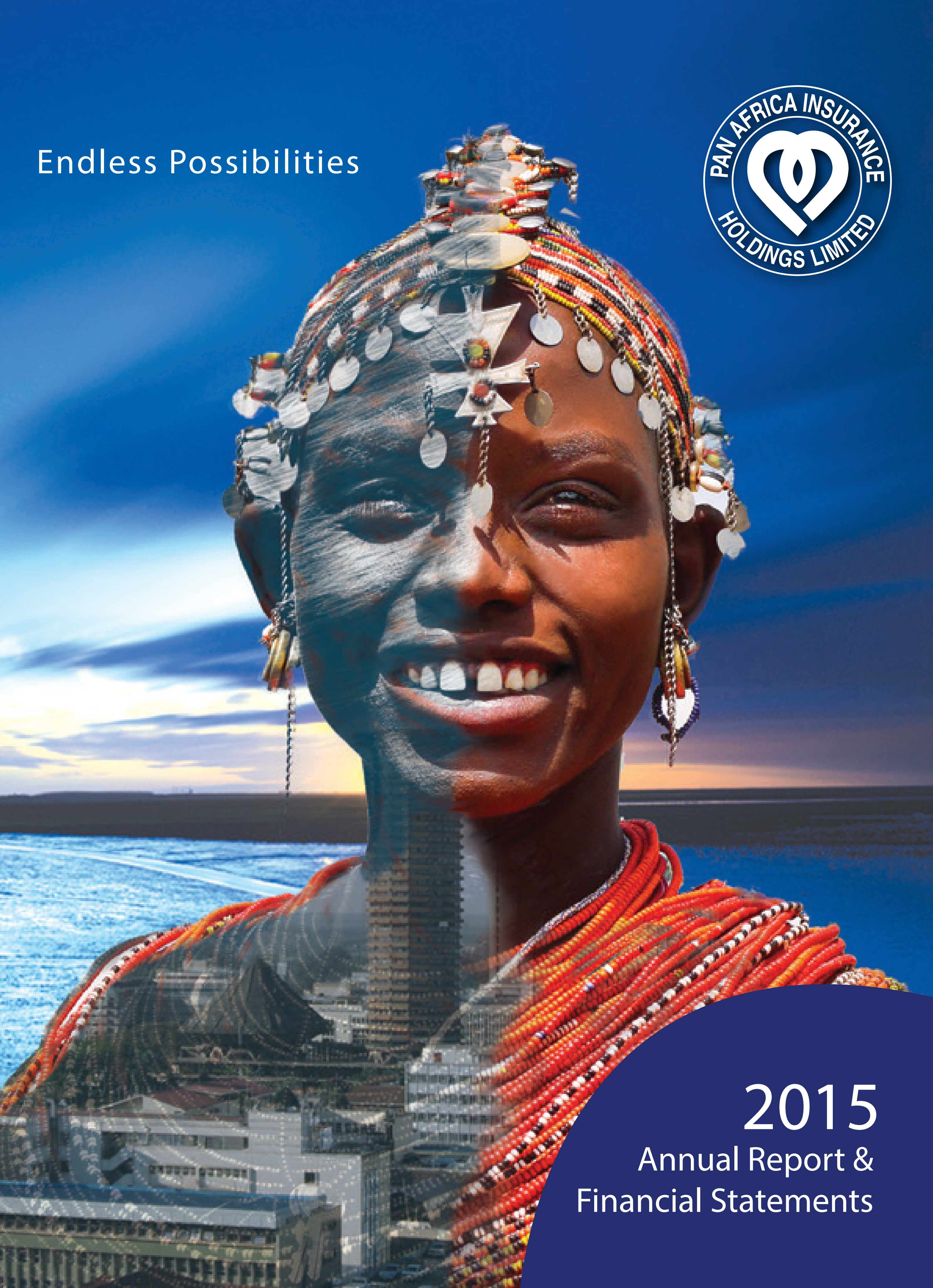


Endless Possibilities

PAN AFRICA INSURANCE HOLDINGS LIMITED

2015
Annual Report & Financial Statements

Milestones

Pan Africa Insurance Holdings Limited was incorporated on 26th October 1946, then known as Indo Africa Insurance Company Limited

