)

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

Level 3

Financial assets and liabilities measured using inputs that are not based on observable market data are categorised as level 3. Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations for which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Group's own data. However, significant portion of the unquoted shares have been valued at cost and variation in inputs would not have significant fair value change.

	Level 1	Level 2	Level 3	Total fair value
As at 31 December 2013:	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Financial assets :				
Investment properties			922,282	922,282
Loans			1,006,619	1,006,619
Equities and similar securities	3,775,552	-	-	3,775,552
Public sector stocks and loans	4,406,166	5,536,053	-	9,942,219
	8,181,718	5,536,053	1,928,901	15,646,672
Financial liabilities:				
Deposit administration contracts	-	1,355,921	-	1,355,921
	-	1,355,921	-	1,355,921

	Level 1	Level 2	Level 3	Total fair value
As at 31 December 2012:	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Financial assets :				
Investment properties	-	-	820,000	820,000
Loans	-	-	964,427	964,427
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	1,784,427	10,902,031
Financial liabilities:				
Deposit administration contracts	-	1,071,633	-	1,071,633
	-	1,071,633	-	1,071,633

16. FINANCIAL INSTRUMENTS (Continued)

Sensitivity analysis to significant changes in unobservable inputs within Level 3 hierarchy – Level 3

Investment Properties

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2013 are as shown below

Description	Input	Sensitivity used*	Effect on fair value KShs '000
Investment property	Estimated rental value	10%	+/ - 92,228
	Discount rate	1%	+/ - 9,223
	Rental growth rate	1%	+/ - 9,223
	Long term vacancy rate	1%	+/ - 9,223

*The sensitivity analysis refers to a percentage amount added or deducted from the input and the effect this has on the fair value.

Significant increases (decreases) in estimated rental value and rent growth rate in isolation would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in long-term vacancy rate and discount rate in isolation would result in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally:

- Similar change in the rent growth rate and discount rate
- Opposite change in the long term vacancy rate

Loans

The future stream of inflows over the term of a loan has been discounted to present value using an effective rate adjusted for inflation. The group has assumed that inflation rate would grow annually by 10 basis points.

Significant increases (decreases) in estimated inflation rate in isolation would result in a significantly higher (lower) fair value measurement.

Loans have been categorised within Level 3 of the fair value hierarchy. Quantitative sensitivity analysis as at 31 December 2013 is as shown below:

Description	Input	Sensitivity used*	Effect on fair value KShs '000
Investment property	Inflation rate	10%	+/ - 100,662

17. REINSURANCE ASSET

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

	2013 KShs. '000	2012 KShs. '000
Opening Balance	197,348	176,052
Current year movement	(95,539)	21,296
	101,809	197,348

18. GROUP MORTGAGE LOANS

	2013 KShs.'000	2012 KShs.'000
At start of year	383,647	321,346
Accrued interest	6,745	6,703
Additional Loans advanced	41,249	95,279
Loan repayments	(58,988)	(39,681)
At end of year	372,653	383,647
Impairment:		
At 1 January	(5,751)	(5,751)
Decrease during the year	-	-
At 31 December	(5,751)	(5,751)
At end of year (note 16)	366,902	377,896

19. GROUP POLICY LOANS

	2013	2012
Maturity profile of mortgage loans		
Loans maturing:		
Within 1 year	2,265	1,917
In 1 - 5 years	13,602	6,383
After 5 years	356,786	375,347
Provision for Impairment	(5,751)	(5,751)
	366,902	377,896
Loans at:		
Market rate	35,465	42,440
Concessionary rate:		
Staff loans	24,713	341,207
Provision for Impairment	(5,751)	(5,751)
	54,427	377,896

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. 735,350,000 (2012: KShs. 695,300,000).The Group can liquidate the collateral in case of default. The average concessionary rate was at 9% (2012: 15%) 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 (continued)

	2013 KShs.'000	2012 KShs.'000
At start of year	586,828	477,487
Additions	733,180	216,908
Repayments	(779,803)	(187,958)
Interest accrued	99,809	80,391
At end of year	640,014	586,828
Provision for impairment:		
At start of the year	-	-
(Increase)/Decrease during the year	(297)	(297)
At end of the year	(297)	(297)
Net policy loans	639,717	586,531

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

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.

	2013	2012
Treasury bills	10%	14%
Treasury bonds	11%	12%
Mortgage loans and commercial papers	13%	15%
Deposits with financial institutions	11%	14%
Group Policy loans	14%	11%

21. LAND AND DEVELOPMENT

		Group		Company
	2013 KShs.'000	2012 KShs.'000	2013 KShs.'000	2012 KShs.'000
At start of year	106,280	91,584	106,280	91,584
Additions	106,922	49,844	106,922	49,844
Disposals	(67,493)	(35,148)	(67,493)	(35,148)
As at December	145,709	106,280	145,709	106,280

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

22. GROUP RECEIVABLES

a) INSURANCE RECEIVABLES

	2013 KShs.'000	2012 KShs.'000
Due from policyholders	203,721	166,554
Provision for doubtful debts	(124,866)	(43,128)
Amount due from policyholders	78,855	123,426
Amounts due from reinsurers	59,650	56,040
Amounts due from agents, brokers and intermediaries	20,785	7,307
	159,290	186,773

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.

b) OTHER RECEIVABLES

	Group		Company	
	2013 KShs.'000	2012 KShs.'000	2013 KShs. '000	2012 KShs. '000
Amounts due from related parties (note 36)	9,940	4,237	38,946	38,946
Rent outstanding	15,882	11,099	-	-
Runda development debtors	-	77,082	-	77,083
Other financial assets	61,625	235,440	21,647	201,615
Prepayments	15,163	27,993	1,523	1,823
Total	102,610	355,851	62,116	319,467

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.

23. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2013 KShs.'000	2012 KShs.'000	2013 KShs. '000	2012 KShs. '000
Cash and bank balances	182,831	283,639	16,436	30,358
Deposits with financial institutions	4,505,266	4,169,370	561,252	229,665
	4,688,097	4,453,009	577,688	260,023

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 12% (2012: 14%).

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

24. GROUP SHARE CAPITAL AND RESERVES

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

SHARE CAPITAL	Ordinary shares	2013 KShs.'000	2012 KShs.'000
At start and end of year	96,000	480,000	480,000
Bonus issue	-	-	-
At the end of the year	96,000	480,000	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 17.

	Group	
	2013 KShs.'000	2012 KShs.'000
Balance at the beginning of the year	852,157	525,387
Surplus for the year	422,094	326,770
Net transfers during the year	-	-
Closing fund	1,274,251	852,157

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:

	2013			2012		
	Total KShs.'000	Insurance contracts KShs.'000	Deposit admin contracts KShs.'000	Total KShs.'000	Insurance contracts KShs.'000	Deposit admin contracts KShs.'000
a) Analysis of movement						
in policy liabilities:						
Premium income (net)	5,348,089	5,101,827	246,262	5,461,387	5,125,634	335,753
Income/ (loss) on Investment	2,240,228	2,059,915	180,313	2,271,358	2,053,238	218,120
Asset management fees	(47,430)	(41,347)	(6,083)	(37,680)	(32,399)	(5,281)
Net investment income	2,192,798	2,018,568	174,230	2,233,678	2,020,839	212,839
Income	7,540,887	7,120,395	420,492	7,695,065	7,146,473	548,592
Policy benefits (net)	(2,258,150)	(2,142,664)	(115,486)	(1,648,111)	(1,500,428)	(147,683)
Sales remuneration and administrative expenses	(1,444,746)	(1,424,028)	(20,718)	(1,309,130)	(1,298,307)	(10,823)
Transfer from shareholders	-	-	-	-	-	-
Transfer to statutory fund	(422,094)	(422,094)	-	(326,770)	(326,770)	-
Outflow	(4,124,990)	(3,988,786)	(136,204)	(3,284,011)	(3,125,505)	(158,506)
Net movement for the year	3,415,897	3,131,609	284,288	4,411,054	4,020,968	390,086
Balance at beginning of the year	12,776,351	11,704,718	1,071,633	8,365,297	7,683,750	681,547
Contract liabilities ceded to reinsurers	101,809	101,809	-	197,348	197,348	-
Balance at end of year	16,294,057	14,938,136	1,355,921	12,973,699	11,902,066	1,071,633

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 2013:					
Linked and market-related insurance contract liabilities	219,788	2,400,312	5,031,954	417,630	8,069,684
Insurance Contract liabilities:					
Reversionary bonus policies	190,290	194,884	405,125	-	790,299
Other non-participating liabilities	698,718	872,408	1,684,332	2,822,695	6,078,153
	889,008	1,067,292	2,089,457	2,822,695	6,868,452
Total insurance contracts liabilities:	1,108,796	3,467,604	7,121,411	3,240,325	14,938,136
Deposit administration contracts	-	-	-	1,355,921	1,355,921
Total long term policy liabilities	1,108,796	3,467,604	7,121,411	4,596,246	16,294,057
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

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 2013.

	Gross provisions KShs. '000	Reinsurance assets KShs. '000	Net KShs. '000
Long-term business			
Insurance contracts liabilities	6,868,452	(101,809)	6,766,643
Market linked insurance liabilities	8,069,684	-	8,069,684
Deposit administration contracts	1,355,921	-	1,355,921
	16,294,057	(101,809)	16,192,248

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 contracts 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 summary of the movements in the reinsurance asset is outlined in Note 17.

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% (2012: 12.5%).

INSURANCE CONTRACTS

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

	2013	2012
Reversionary bonus	2.0%	2.5%
Terminal bonus	2.0%	2.5%
Total bonus declared	4.0%	5.0%

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

27. GROUP PROVISIONS

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

	2013 KShs.'000	2012 KShs.'000
General provision on Insurance claims	39,113	41,676
Specific provision for financial guarantee	17,305	-
	56,418	41,676
The movement in the provisions is as follows:		
At 1 January	41,676	56,813
Additional claim provided	17,305	-
Unused amounts reversed	(2,563)	(15,137)
At end of year	56,418	41,676

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.

