PAN AFRICA INSURANCE HOLDINGS LIMITED

Strength in our Diversity

Annual Report & Financial Statements 2014

Diversity is about all of us, and the art of thinking independently together.

Contents

Page

Company Information	4
Five Year Group Review	5 - 6
Report of the Directors	7 - 8
Profile of the Directors	10 - 11
Senior Management	12 - 13
Chairman's Report	14 - 16
Taarifa ya Mwenyekiti	17 - 19
CEO Report	20 - 22
Notice of the Annual General Meeting	23 - 24
Ilani ya Mkutano Mkuu wa Mwaka	25 - 26
Corporate Social Responsibility	27 - 31
Corporate Governance Report	32 - 40
Statement of Directors' Responsibilities	41
Report of the Independent Auditor	42 - 43
Report of the Statutory Actuary	44
Embedded Value Report	45 - 48
Financial Statements:	
Group and Company Statement of Profit or Loss	49
Group and Company Statement of Comprehensive Income	50
Group and Company Statement of Financial Position	51
Group Statement of Changes in Equity	52
Company Statement of Changes in Equity	53
Group and Company Statement of Cash flows	54 - 56
Notes to the Financial Statements	57 - 145

Strength in our Diversity

He who is different from me does not impoverish me - he enriches me. Our unity is constituted in something higher than ourselves - in Man... For no man seeks to hear his own echo, or to find his reflection in the glass.

Antoine de Saint-Exupéry

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 involvement. We strive to be relevant at all times and responsive to our customer needs.

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.

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

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

INDEPENDENT AUDITORS
PricewaterhouseCoopers
PWC Tower,
Waiyaki Way,
Westlands
P.O. Box 43963 - 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

Five Year Group Review

	2010 KShs.m	2011 KShs.m	2012 KShs.m	2013 KShs.m	2014 Kshs.m
Statement of profit or loss:					
Total other revenue	1,308	1,056	595	685	294
Operating profit before tax and share of associate	359	551	833	1,514	1,150
Profit attributed to shareholders	589	286	600	1,253	871
Long term insurance business:					
Gross premium income	3,830	3,648	5,441	5,324	5,247
Net premium income	3,542	3,300	5,126	5,102	4,991
Net benefits and claims paid	2,998	1,876	5,521	5,274	5,054
Statement of financial position:					
Total equity	1,832	1,965	2,373	3,338	3,778
Long term policy liabilities	7,200	7,860	11,902	14,938	17,446
Share capital	240	480	480	480	480
Total assets	10,671	11,514	16,474	21,158	24,599
	KShs.	**KShs.**	**KShs.**	**KShs.**	**KShs.**
Key indicators:					
Basic earnings per share	6	3	6	13	9.07
Dividends per share	3	2	3	4.5	*
Dividends	144	192	288	432	-
Market capitalisation at year end (KShs. m)	3,144	1,992	3,864	8,640	11,520
* Bonus share issue one for two held					
Group share prices at the NSE:					
Annual High	87	110*	45	100	145
Annual Low	45	18	18	39	87
Share price at year end	66	21	40	90	120

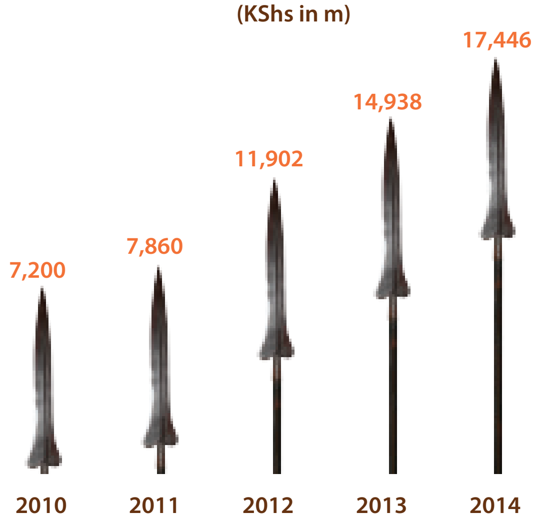
* Price before bonus issue

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 2014 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.

Results

The results of the year are set out on page 49 of this Annual Report.

The profit after tax for the year of KShs 871,190,000 (2013: KShs 1,253,179,000) has been added to the retained earnings.

Dividends

Subject to the approval of the shareholders, the Directors will not recommend the payment of a dividend (2013: KShs 4.50 per share) at the 69th Annual General Meeting of the Company.

Subject to Regulatory and Shareholder Approvals, the Directors will recommend a bonus issue at the rate of 1 share for every 2 shares held in the issued and paid up share capital of the company to the shareholders at the 69th 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.

Authorization

The consolidated financial statements of Pan Africa Insurance Holdings Limited for the year ended 31 December 2014 were authorized for issue in accordance with a resolution of the directors on 26 February 2015. The owners have the power to amend the financial statements after issue.

Financial Statements

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

Directors

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

Dr John PN Simba	:	Chairman	
Tom Gitogo (Chief Executive)	:	Resigned 1st September 2014	
Margaret M Dawes			
James N Gitoho	:	Resigned 16 May 2014	
Rohan Patel	:	Appointed 16 May 2014	: Alternate: Baloobhai Patel
Susan Mudhune			
Thomas Wixley	:	Resigned 16 May 2014	
Jonathan Paul Wrench			
Bhekithemba Thabo Gamedze	:	Resigned 16 May 2014	
John Alexander Burbidge	:	Appointed 16 May 2014	
Matthys Lodewikus Olivier	:	Appointed 16 May 2014	
Mugo Kibati (Group Chief Executive Officer)	:	Appointed 17 February 2015	

- John Alexander Burbidge, who was appointed a director on 16 May 2014, retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election.

- Matthys Lodewikus Olivier, who was appointed a director on 16 May 2014, retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election.

- Rohan Patel, who was appointed a director on 16 May 2014, retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election.

Auditors

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

By Order of the Board

Emma Wachira
Company Secretary
26 February 2015

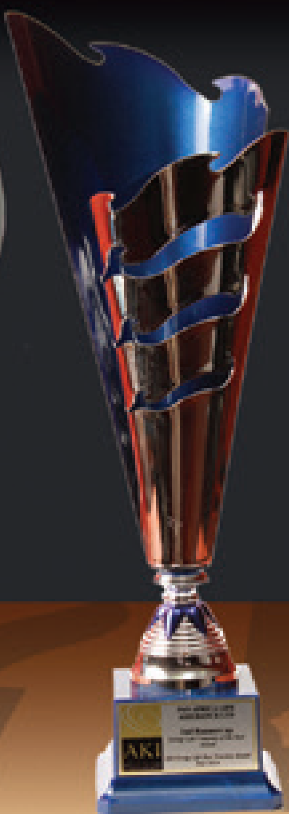
1st Runner up
Fraud Detection and Investigation

Winner
ICT Award

2nd Runner up
Corporate Social Responsibility Award

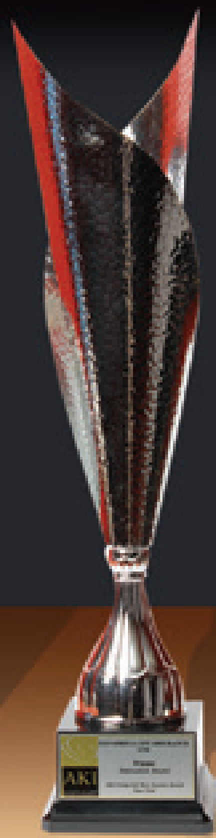
CIO (Chief Information Officer) Awards Top 100 in Kenya

Winner
FiRe (Financial Reporting) 2013



2nd Runner up
Group Life Company of the Year

Winner
Innovation Award



Winner
Innovation Award

Board of Directors

JOHN BURBIDGE (65)
Appointed to the Board on 16 May 2014

Occupation:
Accountant

Academic Qualifications:
Cheadle Hulme School , Manchester, United Kingdom. GCE O'levels - 9

Professional Qualifications:
Fellow of the Institute of Chartered Accountants

JONATHAN PAUL WRENCH (41)
Appointed to the Board on 9 August 2011

Occupation:
Head of Actuarial-Rest of Africa Sanlam Emerging Makets

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 (57)
Appointed to the Board in March 2005

Occupation:
Executive Director- Rest of Africa -Sanlam Emerging Markets

Academic Qualifications:
BSc (Biology) and University of London and Higher Diploma in Tax Law (University of the Witwatersrand)

Professional Qualifications:
ACA (England & Wales), Chartered Accountant (SA)

STEPHEN KAMANDA (48)
Appointed to the board in September 2014

Occupation:
Insurance Executive

Academic Qualifications:
MBA (Finance), Bachelor of Arts (Economics)

Professional Qualifications:
FCCA(UK), ICSA(UK), CPA(K)

DR. JOHN P N SIMBA (70) (Chairman)
Appointed to the Board in December 2001; Appointed as Chairman in March 2002

Occupation:
Lawyer, Partner in Simba & Simba, Advocates

Academic Qualifications:
Bachelor of Law (University of Dar-es-Salaam)

Professional Qualification:
Advocate of the High Court of Kenya

Board of Directors continued

SUSAN MUDHUNE (65)
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

ROHAN PATEL (39)
Appointed to the Board on 16 May 2014

Occupation:
Director of Corporate Development

Academic Qualifications:
MBA (International Management Development), Msc (Management), BA (Geography)

Professional Qualifications:
Certificate in Real Estate, Development and Hotel Investment, Cornell University

MUGO KIBATI (45)
Appointed to the Board in February 2015

Occupation:
Group Chief Executive Officer

Academic Qualifications:
MBA /MA (Intenational Business Finance/International Economics), M.S (Technology and Policy), BTech Electrical Engineering

Professional Qualifications:
FKIM, EBS, MBS

OLIVIER WIKUS (42)
Appointed to the Board on 16 May 2014

Occupation:
Head Group Financial Reporting, Sanlam

Academic Qualifications:
B. Accounting (University of Stellenbosch)-Cum Laude, B. Accounting (University of Stellenbosch)-Cum Laude

Professional Qualifications:
Chartered Accountant (SA)

Senior Management

Standing L-R: James Muiruri • Samson Kamau • Nelson Kabau • Stephen Kamanda
Sitting L-R: Martin Nzomo • Linda Were

• Joseph Wamwea • Kennedy Muriithi • Emma Wachira • Luke Mugambo
• Miriam Gathura • Patrick Wanjohi • Francis Ogwel

Introduction

It gives me great pleasure to introduce the Group's 2014 Annual Report and audited financial statements for the year ended 31 December, 2014. Pan Africa Insurance Holdings has continued to deliver excellent performance in the context of the prevailing operating environment, delivering best-in-class solutions to our clients and providing strong returns to our shareholders. We have continued to grow our geographic footprint while concurrently expanding our product offering and maintaining leadership in the Kenyan life market. We view the 33% growth in Pan Africa's share price in 2014 as testament to the faith our shareholders have placed in our strategy, and we undertake to continue to work hard to validate this trust.

Global Economy

Global economic developments in 2014 were a somewhat mixed bag, and while overall economic growth was not particularly stellar, neither did it disappoint entirely. The World Bank estimates global growth in 2014 at 2.6 percent, a marginal pick-up from 2.5 percent in 2013, but still well short of the rate of expansion experienced during the years preceding the 2008 global financial meltdown. During the year, high-income economies continued to battle with some of the more enduring aftereffects of the 2008 crisis, as emerging and developing economies suffered the consequences of inflexibility. Global GDP is expected to grow by 3.0 percent in 2015 and 3.3 percent in 2016, buoyed largely by a gradual recovery across the developed world and depressed oil prices. Developing economies as a group should see economic growth of 4.8 percent and 5.3 percent in 2015 and 2016 respectively, up considerably from 4.4 percent in 2014, as domestic headwinds to economic growth continue to recede.

2014 saw a continuation of the divergence in economic growth rates in major economies that has characterized global economic growth over the past few years. Activity in the U.S. and the U.K. gained traction on the back of loose monetary policy and improving labor markets, while the euro area and Japan lagged as legacies of the 2008 financial crisis continued to linger. China, as well as other emerging economies, continued to post only moderate growth, a reflection of unfavorable policy, weak external demand, political fragility and other cyclical factors. The year past will also be remembered for the sharp rise in global geopolitical risk, accounted for mainly by the Ukraine situation, as well as by the ISIS in Iraq and Syria. Also making headlines in 2014 was the steep fall in oil prices, which may well go down as the year's single most important economic development. A surge in supply coupled with weakening demand for oil saw prices fall 42 percent during the year.

A little closer to home, the economies of sub-Saharan Africa grew moderately in 2014. Some of the larger economies in that space, including our own, saw GDP grow more slowly on the back of lower commodity prices, subdued global demand, weaker foreign flows and capacity constraints. The Ebola epidemic also had a significantly disruptive influence on economic activity in parts of West Africa, but this should begin to dissipate as containment becomes more effective.

Domestic Economy

The economic performance of the domestic economy in 2014 lagged that recorded during 2013, averaging 5.1% for the first three quarters of the year versus 6.2% for the same period a year earlier. Growth was lifted for both periods following a statistical revision of the national accounts that happened in Q3 2014, the net effect of which was to raise Kenya's 2013 paper GDP by 25% to KES 4.8 trillion from KES 3.8 trillion prior to the rebasing. This additionally lifted Kenya into middle-income status, according to the World Bank.

Inflation was relatively well contained in 2014, despite a higher average of 6.9% for the year versus 5.7% in 2013. Rises in the Food & Non-Alcoholic Beverages and the Housing, Water, Electricity, Gas and other Fuels indices during the first half led to upward trending inflation during the first half of 2014, while softer global oil prices resulted in an easing of inflation during the latter half of the year. Monetary developments featured seasonal fluctuations in liquidity and external reserves, while the policy rate remained static at 8.50% through the year. On fiscal policy, meanwhile, increased government spending saw a further widening of fiscal and current account deficits, even as commodity prices fell in the face of a rising import bill. This latter situation led to a weakening currency, with the local unit falling 5.0% against the U.S. dollar over the year.

The outlook for 2015 is positive, predicated on easing political risk, depressed global oil prices, rising export volumes and ongoing infrastructure development, moderated somewhat by heightened security risk and its impact on investment and tourism.

Developments

On behalf of the Board of Directors, I would like to express our appreciation to Tom Gitogo, Pan Africa's former Chief Executive, for his many outstanding contributions to the firm. We were fortunate to have Tom lead us to several notable achievements since his appointment as CEO in April 2008, including the surge in gross premium income to KES 5.3 billion in 2013 from KES 2.5 billion in 2008, and the turnaround in profitability from a loss position of KES 96 million in 2008 to net profit of KES 1.25 billion in 2013. It is my expectation that Mugo Kibati, recently appointed as Group CEO, will provide leadership through the next stage of our development.

During the year, it emerged that Pan Africa Insurance Holdings sought to re-enter the short-term insurance market by way of the acquisition of a majority stake in Gateway Insurance. The Board anticipates significant value-creation and expects a host of synergies to be realized upon the conclusion of this transaction.

The official launch during the year of a suite of unit trust funds by Pan Africa Asset Management, the fund management subsidiary of Pan Africa Insurance Holdings, was the culmination of years of hard work and commitment. These products combine the benefits of attractive returns with easy accessibility through relatively low investment entry points, making them suited to individuals, groups and bodies corporate alike. The Pesa+, Pata+ and Chama+ funds (respectively money market, dividend and balanced funds) have already been received well by the market, and it is my expectation that these products will continue to enjoy robust growth whilst contributing radically to reshaping the domestic investment landscape.

Insurance Industry

Kenya's insurance industry continues to grow in leaps and bounds. According to the Insurance Industry Report by the Association of Kenya Insurers (AKI) for the half-year to June 2014, industry gross premiums and grew 21.1% in the year to June 2014, while total assets and liabilities were up 14.6% and 10.3%, leading insurance penetration further above the 3.4% recorded at the end of 2013.

It is our opinion that a wealth of opportunities exists in the domestic insurance space, driven primarily by the robust outlook for economic growth. Upstream oil, construction, real estate and infrastructure continue to gain prominence as productive sectors of the economy, and it is our considered opinion that great potential, as yet untapped, exists in these areas. Further, the fragmented nature of the industry leads us to anticipate a flurry of M&A activity in the near-term, a trend that has already been confirmed by a number of acquisitions in the recent past. As well, we expect that continued innovation and distribution in insurance products and premium collection, particularly via various ICT platforms, will contribute significantly to a broadening and deepening of the sector. All said, we feel that the future remains very bright for insurance in Kenya.

Group Performance

Despite recording a dip in pretax profit from KES 1.5 billion in 2013 to KES 1.0 billion in the year under review, we are proud that the core driver of our business, represented by gross premium income growth, was resilient to a variety of operational challenges faced during the year. Pan Africa's success in the midst of these conditions is a function of its commitment to financial discipline and operational excellence. More detail on the Group's performance is presented in the Chief Executive's report.

Dividend

In place of a cash dividend (2013: KES 4.50 per share), the Board is pleased to recommend a bonus issue of one share for every two held, payable to shareholders appearing in the Register of Members at the close of business on 13 May, 2015, and subject to approval at the 2015 AGM. It is the Board's considered opinion that this scrip issue will provide shareholders a tax-efficient means to grow their wealth whilst affording the company the flexibility to generate attractive returns by continuing to prudently invest in the business.