Started underwriting life business in 1947

Listed on the Nairobi Securities Exchange in 1963. It is the first Insurance Company to be quoted

Name changed in 1963 to Pan Africa Insurance Company Limited to reflect its broader ownership base

Started underwriting general insurance business in 1972

Entered into a strategic partnership with African Life Assurance in 2000

In 2001, the Company formed two wholly owned subsidiaries:
a. Pan Africa Life Assurance Limited that carries on the life insurance business and
b. Pan Africa General Insurance Limited that carries on the general insurance business

In 2001, introduced for the first time in Kenya, life insurance products to clients afflicted with HIV/AIDS and is the first company to actively market and distribute unit-linked life assurance products

In 2003, Pan Africa General Insurance Limited merged with Apollo Insurance Limited to form APA Insurance Limited

In 2006, Sanlam Limited buys out African Life Assurance Group

In 2007, Pan Africa Life introduced the 'Flexi' range of products

In 2008, Pan Africa Life emerged the market leader in the Life business in Kenya (AKI industry statistics)

In 2010, Championed the sale of funeral insurance in Kenya

In 2013, Acquires Sanlam Investment Management, now Pan Africa Asset Management

In 2014, New Life Admin system

In 2015, Pan Africa Insurance Holdings buys Gateway Insurance Company

Contents

REPORT

FINANCIALS

Endless Possibilities

With Pan Africa Insurance Holdings Limited's wide range of products
I have been able to completely transform my personal and
professional life. I now look forward to a future of
Endless Possibilities

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.

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

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.

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

GROUP COMPANY SECRETARY

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

INDEPENDENT AUDITOR

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

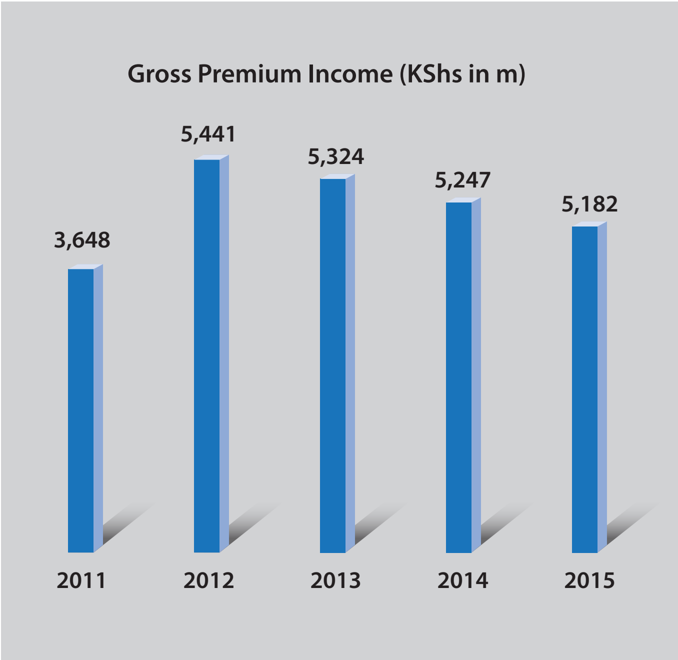
Muthaura Mugambi
Ayugi & Njonjo Advocates
4th Floor, Capital Hill Square, Upper Hill
NAIROBI

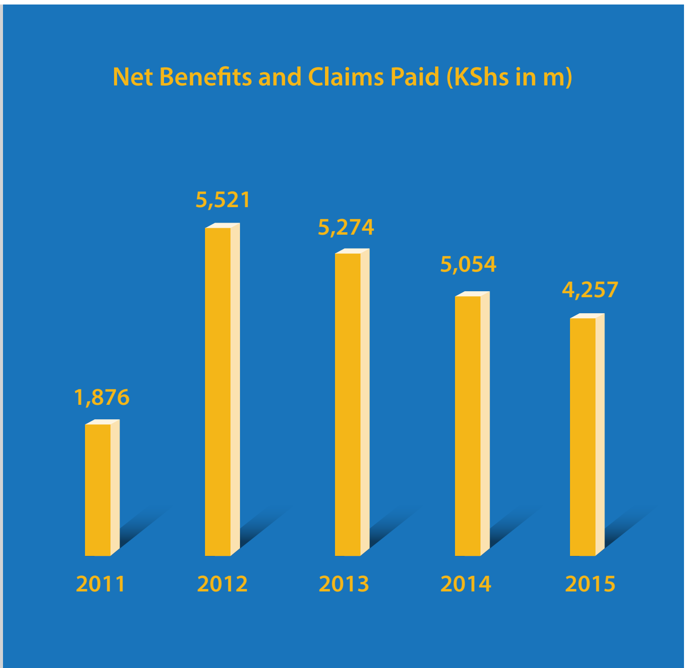
Waruhiu & Company Advocates
12th Floor, International House
Mama Ngina Street