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% (2012: 30%). The movement on the deferred income tax account is as follows:

For the year ended 31 December 2013

	At start of year Restated KShs. '000	(Charge)/ credit to Income statement KShs. '000	At end of year KShs. '000
Property and equipment	1,347	249	1,596
Quoted shares – fair value gain	5,458	(5,458)	-
Provisions	14,525	11,929	26,454
Tax losses carried forward	3,865	(631)	3,234
Deferred tax on life fund surplus	(255,646)	(126,628)	(382,275)
	(230,451)	(120,539)	(350,991)
Pan Africa Life Insurance Limited	(255,646)	(126,628)	(382,275)
PA Securities Limited	18,426	3,609	22,035
Mae Properties Limited	3,234	-	3,234
SIM Kenya	1,925	(18)	1,907
Pan Africa Insurance Holdings Limited	1,610	2,498	4,108
	(230,451)	(120,539)	(350,991)

Mae properties limited's deferred tax asset has not been recognised as the directors are of the view that the company may not generate any taxable income in the near future to precipitate utilisation of the same.

28. DEFERRED INCOME TAX (continued)

The impact of deferred tax movement to the financial statements is depicted below:

	At start of year Restated KShs.'000	Movement KShs.'000	At end of year KShs.'000
Property and equipment	235	1,361	1,596
Quoted shares – fair value gain	-	-	-
Provisions	1,690	24,764	26,454
Tax losses carried forward	-	-	-
Deferred tax on life fund surplus	(255,646)	(126,629)	(382,275)
	(253,721)	(100,504)	(354,225)
Deferred tax not recognised	3,234	-	3,234
Deferred tax Asset	1,925	26,125	28,050
Deferred tax Liability	(255,646)	(126,629)	(382,275)

For the year ended 31 December 2012 (Restated):

	At start of year Restated KShs.'000	(Charge)/ credit to Income statement KShs.'000	At end of year Restated 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
Deferred tax on life fund surplus	157,616	98,031	255,647
	201,152	77,765	278,917
Pan Africa Life Assurance Limited	157,616	98,031	255,647
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
Deferred tax liability	157,616	98,031	255,647

b) COMPANY

For the year ended 31 December 2013:

Plant and equipment	17	94	111
Provisions	1,593	2,404	3,997
Deferred tax	1,610	2,498	4,108
Deferred income tax recognised	-	4,108	4,108

28. DEFERRED INCOME TAX (continued)

b) COMPANY (continued)

	At start of year Restated KShs. '000	(Charge)/ credit to Income statement KShs. '000	At end of year Restated KShs. '000
For the year ended 31 December 2012:			
Plant and equipment	(50)	67	17
Provisions	5,471	(3,878)	1,593
Deferred income tax not recognised	5,421	(3,811)	1,610

c) PRIOR YEAR ADJUSTMENT

The group's surplus arising from the re-measurement of assets and liabilities held in the life fund to their fair value is transferred to the statutory reserve. Under the Income Tax Act, the Life fund is not subject to income tax until such time when a portion of the surplus as determined by the actuary, has been recommended for "distribution" to the shareholders' fund. Only the portion of the surplus recommended for transfer to the shareholders' fund is taxable. If the actuary recommends an amount to be transferred to the shareholders, then income tax crystallises even if the amount itself is subsequently not transferred or distributed to shareholders.

In the previous years, life insurers in Kenya generally did not compute deferred tax on statutory reserve based on previous application of the definition and recognition principles of deferred tax as contained in IAS 12. The life insurers accounted for the assets and liabilities of the life business in the life fund since life insurance entities split their business within a legal entity into two components - the Life Fund (for policyholders) and the shareholders' fund. The previous accounting treatment adopted by the group was based on the interpretation of what constituted the re-measurement of the assets and liabilities of the life fund. At the time, the life fund was seen as distinct non-tax paying entity from the shareholders fund. As the life fund was exempt from taxation, the re-measurement of an asset that would give rise to potential deferred taxation was that of the life fund as a whole which was triggered by the distribution of the surplus to the shareholders fund by the actuary. As such distribution is fully taxable immediately on distribution, this re-measurement of the life fund as a whole did not give rise to any deferred taxation.

In the current year, there has been a shift in thinking when considering the life fund as being distinct from the shareholders' funds. This thinking has been further emphasised by the IFRS 10 which provides further guidance as to what constitutes a silo. Without this distinction between the different components, the tax consequences of what is now viewed as co-mingled assets in a single entity are taken into account immediately and the allocation of profit by the actuary no longer becomes the triggering event for a re-measurement.

In the light of current IFRS requirement, the group has decided to account for deferred tax retrospectively. Having measured the total policyholders' assets and liabilities, the surplus represents an expectation of how the assets/ liabilities of the entity would be realised at the reporting date. Thus the surplus on re-measurement of the assets and liabilities of the company creates a potential temporary difference – that is, an amount that will ultimately be subject to taxation once it is allocated.

With now no distinction being seen between the life fund and the shareholders' fund in the same entity, any surplus creates potential temporary differences which are now considered for the purposes of deferred taxation. As the assets and liabilities at reporting date are realised or crystallise, the full surplus will ultimately be fully allocated to shareholders. Hence deferred taxation is now being provided on the full re-measurement i.e. surplus.