Statement on Corporate Governance

We place great emphasis on and are fully committed to conducting our operations according to the highest ethical standards and in conformity with all applicable statutory requirements. The Board, which has overall responsibility for the oversight of management and control of the Group on behalf of shareholders, is alert to the continuous evolution of corporate governance best practice, and therefore undertakes to anticipate and swiftly respond to developments in the corporate governance arena.

2014 Awards and Recognition

During the year under review, we were proud to receive several awards, both within and without the insurance industry. Some of these include:

AKI Agent of the Year Awards (AAYA)

- o Group Life best practice award, Group Life Company of the Year - 2nd Runner up
- o Group Life best practice award, Innovation Award – Winner

Insurance awards 2014

- o Corporate Social Responsibility Award – 2nd Runner up
- o ICT Award - Winner
- o Fraud Detection and Investigation - 1st Runner up

ICT Awards - CIO (Chief Information Officer) awards

Top 100 in Kenya

FiRe (Financial Reporting) 2013

Award – Winner, Insurance Industry

I congratulate the team at Pan Africa for making this happen and encourage them to continue working as a team to keep these standards up. As they say, 'It is easier to get to the top than to stay there'.

Closing Note

We would like to convey our gratitude to and express our pride in the people who contributed to delivering Pan Africa's strategy in 2014, despite a number of idiosyncratic challenges faced by the Group during that period affecting customers and staff alike. We look forward to normalized operating conditions in 2015 and, with the actions already implemented to mitigate the challenges of 2014, are confident that we have fundamentally improved the base for Pan Africa's long-term success.

Thank you for your continued support.

Dr John PN Simba,

Chairman

26 February 2015

Utangulizi

Ni furaha yangu kubwa kuwasilisha ripoti ya kila mwaka ya 2014 ya Kundi na taarifa za kifedha zilizokaguliwa kwa mwaka uliomalizikia 31 Desemba, 2014. Pan Africa Insurance Holdings imeendelea kupata matokeo bora licha ya hali iliyoko kwa wakati huu ya kuendesha biashara, na kutoa suluhu bora za hali ya juu kwa wateja wetu pamoja na kutoa mapato thabiti kwa wenyehisa wetu. Tumeendelea kukua kijiografia na kuenea sehemu mbalimbali huku tukipanua utoaji bidhaa yetu na kudumisha uongozi katika soko la bima ya maisha nchini Kenya. Tunachukulia ukuaji wa asilimia 33 wa bei ya hisa za Pan Africa mnamo mwaka wa 2014 kuwa hakikisho la imani ambayo wenye hisa wetu wameweka katika mkakati wetu na tumejitolea kuendelea kufanya kazi kwa bidii ili kuthibitisha imani hiyo.

Uchumi Duniani

Ustawi wa uchumi duniani mwaka wa 2014 ulikuwa kwa kiasi fulani mchanganyiko, na ingawa kwa ujumla ukuaji wa uchumi haukuwa bora sana, hata hivyo haukuvunja moyo kabisa. Benki ya Dunia inakisia ukuaji uchumi duniani mwaka wa 2014 kuwa asilimia 2.6, ongezeko la kiwango kidogo kutoka asilimia 2.5 mwaka wa 2013, lakini ongezeko la kiwango cha chini kuliko kile kilichoshuhudiwa miaka iliyotangulia kudorora kifedha duniani mwaka wa 2008. Katika kipindi cha mwaka, chumi zenye mapato ya juu ziliendelea kukabiliana na baadhi ya athari sugu za mzozo huo wa kifedha wa mwaka wa 2008, huku chumi zinzoibuka na zile zinazostawi zikiathiriwa na madhara ya hali hiyo ngumu. Pato la jumla duniani linatarajiwa kukua kwa asilimia 3.0 mwaka wa 2015 na asilimia 3.3 mwaka wa 2016, kutokana na kiwango kikubwa cha ufufuzi taratibu wa kiuchumi katika mataifa yaliyostawi na kupungua kwa bei za mafuta. Chumi zilizostawi kama kundi zinapaswa kushuhudia ukuaji wa asilimia 4.8 na asilimia 5.3 katika miaka ya 2015 na 2016 mtawalia, ambacho ni kiwango cha juu kutoka asilimia 4.4 mwaka wa 2014 huku misukosuko kwa ukuaji uchumi ikiendelea kutokomea.

Mwaka wa 2014 ulishuhudia kutofautiana katika viwango vya ukuaji uchumi katika chumi kuu ambako kumebainisha ukuaji uchumi duniani katika muda wa miaka kadhaa iliyopita. Shughuli nchini Marekani na Uingereza zilipata nguvu kutokana na sera legevu za kifedha na kuimarisha masoko ya leba, ilhali eneo la euro na Japan ziliendelea kusalia nyuma huku madhara ya mzozo wa kifedha wa 2008 yakiendelea kudumu. China, pamoja na chumi nyingine zinazoibuka, ziliendelea kupata ukuaji wa kadiri, thibitisho la sera zisizofaa, utashi duni kutoka nje, udhaifu wa kisiasa na sababu nyinginezo zinazotokea mara kwa mara. Mwaka uliopita pia utakumbukwa kwa ongezeko kubwa la tishio la uhusiano wa kisiasa baina ya mataifa mbalimbali duniani, hususan hali nchini Ukraine, na pia ISIS huko Iraq na Syria. Suala jingine lililogonga vichwa vya habari mwaka wa 2014 ni kuanguka kwa bei za mafuta, tukio la kiuchumi linaloweza kuchukuliwa kuwa muhimu zaidi mwaka huo. Kuongezeka kwa utoaji pamoja na kupungua kwa mahitaji ya mafuta kulipelekea bei kupungua kwa asilimia 42 katika kipindi cha mwaka huo.

Karibu na nyumbani, chumi za nchi zilizoko kusini mwa jangwa la Sahara barani Afrika zilikua kwa kadiri mwaka wa 2014. Baadhi ya chumi kubwa katika eneo hilo, ukiwemo uchumi wetu, zilishuhudia ukuaji taratibu zaidi wa pato la jumla la taifa kutokana na bei za chini za bidhaa, mahitaji ya chini ulimwenguni, mtiririko duni wa fedha za kigeni na vizuizi vya uwezo. Mkurupuko wa ugonjwa wa Ebola pia uliathiri kwa kiwango kikubwa shughuli za kiuchumi katika baadhi ya sehemu za Afrika Magharibi, lakini hali hii inapaswa kuanza kubadilika huku ugonjwa huo ukithibitiwa.

Uchumi nchini Kenya

Kiwango cha utendaji wa uchumi nchini Kenya mwaka wa 2014 kilipungua kuliko kile kilichopatikana mwaka wa 2013, kwa kufikia wastani wa asilimia 5.1 katika muda wa robo tatu za kwanza za mwaka ikilinganishwa na asilimia 6.2 kwa kipindi sawa na hicho mwaka uliotangulia. Ukuaji uliinuliwa kwa vipindi vyote viwili kufuatia kurekebishwa upya kwa takwimu za uhasibu wa kitaifa ambao ulifanywa wakati wa robo ya tatu ya mwaka wa 2014, ambao ulipelekea kupanda kwenye taarifa ya pato la jumla la taifa la Kenya la mwaka wa 2013 kwa asilimia 25 na kufikia shilingi trilioni 4.8 kutoka shilingi trilioni 3.8 kabla ya marekebisho hayo. Hii pia iliinua Kenya na kuiweka katika kiwango cha mapato ya wastani, kulingana na Benki ya Dunia.

Kupanda kwa gharama ya maisha kulidhibitiwa ipasavyo mwaka wa 2014 licha ya kuwepo kiasi cha wastani cha juu zaidi cha asilimia 6.9 mwaka huo ikilinganishwa na asilimia 5.7 mwaka wa 2013. Ongezeko la gharama ya chakula na vinywaji visivyo vya kulewesha pamoja na nyumba, maji, umeme, gesi na kawi nyingine katika nusu ya kwanza ya mwaka lilisababisha gharama ya maisha kupanda wakati wa nusu ya kwanza ya mwaka wa 2014, ilhali bei nafuu za mafuta duniani zilipelekea kupungua kwa gharama ya maisha katika nusu ya pili ya mwaka huo. Maendeleo ya kifedha yalidhihirisha majira ya mabadilikobadiliko katika uwezo wa kupata fedha na hifadhi za nje, ilhali kiwango cha sera kilisalia asilimia 8.50 katika kipindi chote cha mwaka huo. Wakati huo huo, kuhusu sera ya kifedha, kuongezeka kwa matumizi ya serikali kulipelekea kuongezeka kwa nakisi ya hazina ya serikali na hesabu za fedha, huku bei za bidhaa zikizorota kutokana na kuongezeka kwa gharama ya uagizaji. Hali hii ilisababisha kudhoofika kwa sarafu ya Kenya kwa asilimia 5.0 ikilinganishwa na dola ya Marekani katika kipindi cha mwaka huo.

Kuna matumaini bora kwa mwaka wa 2015, yaliyobashiriwa kutokana na kupungua kwa mashaka ya kisiasa, bei za chini za mafuta duniani, kuongezeka kwa bidhaa zinazouzwa nje na maendeleo ya miundo msingi yanayotekelezwa, licha ya tishio la usalama na athari zake katika uwekezaji na utalii.

Maendeleo

Kwa niaba ya Halmashauri ya wakurugenzi, ningependa kumshukuru aliyekuwa Afisa Mkuu Mtendaji wa Pan Africa Tom Gitogo, kwa michango yake bora kwa kampuni hii. Tulibahatika kuwa na Tom kutuongoza kuafikia ufanisi mkubwa tangu kuteuliwa kwake kama Afisa Mkuu Mtendaji mwezi Aprili 2008, ikiwa ni pamoja na kuongezeka kwa mapato ya jumla ya malipo ya bima kufikia shilingi bilioni 5.3 mwaka wa 2013 kutoka shilingi bilioni 2.5 mwaka wa 2008, na kuigeuza kampuni kuanza kupata faida kutokana na hasara ya shilingi milioni 96 mwaka wa 2008 hadi kufikia faida baada ya kutozwa uchuru ya shilingi bilioni 1.25 mwaka wa 2013. Ni matarajio yangu kwamba Mugo Kibati, ambaye aliteuliwa hivi majuzi kuwa Afisa Mkuu Mtendaji wa Kundi, atatoa uongozi bora kuafikia kiwango kijacho cha maendeleo yetu.

Wakati wa kipindi cha mwaka, ilibainika kwamba Pan Africa Insurance Holdings ilitafuta kuingia tena katika soko la bima za muda mfupi kupitia njia ya kununua hisa nyingi katika Gateway Insurance. Halmashauri inatarajia kuongezeka kwa thamani na misukumo mbalimbali ya uimarishaji baada ya kukamilika kwa shughuli hiyo.

Uzinduzi rasmi wakati wa kipindi cha mwaka, wa amana za vikundi uliofanywa na Pan Africa Asset Management ambalo ni tawi tanzu la usimamizi wa raslimali la Pan Africa Insurance Holdings ,ulikuwa kilele cha miaka mingi ya kazi ngumu na kujitolea.

Bidhaa hizi zinaunganisha manufaa ya mapato ya kuvutia yanayoweza kupatikana kwa urahisi kupitia uwekezaji kuanzia viwango vya chini, na hivyo kuvutia watu binafsi, makundi na pia mashirika. Hazina za Pesa+, Pata+ na Chama+ (soko la hisa, mgao wa faida na hazina mseto mtawalia) tayari zimepokelewa vyema kwenye soko, na ni matarajio yangu kwamba bidhaa hizi zitaendelea kukua ipasavyo huku zikichangia kuunda mandhari bora ya uwekezaji nchini.

Sekta ya Bima

Sekta ya Bima nchini Kenya imeendelea kukua kwa kiwango kikubwa. Kulingana na Ripoti za Sekta ya Bima za Chama cha Kampuni za Bima Nchini (AKI) za nusu ya mwaka hadi Juni 2014, jumla ya malipo ya bima yalikua kwa asilimia 21.1 mwaka huo hadi Juni 2014 ilhali rasilimali na madeni yaliongezeka hadi asilimia 14.6 na asilimia 10.3, na kupelekea kupenya kwa bima kupita kiwango cha asilimia 3.4 kilichopatikana mwishoni mwa mwaka wa 2013.

Ni maoni yetu kwamba nafasi nyingi zipo katika sekta ya bima nchini kutokana haswa na matarajio makubwa ya ukuaji wa uchumi. Mafuta, ujenzi, mali isiyohamishika na miundo msingi zinaendelea kupata umaarufu kama sekta za uzalishaji wa uchumi, na ni maoni yetu kwamba uwezekano mkubwa, ambao bado haujatumiwa kikamilifu upo katika nyanja hizi. Isitoshe, hali ya sekta hii kuwa sehemu sehemu inatufanya kutarajia shughuli za miungano na ununuzi wa kampuni hivi karibuni mwelekeo ambao tayari umethibitishwa na ununuzi wa baadhi ya kampuni katika siku za hivi majuzi. Pamoja na hayo, tunatarajia kuendelea kwa uvumbuzi na ugawaji wa bidhaa za bima na ukusanyaji malipo ya bima haswa kupitia mitambo na taratibu za habari, mawasiliano na tekinolojia, kutachangia pakubwa kupanua na kuimarisha sekta hii. Baada ya kusema hayo, tunahisi kwamba hali ya siku zijazo inasalia kuwa yenye matumaini makubwa kwa sekta ya bima nchini Kenya.

Utendaji wa Kundi

Licha ya kupungua kwa faida kabla ya kutozwa ushuru kutoka shilingi bilioni 1.5 mwaka wa 2013 hadi shilingi bilioni 1.0 katika kipindi cha mwaka tunaoangazia, tunajivunia kwamba shughuli muhimu ya biashara yetu, ikiwakilishwa na ukuaji wa jumla wa malipo ya bima, ilistahimili changamoto mbalimbali za uendeshaji zilizojitokeza katika kipindi cha mwaka. Ufanisi wa Pan Africa licha ya hali hizi ni thibitisho la kujitolea kwake kudumisha nidhamu ya kifedha na ubora wa uendeshaji. Maelezo zaidi kuhusu utendaji wa Kundi yamewasilishwa kwenye taarifa ya Afisa Mtendaji.

Mgao wa faida

Badala ya mgao wa faida wa pesa taslimu (2013:shilingi 4.50 kwa hisa), Halmashauri inafuraha kupendekeza utoaji wa hisa za ziada,bonus issue, wa hisa moja kwa kila hisa mbili zinazoshikiliwa, kulipwa wenye hisa walio kwenye kitabu cha usajili wa wanachama kufikia kufungwa kwa shughuli za biashara tarehe 13 Mei 2015, iwapo itaidhinishwa kwenye Mkutano Mkuu wa Mwaka wa 2015. Ni maoni ya halmashauri kwamba toleo hili la hisa za ziada litawapa wenye hisa taratibu za kukuza mali huku likitoa nafasi kwa kampuni kuzalisha mapato bora kwa kuendelea kuwekeza kwa busara katika biashara.

Taarifa ya Usimamizi wa Kampuni

Tunatilia mkazo zaidi na tumejitolea kuendesha shughuli zetu kwa kuzingatia maadili ya viwango vya juu kuambatana na kanuni zote zinazohitajika. Halmashauri, ambayo ina jukumu la usimamizi na udhibiti wa Kundi kwa niaba ya wenye hisa, hujifahamisha kila mara maadili bora ya usimamizi yanapoibuka na hivyo basi hujiandaa kutarajia na kuchukua hatua ipasavyo katika nyanja ya usimamizi wa kampuni.

Tuzo na Utambuzi mwaka wa 2014

Wakati wa kipindi cha mwaka unaoangaziwa, tulijivunia kupokea tuzo kadhaa ndani na nje ya sekta ya bima.Baadhi ya tuzo hizo ni pamoja na:

Ajenti Bora wa AKI, AKI Agent of the Year Awards (AAYA)

- Tuzo la kanuni bora za usimamizi wa kampuni ya bima ya maisha, Group Life best practice award, Group Life Company of the Year – Nafasi ya pili
- Tuzo la uvumbuzi, Group Life best practice award, Innovation Award – Tuliibuka mshindi.

Tuzo za bima mwaka wa 2014

- Tuzo la jukumu kwa jamii, Corporate Social Responsibility Award – Mshindi wa tatu
- Tuzo la habari, mawasiliano na tekinolojia, ICT Award – Tuliibuka mshindi
- Ugunduzi wa udanganyifu na uchunguzi, Fraud Detection and Investigation – Mshindi wa pili

Tuzo za habari, mawasiliano na tekinolojia, ICT Awards - CIO (Chief Information Officer) awards

Mia moja bora nchini Kenya

FiRe (Ripoti za Kifedha) 2014

Tuzo – Mshindi, Sekta ya bima

Napongeza kundi la Pan Africa kwa kufanikisha haya na kuwahimiza kuendelea kufanya kazi kama kundi kudumisha viwango hivi vya juu. Kama wanavyosema, 'ni rahisi kufika kileleni kuliko kusalia pale.