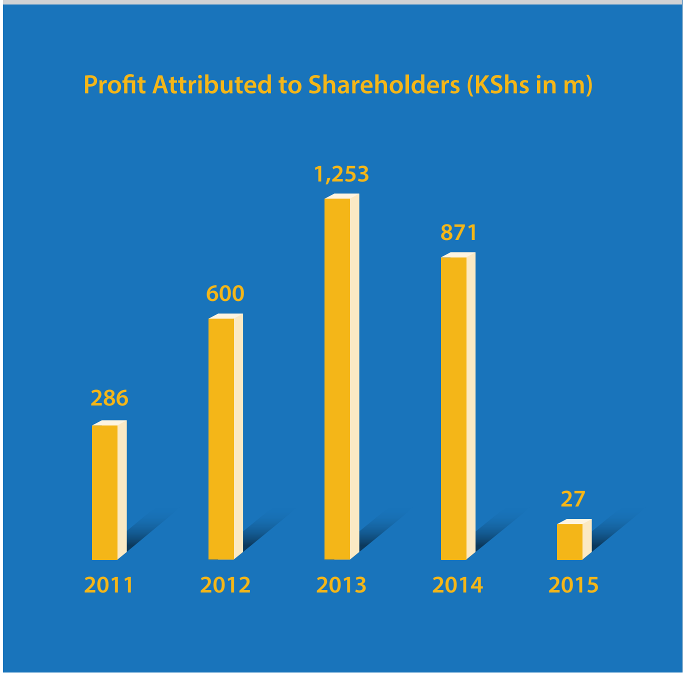
Five Year Group Results

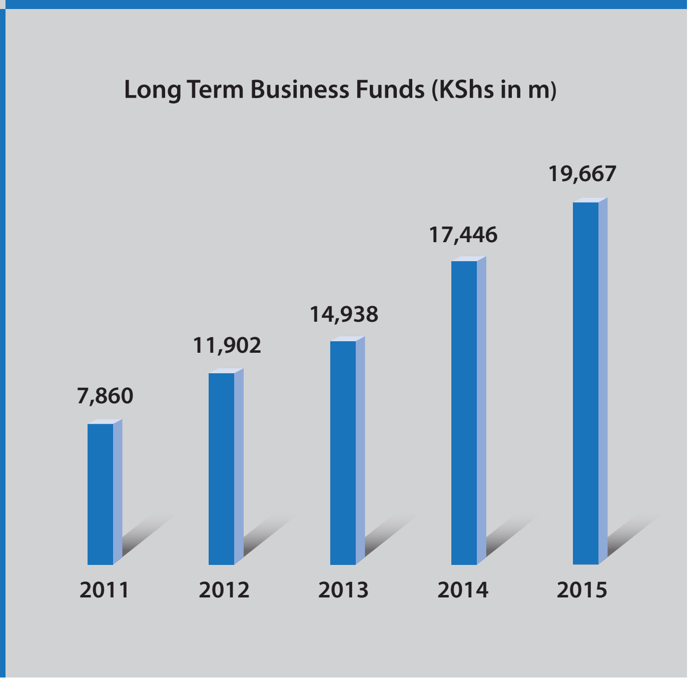
	2011 KShs.m	2012 KShs.m	2013 KShs.m	2014 Kshs.m	2015 KShs.m
Statement of profit or loss:					
Total other revenue	1,056	595	685	294	609
Operating profit before tax and share of associate	551	833	1,514	1,150	51
Profit / (Loss) attributed to shareholders	286	600	1,253	871	(62)
Insurance business:					
Gross premium income	3,648	5,441	5,324	5,247	5,182
Net premium income	3,300	5,126	5,102	4,991	4,797
Net benefits and claims paid	1,876	5,521	5,274	5,054	4,257
Statement of financial position:					
Total equity	1,965	2,373	3,338	3,778	3,802
Long term policy liabilities	7,860	11,902	14,938	17,446	19,667
Share capital	480	480	480	480	720
Total assets	11,514	16,474	21,158	24,599	27,109
Key indicators:					
	KShs.	KShs.	KShs.	KShs.	KShs.
Basic earnings per share	3	6	13	6.05	(0.43)
Dividends per share	2	3	4.5	-	-
Dividends	192	288	432	-	-
Market capitalisation at year end (KShs. m)	1,992	3,864	8,640	11,520	8,640
Group share prices at the NSE:					
Annual High	110	45	100	145	141*
Annual Low	18	18	39	87	55
Share price at year end	21	40	90	120	60