28. DEFERRED INCOME TAX (continued)

c) Prior year adjustment (continued)

The Group has restated the retained earnings given the background outlined above. As the restatement affects only the financial statements of Pan Africa Life Assurance Limited the effect of the restatement has been disclosed from the perspective of this company in the note below:

	2011 KShs.'000	2012 KShs.'000	2013 KShs.'000
Balance as at 01 January	74,327	(174,183)	(276,167)
Deferred tax cumulative fund balance	(148,451)	-	-
Deferred tax on surplus	(9,165)	(98,031)	(126,628)
Profit for the year	23,160	322,816	422,093
Transfer From shareholders	(9,286)	-	-
Transfer to statutory fund	(30,550)	(326,769)	(422,093)
Dividends paid	(74,218)	-	-
Balance as at 31 December	(174,183)	(276,167)	(402,795)
Balance before restatement	(16,567)	(20,520)	(20,520)
Restatement	157,616	255,647	382,275
Deferred tax cumulative fund balance	(148,451)	(157,616)	(255,647)
Deferred tax on surplus	(9,165)	(98,031)	(126,628)

The impact of the restatement on the opening retained earnings of the group at 1 January 2012 has been provided in the consolidated statement of changes in equity. The impact of the adjustment in the consolidated financial statements is similar to the adjustments made in the financial statements of Pan Africa Life Assurance Limited.

	2011 KShs.'000	2012 KShs.'000	2013 KShs.'000
Deferred tax liability	-	157,616	255,647
Effect on income statement	157,616	98,031	126,628
Carrying amount	157,616	255,647	382,275

29. GROUP INSURANCE PAYABLES

	2013 KShs.'000	2012 KShs.'000
Outstanding claims	261,607	205,557
Payables arising out of direct insurance	54,090	36,387
Payables arising out of reinsurance operations	27,502	13,433
Total insurance payables	343,199	255,377

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

30. PAYABLES AND OTHER CHARGES

	Group		Company	
	2013 KShs.'000	2012 KShs.'000	2013 KShs.'000	2012 KShs.'000
Amounts due to related parties (note 36)	108,853	113,813	426,257	421,156
Unclaimed dividends	31,715	32,010	31,715	32,010
Stale cheques	54,706	54,684	-	-
Deposits received from sale of plots	118,548	-	118,548	-
Accruals	80,567	89,126	7,796	32,000
Other payables	338,754	245,827	57,266	38,648
	733,143	535,460	641,582	523,814

Charges are included in financial liabilities at amortized cost.

31. EARNINGS PER SHARE

	2013 KShs.'000	2012 Restated KShs.'000
Net profit attributable to ordinary shareholders for basic and diluted earnings	1,253,179	600,240
Weighted average number of ordinary shares for basic and diluted earnings per share	96,000	96,000
Basic earnings per ordinary share KShs.	13.05	6.25
Diluted earnings per ordinary share KShs.	13.05	6.25
b) Company		
Net profit attributable to ordinary shareholders for basic and diluted earnings	280,346	221,121
Weighted average number of ordinary shares for basic and diluted earnings per share	96,000	96,000
Basic earnings per ordinary share KShs.	2.92	2.30
Diluted earnings per ordinary share KShs.	2.92	2.30

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	
	2013 KShs.'000	2012 KShs.'000	2013 KShs.'000	2012 KShs.'000
Not later than 1 year	14,296	15,991	8,951	9,594
Later than 1 year but not later than 5 years	72,978	81,631	45,694	46,501
More than 5 years	23,022	25,752	14,415	14,017
	110,296	123,374	69,060	70,112

34. DIVIDENDS PAID AND PROPOSED

	2013 KShs.'000	2012 KShs.'000
Proposed dividends per share	4.5	3.0
Number of shares	96,000	96,000
Total dividends proposed in the year	432,000	288,000

Proposed for approval as at 31 December (not recognised as a liability before approval at the Annual General Meeting to be held on 16 May 2014):

	2012 KShs.'000	2011 KShs.'000
Dividends paid	3	2
Number of shares	96,000	96,000
Total final dividend paid	288,000	192,000

Payment of dividends is subject to withholding tax at the rate of 5% in 2013 (2012:5%) for residents and 10% (2012:10%) 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 2013:	Ordinary life KShs. '000	Super annuation KShs. '000	Investments KShs. '000	Consolidation adjustment KShs. '000	Group KShs. '000
Profit before tax:	96,488	325,602	1,092,266	2,088	1,516,444
Adjusted for:					
Interest in financial assets as at fair Value through profit and loss	(99,847)	(334,271)	(56,169)	-	(490,287)
Interest on held to Maturity financial assets	(133,859)	(448,137)	-	-	(581,996)
Revaluation gain on investment property	-	(95,000)	-	-	(95,000)
Depreciation and amortization	6,116	20,476	2,443	-	29,035
Dividend Income	(6,357)	(21,280)	(3,800)	-	(31,437)
Fair value gains on financial assets at fair value through profit or loss	(120,908)	(404,781)	(548,020)	-	(1,073,709)
Rental income	(39,443)	-	-	-	(39,443)
Intergroup charge	-	-	21,663	(21,663)	-
Tax paid	(9,386)	-	(147,489)	-	(156,875)
Investment income	(69,423)	(232,414)	(110,746)	21,663	(390,920)
Write-down of associate	-	-	-	-	-
Share of results of associates before income tax	-	-	-	(2,088)	(2,088)
	(376,618)	(1,189,806)	250,148	-	(1,316,276)
Changes in working capital:					
Actuarial value of policyholders liabilities	1,761,358	1,274,777	-	-	3,036,135
Payables under deposit admin contracts	-	284,288	-	-	284,288
Policy and Mortgage loans	-	-	-	-	-
Reinsurance asset	-	95,539	-	-	95,539
Insurance receivables	6,321	21,162	-	-	27,483
Insurance payables	20,199	67,623	-	-	87,822
Other receivables	15,523	51,968	684,256	(498,506)	253,241
Trade and other payables	24,464	81,900	(407,187)	498,506	197,683
Cash generated from operations	1,451,246	687,452	527,217	-	2,665,915