Hitimisho

Tungependa kutoa shukurani zetu na kuelezea kujivunia kwetu watu ambao walichangia katika kuwasilisha mkakati wa Pan Africa wa mwaka wa 2014, licha ya baadhi ya changamoto zilizokabili Kundi wakati wa kipindi hicho ambazo zilizoathiri wateja na pia wafanyakazi.Tunatazamia kurejea kwa hali ya kawaida ya kuendesha shughuli mwaka wa 2015 na kutokana na hatua ambazo tayari zimetekelezwa kukabiliana na changamoto za 2014, tuna imani kwamba tumeimarisha msingi kwa ufanisi wa muda mrefu wa Pan Africa.

Shukurani kwa kuendelea kutuunga mkono.

Dr John PN Simba,
Mwenyekiti

26 Februari 2015

I am pleased to report that the core business of Pan Africa Insurance Holdings held steadfast amidst a technically challenging environment for the company. A handful of operational concerns, primarily related to the firm's ICT framework, resulted in mild lags relative to our normal response times in a number of our business functions. That said, I am exceedingly proud and appreciative of the enormous effort expended by our staff in seeking to mitigate the impact of the aforementioned concerns. I am also confident that the raft of measures already implemented to address these issues has placed Pan Africa in a much better position to concurrently satisfy the needs of our stakeholders, grow the business and deliver shareholder value than was the case previously.

Operating Environment

A boost in infrastructure and services spend during the year gave a fillip to domestic GDP growth this past year, while a statistical rebasing exercise finalized in September helped better capture the true dimensions of the economy, launching Kenya into middle-income status and earning her a place amongst Africa's ten largest economies.

Kenya received some much-needed trade relief during the latter half of the year in the guise of falling international oil prices, broadly the result of declining global demand amidst growing supply of the commodity. This led inflation to fall from a 2014 high of 8.4% in August to 6.0% in December, and further in the new year, as energy costs along the supply chain eased. Geothermal energy continued to gain prominence as a proportion of total generation with the commissioning of 140MW at Olkaria IV in October. Further gains in the diversification of power generation away from thermal sources should help contain consumer price rises.

The domestic debt situation continued to generate heated debate, particularly with the launch of major infrastructure projects, including the $25 billion LAPSSET project and the standard gauge railway. The public debt-to-GDP ratio touched 46% in November, spurred on by rising domestic and international debt, the latter primarily in the form of a $2 billion euro bond raised mid-year. Despite this, borrowing costs were well contained during the year, and should indeed catalyze consumer spending and investment in 2015.

Negatively, Kenya experienced exogenous shocks in the form of depressed tourism activity, prompted largely by a spate of terrorist incidents that also affected business confidence and consumer sentiment. It is our collective hope that this situation subsides enough to allow output to begin to approach its full potential.

The domestic stock market shrugged off the year's challenges to deliver robust performance as measured by the NSE-20 Share and NASI indices, which closed the year 3.8% and 19.2% higher. We expect that lower energy costs, stable inflation and well-contained borrowing costs should continue to provide support to the market during the current year.

Key Financial Highlights

A high-level overview of some of the firm's key business indicators appears below:

Key Indicator	2014 (KES millions)	2013 (KES millions)	Change
New Business Recurring Annual Premium Income (API)	695	1,334	-48%
New Business Single Premiums	1,855	2,236	-17%
Investment Income	1,993	1,534	30%
Total Benefits, Claims, and Other Expenses	(6,825)	(7,028)	-3%
Value of New Business (VNB)	181	293	-38%
Pretax Profit	1,153	1,516	-24%
Earnings Per Share (EPS, KES)	9.07	13.05	-30%
Dividend Per Share (DPS, KES)	1:2 Bonus Issue	4.50	-

Performance

Recurring and new premium income fell below expectations, the reflection of a tough operating environment for life insurance, but also partly a function of a number of technical challenges faced by the firm during the year. Positively, investment income grew significantly, spurred mainly by higher interest income from the held-to-maturity book, while expenses were well contained. The cumulative effect was a fall in pretax profit of 24% for the year, and a 30% decline in EPS.

Profitability

The embedded value (EV) of a life insurer, which is an estimate of the insurer's present economic value, is the summation of the present value of future profits from the firm's existing business and the market value of the firm's net assets. During the year under review, the EV of Pan Africa Life grew by a considerable 21% to KES 6.44 billion from KES 5.31 billion at the close of 2013. However, the Value of New Business, which measures the expected profitability from new premiums written during a period, fell 38% to KES 180.9 million from KES 292.9 million in 2013.

The Group's Long Term Business recorded a significant improvement in profitability, with pretax profit up 36% to KES 573.8 million from KES 422.1 million in 2013. The Group's pretax profit was, however, significantly adversely impacted by a marked decline in the sum of fair value gains and other operating income to KES 942.0 million from KES 1.85 billion previously, an event we expect to be transitory.

Profit before Tax

Segment contribution

Profit before tax (KES millions)	2014	2013	Change
Life Insurance Business	574	422	36%
Investments	579	1,094	(47%)
Total Profit Before Tax	1,153	1,516	(24%)

Life Business

Our Life Business has demonstrated resilience and continues to contribute significantly to the Group's overall results. Significantly, we succeeded in growing pretax profitability from the Life Business by a commendable 36% to KES 573.8

million. This performance is a clear reflection of the appropriateness of our strategic choices and our focus on growing and enhancing our distribution networks in order to continue to satisfy the needs of our customers while creating value for our shareholders.

Our solvency position, while somewhat lower at 1.63 times at the close of 2014 versus 2.52 times at the end of 2013, suggests that the Group is more than adequately capitalized to cover any claims arising against it, and is unequivocal proof of its prudent use of resources and stringent financial management practices.

Diversification

In keeping with our strategy to diversify the Group's business lines, we have recently concluded the purchase of Gateway Insurance Ltd, allowing the Pan Africa Insurance Holdings Group to once again begin to participate in the general insurance space. A robust, vastly experienced and highly cohesive leadership team has already been installed to steer this new acquisition and enable the achievement of synergies with the rest of the Group's holdings.

Also of note on the subject of diversification is the launch, towards the close of 2014, of a unit trust offering by Pan Africa Asset Management, the Group's fund management subsidiary. It is our expectation that this will vastly improve the visibility of the Pan Africa Asset Management brand and of the Group as a whole through the facilitation of the broad participation of individuals and groups in the domestic capital markets.

Distribution

During the year, we continued to leverage on emerging business and technology trends to better reach our customers, drive sales and improve performance while concurrently containing costs and maintaining profitability. We are gradually moving towards a non-traditional distribution model whilst at the same time focusing on speeding up the entire distribution process and identifying opportunities for automation in a bid to improve efficiency and profitability. These initiatives should allow us to continue to scale up, with the ultimate goal being the provision of superior customer service.

Efficiency

A natural outcome of our shift away from traditional distribution channels and our growing use of technology in all of our processes is that we are increasingly able to better manage our cost base while providing enhanced levels of service to our customers. Bancassurance, in particular, continues to emerge as a strategically important channel for our business and for the industry at large, and we have positioned ourselves very well in taking advantage of this particular trend.

Looking Ahead

Pan Africa Insurance Holdings remains a very significant player in the domestic life insurance space. With the changes we have made, and continue to make, to ensure that we continue to be the premier name in insurance, I am certain that we now have in place the necessary foundation to excel. The best is yet to come for this company and its shareholders.

Closing remarks

The Group's results continue to be a clear reflection of the success of its strategic thrust. We remain focused on meeting the needs of our customers, and are confident in our ability to continue to provide value for all of our stakeholders whilst prudently managing capital. We have already had a positive start to 2015 and expect to continue to realize healthy, sustainable growth through the current year and beyond.

Stephen Kamanda

Ag Chief Executive

26 February 2015

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the 69th Annual General Meeting of the Company will be held at the Ballroom, Stanley, Kenyatta Avenue, Nairobi on Wednesday, 13th May 2015 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 and Extraordinary General Meetings held on 16 May 2014 and 17 December 2014 respectively.

4. To consider, and if approved, adopt the Balance Sheet and Accounts for the year ended 31 December 2014 together with the reports of the Chairman, the Group Chief Executive, the Directors, the Auditors and the Statutory Actuary.

5. To note that the Directors do not recommend the payment of a Dividend for the financial year ended 31 December 2014.

6. To declare, subject to the Regulatory Approvals, a bonus issue of at the rate of 1 share for every 2 shares held in the issued and paid up share capital of the company to the shareholders appearing in the Register of Members as at 13 May 2015 and approve the closure of the Register of Members from 20 May 2015 to 25 May 2015.

7. To elect Directors:

   7.1 John Alexander Burbidge, who was appointed a director on 16 May 2014, retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election.

   7.2 Matthys Lodewikus Olivier, who was appointed a director on 16 May 2014, retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election.

   7.3 Rohan Patel, who was appointed a director on 16 May 2014, retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election.

8. To approve the Directors' remuneration.

9. To note that the auditors, Pricewaterhouse Coopers will continue in office in accordance with Section 159(2) of the Companies Act (Cap 486) and to authorise the Directors to fix their remuneration.

10. To transact any other business with the permission of the Chair for which 48 hours notice had been given to the Company Secretary at the registered office of the Company.

11. Special Business:

    a. Increase of the nominal share capital

    To approve the increase of the Nominal share capital from KShs 500,000,000 divided into 100,000,000 ordinary shares of KShs 5 each to KShs 2,000,000,000 by the creation of an additional 300,000,000 ordinary shares of KShs 5 each; such shares to rank pari passu with regard to dividends and all other respects with the issued ordinary share capital."

By Order of the Board

Company Secretary
26 February 2015

Note:

1. 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, 5th Floor, Barclays Plaza, Loita Street, Kenya so at to arrive not later than 10.00 a.m. on Monday 11th May 2015.

ILANI INATOLEWA HAPA KWAMBA Mkutano Mkuu wa Kila Mwaka wa 69 wa Kampuni utafanyika katika ukumbi wa Ballroom, Hoteli ya Stanley, iliyoko barabara ya Kenyatta Avenue mjini Nairobi siku ya Jumatano tarehe 13 Mei 2015 saa nne asubuhi kuendesha shughuli zifuatazo:

1. Kuwatambua wawakilishi na kukagua idadi inayohitajika kuendeleza mkutano.

2. Kusoma ilani ya kuandaa mkutano.

3. Kuthibitisha kumbukumbu za Mkutano Mkuu uliopita na Mkutano Usio wa kawaida, iliyofanyika tarehe 16 Mei 2014 na tarehe17 Desemba 2014 mtawalia.

4. Kufikiria na iwapo itaidhinishwa, kupitisha mizania na taarifa za kifedha kwa mwaka uliomalizika tarehe 31 Desemba 2014 pamoja na ripoti za Mwenyekiti, Afisa Mkuu Mtendaji, Wakurugenzi na Watakwimu Sheria za Bima.

5. Kubaini kwamba Wakurugenzi hawajapendekeza malipo ya mgao wa faida kwa mwaka wa kifedha uliomalizika 31 Desemba 2014.

6. Kutangaza, iwapo idhini zinazohitajika zitatolewa, kutolewa kwa hisa za ziada yaani, bonus shares, kwa kiwango cha hisa moja kwa kila hisa mbili zinazoshikiliwa katika mtaji wa hisa za kampuni zilizotolewa na kulipiwa kwa wenye hisa walio kwenye kitabu cha usajili wa wenye hisa kufikia tarehe 13 Mei 2015 na kuidhinisha kufungwa kwa kitabu cha usajili wa wanachama kuanzia tarehe 20 Mei hadi 25 Mei 2015.

7. Kuchagua wakurugenzi:

    7.1 John Alexander Burbidge, ambaye aliteuliwa kuwa mkurugenzi tarehe 16 Mei 2014, anastaafu huu ukiwa Mkutano Mkuu wa Mwaka wa kwanza kufanyika tangu ateuliwe na kwa kuwa amehitimu anajitokeza ili kuchaguliwa tena.

    7.2 Matthys Lodewikus Olivier, ambaye aliteuliwa mkurugenzi tarehe 16 Mei 2014, anastaafu huu ukiwa Mkutano Mkuu wa Mwaka wa kwanza kufanyika tangu ateuliwe na kwa kuwa amehitimu anajitokeza kuchaguliwa tena.

    7.3 Rohan Patel, ambaye aliteuliwa kuwa mkurugenzi tarehe 16 Mei 2014, anastaafu huu ukiwa Mkutano Mkuu wa Mwaka wa kwanza kufanyika tangu ateuliwe na kwa kuwa amehitimu anajitokeza kuchaguliwa tena.

8. Kuidhinisha malipo ya wakurugenzi.

9. Kubaini kwamba wakaguzi wa hesabu wa PricewaterhouseCoopers wataendelea mbele na jukumu lao kulingana na Sehemu ya 159(2) ya Sheria za Kampuni (kifungu nambari 486) na kuidhinisha Wakurugenzi kuamua malipo yao.

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

11. Shughuli Maalum:

    a. Kuongezwa kwa kiwango cha mtaji wa hisa

    Kuidhinisha kuongezwa kwa kiwango cha mtaji wa hisa kutoka shilingi 500,000,000 zilizogawanywa katika hisa za kawaida 100,000,000 za shilingi 5 kila moja hadi kufikia shilingi 2,000,000,000 kwa kubuni hisa 300,000,000 zaidi za kawaida za shilingi 5 kila moja; hisa hizo zitakuwa za kiwango sawia kuhusiana na mgao wa faida na hali nyinginezo na hisa nyingine za kawaida zilizotolewa.

Kwa Amri ya Halmashauri

Katibu wa Kampuni
26 Februari 2015

Kumbuka:

1. 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, Orofa ya 5, Barclays Plaza, Barabara ya Loita, mjini Nairobi ili kufika kabla ya saa nne asubuhi siku ya Jumatatu tarehe 11 Mei 2015.

Overview

Our Corporate Social Responsibility program echoes our brand essence 'We have a sense for life' and puts into action our CSR policy that revolves around three main pillars: Education, Environment and caring for the community. Our programs are geared towards lifting the living standards of and empowering the community in which we operate and are aligned with the Millennium Development Goals as well as the National Vision 2030 objectives.

Some of the CSR initiatives we executed in 2014 are as detailed below:

Education

Financial Support to needy students

We continued to support promising but needy students around the country through their Secondary education. The aim 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, which is normally vetted based on level of need, performance, gender and geographical balance. Our scholarship does not discriminate against average but promising performers. The program has now been improved to include career guiding and counseling from volunteer members of staff. In 2014, we had 4 boys and one girl in this program as follows:

1. Geoffrey Owuor who is now in Form 4 at Lenana School
2. Ian Muthoni who is now in Form 4 at Lenana School
3. Stephen Kairu who is now in Form 3 at Turasha Secondary School
4. John Kabutha who is now in Form 3 at Kimuyu Boys Secondary School
5. Judith Bitok who is now in Form 2 at Njonjo Girls High School

One of the beneficiaries, Marthar Obote, joined Maseno University in 2014 to study International Relations, Diplomacy and IT and joins us on internship basis during her long holidays.

Donation to schools

We donated seats to several schools in the year, including Chelata Primary and Muguga Polytechnic in Kiambu County. This was with the intention of improving the learning conditions of "marginalized" schools so as to give them an equal chance to education, which is a basic need to all children. Along with seats and tables we also donated sanitary wear to needy girls, shoes to all needy pupils of the school.

Empowering the Youth

Financial planning for the young people with "Vijana Tujisort na Pan Africa" program.

The objective of the program dubbed **Vijana… Tujisort na Pan Africa** is to offer free financial planning education to the young people in schools and colleges. The initiative is geared towards addressing the lack of awareness on financial planning in the Kenyan community.

Sponsored students during a mentorship session at Pan Africa Life Offices.

Marthar, one of our Scholarship beneficiaries attends to a client at the company's promotional shop. Marthar serves in the Marketing department during her long holidays.

Pan Africa Life's Sales Manager David Wambugu (Left) together with his team hand over a donation of sanitary wear to pupils of Chelata Primary in Kiambu County.

Supporting Educational contests

As a gesture to motivate youth to persue their potential, we partnered with Nyandarua County and donated trophies that were awarded to excelling students during their Science contest in 2014. We also gave the same sponsorship to Yatta District during their annual education day.

One of the best performers in Yatta District admires trophies donated by Pan Africa during the district's Education day held on 11 July 2014.

Leap Academy

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

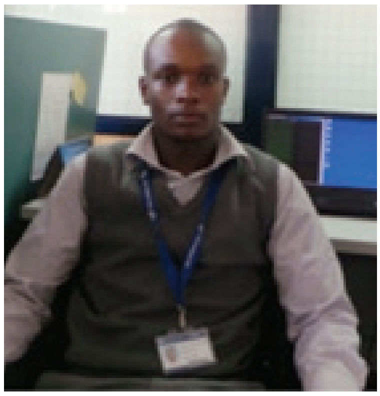
- Graduate Trainee program
- Internship program
- Beyond Borders experiential learning

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

Leap Graduate Program

Through this program, Pan Africa Life gives fresh graduates the opportunity to transition from class to 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 already 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 had two Graduate trainees who are continuing with the 2 year program and one intern who worked with us for 4 months during the year.