* Price before bonus issue


Gross Premium Income (KShs in m)
3,648
5,441
5,324
5,247
5,182
2011
2012
2013
2014
2015


Net Benefits and Claims Paid (KShs in m)
1,876
5,521
5,274
5,054
4,257
2011
2012
2013
2014
2015


Profit Attributed to Shareholders (KShs in m)
286
600
1,253
871
27
2011
2012
2013
2014
2015


Long Term Business Funds (KShs in m)
7,860
11,902
14,938
17,446
19,667
2011
2012
2013
2014
2015

The directors submit their report together with the audited financial statements for the year ended 31 December 2015 that discloses the state of affairs of the company and its subsidiaries.

Incorporation

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

Principal Activities

The principal activity of the Group, through its subsidiaries Pan Africa Life Assurance Limited and Gateway Insurance Company Limited, is the underwriting of all classes of long-term and short term insurance business as defined by the Insurance Act –(Chapter 487 of the Laws of Kenya), with the exception of industrial life insurance and aviation. The Group has interests in a wholly owned investment company (PA Securities Limited), wholly owned investment management company (Pan Africa Asset Management Limited), Mae Properties Limited (dormant) and Chem Chemi Mineral Water Limited (dormant). In 2015, the Group acquired a 56% stake in Gateway Insurance Company Limited.

Results

The profit for the year of KShs. 27,350,000 (2014: KShs. 871,190,000) has been added to the retained earnings.

Financial Risk Management Objectives and Policies

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

Authorisation

The consolidated financial statements of Pan Africa Insurance Holdings Limited for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on 17th March 2016. 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 to be misleading.

Directors

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

John PN Simba	: Non – executive	: Chairman
Mugo Kibati	: Executive	: Group Chief Executive Officer
Margaret Dawes	: Non – executive	
Rohan Patel	: Non – executive	: Alternate : Baloobhai Patel
Jonathan Paul Wrench	: Non – executive	
Susan Mudhune	: Non – executive	
Wikus Olivier	: Non – executive	
John Alexander Burbidge	: Non – executive	

Independent auditors

The Company's auditor PricewaterhouseCoopers, has expressed its willingness to continue in office in accordance with Section 721 (2) of the Companies Act (No. 17 of 2015 of the laws of Kenya).

By Order of the Board

Emma Wachira
Group Company Secretary
17 March 2016

FlexiPension

" My life started on this whole new journey, its only the beginning."

Dr. John P N Simba (Chairman)

Rohan Patel

John Burbidge

Dr. John PN Simba OGW, MBS (71) (Chairman)

Appointed to the Board in December 2001; Appointed as Chairman in March 2002

Occupation: Lawyer, Partner in Simba & Simba, Advocates

Academic Qualifications: LLD ((Hon.) University of Nairobi), Bachelor of Law (University of Dar-es-Salaam)

Professional Qualification: Advocate of the High Court of Kenya, Member Institute of Directors (Kenya)

Rohan Patel (40)

Appointed to the Board on 16 May 2014

Academic Qualifications: MBA (IMD), MSc Management (LSE), BA Geography (LSE)

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

John Burbidge (66)

Appointed to the Board on 16 May 2014

Occupation: Accountant

Academic Qualifications: Cheadle Hulme School, Manchester, United Kingdom.

Professional Qualifications: Fellow of the Institute of Chartered Accountants in England and Wales.