35. CASH GENERATED FROM OPERATIONS (Continued)

Reconciliation of profit before income tax to cash generated from operations

b) 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)
Provisions write back	-	-	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)
Insurance receivables	477,487	-	(586,531)	-	(109,044)
Insurance payables	(35,143)	-	-	-	(35,143)
Policy loans	(14,964)	-	-	-	(14,964)
Other receivables	(137,945)	-	169,766	48,633	80,454
Trade and other payables	54,146	14,054	81,136	(48,633)	100,703
Cash generated from / (used 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

c) COMPANY

CASH FLOW FROM OPERATIONS	2013 KShs. '000	2012 KShs. '000
Profit before tax	398,542	308,779
Adjustment for:	-	-
Investment income	(39,582)	(17,335)
Depreciation and amortization	1,626	1,645
Write down of associate	-	7,300
Intergroup charges	21,663	41,186
Tax paid	(98,653)	(213,444)
	283,596	128,131
Changes in working capital		
Other receivables	257,351	108,200
Trade and other payables	145,650	(35,411)
At end of year	686,597	200,920

36. RELATED PARTY TRANSACTIONS

	Group		Company	
	2013 KShs. '000	2012 KShs. '000	2013 KShs. '000	2012 KShs. '000
(a) Amounts due from related parties:				
PA Securities Limited (Subsidiary)	-	-	38,946	38,946
Hubris Holdings Limited (Parent)	9,940	4,237	-	-
Total	9,940	4,237	38,946	38,946

There were no provisions made or amounts written off on related party balances during the year (2012: nil). The amounts due from related parties are non interest bearing.

	Group		Company	
	2013 KShs. '000	2012 KShs. '000	2013 KShs. '000	2012 KShs. '000
Payables to related parties				
Pan Africa Life Assurance Limited (Subsidiary)	-	-	110,978	65,866
PA Securities Limited (Subsidiary)*	-	-	252,839	292,788
African Life Assurance Company Limited (Parent)	-	46,242	-	-
Sanlam Investment Markets(Parent)	103,963	-	-	-
Mae properties (Subsidiary)	-	-	62,440	62,502
SIM South Africa (Sister company)	4,890	-	-	-
SIM (K) LTD (Subsidiary)	-	67,571	-	-
Total	108,853	113,813	426,257	421,156

*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)

(c) Key management compensation:

	Group		Company	
	2013 KShs.'000	2012 KShs.'000	2013 KShs.'000	2012 KShs.'000
Salaries and other short-term employment benefits	114,967	104,515	17,929	16,299
Post-employment benefits	12,113	11,012	2,180	1,982
	127,080	115,527	20,109	18,281

(d) Directors' remuneration:

	Group 2013	Group 2012	Company 2013	Company 2012
Fees	11,699	10,668	3,206	5,350
Other emoluments (included in (c) above	30,601	28,074	3,301	3,001
Total	42,300	38,742	6,507	8,351
Mortgage loans to key management where collateral is accepted as security	74,532	71,150	-	-

(e) Directors' pension

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

(f) Other related party transactions through the income statement

	Group 2013	Group 2012	Company 2013	Company 2012
Investment income:				
Investment management fess-SIM (K) limited	(4,932)	(39,005)	-	-
Other operating income				
Management expenses:				
Interest expense on intergroup borrowings	-	-	21,663	41,186
Management fees- Sanlam investment Management Kenya	7,304	10,864	-	-
	7,304	10,864	21,663	41,186

(g) 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
Sanlam Investment Management (Kenya) Limited	Kenya	Investment Managers	100
Mae Properties Limited	Kenya	Investment in Properties (dormant)	100
Chem Chemi Mineral Water Limited	Kenya	Dealing with bottled water (dormant)	100

The assets and liabilities held by the respective companies can only be transferred within the subsidiaries if a proper Board resolution is passed and sanctioned by the shareholders as provided by the regulatory framework touching on transfer of the said assets and liabilities.

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 9 to 13. 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 9);
(ii) The fair value of other Group operations, which includes the land and property development, capital markets and short - term insurance.

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

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

Processes for managing capital:

a) Capital allocation methodology

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

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

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

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

37. CAPITAL MANAGEMENT (Continued)

a) Capital allocation methodology (continued)

The Group's policy 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.

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 long term required capital covered business 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.

37. CAPITAL MANAGEMENT (Continued)

b) Required Capital (continued)

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 of risk management information from the individual businesses to the Pan Africa Insurance Holdings Limited Board.