Kariithi Kevin
ICT Graduate Trainee
Cohort: 2014 – 2015

The experience has been exceptional; Pan Africa Life stands out from the 'rest' as it sets apart the clear guidelines to enable everyone achieve their set goals and targets. The level of training, professionalism and high standards of ethics at the firm has far surpassed my supposition. The friendly and willing to learn approach enables everybody in the company to strive for excellence and truly brings out the best in each and every individual. The open door policy at the firms breaks down the normal convention of corporate hierarchy and creates a more conducive working environment, where ideas can be shared freely. I took upon this opportunity to ensure I would learn and grow in the Information and Technology domain. It's a great feeling knowing that you are responsible for overseeing the network consistency, I have been given the mandate and one is 'let-free' to ensure utmost growth.

I face challenges on a daily basis but they make me step out of my comfort zone and in the words of John Shedd "a ship in the harbor is safe but that's not what ships are for". The challenges enable me to improve my technical skills along with my interpersonal, communication skills among others. All in all, I can say what I hope to achieve by the end of the program, I have duly achieved half of it but I believe learning never comes to a halt and Pan Africa Life have given me the platform to ensure my career development and I will seize it.

Veronica Thuita
Finance Graduate Trainee
Cohort: 2014 – 2015

Unlike the ordinary accounting clerk jobs that most BCom graduates start with, the Leap Talent Graduate Trainee program has offered me greater understanding of the financial sector by providing me with diverse experiences within the organisation. I have gained a lot of support from my colleagues and this has made it easier for me to cope with the work environment and know what is expected of me.

It is a privilege that Pan Africa Life gave me this opportunity, as it is always great to learn from the best. I have hope that in the next two years I will not only be equipped with accounting skills but skills to also handle other tasks including running my own business.

Christine Waweru
Actuarial Intern
Internship Period: 6th January to 4th April 2014

Pan Africa Life has offered me a golden opportunity to see the practical aspect of actuarial science in a unique and professional way. The objectives that were outlined at the start of the internship have been met showing a sense of dedication and responsibility among the employees.

The wonderful staff, from the general cleaners to the top management, has created such a friendly, calm and collected environment that has encouraged me to push forward with a smile despite few positive challenges that I have faced.

Pan Africa Life's mix of 'all work and play' has created a platform to create a strong rapport. If not a place to be, it is the place to be.

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 for their qualification and for those who would like to experience the world of working during their school vacation. Due to the training nature of this program, the intern will be based at a specific business unit for a period of 3 to 6 months. As an intern you will be assigned to a Manager whose role will be to provide support as well as regular feedback on your performance and development.

What are we looking for?

We are looking for current university students pursuing degrees such as:

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

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 3 to 6 months overseas placement depending on availability in one of the Sanlam Emerging Markets including Botswana, Namibia, Zambia, Tanzania, Ghana, Nigeria and Uganda.

Environmental conservation

Kenyatta Avenue Beautification

Since 2011, we have been in partnership with The Nairobi City County Government to beautify and maintain the garden along Kenyatta Avenue. The project entails beautification and management of the gardens along the avenue. This is in line with our objective to conserve out environment and maintain the beauty of our city. We continue to keep the project active.

Tree Planting

To commemorate our commitment to Environmental conservation, we sponsored a tree planting day in Nairobi's Ruai region. This, being a neighboring community to our Headquarter premises in Nairobi, the gesture went out to encourage our community as well as business owners within the city to adopt an Environment friendly culture. Over 2000 seedlings were planted on the day. Our team also paid a visit to Chelata Primary School where we initiated a forest in 2008. The forest is all grown.

Caring for our Community

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

Pan Africa Life Cancer Challenge 2014

Pan Africa's Corporate Social Responsibility program endeavors to seek areas of need in our community and address them, in partnership with relevant parties. This year we sort to address the fast rising Cancer pandemic in our Kenyan Community. Statistics show that over 20,000 Kenyan's succumb to the disease annually. This can be attributed to lack of awareness, associated costs and lack of proper Medicare. This is alarming and most people who succumb are unaware of what killed them. In fact, it is considered a curse in some parts of the country to suffer from the disease.

Kenyatta Avenue beautification project, a section of the aisle maintained by Pan Africa.

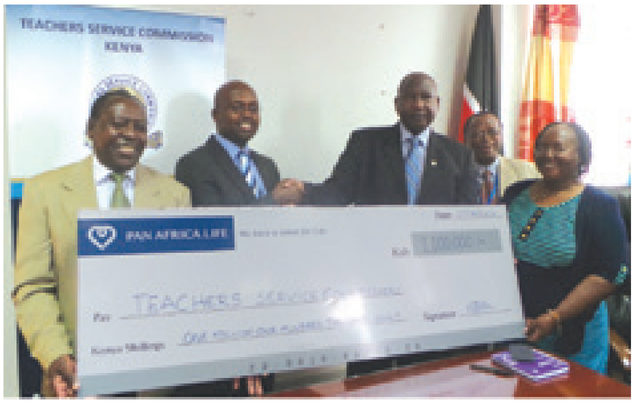
Pupils of Chelata Primary give Pan Africa representatives a tour of the forest dubbed 'Growing up green' that the company sponsored in 2008, where each class 1 child was assigned to a tree. This has become a culture in the school.

Members of the community get their medical tests done in Kisumu county during Pan Africa Life Cancer Challenge 2014.

We held cancer screening and awareness campaigns in seven counties namely Nyeri, Kisumu, Nakuru, Mombasa, Kakamega, Eldoret and Nairobi during this year's golf series dubbed 'Pan Africa Life Cancer Challenge'. Through this, over 3,500 people got access to breast, cervical and prostate cancer screening and information on the same. This initiative was executed in partnership with Sanlam, Africa Cancer Foundation, The county governments as well as several hospitals and medical providers.

Donation towards Terror Victims

On 17 December 2014, we joined the families of the teachers who lost their lives through a terror attack in Mandera county by donating a cheque of Kes 1,100,000 to support families of the fallen. The cheque was handed over to Teachers Service Commission representatives.



GM - Individual Life, Patrick Wanjohi hands over a cheque of Kes 1,100,000 to TSC Secretary General Mr. Gabriel K. Lengoiboni in support of families of the teachers whose lives were lost in Mandera terror attack. Looking on are Pan Africa Life's James Muiruri GM, Corporate Business (left) and TSC Executives.

Ahadi Trust Kenya

Pan Africa has for the last several years supported Ahadi Trust Kenya, a foundation whose objective is to eradicate the jigger menace in the affected areas in Kenya. This year we donated Kes 100,000 to participate 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 so as to keep the jiggers out.

Pan Africa members of staff at an anti jigger medical camp in Maragua, Murang'a County, where they treated those infected and educated the community economic independence to was done on 9 September 2014 in Partnership with Ahadi Kenya Trust.

Running for a good cause - The Mater Heart Run and SCB Nairobi Marathon

As it has been our practice, we participated in this year's Mater Hospital Heart Run, an annual family marathon event that raises funds to finance heart transplants for needy children all over the country as well as the Standard Chartered Nairobi marathon whose proceeds go towards giving needy children a chance to sight treatment.

Pan Africa team at the Matter Heart run in May 2014.

Chairman's Fund

Apart from our CSR fund, we have the Chairman's fund whose objective is to support corporate citizenship endeavors that the Chairman may deem worthwhile. This year, the fund sponsored the National prayer breakfast with Kes 50,000. We too donated Kes 50,000 to Nyandoche Ibere Girls Secondary School, Kes 50,000 to Rotary club and another Kes 75,000 to Our Kid Foundation.

Principles of Corporate Governance

The Pan Africa Group has established high standards of corporate governance which are a key contributor to the long term success of a company. The 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 Seven 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 pages 10-11 of this Annual Report.

Changes to the Board during 2014

In 2014, there were the following changes to the Board of Directors:

a) Tom Gitogo resigned as the Chief Executive of the Company
b) Rohan Baloobhai Patel was appointed as an alternate Director to Baloobhai Patel
c) Tom Wixley, Bhekithemba Thabo Gamedze and James N Gitoho resigned as Directors
d) John Alexander Burbidge and Matthys Lodewikus Olivier were appointed Directors to fill the casual vacancies created

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 2015 Annual General Meeting, John Alexander Burbidge, Rohan Patel, Matthys Lodewikus Olivier will resign as directors and will seek re-election 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 110.

Service Contracts and Compensation

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

Disclosure of Interests

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

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

Role of the Chairman vs. the Chief Executive

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

Role of the Board Vs the Executive Management

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

COMMITTEES OF THE BOARD

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

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

Members and attendance of these committees are provided on pages 35-36.

The Board has three committees as follows:

Audit, Actuarial, Risk and Compliance 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: Audi, Actuarial, Risk and Compliance Committee Membership and Attendance 2014*

	Member	Directorship Status	Number of Meetings scheduled in 2014
1	Wikus Olivier (Chairman)	Non-Executive Director	2/2
2	Margaret Dawes	Non-Executive Director	4/4
3	Josh Wrench	Non-Executive Director	4/4
4	Susan Mudhune	Non-Executive Director	3/4
5	Tom Wixley	Non-Executive Director	2/2
6	Themba Gamedze	Non-Executive Director	1/2

* Attendance based on the period when one was a Director

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.

Table 2: Investment Committee Membership and Attendance 2014*

	Member	Directorship Status	Number of Meetings scheduled in 2014
1	Rohan Patel (Chairman)	Non-Executive Director	2/2
2	Josh Wrench	Non-Executive Director	4/4
3	Dr John PN Simba	Chairman of the Board	4/4
4	Tom Gitogo	Non-Executive Director	3/3
5	James Gitoho	Non-Executive Director	2/2

* Attendance based on the period when one was a Director

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 and Attendance 2014*

	Member	Directorship Status	Number of Meetings scheduled in 2014
1	Susan Mudhune (Chairperson)	Non-Executive Director	3/4
2	Margaret Dawes	Non-Executive Director	4/4
3	Dr John PN Simba	Non-Executive Director	4/4
4	James Gitoho	Non-Executive Director	2/2

* Attendance based on the period when one was a Director

When a director was not able to attend either a Committee or a Board meeting, an apology had been given to the respective Chairman in advance of the scheduled meeting.

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. PricewaterhouseCoopers were appointed as the company's external auditors to replace Ernst & Young and have carried out the company's audit for 2014.

Internal Auditors

The Company's internal auditors report directly to the Audit, Risk, Actuarial and Compliance 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.

Pan Africa Asset Management Limited

The Group has significant investments that need to be managed to ensure optimal returns. Fund management has been outsourced to Pan Africa Asset Management Limited (formerly known as Sanlam Investment Management Kenya 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.

Pan Africa Asset Management Limited is a wholly owned subsidiary of the Company.

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 2014

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

	Name	No. of Shares
1	BALOOBHAI CHHOTABHAI PATEL (Alternate to Rohan Patel)	19,196,784
2	DR JOHN PN SIMBA	71,300

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 2014 are shown in Table 7 below:

Table 7: Director's shareholding as at 31 December 2014

	Name	2014	%age	2013	%age
		No of shares		No of shares	
1.	Hubris Holdings Limited	53,585,600	55.82%	53,585,600	55.82%
2.	Patel Baloobhai Chhotabhai	19,196,784	20%	19,186,800	19.99%
3.	Mayfair Insurance Company Ltd	854,700	0.89%	817,700	0.85%
4.	Thammo Holdings Limited	742,242	0.77%	742,242	0.77%
5.	Apa Insurance Limited	735,138	0.77%	987,238	1.03%
6.	Anjay Vithalbhai Patel	576,600	0.60%	503,100	0.52%
7.	Financial Futures Limited	574,474	0.60%	574,474	0.60%
8.	Standard Chartered Nominees A/C 9595	568,400	0.59%	568,400	0.59%
9.	Cannon Assurance (Kenya) Limited	455,491	0.47%	507,576	0.59%
10.	Leverton Limited	400,000	0.42%	400,000	0.53%

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	%
1 to 500	590	132,593	0.14
501 to 1,000	262	213,964	0.22
1,001 to 5,000	1,920	3,930,365	4.09
5,001 to 10,000	182	1,348,566	1.40
10,001 to 500,000	207	4,309,755	4.49
50,0001 to 100,000	26	1,855,000	1.93
100,001 to 500,000	40	7,375,819	7.68
500,001 to 100,000	6	4,051,554	4.22
100,001 to 200,000	2	72,782,384	75.82
Grand Totals	**3,235**	**96,000,000**	**100.00%**

Table 9: Shareholder's Profile

Category	Number of Shareholders	Number of Shares	% Shareholding
Local Institutions	147	60,344,276	62.86%
Local Individuals	2,872	34,155,520	35.58%
Foreign Investors	216	1,500,204	1.56%
Total	**3,235**	**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 2014

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	32,544,359	34
Total Number of Non-Immobilized Shares	63,455,641	66

GOING CONCERN

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

Dr John PN Simba
Chairman
26 February 2015

Stephen Kamanda
Ag Chief Executive
26 February 2015

Statement of Directors' Responsibilities

The Companies Act, CAP 486, Laws of Kenya requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the Group's profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Group. The directors are also responsible for safeguarding the assets of the Group.

The directors accept responsibility for the preparation and fair presentation of the annual financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements; selecting and applying appropriate accounting policies; and making accounting estimates and judgments that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and company as at 31st December 2014 and of its profit/loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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.

Approved by the board of directors on 26 February 2015 and signed on its behalf by:

Dr John PN Simba
Chairman
26 February 2015

Stephen Kamanda
Ag Chief Executive
26 February 2015

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 2014, the consolidated statement of profit or loss,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 standing alone as at 31 December 2014, the statement of profit or loss of the company, 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 notes, as set out on pages 49-145.

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 the requirements of the Companies Act, CAP 486, Laws of Kenya. This responsibility includes: designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion of these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements give a true and fair of the financial position of the Group and of the Company as at 31 December 2014 and of the profit and cash flows of the Group and the Company for the year then ended in accordance with International Financial Reporting Standards and the Companies Act, CAP 486, Laws of Kenya.

REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Companies Act, CAP 486, Laws of Kenya., we report to you, based on our audit, that:

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

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

iii) the Group's and the Company's statement of financial position and statement of profit or loss are in agreement with the books of account.

The engagement partner for this audit was FCPA Richard Njoroge Practicing Certificate No. P 1244

PricewaterhouseCoopers

Certified Public Accountants of Kenya
Nairobi, Kenya
27 February 2015

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 2014.

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 2014.

GTWaugh

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

26 February 2015

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

	2014 KShs.'000	2013 KShs.'000
a) Group embedded value		
Shareholders' adjusted net assets	4,331,518	3,767,197
Net value of in force business	2,113,690	1,574,942
Gross value of in-force business	3,494,437	2,728,504
Tax provision	(1,048,331)	(818,551)
Cost of Capital Adequacy Requirement (CAR)	(332,416)	(335,011)
Embedded value	6,445,208	5,342,139
b) Embedded Value Earnings		
The embedded value earnings are derived as follows:		
Embedded value at end of year	6,442,567	5,342,139
Embedded value at beginning of year	(5,342,139)	(4,494,557)
Change in embedded value	1,100,428	847,583
Dividends paid in the year	432,000	288,000
Embedded value earnings	1,532,428	1,135,583

2. Embedded Value Results (continued)

(b) Embedded Value Earnings continued

	2014 KShs.'000	2013 KShs.'000
These earnings can be analysed as follows:		
Adjustment to fair value of subsidiary	119,761	(280,955)
Roll forward	291,566	292,852
Investment return on free assets	23,826	53,347
Expected return on life business in-force	267,740	239,505
Change over the period	1,121,101	1,123,686
Value of new business at year end	195,079	316,783
Value of new business at point of sale	311,471	475,264
Tax on value of new business	(93,441)	(142,579)
Cost of capital on new business	(37,059)	(39,819)
Expected return on new business to end of year	14,109	23,917
Changes in assumptions and methodology	192,633	977
Experience variations	233,517	(149,007)
Increase in NAV for other subsidiaries	499,873	954,933
Total earnings	1,532,428	1,135,583

3. Value of New Business

	2014 KShs.'000	2013 KShs.'000
Value at point of sale (gross of tax)	311,471	475,264
Tax on value at point of sale	(93,441)	(142,579)
Cost of CAR at point of sale	(37,059)	(39,819)
Value of New Business at point of sale	180,971	292,866
Expected Return	14,109	23,917
Value of new business at year end	195,079	316,783

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	15.20%	16.20% (basis)	17.20%
	KShs.'000	KShs.'000	KShs.'000
Shareholders' net assets	4,328,877	4,328,877	4,328,877
Value of in-force business	2,197,958	2,113,690	1,999,119
Embedded value	6,526,835	6,442,567	6,327,997
Value of one year's new business at valuation date	213,582	195,079	177,840

5. Assumptions

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

The main assumptions used are as follows:

a) Economic Assumptions

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

	2014 % p.a.	2013 % p.a.
Risk discount rate	16.20	17.00
Overall investment returns (pre tax)	11.92	12.39
Expense Inflation Rate	8.20	9.00

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

	2014 KShs.'000	2013 KShs.'000
Risk discount rate	52,268	-
Overall investment returns (pre tax)	(66,009)	17,459
Expense Inflation Rate	16,829	-
Total	3,087	17,459

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 2014.