Margaret Dawes (58)

Appointed to the Board in March 2005

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

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

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

Margaret Dawes

Mugo Kibati

Jonathan Paul Wrench

Susan Mudhune

Mattys Lodewikus Olivier

Mugo Kibati (46)

Appointed to the Board on 17 February 2015

Occupation: Group Chief Executive Officer

Academic Qualifications: B.Sc. Engineering (Moi University), MBA (Finance & Econ-George Washington University), Masters Degree in Technology & Policy (MIT)

Professional Qualifications: FKIM.

Jonathan Paul Wrench (42)

Appointed to the Board on 9 August 2011

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

Academic Qualifications: Bachelor of Science (Hons) in Actuarial Science

Professional Qualifications: Fellow of the Institute of Actuaries, Fellow of the Actuarial Society of South Africa

Susan Mudhune (66)

Appointed to the Board on 18 August 2009

Occupation: Banker

Academic Qualifications: MBA (University of Nairobi, BA in Education (University of Nairobi)

Professional Qualifications: Fellow of the Institute of Bankers (Kenya), Fellow of the Kenya Institute of Management

Wikus Olivier (42)

Appointed to the Board on 16 May 2014

Occupation: Head: Group Finance, Sanlam

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

Professional Qualifications: Chartered Accountant (SA)

1 Victoria Ipomai

Occupation: Group Chief Financial Officer

Academic Qualifications: MBA, BA Building Economics

Professional Qualifications: FCCA

2 George Kuria

Occupation: Chief Executive Officer - Gateway Insurance Company Limited

Academic qualifications: Bachelor of Commerce Degree (Insurance), Masters in Business Administration

Professional qualifications: Diploma in Insurance, Certificate in Corporate Governance

3 Mugo Kibati

Occupation: Group Chief Executive Officer

Academic Qualifications: B.Sc. Engineering (Moi University), MBA (Finance & Econ-George Washington University), Masters Degree in Technology & Policy (MIT)

Professional Qualifications: FKIM

4 **Stephen Kamanda**

Occupation: Chief Executive Officer - Pan Africa Life Assurance

Academic Qualifications: BA (Economics), MBA in Finance

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

5 **Miriam Gathura**

Occupation: Group Head of Human Resource and Administration

Academic qualifications: Bachelor of Science, MSc Human Resources

Professional qualifications: Post Graduate Diploma Human Resource Management (IHRM, K) Certificates in Human Resource Management (IHRM, K) 2002 to 2004

6 **Emma Wachira**

Occupation: Group Company Secretary/Chief Legal Officer

Academic qualifications: Bachelor of Law degree (University of Nairobi)

Professional Qualifications: Advocate of the High Court of Kenya, CPS (K)

7 **Kennedy Muriithi**

Occupation: Chief Executive Officer – Pan Africa Asset Management Limited

Academic Qualification: Bachelor Commerce – Accounting

Professional Qualifications: CPA (K)

On behalf of the Board of Directors of Pan Africa Insurance Holdings, I am pleased to present the annual report for the 2015 financial year.

Global Economy

The global economy in 2015 was characterized by numerous setbacks. The main shocks were commodity price crashes, slowdown in China's economy and the Federal Reserve Bank's rate action, which together kept world economies in suspense most of the year. Both energy and non-energy commodity prices declined, with crude oil shedding 47% of the value. Recovery expected from the quantitative easing measures that followed the 2008 financial crisis by major central banks have not adequately stimulated productivity enhancing investments yet.

Kenyan Economy

Macroeconomic conditions in Kenya were slightly insulated from activities in the world economy during the year, except for sectors that are more integrated to the global financial markets. The stock market in particular, which had benefited from foreign inflows, bore the brunt of reduced inflows and withdrawals. The decline in oil prices had the impact of narrowing the current account trade deficit by reducing the import bill on petroleum products. The economy registered an average GDP growth rate of 5.8% in 2015. There is increased optimism for stronger growth in 2016 with projections of up to 6%, driven by a strong macroeconomic environment driven by continued investment in infrastructure, lower oil prices and improved performance of the tourism sector.

Overall annual inflation stood at 8.01%. The main drivers were food prices and excise duty on alcoholic beverages both of which pushed up inflation. Food prices were impacted by increased transportation costs as a result of the heavy rains in the fourth quarter. Inflationary pressure is expected to ease in 2016 in view of the depressed global crude oil prices.