38. RISK MANAGEMENT (continued)

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

OTHER RISK MONITORING MECHANISMS

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

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

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

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

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

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

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

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

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

Investment Committee
Determines and monitors appropriate investment strategies for policyholder solutions

IT Risk Management
Manages and reports Group-wide IT risks

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

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

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:

a) 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)

(b) 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

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

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

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

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

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

38. RISK MANAGEMENT (continued)

c) Risk types

The Group is exposed to the following main risks:

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

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.

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.

38. RISK MANAGEMENT (continued)

l) Legislation risk

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

m) Strategic risk

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

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

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

n) Risk management - life insurance

The Group's life insurance business is exposed to financial risk through the design of some policyholder solutions, and in respect of the value of the businesses' capital. Non - participating policyholder solutions and those that provide investment guarantees, such as market - related business, stable and reversionary bonus business and non-participating annuity business, expose the life insurance businesses to financial risk. Other business, such as linked policies 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.

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
d) Its interest in the free estate of long term with profit funds

38. RISK MANAGEMENT (continued)

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 2013			
Equities and similar securities	521,905	+(-)36.9%	+(-)192,669
31 December 2012			
Equities and similar securities	329,236	+(-)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.

o) Market risk

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 2013, all stable and reversionary bonus business portfolios had a funding level in excess of 100%. (2012: 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;

38. RISK MANAGEMENT (continued)

o) Market risk – policyholder solutions (continued)

Equity risk (continued)

- Limits on asset concentration – with regard to strategic investments, the exposure of policyholders' portfolios to these investments is based on portfolio investment considerations and restricted with reference to a specific counter's weight in the benchmark portfolio;
- Limits on exposure to some particular types of assets, such as unlisted equities, property and hedge funds; and
- Regulatory constraints.

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

p) Interest rate risk

Interest rate risk 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.

	Gross portfolio	% change	2013 KShs.'000	% change in base	Gross portfolio	2012 KShs.'000
Financial assets	-	-	-	-	-	-
Public sector stocks and loans	4,406,166	+(-)21.0%	+(-) 915,061	+(-)46.0%	3,544,467	+(-)1,642,353

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

Linked and market - related business

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 interest rate risk in respect of linked 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).

38. RISK MANAGEMENT (continued)

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 ris

The amount that best represents the Group's and Company maximum exposure to credit risk at end of year 2013 is tabulated in the industry analysis below:

Group:	Government KShs.'000	Services KShs.'000	Financial Services KShs.'000	Manufacturing KShs.'000	Non Governmental Organizations KShs.'000	Others KShs.'000	Total KShs.'000
Public sector stocks and loans	3,276,893	1,129,273	-	-	-		4,406,166
Held to maturity	5,536,053	-	-	-	-	-	5,536,053
Reinsurers' share of technical provisions and reserves	-	-	101,809	-			101,809
Receivables arising out of direct insurance arrangements	-	-	159,290	-	-	-	159,290
Loans	-	-	-	-	-	1,006,619	1,006,619
Receivables and other financial assets	-	-	-	-	-	102,610	102,610
Cash and cash equivalents	-	-	4,688,097	-	-	-	4,688,097
	8,812,946	1,129,273	4,949,196	-	-	1,109,229	16,000,644
Receivables and other financial assets	-	-	-	-	-	62,116	62,116
Cash and cash equivalents	-	-	16,436	-	-	-	16,436
	-	-	16,436	-	-	62,116	78,552

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 2012 is tabulated in the industry analysis below:

Group:	Government KShs.'000	Services KShs.'000	Financial Services KShs.'000	Manufacturing KShs.'000	Non Governmental Organizations KShs.'000	Others KShs.'000	Total 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	4,650,357	-	-	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)

Credit exposure by credit rating

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

Group:
31 DECEMBER 2013

	Neither past due nor impaired KShs.'000	Past due but not impaired KShs.'000	Impaired KShs.'000	Total KShs.'000
Financial Instruments:	9,942,219			9,942,219
Reinsurers' share of technical provisions and reserves	101,809	-	-	101,809
Receivables arising out of direct insurance arrangements	159,290	-	124,866	284,156
Loans	1,006,619	-	5,751	1,012,370
Receivables and other financial assets	102,610	-	-	102,610
Cash and cash equivalents	4,688,097	-	-	4,688,097
	16,000,644	-	130,617	16,131,261

Company
31 DECEMBER 2013

	Neither past due nor impaired KShs.'000	Past due but not impaired KShs.'000	Impaired KShs.'000	Total KShs.'000
Financial Instruments:	-	-	-	-
Receivables and other financial assets	62,116	-	-	62,116
Cash and cash equivalents	577,688	-	-	577,688
	639,804	-	-	639,804

The fair value of collateral on the mortgage loans of KShs 785,350,000 (2012: 377,896,000) amounted to KShs. 725,500,000 (2012: KShs. 695,300,000) while the surrender value of the policy loans adequately covers the outstanding loans of KShs 586,531000 (2012: KShs 586,531,000) 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 or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Group's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit-linked business.

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

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

38. RISK MANAGEMENT (Continued)

t) Market risk – sensitivities

Sensitivities that illustrate the effect of changes in investment return assumptions on the value of in-force (VIF) business are disclosed on page 13. The change in VIF relative to the base value is an indication of how the present value of future after-tax profits (including the allowance for the cost of capital at risk) are impacted based on these assumptions.