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 2014	**2,113,690**	
Investment return (and inflation) decreased by 1,0% and with bonus rates and discount rates changing commensurately	2,073,485	-1.9%
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	2,086,450	-1.3%
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	2,138,596	1.2%
'Shock scenario *	2,188,600	3.5%
Expenses and persistency		
Non commission maintenance unit expenses (excluding investment expenses) decrease by 10%	2,222,385	5.1%
Discontinuance rates decrease by 10%	2,093,783	-0.9%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	2,161,854	2.3%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	2,120,039	0.3%

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

Values of one year new business as at 31 December 2014	**195,079**	
Investment return (and inflation) decreased by 1,0% and with bonus rates and discount rates changing commensurately	177,356	-9.1%
Equity/property assets fall by 10% without a corresponding fall/rise in dividend/rental yield - Assume portfolio asset mix is rebalanced after fall in market values	203,875	4.5%
'Shock scenario *	209,148	7.2%
New business volumes decrease by 10%	154,232	-20.9%
Expenses and persistency		
Maintenance unit expenses(excluding investment expenses) decrease by 10%	211,967	8.7%
Non commission acquisition expenses decrease by 10%	216,025	10.7%
Discontinuance rates decrease by 10%	201,854	3.5%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	207,808	6.5%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	193,667	-0.7%

Notes:

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

Assumed Management Action

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

G T Waugh

Giles T Waugh FASSA FIA
Statutory Actuary, Fellow of the Actuarial Society of South Africa.
26 February 2015

Statement of Profit or Loss
For the year ended 31 December 2014

	Note	Group 2014 KShs.'000	Group 2013 KShs.'000	Company 2014 KShs.'000	Company 2013 KShs.'000
Gross premium income	3(a)	5,246,527	5,324,099	-	-
Premium ceded to reinsurers	3(b)	(255,757)	(222,272)	-	-
Net premium income		4,990,770	5,101,827	-	-
Fees and commission income	4	49,013	52,680	-	-
Investment income	5(a)	1,993,175	1,534.084	24,777	39,582
Fair value gains on investment property	5(b)	648,386	1,168,709	-	-
Other operating revenue	5(c)	293,651	685,054	190,313	582,358
Total other revenue		2,984,225	3,440,527	215,090	621,940
Total revenue		7,974,995	8,542,354	215,090	621,940
Gross benefits and claims paid	6(a)	(2,710,948)	(2,258,375)	-	-
Claims ceded to reinsurers	6(a)	121,405	115,711	-	-
Gross change in insurance contract liabilities	6(a)	(1,556,685)	(1,644,278)	-	-
Gross change in market linked insurance liabilities	6(a)	(863,878)	(1,391,857)	-	-
Change in contract liabilities ceded to reinsurers	6(a)	(43,588)	(95,539)	-	-
Net benefits and claims		(5,053,694)	(5,274,338)	-	-
Fee and commission expense	6(b)	(778,294)	(724,477)	-	-
Expenses related to plot sales	6(c)	(19,848)	(68,775)	(19,848)	(68,775)
Other operating and administrative expenses	7	(973,171)	(960,408)	(120,247)	(132,960)
Finance costs	9	-	-	-	(21,663)
Total benefits, claims and other expenses		(6,825,007)	(7,027,998)	(140,095)	(223,398)
Profit before share of profit of associate		1,149,988	1,514,356	74,995	398,542
Share of profit of associate	14(b)	2,610	2,088	-	-
Profit before tax		1,152,598	1,516,444	74,995	398,542
Income tax expense	10	(281,408)	(266,012)	(26,518)	(118,196)
Profit for the year		871,190	1,250,432	48,477	280,346
Profit attributable to:					
Equity Holders of the parent		871,190	1,250,432	48,477	280,346
Earnings per share:					
Basic	31	9.07	13.05	0.50	2.92
Diluted	31	9.07	13.05	0.50	2.92

	Note	Group 2014 KShs.'000	Group 2013 KShs.'000	Company 2014 KShs.'000	Company 2013 KShs.'000
Profit for the year:		871,190	1,250,432	48,477	280,346
Other comprehensive income that cannot be recycled to the profit or loss, net of tax	5(c)	-	2,747	-	-
Total comprehensive income for the year attributable to the owners of the company		871,190	1,253,179	48,477	280,346
Attributable to: Equity Holders of the parent		871,190	1,253,179	48,477	280,346

Statement of Financial Position
As at 31 December 2014

	Note	Group 2014 KShs.'000	Group 2013 KShs.'000	Company 2014 KShs.'000	Company 2013 KShs.'000
ASSETS					
Intangible assets	11	128,614	123,459	-	-
Property and equipment	12	111,145	114,749	5,218	6,820
Investment properties	13	1,091,407	922,282	-	-
Investments in subsidiaries	14(a)	-	-	968,784	968,784
Investment in associate	14(b)	18,529	15,919	4,861	4,861
Deferred tax	10	3,359	28,050	327	4,108
Loans	15	1,057,864	1,006,619	-	-
Held to maturity financial assets	16 (a)	7,026,753	5,536,053	-	-
Financial assets at fair value through profit or loss	16 (a)	10,430,570	8,181,718	-	-
Reinsurance assets	17	145,397	101,809	-	-
Land and development	21	133,219	145,709	133,219	145,709
Income tax receivable	10	99,789	31,143	71,681	-
Insurance receivables	22	253,042	159,290	-	-
Receivables and other assets	22	118,426	102,610	64,234	62,116
Deposits with financial institutions	23	3,767,707	4,505,266	79,306	561,252
Cash and bank balances	23	213,589	182,831	55,430	16,436
TOTAL ASSETS		24,599,410	21,157,507	1,383,060	1,770,086
EQUITY AND LIABILITIES					
CAPITAL AND RESERVES					
Issued share capital	24	480,000	480,000	480,000	480,000
Share premium	24	124,431	124,431	124,431	124,431
Statutory fund	24	1,848,043	1,274,251	-	-
Retained earnings		1,325,159	1,459,761	130,578	514,101
TOTAL CAPITAL AND RESERVES		3,777,633	3,338,443	735,009	1,118,532
LIABILITIES					
Insurance contract liabilities	25	8,512,313	6,868,452	-	-
Market linked insurance liabilities	25	8,933,562	8,069,684	-	-
Amounts payable under deposit administration contracts	25	1,583,895	1,355,921	-	-
Deferred tax	28	555,598	382,275	-	-
Provisions	27	51,925	56,418	-	-
Current tax	10	7,002	9,972	-	9,972
Insurance payables	29	439,894	343,199	-	-
Payables and other charges	30	737,588	733,143	648,051	641,582
TOTAL LIABILITIES		20,821,777	17,819,064	648,051	651,554
TOTAL EQUITY AND LIABILITIES		24,599,410	21,157,507	1,383,060	1,770,086

The financial statements were approved by the Board of Directors on 26 February 2015 and signed on its behalf by:

Dr John PN Simba
Chairman
26 February 2015

Stephen Kamanda
Ag Chief Executive
26 February 2015

	Note	Share capital KShs.'000	Share premium KShs.'000	Statutory Fund KShs.'000	Retained earnings KShs.'000	Total KShs.'000
Year Ended 31 December 2014:						
At 1 January		480,000	124,431	1,274,251	1,459,761	3,338,443
Profit or loss:						
Profit for the year			-	-	871,190	871,190
Transactions with owners:						
Dividends paid	34	-	-	-	(432,000)	(432,000)
Transfer to statutory fund	24	-	-	573,792	(573,792)	-
At 31 December		480,000	124,431	1,848,043	1,325,159	3,777,633
Year Ended 31 December 2013:						
At 1 January		480,000	124,431	852,157	916,676	2,373,264
Profit or loss:						
Profit for the year		-	-	-	1,250,432	1,250,432
Other comprehensive income:						
Gain on bargain purchase		-	-	-	2,747	2,747
Transactions with owners:						
Dividends paid	34	-	-	-	(288,000)	(288,000)
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

	Note	Share capital KShs.'000	Share premium KShs.'000	Retained earnings KShs.'000	Total KShs.'000
Year Ended 31 December 2014:					
At 1 January		480,000	124,431	514,101	1,118,532
Total comprehensive income:					
Profit for the year		-	-	48,477	48,477
Transactions with owners:					
Dividends paid	34	-	-	(432,000)	(432,000)
At 31 December		480,000	124,431	130,578	735,009
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

a) GROUP

Year Ended 31 December 2014:

	Note	Ordinary life KShs.'000	Super annuation KShs.'000	Investments KShs.'000	Group KShs.'000
OPERATING ACTIVITIES					
Net cash generated from operations	35(a)	554,644	476,218	(113,060)	917,802
INVESTING ACTIVITIES					
Purchase of intangible assets	11	(5,576)	(8,365)	-	(13,941)
Purchase of property and equipment	12	(9,867)	(14,801)	(3,220)	(27,888)
Purchase of investment property	13	(77,125)	-	-	(77,125)
Net purchase of financial assets through profit and loss	16	(632,542)	(948,813)	(111,111)	(1,692,466)
Purchase of government securities	16	(340,795)	(1,036,681)	-	(1,377,476)
Sale/ maturity of government securities	16	-	224,533	-	224,533
Investments in land and development	21	-	-	12,490	12,490
Mortgage and policy loans repaid	18/19	31,234		801,653	832,887
Mortgage and policy loans advanced	18/19	(48,925)	-	(731,310)	(780,235)
Rental income	5	-	35,426	-	35,426
Interest received		596,950	895,427	86,234	1,578,611
Net cash generated from/(utilised in) investing activities		(486,646)	(853,274)	54,736	(1,285,184)
FINANCING ACTIVITIES					
Dividends received	5	36,887	55,331	363	92,581
Dividends paid	34	-	-	(432,000)	(432,000)
Net cash from financing activities		36,887	55,331	(431,637)	(339,419)
Increase/(decrease) in cash and cash equivalents		104,885	(321,725)	(489,961)	(706,801)
Cash at start of year	23	2,816,536	1,125,422	746,139	4,688,097
Cash at end of year	23	2,921,421	803,697	256,178	3,981,296

a) GROUP (Continued)

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/(utilised in) operations	35(b)	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 of government securities	16	-	395,000	-	395,000
Investments in land and development	21	-	-	(39,429)	(39,429)
Mortgage and policy loans advanced	18/19	(41,249)	-	(733,180)	(774,429)
Repayment of mortgage and policy loans	18/19	58,988	-	779,803	838,791
Rental income	5	-	32,338	-	32,338
Interest received		226,276	579,821	64,260	870,357
Net cash utilised in investing activities		(897,550)	(852,805)	(368,222)	(2,118,577)
FINANCING ACTIVITIES					
Dividends from subsidiaries	5	6,080	21,557	3,800	31,437
Dividends paid	34	-	-	(288,000)	(288,000)
Purchase of PAAM	14	-	-	(55,687)	(55,687)
Net cash used in financing activities		6,080	21,557	(339,887)	(312,250)
Increase/(decrease) in cash and cash equivalents		559,776	(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	2,816,535	1,125,422	746,139	4,688,097

b) COMPANY

	Note	2014 KShs.'000	2013 KShs.'000
OPERATING ACTIVITIES			
Net cash generated from operations	35(c)	(38,892)	686,597
INVESTING ACTIVITIES			
Investment income		14,806	39,582
Investment in land and development	21	12,490	(39,429)
Purchase of property and equipment	12	(10)	-
Net cash generated from investing activities		27,286	153
FINANCING ACTIVITIES			
Purchase of PAAM	14	-	(55,687)
Intra group charge	9	-	(21,663)
Dividends paid	34	(432,000)	(288,000)
Net cash used in financing activities		(432,000)	(365,350)
Decrease in cash and cash equivalents		(442,952)	321,400
Cash at start of year	23	577,688	256,288
Cash at end of year	23	134,736	577,688

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) General information

Pan Africa Insurance Holdings Limited underwrites life and non-life insurance risks, such as those associated with death, disability, credit protection and mortgage protection. The Group, through its subsidiaries PAAM, also issues a diversified portfolio of investment contracts to provide its customers with asset management solutions for their savings and retirement needs. All these products are offered to both domestic and foreign markets. The Company does business in Kenya and the entire East Africa and employs over 1,000 employees (staff and agents).

b) 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 statement of profit or losss, 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 statement of profit or loss. 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 statement of profit or loss as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to statement of profit or loss 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 statement of profit or loss 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 the directors to exercise 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 (ff).

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

c) Basis of consolidation

The consolidation of financial statements comprise the financial statements of the group and its subsidiaries as at 31 December 2014.

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.

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

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, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

c) Basis of consolidation (continued)

i) Subsidiaries (continued)

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.

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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 statement of profit or loss 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 statement of profit or loss. 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).

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

c) Basis of consolidation (continued)

ii) Associates (continued)

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

The associate has been carried at cost in the books of account of the company but adjustments have been made in the group level to align the accounting policies for the two entities.

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.

d) 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.

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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

d) Business combinations and goodwill (continued)

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.

e) New and amended standards, interpretations and improvements

New and amended standards adopted by the group

The following standards have been adopted by the group for the first time for the financial year beginning on 1 January 2014 and have a material impact on the group:

IAS 32 Financial instruments: Presentation (amendment)

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the group financial statements.

IAS 36 Impairment of assets (amendment)

This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

IAS 39 Financial instruments: Recognition and measurement (amendment)

This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The group has applied the amendment and there has been no significant impact on the group financial statements as a result.

IFRIC 21 Levies

It sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the group.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

New and amended standards not yet adopted by the group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been early adopted in preparing these consolidated financial statements. None of theseis expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9 Financial Instruments Classification And Measurement

Financial instruments' , addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P/L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group is yet to assess IFRS 9's full impact.

IFRS 15 Revenue from contracts with customers

It deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The group is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

f) 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)

g) 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.

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

Rental income 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 statement of profit or loss 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

g) Revenue recognition (continued)

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.

h) 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.

i) 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 statement of profit or loss.

Gains or losses on buying reinsurance are recognised in the statement of profit or loss immediately at the date of purchase and are not amortised. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

j) 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.

k) 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 statement of profit or loss.

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.

l) 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.

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 statement of profit or loss in the year in which they are incurred.

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%

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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

l) Property and equipment (continued)

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.

m) 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 2014.

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 statement of profit or loss.

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 statement of profit or loss.

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.

n) 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 statement of profit or loss in the year in which the expenditure is incurred.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

n) Intangible assets (continued)

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 statement of profit or loss when the asset is derecognised.

o) 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.

p) Financial instruments

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

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

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

p) Financial instruments (continued)

i) Financial assets at fair value though profit or loss

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or

- the assets and liabilities are part of a portfolio of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information regarding these instruments are reported to the key management personnel on a fair value basis.

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

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 of bonds under lien. Investments are initially recognised at fair value plus transaction costs. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Gains and losses on held to maturity assets are recognised on impairment, derecognition and through the amortisation process.

iv) Available –for–sale investments

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

p) Financial instruments (Continued)

Derecognition of financial assets

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

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

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

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

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

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.

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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

p) Financial instruments (Continued)

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)

p) 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 statement of profit or loss. 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 statement of profit or loss. 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 statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through the statement of profit or loss; 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)

q) 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.

r) 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 statement of profit or loss 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.

s) 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 statement of profit or loss 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 statement of profit or loss 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)

t) 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.

u) 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 statement of profit or loss.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in (o) have been met.

v) 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 statement of profit or loss.

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 statement of profit or loss over the life of the contract, whereas losses are fully recognised in the statement of profit or loss 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 z), by using an existing liability adequacy test as laid out under the Kenyan Insurance Act.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

w) 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 statement of profit or loss 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 statement of profit or loss 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.

x) 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 statement of profit or loss. 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 statement of profit or loss.

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.

y) 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 statement of profit or loss 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)

y) 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)

z) 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.

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 statement of profit or loss 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.

bb) Expenses

Expenses are recognised in the statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss 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.

cc) 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)

cc) Impairment of non-financial assets (continued)

Impairment losses of continuing operations are recognised in the statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss.

dd) 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 statement of profit or loss 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)

ee) 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.

ff) 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

ii. Key sources of estimation uncertainty (continued)

a) Valuation of insurance contract liabilities (continued)

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

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

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

b) Property and equipment

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

ii. Key sources of estimation uncertainty (continued)

e) Income taxes (continued)

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.

gg) 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.

hh) 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.

ii) 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 2014: 30% (2013:30%) is incurred.