Enhanced monitoring by the Central Bank of Kenya, together with the precautionary arrangement with the International Monetary Fund saw an increase in the foreign exchange reserves to 4.5 months import cover and continue to provide a sufficient buffer against short-term shocks.

Equity markets saw a significant decline during the year, shedding off 27.88% to close at 3769. The decline was due to a combination of factors, ranging from depressed corporate earnings by listed firms, reduced inflows from foreign investors and a shift in focus to fixed income securities as a result of the increase in interest rates. The decline further negatively impacted the performance of firms with exposure to the stock market from significant downward revaluation of the assets.

Insurance Industry

The insurance industry in Kenya faced numerous challenges throughout 2015 from the volatile market environment as witnessed through high interest rates with the resultant liquidity crunch, decline in the stock market, heightened inflation, depreciation of the Kenya shilling and insecurity. The year as a result recorded slowed down revenue growth, low investment earnings against a significant rise in operating costs. The poor performance was manifested in the numerous profit warnings by listed firms that hit a record high of 15 by the end of 2015.

However, financial services continue to attract interest and foreign investment inflows in view of the relatively favourable demographic dynamics, advancement in technology driven offerings and the low penetration levels.

On the regulatory front, the main developments were changes in the Finance Act 2015 introducing risk based supervision. The changes, aimed at strengthening institutions in the sector and improving their capabilities to exploit emerging opportunities, require an increase in core capital for both Life and Non-Life operators. The immediate implications are a deliberate plan for capitalization, de-risking balance sheets and a focus on profitable growth. Timelines for compliance though staggered, take effect from June 2016 and are expected to become fully enforced in June 2018.

Group Performance

Operations at Pan Africa Insurance Holdings were heavily influenced by external market forces due to the regulated business units and their involvement in financial intermediation. In addition to the adverse investment market conditions in 2015, the Life Insurance business was negatively impacted by challenges experienced within our distribution network from the second half of 2014 through to the third quarter of 2015. We have since bolstered our Life Insurance sales agency force through a series of recruitment drives. We have also put in place a competitive remuneration structure to ensure that we retain our distribution force at optimal levels.

The General Insurance business that we acquired during the year also performed below expectation. This was partly due to uncertainty created by the acquisition, as well as a significant increase in the provisioning for outstanding claims upon adoption of a more conservative claims reserving methodology. This lays a strong foundation for optimal performance in the future.

We are happy to report that the Asset Management business delivered a strong performance, growing its assets under management by 16% despite the sharp decline in the equity market.

We remain confident about the company's future prospects, across all business lines.

Dividend

The Board of Directors will not be recommending a dividend in respect of the 2015 results. This decision has been necessitated by the decline in profitability as a result of the adverse performance in the investments market that the business units are exposed to. We strive to continuously balance dividend payments with the need to preserve capital to fund growth and ongoing development projects.

2015 Awards and recognitions

The business world has once again acknowledged the areas that Pan Africa excels in. In 2015, we were the winners in the FiRe Awards (Insurance Category). We also won the following Think Business awards:

- ICT Award, 1st runners-up
- Risk Management Award, 1st runners-up
- Customer Satisfaction, 2nd runners-up

Statement of Corporate Governance

Good corporate governance is a key component of our business and essential for the long-term success of the Group. As a public listed company, Pan Africa complies with the guidelines and regulations as issued by the Capital Markets Authority and also operates in accordance with internationally accepted standards of good governance. The Group is equally alert to changes in the regulatory environment. In this regard, Pan Africa is keen on implementing The Code of Corporate Governance Practices for Issuers of Public Securities to the Public as issued in the year 2015.

Outlook for 2016

Global growth for the year 2016 is projected at 3.4%, an increase from 3.1% in 2015. Economic growth, especially in emerging markets and developing economies, is expected to slow down. This will have a significant impact on the global economy, considering that jointly, emerging markets and developing economies account for over 70% of the growth. Nonetheless, growth in the emerging markets and developing economies is expected to increase from 4% in 2015 to 4.3% in 2016.