If investment return (and inflation) assumptions were to decrease by 1%, coupled with a 1% decrease in risk discount rates, and with bonus rates changing commensurately, the impact on the present value of future after-tax profits would be a decrease of KShs. 26.9 million (2012: decrease of KShs. 20.9 million).

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.

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

Sensitivities	% change in base	Insurance Participating	Insurance non-participating	Shareholders' funds
31 December 2013				
Interest rate	+(-) 3%	+(-)22,463	+(-)64,563	+(-)11,240
Equity/Property	+(-) 8%	+(-)33,363	+(-)19,113	+(-)4,130
31 December 2012				
Interest rate	+(-) 1%	+(-)28,563	+(-)67,563	+(-)11,850
Equity/Property	+(-) 10%	+(-)55,563	+(-)29,123	+(-)5,130

The above sensitivity analysis excluded unit linked investments, as the movement in assets and liabilities offset each other. Risk discount rate sensitivity is disclosed in note 4 of the Embedded Value Report.

u) Credit risk – policyholder solutions & capital

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

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 2013:	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	4,406,166	-	-	4,406,166
Held to maturity financial assets	5,536,053	-	-	5,536,053
Reinsurance assets	101,809	-	-	101,809
Receivables and other financial assets	102,610		-	102,610
Mortgages	362,979	3,923	5,751	372,653
Policy loans	458,819	180,898	297	640,014
Insurance receivables	34,424	-	124,866	159,290
Deposits with financial institutions	4,505,266	-	-	4,505,266
Cash at bank	182,831	-	-	182,831
Gross financial assets	15,690,957	184,821	130,914	16,006,692

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	397,033	189,498	297	586,828
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	13,544,321	193,421	49,176	13,786,918

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 2013			
0-3 months	112,157	-	112,157
3-6 months	68,741	3,923	72,664
	180,898	3,923	184,821
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

The past due receivables are not impaired and continue to be paid. An impairment provision of KShs 130.9 million (2012: KShs 49.1 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 2013	5,751	297	43,128	49,176
Additional provision	-	-	81,738	81,738
Unused amounts reversed	-	-	-	-
At end of year	5,751	297	124,866	130,914
At 1 January 2012	5,751	-	53,692	59,413
Additional provision	-	297	-	-
Unused amounts reversed	-	-	(10,564)	(10,267)
At end of year	5,751	297	43,128	49,176

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 and financial guarantees provided to parties outside the Group. There are no loan commitments provided that are irrevocable over the life of the facility (nor revocable only in adverse circumstances).

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 expose the Group to 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 2013:					
Group	**1 Year**	**1-5 Years**	**>5 Years**	**Open ended**	**Total**
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Financial liabilities					
Market linked insurance contracts	219,788	2,400,312	5,031,954	417,630	8,069,684
Non market related insurance contracts	889,008	1,067,292	2,089,457	2,822,695	6,868,452
Deposit administration contracts	-	-	-	1,355,921	1,355,921
Insurance payables				343,199	343,199
Provisions	-	56,418	-	-	56,418
Payables and other charges	733,143	-	-	-	733,143
Total liabilities	1,841,939	3,524,022	7,121,411	4,939,445	17,426,817
Company					
Payables and other charges	641,582	-	-	-	641,582
Total liabilities	641,582	-	-	-	641,58

Year ended 31 December 2013:					
Group					
	1 Year	**1-5 Years**	**>5 Years**	**Open ended**	**Total**
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Financial Assets:					
Equities and similar securities	-	-	-	3,775,552	3,775,552
Public sector stocks and loans	298,267	2,286,710	7,357,242	-	9,942,219
Mortgages and policy loans	10,066	593,905	402,648	-	1,006,619
Long-term reinsurance assets	82,465	17,308	2,036	-	101,809
Insurance receivables	159,290	-	-	-	159,290
Receivables and other financial assets	102,610	-			102,610
Deposits with financial institutions	4,505,266	-	-	-	4,505,266
Cash and bank balances	182,831	-	-	-	182,831
Total assets	5,340,795	2,897,923	7,761,926	3,775,552	19,776,19
Company					
Receivables and other financial assets	62,116	-	-	-	62,116
Deposits with financial institutions	561,252	-	-	-	561,252
Cash and bank balances	577,688	-	-	-	577,688
Total Assets	1,201,056	-	-	-	1,201,056

38. RISK MANAGEMENT (Continued)

w) Liquidity risk (Continued)

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	5,404,845	2,341,251	6,034,774	1,497,969	15,278,839

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)

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;
vii)	The risk premiums for Group risk business and some of the in-force individual risk business can be adjusted within 12 months should claims experience deteriorate to the extent that such an adjustment is considered necessary.
	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	
	2013	2012	2013	2012	2013	2012
KShs.'000			KShs.'000	KShs.'000	KShs.'000	KShs.'000
0 – 500	295,607	307,598	4,221,082	3,429,301	3,240,365	2,759,249
500 - 1 000	53,415	55,582	14,257,006	11,582,709	10,852,091	9,240,818
1 000- 5 000	85,178	88,634	38,908,341	31,610,002	19,125,256	16,285,618
5 000- 8000	424	442	139,610,627	113,422,780	69,811,762	59,446,404
>8 000	483	502	209,550,091	170,243,155	106,518,604	90,703,168
	435,107	452,758	406,547,147	330,287,949	209,548,078	178,435,258