2. SEGMENT INFORMATION

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

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

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

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

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

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

(b) That was:

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

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

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

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

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

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

2. SEGMENT INFORMATION (continued)

Segment statement of profit or loss for the year ended 31 December 2014:

	Ordinary life KShs.'000	Super-annuation KShs.'000	Investments KShs.'000	Consolidation adjustment KShs.'000	Total KShs.'000
Gross written premiums from external customers	2,594,901	2,651,626	-	-	5,246,527
Premiums ceded to reinsurers	(22,707)	(233,050)	-	-	(255,757)
Net premium Income	2,572,194	2,418,576	-	-	4,990,770
Fee and commission income	2,176	46,837	-	-	49,013
Interest income	425,258	442,615	80,903	-	948,776
Investment income	409,584	561,396	73,419	-	1,044,399
Fair value gains and losses	279,308	-	369,078	-	648,386
Other operating revenue	9,075	-	284,576	-	293,651
Total other revenue	1,125,401	1,050,848	807,976	-	2,984,225
Total revenue	3,697,595	3,469,424	807,976	-	7,974,995
Gross benefits and claims paid	(1,125,321)	(1,585,627)	-	-	(2,710,948)
Claims ceded to reinsurers	16,745	104,660	-	-	121,405
Gross change in insurance contract liabilities	(318,748)	(1,237,937)	-	-	(1,556,685)
Gross change in market linked insurance liabilities	(863,878)	-	-	-	(863,878)
Change in contract liabilities ceded to reinsurers	-	(43,588)	-	-	(43,588)
Net benefits and claims	(2,291,202)	(2,762,492)	-	-	(5,053,694)
Cost of sales	-	-	(19,848)	-	(19,848)
Fee and commission expense	(551,977)	(215,481)	(10,836)	-	(778,294)
Depreciation and amortization	(15,372)	(23,057)	(1,852)	-	(40,281)
Other operating and administrative expenses	(614,989)	(118,503)	(199,398)	-	(932,890)
Total benefits, claims and other expenses	(3,473,540)	(3,119,533)	(231,934)	-	(6,825,007)
Profit before share of profit of associate	224,055	349,891	576,042	-	1,149,988
Share of profit of associate	-	-	-	2,610	2,610
Profit before tax	224,055	349,891	576,042	2,610	1,152,598
Income tax expense	(97,728)	(101,717)	(81,963)	-	(281,408)
Profit for the year	126,327	248,174	494,079	2,610	871,190

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 profit or loss for the year ended 31 December 2013:

	Ordinary life Restated KShs.'000	Super-annuation Restated KShs.'000	Investments KShs.'000	Consolidation adjustment KShs.'000	Total KShs.'000
Gross written premiums from external customers	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)
Depreciation and amortization	(6,116)	(20,476)	(2,443)	-	(29,035)
Other operating and administrative expenses	(607,926)	(121,307)	(202,140)	-	(931,373)
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
Income tax expense	(29,124)	(97,504)	(139,384)	-	(266,012)
Profit for the year	67,364	228,098	952,882	2,088	1,250,432

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 2014: ASSETS	Ordinary life KShs.'000	Super annuation KShs.'000	Investments KShs.'000	Consolidation adjustment KShs.'000	Group KShs.'000
NON-CURRENT ASSETS					
Intangible assets	128,531	-	-	83	128,614
Investment properties	1,091,407	-	-	-	1,091,407
Equity accounted investments	-	-	4,861	13,668	18,529
Investments in subsidiaries	-	-	1,027,384	(1,027,384)	-
Financial instruments	8,995,277	6,932,361	1,529,685	-	17,457,323
Long term reinsurance assets	-	145,397	-	-	145,397
Land and development	-	-	133,219	-	133,219
Other non-current assets	133,033	-	-	-	133,033
CURRENT ASSETS					
Insurance receivables	170,270	82,772	-	-	253,042
Other assets	3,713,565	667,961	1,503,785	(646,465)	5,238,846
Total assets	14,232,083	7,828,491	4,198,934	(1,660,098)	24,599,410

LIABILITIES

	Ordinary life KShs.'000	Super annuation KShs.'000	Investments KShs.'000	Consolidation adjustment KShs.'000	Group KShs.'000
NON-CURRENT LIABILITIES					
Insurance contracts liabilities	5,703,250	2,809,063	-	-	8,512,313
Market linked insurance liabilities	4,234,196	4,699,366	-	-	8,933,562
Deposit administration contracts	1,583,895	-	-	-	1,583,895
Other non-current liabilities	555,598	-	-	-	555,598
CURRENT LIABILITIES					
Other liabilities	1,480,939	177,283	224,652	(646,465)	1,236,409
Total liabilities	13,557,878	7,685,712	224,652	(646,465)	20,821,777
NET ASSETS	674,205	142,779	3,974,282	(1,013,633)	3,777,633

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
NON-CURRENT ASSETS					
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
Other non-current assets	158,718				158,718
CURRENT ASSETS					
Insurance receivables	91,963	67,327	-		159,290
Other assets	3,789,439	685,432	1,836,185	(498,506)	5,812,550
Total assets	11,736,437	6,887,015	4,048,757	(1,514,702)	21,157,507

LIABILITIES

NON-CURRENT 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 non-current liabilities	382,275				382,275
CURRENT LIABILITIES					
Other liabilities	528,445	316,696	796,097	(498,506)	1,142,732
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

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:

	2014 KShs.'000	2013 KShs.'000
New business: Recurring		
Individual life	485,624	1,231,076
Group business	209,860	103,279
New business: Single premiums		
Individual life	1,847	3,409
Group business	1,853,622	2,232,924
Total new business	2,550,953	3,570,688
Renewal recurring		
Individual life	2,107,430	1,346,753
Group business	588,144	406,658
Total renewal premium income	2,695,574	1,753,411
Total premium income	5,246,527	5,324,099

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.

	2014 KShs.'000	2013 KShs.'000
Ordinary life	22,707	19,735
Super annuation	233,050	202,537
	255,757	222,272

4. FEES AND COMMISSION INCOME

	2014 KShs.'000	2013 KShs.'000
Fee	2,176	3,891
Commission received	46,837	48,789
	49,013	52,680

5. INVESTMENT RETURN

a) INVESTMENT INCOME

	Group		Company	
	2014 KShs.'000	2013 KShs.'000	2014 KShs.'000	2013 KShs.'000
Rental income:				
Rental income	35,426	48,578	-	-
Rental expenses	(10,238)	(9,135)	-	-
	25,188	39,443	-	-
Financial assets designated at fair value through profit or loss (designated upon initial recognition)				
Interest income	529,990	490,287	-	-
Dividend income	92,581	31,437		
Held-to-maturity financial assets interest income	853,450	581,996	-	-
Loans and receivables interest income	154,088	49,758	-	-
Cash and cash equivalents interest income	337,878	341,163	24,777	39,582
Total investment income	1,993,175	1,534,084	24,777	39,582

b) FAIR VALUE GAINS /(LOSSES)

	Group 2014 KShs.'000	Group 2013 KShs.'000	Company 2014 KShs.'000	Company 2013 KShs.'000
Unrealized Fair value gains on investment properties	92,000	95,000	-	-
Realized gains on financial assets at fair value through profit or loss (designated upon initial recognition)				
Equity securities	124,657	136,345		
Debt securities	9,459	(1,125)	-	-
Unrealized gains	422,270	929,920	-	-
Fair value gain (PAAM)	-	8,569	-	-
Total fair values gains	648,386	1,168,709	-	-

The realized gains and losses on disposals relate to the gains/losses made on financial instruments since the last reporting date. Fair value gains on PAAM resulted from the remeasurement of Group's previously held equity interest.

c) OTHER OPERATING REVENUE

	Group		Company	
	2014 KShs.'000	2013 KShs.'000	2014 KShs.'000	2013 KShs.'000
Plot sales	178,000	581,750	178,000	581,750
Other income	115,651	103,304	12,313	608
Total other income through statement of profit or loss	293,651	685,054	190,313	582,358
Gain on bargain purchase	-	2,747	-	-
Total other income through other comprehensive statement of profit or loss	-	2,747	-	-

6. DETAILS OF EXPENSES

(a) Claims and benefits paid

	Group 2014 KShs.'000	Group 2013 KShs.'000
Death and disability claims	1,563,786	985,194
Maturity and survival benefits	391,829	645,799
Policy surrenders	165,058	182,390
Annuities	590,275	444,992
Gross benefits and claims paid	2,710,948	2,258,375
Claims ceded to reinsurers	(121,405)	(115,711)
Gross change in actuarial value of insurance contract liabilities	1,556,685	1,644,278
Gross change in actuarial value of market linked insurance liabilities	863,878	1,391,857
Change in contract liabilities ceded to reinsurers	43,588	95,539
Net benefits and claims	5,053,694	5,274,338

(b) Fee and commission expense

	Group 2014 KShs.'000	Group 2013 KShs.'000
Payable to tied agents	551,977	525,954
Administration fee	10,836	7,547
Payable to brokers and other intermediaries	215,481	190,976
Fee and commission expense	778,294	724,477

c) Cost of sales

	Group 2014 KShs.'000	Group 2013 KShs.'000	Company 2014 KShs.'000	Company 2013 KShs.'000
Construction	13,314	46,133	13,314	46,133
Land	4,044	14,013	4,044	14,013
Legal costs	2,490	8,629	2,490	8,629
	19,848	68,775	19,848	68,775

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

7. OPERATING EXPENSES

	Group 2014 KShs.'000	Group 2013 KShs.'000	Company 2014 KShs.'000	Company 2013 KShs.'000
Other operating charges include:				
Staff costs (note 8)	452,193	426,857	8,824	27,655
Amortisation (note 11)	8,786	81	-	-
Depreciation (note 12)	31,494	28,954	1,612	1,626
Fees for managerial and administrative services:				
Auditors' remuneration	5,738	7,404	-	1,404
Tax audit	1,806	3,588	-	-
Legal fees	4,359	18,921	2,960	15,277
Actuarial fees	5,904	4,663	-	-
Total fees for managerial and administrative services:	17,807	34,576	2,960	16,681
Premium tax and stamp duty	34,575	33,269	-	-
Premium collection charges	74,481	85,770	-	-
Advertising	39,233	49,101	3,917	6,647
Office rent	36,336	39,791	1,832	2,577
Repairs and maintenance	8,554	13,279	818	64
Other expenses	269,712	248,730	100,284	77,710
Total operating expenses	973,171	960,408	120,247	132,960

8. STAFF COSTS

	Group 2014 KShs.'000	Group 2013 KShs.'000	Company 2014 KShs.'000	Company 2013 KShs.'000
Staff costs include the following:				
Defined contribution pension costs	31,448	30,963	838	802
Social security benefit costs	901	243	22	2
Salaries and other short term benefits	419,844	395,651	7,964	26,851
	452,193	426,857	8,824	27,655

9. FINANCE COSTS

	Company 2014 KShs.'000	Company 2013 KShs.'000
PA Securities Limited	-	21,663
	-	21,663

The finance costs are for inter – company loans from PA Securities Limited of nil (2013: KShs 214million). The loan is at an interest rate of 12.5% per annum and is secured. The value of collateral is nil (2013: KShs 1.237 billion).

10. INCOME TAX

	Group 2014 KShs.'000	Group 2013 KShs.'000	Company 2014 KShs.'000	Company 2013 KShs.'000
Statement of financial position:				
At start of the year:	21,171	15,385	(9,972)	37,826
Instalment tax paid	176,181	156,875	94,419	98,653
Under/(over)provision from prior years	(21,171)	14,420	13,752	(24,147)
Current income tax charge	(83,394)	(165,509)	(26,518)	(122,304)
	92,787	21,171	71,681	(9,972)
At the end of the year:				
ASSETS:				
Income tax receivable	99,789	31,143	71,681	-
Deferred tax (note 28)	3,359	28,050	327	4,108
	103,148	59,193	72,008	4,108
LIABILITIES:				
Current tax liability	(7,002)	(9,972)	-	(9,972)
Deferred tax (note 28)	(555,598)	(382,275)	-	-
	(562,600)	(392,247)	-	(9,972)
Statement of profit or loss:				
Current year tax charge	83,394	165,509	22,738	122,304
Deferred income tax charge (note 28)	220,310	112,208	-	24,147
Deferred income tax credit (note 28)	(1,125)	(26,125)	(9,972)	(4,108)
Under/(over)provision from prior years	(21,171)	14,420	13,752	(24,147)
Current year tax charge	281,408	266,012	26,518	118,196

10. INCOME TAX EXPENSE (Continued)

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

	Group		Company	
	2014 KShs.'000	2013 KShs.'000	2014 KShs.'000	2013 KShs.'000
Reconciliation of income tax expense to tax based on accounting profit:-				
Profit before income tax	1,152,598	1,516,444	74,995	398,542
Tax calculated at a statutory rate of 30%	345,779	454,933	22,499	119,563
Tax effect of:				
Income not subject to tax	(292,051)	(319,082)	(4,220)	(2,021)
Expenses not deductible for tax	28,541	29,658	4,459	4,762
Deferred income tax charge	199,139	100,503	3,780	(4,108)
Income tax charge	281,408	266,012	26,518	118,196

11. GROUP INTANGIBLE ASSETS (SOFTWARE)

Year ended 31 December 2014:

	Work-in-progress KShs.'000	Software KShs.'000	Total KShs.'000
Cost:			
At 1 January	120,718	21,192	141,910
Transfer from work in progress	(120,718)	120,718	-
Additions	-	13,941	13,941
At 31 December	-	155,851	155,851
Amortisation and impairment:			
At start of year	-	(18,451)	(18,451)
Charge for the year	-	(8,786)	(8,786)
At 31 December	-	(27,237)	(27,237)
Carrying amount:			
At 31 December	-	128,614	128,614

11. GROUP INTANGIBLE ASSETS (SOFTWARE) (Continued)

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

12. (a) GROUP PROPERTY AND EQUIPMENT

Year ended 31 December 2014:	Motor vehicles KShs.'000	Computer equipment KShs.'000	Furniture and equipment KShs.'000	Total KShs.'000
Cost:				
At 1 January	12,483	131,718	184,115	328,316
Adjustment	2	-	-	2
Additions	-	10,055	17,833	27,888
At 31 December	12,485	141,773	201,948	356,206
Depreciation and impairment:				
At 1 January	(8,407)	(113,155)	(92,005)	(213,567)
Incoming entity	-	-	-	-
Charge for the year	(2,024)	(11,337)	(18,133)	(31,494)
At 31 December	(10,431)	(124,492)	(110,138)	(245,061)
Carrying amount:				
At 1 January	4,076	18,563	92,110	114,749
At 31 December	2,054	17,281	91,810	111,145

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 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)
Adjustment	-	(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

(b) COMPANY PROPERTY AND EQUIPMENT

Year ended 31 December 2014:	Computer equipment KShs.'000	Furniture and equipment KShs.'000	Total KShs.'000
Cost:			
At 1 January	1,029	12,100	13,129
Additions	10	-	10
At 31 December	1,039	12,100	13,139
Accumulated depreciation:			
At 1 January	(984)	(5,325)	(6,309)
Charge for the year	(127)	(1,485)	(1,612)
At 31 December	(1,111)	(6,810)	(7,921)
Carrying amount:			
At 31 December	(72)	5,290	5,218

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
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

13. INVESTMENT PROPERTY

	Group				Company	
	2014 KShs.'000 Work in progress	2014 KShs.'000 Other	2014 KShs.'000 Total	2013 KShs.'000	2014 KShs.'000	2013 KShs.'000
At 1 January	7,282	915,000	922,282	820,000	-	-
Additions	77,125	-	77,125	7,282	-	-
Disposals	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Fair value gains	-	92,000	92,000	95,000	-	-
At 31 December	84,407	1,007,000	1,091,407	922,282	-	-

Investment properties are stated at fair value, which has been determined based on valuations performed by Knight Frank Valuers Limited as at 31 December 2014 and 31st December 2013. Knight Frank Limited are industry specialists in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The valuation takes into account recent prices of similar properties with adjustments being made to reflect any changes in economic conditions since the date of the transactions at those prices.

The fair value of investment property is determined by Knight Frank Valuers Limited using recognised valuation techniques. These techniques comprise both the Market Value (MV) method and Market Rent (MR) method.

Under the MV method, a property's fair value is estimated by determining the estimated amount for which the property should exchange on the valuation date between a willing buyer and a willing seller in an arms-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

13. INVESTMENT PROPERTY (continued)

The MR method is based on an opinion of the best rent at which a new letting of an interest in property would have been completed at the date of valuation assuming: The estimated amount for which a property, or space within a property, should lease (let) on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms in an arms-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion.

The fair value of investment property is included within Level 3.

Valuations are performed on an annual basis and the fair value gains and losses are recorded within the statement of profit or loss.

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

a) INVESTMENTS IN SUBSIDIARIES

Company

	Shareholding	2014 KShs.'000	2013 KShs.'000
Pan Africa Life Assurance Limited	100%	230,261	230,261
PA Securities Limited	100%	679,009	679,009
Pan Africa Asset Management Limited	100%	59,514	59,514
		968,784	968,784

Pan Africa Insurance Holdings Limited acquired 100% stake in Pan Africa Asset Management (PAAM) Limited in September 2013. (PAAM) is registered in Kenya and its core business is fund management. Previously, the company held a 17.5% stake in (PAAM) 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 Pan Africa Asset Management (PAAM) 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 (PAAM) 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 (PAAM).

14. INVESTMENTS (continued)

a) INVESTMENTS IN SUBSIDIARIES (continued)

	KShs.'000
	2013
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.

b) INVESTMENT IN ASSOCIATE

	Group		Company	
	2014	2013	2014	2013
	KShs.'000	KShs.'000	KShs. '000	KShs. '000
At 1 January	15,919	13,831	4,861	4,861
Share of results before tax	3,729	2,983	-	-
Share of tax	(1,119)	(895)	-	-
Share of profit of associate	2,610	2,088	-	-
Movements in carrying amount	2,610	2,088	-	-
At 31 December	18,529	15,919	4,861	4,861
Share of associates' statement of financial position:				
Assets	47,736	38,189	-	-
Liabilities	(26,736)	(21,389)	-	-
Net assets	21,000	16,800	-	-
Share of associates' revenue and profit:				
Revenue	31,225	24,980	-	-
Profit	3,729	2,983	-	-

Investments comprise:	Place of Business	Principal Activity	Nature of investment	2014 Share holding	2013 Share Holding
Runda Water Limited	Kenya	Water distribution	Associate	24.90%	24.90%

14. INVESTMENTS (continued)

b) INVESTMENT IN ASSOCIATE (continued)

	Group		Company	
	2014 KShs.'000	2013 KShs.'000	2014 KShs. '000	2013 KShs. '000
Share of associates' statement of financial position:				
Assets	191,711	153,369	-	-
Liabilities	(107,373)	(85,900)	-	-
Net assets	84,338	67,469	-	-
Share of associates' revenue and profit:				
Revenue	125,402	100,321	-	-
Profit	14,976	11,980	-	-

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 share capital consists solely of ordinary shares, which are held directly by the group.