In Kenya, economic growth is expected to average above 6%. The outlook for equities during the year is mixed due to its exposure to external macroeconomic forces. The general optimism for the economy in 2016 may however trigger an upturn in the market. Despite the poor performance in the past year, there is a general optimism for a better economic environment in 2016. This will hopefully spur growth in the financial services sector and diminish any negative effects on profitability. This will however be realised if firms consider diversified approaches to growth, invest in more efficient operations and strengthen their balance sheets to support growth and in readiness for enhanced regulatory capital requirements. In March 2016, the Insurance Regulatory Authority issued a self-assessment tool on 'Treating Customers Fairly', which will form the basis of all insurance business with effect from 1 January, 2017. We welcome this framework as it fits into our key value of focusing on the customer. Our organization will make the changes necessary to meet this challenge and comply with the new requirements.

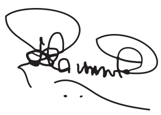
As a business, we remain optimistic about our prospects. We have re-entered the general insurance market and are proud of our position as a diversified financial services firm. This puts us in good stead to weather the headwinds and deliver impressive results.

Closing Note

I take this opportunity to acknowledge the Board, Management and Staff for their efforts in the face of a challenging economic environment. I sincerely thank them and wish them all the best as they continue to deliver value to our customers and shareholders.

I would also like to thank the shareholders for their continued show of support and confidence in us.

The Board, taking into account Pan Africa's forward-looking strategic plans, is confident that Pan Africa Insurance Holdings group will grow phenomenally in the next year.



Dr. John P N Simba, MBS OGW
Chairman
17 March 2016

Taarifa ya Mwenyekiti

Kwa niaba ya Halmashauri ya Wakurugenzi wa Kampuni ya Pan Africa Insurance Holdings, ni furaha yangu kuwasilisha ripoti ya mwaka kwa mwaka wa matumizi ya fedha wa 2015.

Uchumi Duniani

Uchumi wa dunia mnamo mwaka wa 2015 ulikabiliwa na changamoto mbalimbali. Changamoto kubwa zaidi zilikuwa kudorora kwa bei za bidhaa, kuzorota kwa uchumi wa nchi ya Uchina na hatua ya viwango vya hifadhi ya benki kuu nchini humo, ambazo kwa pamoja zililsababisha hali ya kutokuwa na uhakika katika chumi za dunia mwaka huo. Bei za bidhaa za kawi na zisizokuwa za kawi zilipungua, huku mafuta ambayo hayajasafishwa yakipungua thamani kwa asilimia 47. Ufufuzi uliotarajiwa baada ya hatua kuchukuliwa kukabiliana na mzozo wa kifedha wa mwaka wa 2008 na benki kuu nyingi bado hazijachochea utoaji unaoimarisha uwekezaji.

Uchumi wa Kenya

Hali ya chumi kuu nchini Kenya ilikingwa kwa kiasi fulani kutokana na shughuli katika uchumi wa dunia katika kipindi cha mwaka, isipokuwa sekta ambazo zinafungamana na masoko ya kifedha ya dunia. Soko la hisa haswa ambalo lilikuwa limefaidika kutokana na kuingia kwa biashara za kigeni, lilikumbwa na upungufu wa uingiaji huo pamoja na kujiondoa. Kupungua kwa bei za mafuta kulipunguza nakisi ya biashara kwa kupunguza gharama ya uagizaji wa bidhaa za petroli. Uchumi ulishuhudia kiwango cha wastani cha ukuaji wa pato la jumla kwa asilimia 5.8 mwaka wa 2015. Kuna matumaini ya ukuaji thabiti mwaka wa 2016 huku ikibashiriwa kwamba utakua kwa hadi kiwango cha asilimia 6, kutokana na hali thabiti ya chumi kuu kufuatia uwekezaji mfululizo katika muundo msingi, bei za chini za mafuta, na kuimarika kwa sekta ya utalii.

Kiwango cha kupanda kwa gharama ya maisha kwa mwaka kilifikia asilimia 8.01. Kiwango hiki kiliongezwa na bei za vyakula na ushuru wa vinywaji vya pombe. Bei za vyakula ziliongezeka kutokana na kupanda kwa gharama ya usafirishaji kutokana na mvua nyingi katika robo ya nne ya mwaka. Shinikizo la kupanda kwa gharama ya maisha linatarajiwa kupungua mwaka wa 2016 kutokana na kupungua kwa bei ya kimataifa ya mafuta ambayo hayajasafishwa.