Non-participating annuity payable per annum per life insured

	Number of lives		Before Reinsurance		After reinsurance	
	2013	2012	2013	2012	2013	2012
KShs.'000			KShs.'000	KShs.'000	KShs.'000	KShs.'000
0 – 20	358	63	3,781	684	3,781	684
20 – 40	317	83	9,355	2,549	9,355	2,549
40 – 60	170	77	8,594	3,793	8,594	3,793
60 – 80	146	67	10,394	4,846	10,394	4,846
80-100	143	59	13,028	5,366	13,028	5,366
>100	1,378	523	448,702	165,915	448,702	165,915
	2,512	872	493,854	183,153	493,854	183,153

38. RISK MANAGEMENT (Continued)

x) Insurance risk (Continued)

Concentration risk

Value of benefits insured per individual: participating life business (linked and market related)

	Number of lives		Before Reinsurance		After reinsurance	
	2013	2012	2013 KShs.'000	2012 KShs.'000	2013 KShs.'000	2012 KShs.'000
With profits	4,312	5,369	442,097,037	539,695,508	442,097,037	539,695,508
Unit linked	67,216	76,705	-	-	-	
Total	71,528	82,074	442,097,037	539,695,508	442,097,037	539,695,508

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 3.84 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 2006–2013.

		Before 2006	2006	2007	2008	2009	2010	2011	2012	2013	Total
	Note	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	Kshs' 000	KShs.'000
At end of the year			784,257	1,274,676	1,003,251	762,994	892,333	1,233,696	1,500,428	1,590,454	
One year later			785,650	1,288,327	1,007,647	889,072	913,483	1,254,273	1,575,449		
Two years later			795,789	1,297,268	1,000,060	892,122	956,981	1,316,987			
Three years later			815,286	1,319,302	984,372	924,156	1,004,830				
Four years later			881,969	1,293,495	1,069,131	970,364					
Five years later			909,024	1,278,268	1,122,588						
Six years later			886,147	1,342,182							
Seven years later			930,454								
Current estimate of cumulative claims incurred	25		930,454	1,342,182	1,122,588	970,364	1,004,830	1,316,987	1,575,449	1,590,454	9,853,307

38. RISK MANAGEMENT (Continued)

z) Claims development table (continued)

	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	2013 Kshs' 000	Total KShs.'000
At end of the year			(399,105)	(440,543)	(367,922)	(334,816)	(592,611)	(963,296)	(1,245,052)	(1,247,255)	
One year later			(406,546)	(511,332)	(484,893)	(405,884)	(609,642)	(983,932)	(1,320,073)		
Two years later			(437,762)	(521,173)	(498,735)	(400,755)	(701,168)	(1,046,646)			
Three years later			(578,965)	(673,100)	(493,966)	(789,778)	(749,017)				
Four years later			(662,770)	(661,332)	(865,292)	(835,986)	-				
Five years later			(683,101)	(1,016,570)	(918,749)		-				
Six years later			(704,728)	(1,080,483)							
Seven years later			(749,035)								
Cumulative payments to date			(749,035)	(1,080,483)	(918,749)	(835,986)	(749,017)	(1,046,646)	(1,320,073)	(1,247,255)	(7,947,244)
Position	27		181,419	261,698	203,839	134,378	255,813	270,341	255,376	343,199	1,906,063

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:

	2013 KShs.'000	2012 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

	2013 KShs.'000	2012 KShs.'000
Total life assets	18,623,185	14,686,548
Non admitted assets	(287,542)	(291,655)
Admitted assets	18,335,643	14,394,893
Assets not admitted comprise the following:		
Premium debtors	78,855	123,426
Prepayment	13,575	26,105
Fixed assets	195,112	142,124
Total Non-admitted assets	287,542	291,655

39. STATUTORY COMPLIANCE (Continued)

c) 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.

	2013 KShs.'000	2012 Restated KShs.'000
Total admitted assets (A)	18,335,643	14,394,893
Total admitted liabilities (B)	(17,139,196)	(13,624,654)
Total liabilities:	17,521,471	13,880,301
Non admitted liability: deferred tax asset	(382,275)	(255,647)
Total admitted assets	17,139,196	13,624,654
Surplus assets (A-B)	1,196,447	770,239
Less		
5% of Admitted liabilities	856,960	681,233
Solvency Margin as per insurance Act	339,487	89,007
No of times solvency cover	3.52	8.65

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

	2013 KShs.'000	2012 KShs.'000
Total assets under lien with IRA (A)	1,728,350	1,738,350
Lien amount required by insurance regulation (B)	916,782	719,745
Number of times lien cover (A/B)	1.89	2.42

NOTES

PROXY FORM

To: **The Share Registrars**
Image Registrars Limited
Barclays Plaza, 5th Floor, Loita Street
P.O. Box 9287- 00100
NAIROBI

PROXY FORM

I/We……………………………………………………………………………………… of …………………………………………………

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

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

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

as my/our proxy to vote for me/us on my/our behalf at the 68th Annual General Meeting of the company to be held on 16 May 2014

at 10.00 am and at any adjournment thereof.

Signed/Sealed this ……………………………… day of ………………………… 2014

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.