The reporting date of Runda Water Limited is the same as the Group and both use uniform accounting policies.

There are no contingent liabilities relating to the group's interest in the associates.

15. LOANS

	Group	
	2014 KShs.'000	2013 KShs.'000
Mortgage loans (note 18)	392,379	366,902
Policy loans (note 19)	665,485	639,717
Total Loans	1,057,864	1,006,619

	Financial assets designated as fair value through profit or loss KShs.'000	Held-to-maturity KShs.'000	Total KShs.'000
As at 31 December 2014:			
Public sector stocks and loans	4,980,661	7,026,753	12,007,414
Equities and similar securities	5,449,909	-	5,449,909
	10,430,570	7,026,753	17,457,323

	Financial assets designated as fair value through profit or loss KShs.'000	Held-to-maturity 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

16. FINANCIAL INSTRUMENTS

a) SUMMARY PER CATEGORY

The movement of financial instruments is as shown below:

	Financial assets designated as fair value through profit or loss KShs.'000	Held to maturity KShs.'000	Total KShs.'000
Opening balance	8,181,718	5,536,053	13,717,771
Purchases	1,692,466	1,377,476	3,069,942
Maturities	-	(224,533)	(224,533)
Net investment income:			
Premium	-	337,757	337,757
Fair value gains	556,386	-	556,386
Closing balance	10,430,570	7,026,753	17,457,323

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 2014:					
Public sector stocks and loans	360,223	2,761,705	8,885,486	-	12,007,414
Equities and similar securities	-	-	-	5,449,909	5,449,909
	360,223	2,761,705	8,885,486	5,449,909	17,457,323
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

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 2014 of Held-to-maturity investments was KShs. 6.893 billion (2013: KShs 5.231 billion).

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.

16. FINANCIAL INSTRUMENTS (continued)

a) SUMMARY PER CATEGORY (continued)

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.

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 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 2014:	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Financial assets:				
Investment properties			1,091,407	1,091,407
Equities and similar securities	5,449,909	-	-	5,449,909
Public sector stocks and loans	4,980,661	7,026,753	-	12,007,414
	10,430,570	7,026,753	1,091,407	18,548,730
Financial liabilities:				
Deposit administration contracts	-	1,583,985	-	1,583,985
	-	1,583,985	-	1,583,985

	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
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	922,282	14,640,053
Financial liabilities:				
Deposit administration contracts	-	1,355,921	-	1,355,921
	-	1,355,921	-	1,355,921

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 2014 are as shown below

Description	Input	Sensitivity used*	Effect on fair value KShs '000
Investment property	Estimated rental value	10%	+/ -109,140
	Discount rate	1%	+/ - 10,914
	Rental growth rate	1%	+/ - 10,914
	Inflation rate	10%	+/ -109,140
	Long term vacancy rate	1%	+/ - 10,914

*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

The movement in investment properties (Level 3) are disclosed on note 13.

17. REINSURANCE ASSET

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

	2014 KShs. '000	2013 KShs. '000
Opening Balance	101,809	197,348
Current year movement	43,588	(95,539)
	145,397	101,809

18. GROUP MORTGAGE LOANS

	2014 KShs.'000	2013 KShs.'000
At start of year	372,653	383,647
Accrued interest	7,786	6,745
Additional Loans advanced	48,925	41,249
Loan repayments	(31,234)	(58,988)
At end of year	398,130	372,653
Impairment:		
At 1 January	(5,751)	(5,751)
Decrease during the year	-	-
At 31 December	(5,751)	(5,751)
At end of year (note 15)	392,379	366,902

	2014 KShs.'000	2013 KShs.'000
Maturity profile of mortgage loans		
Loans maturing:		
Within 1 year	2,422	2,265
In 1 - 5 years	14,546	13,602
After 5 years	381,162	356,786
Provision for Impairment	(5,751)	(5,751)
	392,379	366,902
Loans at:		
Market rate	37,928	35,465
Concessionary rate:		
Staff loans	26,429	24,713
Provision for Impairment	(5,751)	(5,751)
	58,606	54,427

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. 801,450,000 (2013: KShs. 735,350,000).The Group can liquidate the collateral in case of default. The average concessionary rate was at 9% (2013: 9%) 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

	2014 KShs. '000	2013 KShs. '000
At start of year	640,014	586,828
Additions	731,310	733,180
Repayments	(801,653)	(779,803)
Interest accrued	96,111	99,809
At end of year	665,782	640,014
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	665,485	639,717

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.

	2014	2013
Treasury bills	9%	10%
Treasury bonds	12%	11%
Mortgage loans and commercial papers	11%	13%
Deposits with financial institutions	12%	11%
Group Policy loans	16%	14%

21. LAND AND DEVELOPMENT

	Group		Company	
	2014 KShs.'000	2013 KShs.'000	2014 KShs. '000	2013 KShs. '000
At start of year	145,709	106,280	145,709	106,280
Additions	-	106,922	-	106,922
Disposals	(12,490)	(67,493)	(12,490)	(67,493)
As at December	133,219	145,709	133,219	145,709

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

22. RECEIVABLES AND OTHER ASSETS

a) INSURANCE RECEIVABLES

		2014 KShs.'000	2013 KShs.'000
Due from policyholders		1,091,845	203,721
Provision for doubtful debts	38(u)	(888,898)	(124,866)
Amount due from policyholders		202,947	78,855
Amounts due from reinsurers		38,010	59,650
Amounts due from agents, brokers and intermediaries		12,085	20,785
		253,042	159,290

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

The impairment is charged to expenses in the respective periods.

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

b) OTHER RECEIVABLES

	Group		Company	
	2014 KShs.'000	2013 KShs.'000	2014 KShs. '000	2013 KShs. '000
Amounts due from related parties (note 36)	13,626	9,940	39,179	38,946
Rent outstanding	13,995	15,882	-	-
Other financial assets	54,976	61,625	25,055	21,647
Prepayments	35,829	15,163	-	1,523
Total	118,426	102,610	64,234	62,116

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	
	2014 KShs.'000	2013 KShs.'000	2014 KShs. '000	2013 KShs. '000
Cash and bank balances	213,589	182,831	55,430	16,436
Deposits with financial institutions	3,767,707	4,505,266	79,306	561,252
	3,981,296	4,688,097	134,736	577,688

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% (2013: 11%).

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

24. GROUP SHARE CAPITAL AND RESERVES

SHARE CAPITAL	Ordinary shares	2014 KShs.'000	2013 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 52.

	Group	
	2014 KShs.'000	2013 KShs.'000
Balance at the beginning of the year	1,274,251	852,157
Surplus for the year	573,792	422,094
Net transfers during the year	-	-
Closing fund	1,848,043	1,274,251

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:

	2014			2013		
	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)	5,314,072	4,990,770	323,302	5,348,089	5,101,827	246,262
Income on Investment	2,353,753	2,185,286	168,467	2,240,228	2,059,915	180,313
Asset management fees	(63,865)	(55,998)	(7,867)	(47,430)	(41,347)	(6,083)
Net investment income	2,289,888	2,129,288	160,600	2,192,798	2,018,568	174,230
Income	7,603,960	7,120,058	483,902	7,540,887	7,120,395	420,492
Policy benefits (net)	(2,820,926)	(2,589,543)	(231,383)	(2,258,150)	(2,142,664)	(115,486)
Sales remuneration and administrative expenses	(1,517,117)	(1,492,572)	(24,545)	(1,444,746)	(1,424,028)	(20,718)
Transfer from shareholders	-	-	-	-	-	-
Transfer to statutory fund	(573,792)	(573,792)	-	(422,094)	(422,094)	-
Outflow	(4,911,835)	(4,655,907)	(255,928)	(4,124,990)	(3,988,786)	(136,204)
Net movement for the year	2,692,125	2,464,151	227,974	3,415,897	3,131,609	284,288
Balance at beginning of the year	16,192,248	14,836,327	1,355,921	12,776,351	11,704,718	1,071,633
Contract liabilities ceded to reinsurers	145,397	145,397	-	101,809	101,809	-
Balance at end of year	19,029,770	17,445,875	1,583,895	16,294,057	14,938,136	1,355,921

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 2014:					
Linked and market-related insurance contract liabilities	243,316	2,657,271	5,570,636	462,339	8,933,562
Insurance Contract liabilities:					
Reversionary bonus policies	234,346	240,003	498,919	-	973,268
Other non-participating liabilities	860,485	1,074,388	2,074,288	3,529,885	7,539,046
	1,094,831	1,314,391	2,573,207	3,529,885	8,512,314
Total insurance contracts liabilities:	1,338,147	3,971,662	8,143,843	3,992,224	17,445,876
Deposit administration contracts	-	-	-	1,583,895	1,583,895
Total long term policy liabilities	1,338,147	3,971,662	8,143,843	5,576,119	19,029,771
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

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 2014.

	Gross provisions KShs.'000	Reinsurance assets KShs.'000	Net KShs.'000
Long-term business			
Insurance contracts liabilities	8,512,313	(145,397)	8,366,916
Market linked insurance liabilities	8,933,562	-	8,933,562
Deposit administration contracts	1,583,895	-	1,583,895
	19,029,770	(145,397)	18,884,373

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 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 10.80% (2013: 10.50%).

INSURANCE CONTRACTS

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

	2014	2013
Reversionary bonus	2.0%	2.0%
Terminal bonus	2.0%	2.0%
Total bonus declared	4.0%	4.0%

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

27. GROUP PROVISIONS

	2014 KShs.'000	2013 KShs.'000
General provision on Insurance claims	34,620	39,113
Specific provision for financial guarantee	17,305	17,305
	51,925	56,418
The movement in the provisions is as follows:		
At 1 January	56,418	41,676
Additional claim provided	-	17,035
Unused amounts reversed	(4,493)	(2,563)
At end of year	51,925	56,418

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% (2013: 30%). The movement on the deferred income tax account is as follows:

For the year ended 31 December 2014

	At start of year Restated KShs. '000	(Charge)/ credit to Income statement KShs. '000	At end of year KShs. '000
Property and equipment	1,596	(3,362)	(1,766)
Quoted shares – fair value gain	-	(22,649)	(22,649)
Unrealised fair value losses	-	518	518
Provisions	26,454	(383)	26,071
Tax losses carried forward	3,234	-	3,234
Deferred tax on life fund surplus	(382,275)	(172,138)	(554,413)
	(350,991)	(198,014)	(549,005)
Pan Africa Life Insurance Limited	(382,275)	(172,138)	(554,413)
PA Securities Limited	22,035	(23,220)	(1,185)
Mae Properties Limited	3,234	-	3,234
Pan Africa Asset Management Limited	1,907	1,125	3,032
Pan Africa Insurance Holdings Limited	4,108	(3,781)	327
	(350,991)	(198,014)	(549,005)

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:

For the year ended 31 December 2014

	At start of year KShs. '000	(Charge)/ credit to Income statement KShs. '000	At end of year KShs. '000
Property and equipment	1,596	(3,362)	(1,766)
Quoted shares – fair value gain	-	(22,649)	(22,649)
Unrealised fair value losses	518	518	
Provisions	26,454	(383)	26,071
TAX LOSSES CARRIED FORWARD	3,234	-	3,234
Deferred tax on life fund surplus	(382,275)	(172,138)	(554,413)
	(350,991)	(198,014)	(549,005)
Deferred tax not recognised	3,234	-	3,234
Deferred tax Asset	28,050	(24,691)	3,359
Deferred tax Liability	(382,275)	(173,323)	(555,598)

Includes in the Quoted Shares-Fair value gain is deferred tax attributable to Capital Gains Tax (CGT) which came into effect in January 2015. The effective rate applicable for CGT is 5 %(2013 Nil).

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 Restated 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 Assurance Limited	(255,646)	(126,628)	(382,275)
PA Securities Limited	18,426	3,609	22,035
Mae Properties Limited	3,234	-	3,234
Pan Africa Asset Management Limited	1,925	(18)	1,907
Pan Africa Insurance Holdings Limited	1,610	2,498	4,108
Deferred tax not recognised	(230,451)	(120,539)	(350,991)

b) COMPANY

For the year ended 31 December 2014:			
Plant and equipment	111	113	224
Provisions	3,997	(3,894)	103
Deferred tax	4,108	(3,781)	327
Deferred income tax recognised	-	4,108	4,108

28. DEFERRED INCOME TAX (continued)

b) COMPANY (continued)

	At start of year KShs. '000	(Charge)/ credit to Income statement KShs. '000	At end of year Restated KShs. '000
Deferred income tax recognised	-	4,108	4,108
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 not recognised	-	4,108	4,108

29. GROUP INSURANCE PAYABLES

	2014 KShs.'000	2013 KShs.'000
Outstanding claims	360,004	261,607
Payables arising out of direct insurance	74,178	54,090
Payables arising out of reinsurance operations	5,712	27,502
Total insurance payables	439,894	343,199

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	
	2014 KShs.'000	2013 KShs.'000	2014 KShs.'000	2013 KShs.'000
Amounts due to related parties (note 36)	17,171	108,853	483,906	426,257
Unclaimed dividends	31,715	31,715	31,715	31,715
Stale cheques	58,281	54,706	-	-
Deposits received from sale of plots	33,983	118,548	33,983	118,548
Accruals	67,229	80,567	-	7,796
Other payables	529,209	338,754	98,447	57,266
	737,588	733,143	648,051	641,582

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

31. EARNINGS PER SHARE

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

a) Group

	2014 KShs.'000	2013 KShs.'000
Net profit attributable to ordinary shareholders for basic and diluted earnings	871,190	1,253,179
Weighted average number of ordinary shares for basic and diluted earnings per share	96,000	96,000
Basic earnings per ordinary share KShs.	9.07	13.05
Diluted earnings per ordinary share KShs.	9.07	13.05

b) Company

	2014 KShs.'000	2013 KShs.'000
Net profit attributable to ordinary shareholders for basic and diluted earnings	48,477	280,346
Weighted average number of ordinary shares for basic and diluted earnings per share	96,000	96,000
Basic earnings per ordinary share KShs.	0.50	2.92
Diluted earnings per ordinary share KShs.	0.50	2.92

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 27). 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 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	
	2014 KShs.'000	2013 KShs.'000	2014 KShs.'000	2013 KShs.'000
Not later than 1 year	15,726	14,296	9,846	8,951
Later than 1 year but not later than 5 years	80,276	72,978	50,263	45,694
More than 5 years	25,324	23,022	15,857	14,415
	121,326	110,296	75,966	69,060

34. DIVIDENDS PAID AND PROPOSED

	2014 KShs.'000	2013 KShs.'000
Proposed dividends per share	-	4.50
Number of shares	96,000	96,000
Total dividends proposed in the year	-	432,000

	2014 KShs.'000	2013 KShs.'000
Dividends paid	4.5	3
Number of shares	96,000	96,000
Total final dividend paid	432,000	288,000

Payment of dividends is subject to withholding tax at the rate of 5% in 2014 (2013:5%) for residents and 10% (2013:10%) 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 2014:	Ordinary life KShs.'000	Super annuation KShs.'000	Investments KShs.'000	Consolidation adjustment KShs.'000	Group KShs.'000
Profit before tax:	224,055	349,891	576,042	2,610	1,152,598
Adjusted for:					
Interest in financial assets as at fair value through profit or loss	(182,724)	(274,086)	(73,180)	-	(529,990)
Interest on held to maturity financial assets	(341,380)	(512,070)	-	-	(853,450)
Revaluation gain on investment property	-	(92,000)	-	-	(92,000)
Depreciation and amortization	15,372	23,057	1,852	-	40,281
Dividend Income	(36,887)	(55,331)	(363)	-	(92,581)
Fair value gains on financial assets at fair value through profit or loss	(74,923)	(112,386)	(369,078)	-	(556,387)
Rental income	(25,188)	-	-	-	(25,188)
Intergroup charge	-	-	-	-	-
Investment income	(164,425)	(246,637)	(80,903)	-	(491,965)
Share of results of associates before income tax	-	-	-	(2,610)	(2,610)
	(586,100)	(919,562)	54,370	-	(1,451,292)
Changes in working capital:					
Actuarial value of policyholders liabilities	1,182,626	1,237,937	-	-	2,420,563
Payables under deposit admin contracts	-	227,974	-	-	227,974
Policy and Mortgage loans	(24,132)	-	(27,113)	-	(51,245)
Reinsurance asset	-	(43,588)	-	-	(43,588)
Insurance receivables	(37,501)	(56,251)	-	-	(93,752)
Insurance payables	38,678	58,017	-	-	96,695
Other receivables	(39,527)	(59,208)	729,384	(646,465)	(15,816)
Trade and other payables	20,600	30,899	(693,519)	646,465	4,445
Cash generated from / (used in) operations	554,644	476,218	63,122	-	1,093,984
Tax paid	-	-	(176,182)	-	(176,182)
Net cash generated from / (used in) operations	554,644	476,218	(113,060)	-	917,802

35. CASH GENERATED FROM OPERATIONS (Continued)

Reconciliation of profit before income tax to cash generated from operations

b) 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	(69,423)	(232,414)	(110,746)	21,663	(390,920)
Provisions write back	-	-	-	-	-
Share of results of associates before income tax	-	-	-	(2,088)	(2,088)
	(367,233)	(1,189,805)	397,637	-	(1,159,401)
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
Reinsurance asset	-	95,539	-	-	95,539
Insurance receivables	6,321	21,162	-	-	27,483
Insurance payables	20,199	67,623	-	-	87,822
Policy loans	-	-	-	-	-
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 / (used in) operations	1,460,632	687,452	674,706	-	2,882,790
Tax paid	(9,386)	-	(147,489)	-	(156,875)
Net cash generated from / (used in) 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

c) COMPANY

CASH FLOW FROM OPERATIONS	2014 KShs.'000	2013 KShs.'000
Profit before tax	74,995	398,542
Adjustment for:		
Investment income	(24,777)	(39,582)
Depreciation and amortization	1,612	1,626
Write down of associate	-	-
Intergroup charges	-	21,663
	51,830	382,249
Changes in working capital		
Other receivables	(2,118)	257,351
Trade and other payables	5,815	145,650
At end of year	55,527	785,250
Tax paid	(94,419)	(98,653)
Net cash at end of year	(38,892)	686,597

36. RELATED PARTY TRANSACTIONS

	Relationship	Group		Company	
		2014 KShs.'000	2013 KShs.'000	2014 KShs.'000	2013 KShs.'000
(a) Amounts due from related parties:					
PA Securities Limited	Subsidiary	-	-	39,179	38,946
Hubris Holdings Limited	Parent	13,626	9,940	-	-
Total		13,626	9,940	39,179	38,946

There were no provisions made or amounts written off on related party balances during the year (2013: nil). The amounts due from related parties are non interest bearing and will be paid using cash and cash equivalents.

(b) Amounts due to related parties:

	Relationship	Group		Company	
		2014 KShs.'000	2013 KShs.'000	2014 KShs.'000	2013 KShs.'000
Payables to related parties					
Pan Africa Life Assurance Limited	Subsidiary	-	-	133,260	110,978
PA Securities Limited	Subsidiary	-	-	288,206	252,839
Sanlam Investment Markets	Parent	17,332	103,963	-	-
Mae Properties	Parent	-	-	62,440	62,440
SIM South Africa	Subsidiary	(161)	4,890	-	-
Sanlam Limited	Ultimate parent	-	-	-	-
PAAM Limited	Subsidiary	-	-	-	-
Total		17,171	108,853	483,906	426,257

*Amounts due to related parties are interest bearing at 12.5% p.a. All other balances due to related parties are not interest bearing and will be paid using cash and cash equivalents. The amounts are payable within one year.

36. RELATED PARTY TRANSACTIONS (Continued)

	Group		Company	
(c) Key management compensation:	**2014 KShs.'000**	**2013 KShs.'000**	**2014 KShs.'000**	**2013 KShs.'000**
Salaries and other short-term employment benefits	123,015	114,967	19,184	17,929
Post-employment benefits	12,960	12,113	2,332	2,180
	135,975	127,080	21,516	20,109
(d) Directors' remuneration:				
Fees	11,778	11,699	3,534	3,206
Other emoluments (included in (c) above	32,743	30,601	3,532	3,301
Total	44,521	42,300	7,066	6,507
Mortgage loans to key management where collateral is accepted as security	52,848	74,532	-	-

(e) Directors' pension

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

(f) Other related party transactions through the statement of profit or loss

	Group 2014	Group 2013	Company 2014	Company 2013
Investment income:				
Investment management fees- PAAM Limited	(2,223)	(4,932)	-	-
Other operating income				
Management expenses:				
Interest expense on intergroup borrowings	-	-	-	21,663
Management fees- Sanlam Developing Markets	16,403	7,304	-	-
	16,403	7,304	-	21,663

(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
Pan Africa Asset Management 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
e)	Asset Management required core capital	Kshs. 10mn or 3 times operational monthly expense	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 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 Groupwide 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 PricewaterhouseCoopers. The report of the independent auditors for the year under review is contained on page 42-43 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)

n) Risk management - life insurance (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 2014			
Equities and similar securities	768,340	+(-)32.1%	+(-)246,637
31 December 2013			
Equities and similar securities	521,905	+(-)36.9%	+(-)192,583

Change in base is the relative movement in the carrying value of equities and similar securities over the two reporting periods in review.

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 2014, all stable and reversionary bonus business portfolios had a funding level in excess of 100%. (2013: 100%).

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)

- 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 statement of profit or loss .The impact is net of tax.

	Gross portfolio	% change	2014 KShs.'000	% change in base	Gross portfolio	2013 KShs.'000
Financial assets	-	-	-	-	-	-
Public sector stocks and loans	4,980,661	+(-)12.0%	+(-) 574,495	+(-)21.0%	4,406,166	+(-) 915,061

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)

p) Interest rate risk (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 risk

The amount that best represents the Group's and Company maximum exposure to credit risk at end of year 2014 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	3,934,528	1,046,133	-	-	-		4,980,661
Held to maturity	7,026,753	-	-	-	-	-	7,026,753
Reinsurers' share of technical provisions and reserves	-	-	145,397	-	-	-	145,397
Receivables arising out of direct insurance arrangements	-	-	253,042	-	-	-	253,042
Loans	-	-	-	-	-	1,057,864	1,057,864
Receivables and other financial assets	-	-	-	-	-	118,426	118,426
Cash and cash equivalents	-	-	3,981,296	-	-	-	3,981,296
	10,961,281	1,046,133	4,379,735	-	-	1,176,290	17,563,439
Company:							
Receivables and other financial assets	-	-	-	-	-	64,234	64,234
Cash and cash equivalents	-	-	134,736	-	-	-	134,736
	-	-	134,736	-	-	64,234	198,970

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 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
Company:							
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)

Credit exposure by credit rating

Owing to the fact that there is no readily available credit rating information, the group assesses the credit quality of the institution, taking into account its financial position, past experience and other factors.

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

Group:
31 DECEMBER 2014

	Neither past due nor impaired KShs.'000	Past due but not impaired KShs.'000	Impaired KShs.'000	Total KShs.'000
Financial Instruments:	12,007,414			12,007,414
Reinsurers' share of technical provisions and reserves	145,397	-	-	145,397
Receivables arising out of direct insurance arrangements	253,042	-	888,898	1,141,940
Loans	864,328	-	5,751	1,063,615
Receivables and other financial assets	118,426	-	-	118,426
Cash and cash equivalents	3,981,296	-	-	3,981,296
	17,369,903	-	894,649	18,454,088

Company:
31 DECEMBER 2014

	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	64,234	-	-	64,234
Cash and cash equivalents	134,736	-	-	134,736
	198,970	-	-	198,970

The fair value of collateral on the mortgage loans of KShs 392,379,000 (2013: 366,902,000) amounted to KShs. 801,450,000 (2013: KShs. 725,500,000) while the surrender value of the policy loans adequately covers the outstanding loans of KShs 665,485,000 (2013: KShs 639,717,000) 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.

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.

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.

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 46. 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. 26.4 million (2013: decrease of KShs. 27 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 statement of profit or loss

Sensitivities	% change in base	Insurance Participating	Insurance non-participating	Shareholders' funds
31 December 2014				
Interest rate	+(-) 3%	+(-)96,720	+(-)368,983	+(-)73,741
Equity/Property	+(-) 4%	+(-)29,281	+(-)81,108	+(-)61,150
31 December 2013				
Interest rate	+(-) 3%	+(-)22,463	+(-)64,563	+(-)11,240
Equity/Property	+(-) 8%	+(-)33,363	+(-)19,113	+(-)4,130

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 2014:	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	4,980,661	-	-	4,980,661
Held to maturity financial assets	7,026,753	-	-	7,026,753
Reinsurance assets	145,397	-	-	145,397
Receivables and other financial assets	118,426		-	118,426
Mortgages	388,785	3,594	5,751	398,130
Policy loans	475,543	189,942	297	665,782
Insurance receivables	253,042	-	888,898	1,141,940
Deposits with financial institutions	3,767,707	-	-	3,767,707
Cash at bank	213,589	-	-	213,589
Gross financial assets	17,369,903	193,536	894,946	18,458,385

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

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 2014			
0-3 months	117,764	-	117,764
3-6 months	72,178	3,594	75,772
	189,942	3,594	193,536
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

The past due receivables are not impaired and continue to be paid. An impairment provision of KShs 894.9 million (2013: KShs 130.9 million) is held against the impaired receivables. The Group holds collateral against the past due or impaired receivables. The management continues to actively follow up past due and impaired receivables.

The following is a movement of impairment provision account:

	Mortgages KShs.'000	Policy loans KShs.'000	Insurance receivables KShs.'000	Total KShs.'000
The movement in the provisions is as follows:				
At 1 January 2014	5,751	297	124,866	130,914
Additional provision	-	-	764,032	764,032
Unused amounts reversed	-	-	-	-
At end of year	5,751	297	888,898	894,946
At 1 January 2013	5,751	-	43,128	49,176
Additional provision	-	297	81,738	81,738
Unused amounts reversed	-	-	-	-
At end of year	5,751	297	124,866	130,914

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 2014:

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	243,316	2,657,271	5,570,636	462,339	8,933,562
Non market related insurance contracts	1,094,831	1,314,391	2,573,207	3,529,885	8,512,314
Deposit administration contracts	-	-	-	1,583,895	1,583,895
Insurance payables				439,894	439,894
Provisions	-	51,925	-	-	51,925
Payables and other charges	737,588	-	-	-	737,588
Total liabilities	2,075,735	4,023,587	8,143,843	6,016,013	20,259,178
Company					
Payables and other charges	648,051	-	-	-	648,051
Total liabilities	648,051	-	-	-	648,051

Year ended 31 December 2014:

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	-	-	-	5,449,909	5,449,909
Public sector stocks and loans	360,223	2,761,705	8,885,486	-	12,007,414
Mortgages and policy loans	10,579	624,140	423,146	-	1,057,864
Long-term reinsurance assets	117,772	24,717	2,908	-	145,397
Insurance receivables	253,042	-	-	-	253,042
Receivables and other financial assets	118,426	-	-	-	118,426
Deposits with financial institutions	3,767,707	-	-	-	3,767,707
Cash and bank balances	213,589	-	-	-	213,589
Total assets	4,841,337	3,410,562	9,311,540	5,449,909	23,013,348
Company					
Receivables and other financial assets	64,234	-	-	-	64,234
Deposits with financial institutions	79,306	-	-	-	79,306
Cash and bank balances	55,430	-	-	-	55,430
Total Assets	198,970	-	-	-	198,970

38. RISK MANAGEMENT (Continued)

w) Liquidity risk (Continued)

Year ended 31 December 2013:

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	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

Year ended 31 December 2013:

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	-	-	-	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	19,776,196
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)

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	
	2014	2013	2014	2013	2014	2013
KShs.'000			KShs.'000	KShs.'000	KShs.'000	KShs.'000
0 – 500	273,781	295,607	4,855,188	4,221,082	3,267,383	3,240,365
500 - 1 000	49,471	53,415	16,398,743	14,257,006	10,942,575	10,852,091
1 000- 5 000	78,889	85,178	44,753,286	38,908,341	19,284,721	19,125,256
5 000- 8000	393	424	160,583,415	139,610,627	70,393,848	69,811,762
>8 000	447	483	241,029,426	209,550,091	107,406,749	106,518,604
	402,981	435,107	467,620,058	406,547,147	211,295,276	209,548,078

Non-participating annuity payable per annum per life insured

	Number of lives		Before Reinsurance		After reinsurance	
	2014	2013	2014	2013	2014	2013
KShs.'000			KShs.'000	KShs.'000	KShs.'000	KShs.'000
0 – 20	552	358	1,500,502	3,781	1,500,502	3,781
20 – 40	175	317	5,568,865	9,355	5,568,865	9,355
40 – 60	180	170	9,165,160	8,594	9,165,160	8,594
60 – 80	179	146	12,823,333	10,394	12,823,333	10,394
80-100	189	143	17,259,787	13,028	17,259,787	13,028
>100	1,662	1,378	564,286,191	448,702	564,286,191	448,702
	2,937	2,512	610,603,838	493,854	610,603,838	493,854

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	
	2014	2013	2014	2013	2014	2013
			KShs.'000	KShs.'000	KShs.'000	KShs.'000
With profits	2,871	4,312	345,133,840	442,097,037	345,133,840	442,097,037
Unit linked	60,021	67,216	-	-	-	-
Total	62,892	71,528	345,133,840	442,097,037	345,133,840	442,097,037

y) Capital adequacy risk

Refer to the capital management section on page 116 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 3.86 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 2006–2014.

		2006	2007	2008	2009	2010	2011	2012	2013	2014	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	1,685,881	
One year later		2,058,933	2,277,927	1,766,245	1,655,327	2,126,029	2,734,124	3,090,882	3,276,335		
Two years later		3,062,184	3,040,921	2,658,578	2,889,023	3,626,457	4,324,578	4,776,763			
Three years later		3,825,178	3,933,254	3,892,274	4,389,451	5,216,911	6,010,459				
Four years later		4,717,511	5,166,950	5,392,702	5,979,905	6,902,792					
Five years later		5,951,207	6,667,378	6,983,156	7,665,786						
Six years later		7,451,635	8,257,832	8,669,037							
Seven years later		9,042,089	9,943,713								
Eight years later		10,727,970									
Current estimate of cumulative claims incurred		10,727,970	9,943,713	8,669,037	7,665,786	6,902,792	6,010,459	4,776,763	3,276,335	1,685,881	59,658,733

38. RISK MANAGEMENT (Continued)

z) Claims development table (continued)

	Note	Before 2006 2006 KShs.'000	2007 KShs.'000	2008 KShs.'000	2009 KShs.'000	2010 KShs.'000	2011 KShs.'000	2012 KShs.'000	2013 KShs.'000	2014 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)	(1,245,987)	
One year later		(839,648)	(808,465)	(702,738)	(927,427)	(1,555,907)	(2,208,348)	(2,492,307)	(2,493,242)		
Two years later		(1,207,570)	(1,143,281)	(1,295,349)	(1,890,723)	(2,800,959)	(3,455,603)	(3,738,294)			
Three years later		(1,542,386)	(1,735,892)	(2,258,645)	(3,135,775)	(4,048,214)	(4,701,590)				
Four years later		(2,134,997)	(2,699,188)	(3,503,697)	(4,383,030)	(5,294,201)					
Five years later		(3,098,293)	(3,944,240)	(4,750,952)	(5,629,017)						
Six years later		(4,343,345)	(5,191,495)	(5,996,939)							
Seven years later		(5,590,600)	(6,437,482)								
Eight years later		(6,836,587)									
Cumulative payments to date		(6,836,587)	(6,437,482)	(5,996,939)	(5,629,017)	(5,294,201)	(4,701,590)	(3,738,294)	(2,493,242)	(1,245,987)	(42,373,335)
Insurance payables per the statement of financial position	27	3,891,383	3,506,231	2,672,098	2,036,769	1,608,591	1,308,869	1,038,469	783,093	439,894	17,285,398

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:

	2014 KShs.'000	2013 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

	2014 KShs.'000	2013 KShs.'000
Total life assets	22,060,574	18,623,185
Non admitted assets	(414,577)	(287,542)
Admitted assets	21,645,997	18,335,643
Assets not admitted comprise the following:		
Premium debtors	202,947	78,855
Prepayment	13,795	13,575
Fixed assets	197,835	195,112
Total Non-admitted assets	414,577	287,542

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.

	2014 KShs.'000	2013 KShs.'000
Total admitted assets (A)	21,645,997	18,335,643
Total admitted liabilities (B)	(20,030,099)	(17,139,196)
Total liabilities:	20,584,512	17,521,471
Non admitted liability: deferred tax liability	(554,413)	(382,275)
Total admitted liability	20,030,099	17,139,196
Surplus assets (A-B)	1,615,898	1,196,447
Less		
5% of Admitted liabilities	1,001,505	856,960
Solvency Margin as per insurance Act	614,393	339,487
No of times solvency cover	1.63	3.52

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

	2014 KShs.'000	2013 KShs.'000
Total assets under lien with IRA (A)	1,728,350	1,728,350
Lien amount required by insurance regulation (B)	1,082,300	916,782
Number of times lien cover (A/B)	1.60	1.89

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 69th Annual General Meeting of the company to be held on 13th May 2015

at 10.00 am and at any adjournment thereof.

Signed/Sealed this ……………………………… day of ………………………… 2015

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.

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Tel: 020 2781391
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KISII BRANCH
Royal Towers, 3rd Flr.
Hospital Road
P.O. Box 288 - 40200 Kisumu
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Lyric House, 3rd Flr.
Kimathi Street
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NYERI BRANCH
Peak Business Centre
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P.O. Box 618 - 10100, Nyeri
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