Kuimarishwa kwa uchunguzi wa Benki kuu ya Kenya, pamoja na utaratibu wa tahadhari na Shirika la Fedha Duniani kulipelekea ongezeko katika hifadhi ya ubadilishanaji fedha za kigeni hadi kinga ya uagizaji ya miezi 4.5 na kuendelea kutoa kinga dhidi ya misukosuko ya muda mfupi.

Biashara katika masoko ya hisa ilidorora wakati wa kipindi cha mwaka, na kupungua kwa asilimia 27.88 huku ikifunga kwa kiwango cha 3769. Upungufu huo ulitokana na sababu mbalimbali kutoka kupungua kwa mapato ya kampuni zilizoorodheshwa kwenye soko la hisa, kupungua kwa uingiaji wa biashara kutoka kwa wawekezaji wa kigeni na kuzingatiwa zaidi kwa dhamana za mapato ya kuweka fedha kwa muda fulani kwenye benki kutokana na kuongezeka kwa viwango vya faida. Kupungua huko pia kuliathiri utendaji wa kampuni zinazojihusisha pia na uwekezaji katika soko la hisa kutokana na kupungua thamani kwa rasilimali.

Sekta ya Bima

Sekta ya bima nchini Kenya ilikabiliwa na changamoto kadhaa mwaka wote wa 2015 kutoka kwa hali isiyo thabiti ya soko kama ilivyoshuhudiwa kupitia kwa viwango vya juu vya riba vilivyosababisha matatizo ya pesa, kupungua kwa shughuli katika soko la hisa, kupanda kwa gharama ya maisha, kupungua thamani kwa sarafu ya Kenya na ukosefu wa usalama. Kutokana na hayo mwaka huo ulishuhudia ukuaji wa mapato wa kiwango cha chini, mapato ya uwekezaji ya kiwango cha chini dhidi ya ongezeko kubwa la gharama za uendeshaji. Utendaji huu duni ulidhihirika kwenye tahadhari kadhaa za faida zilizotolewa ka kampuni zilizoorodheshwa kwenye soko la hisa ambazo zilifikia 15 kufikia mwisho wa mwaka wa 2015.

Hata hivyo huduma za kifedha zinaendelea kuvutia faida na uwekezaji kutoka nchi za kigeni kutokana na hali ya kuvutia ya mifumo ya muundo wa jamii, maendeleo katika mapato yenye msukumo wa tekinolojia, na viwango vya chini vya upenyaji.

Kuhusu kanuni za kisheria, matukio makuu yalikuwa mabadiliko kwenye Kifungu cha Sheria ya Kifedha ya mwaka wa 2015 yaliyojumuisha usimamizi wa hali ya mashaka. Mabadiliko hayo yaliyonuiwa kuthibiti taasisi katika sekta hii na kuimarisha uwezo wa kutumia kikamilifu nafasi zinazoibuka, yanahitaji kuongezwa kwa mtaji kwa waendeshaji bima ya maisha na isiyo ya maisha. Hatua ya mara moja inapelekea kubuniwa kwa mpango wa mtaji, kuondoa hali ya mashaka kwenye mizania na kuzingatia ukuaji wa faida. Muda wa kuzingatia utekelezaji unaanza mwezi Juni 2016 na unatarajiwa kutekelezwa kikamilifu kufikia Juni 2018.

Utendaji wa Kundi

Shughuli katika kampuni ya Pan Africa Insurance Holdings ziliathiriwa sana na misukumo ya masoko ya nje kutokana na vitengo vya biashara vilivyothibitiwa na kuhusika kwao katika muingiliano wa kifedha.

Pamoja na athari kali za hali ya uwekezaji ya masoko mnamo mwaka wa 2015, Bima ya maisha iliathiriwa vibaya na changamoto zilizoshuhudiwa kwenye mtandao wetu wa ugawaji kutoka nusu ya pili ya mwaka wa 2014 hadi robo ya tatu ya mwaka wa 2015. Tangu wakati huo tumeimarisha kundi letu la maajenti wa uuzaji wa Bima ya Maisha kupitia kwa shughuli kadhaa za uandikishaji. Kadhalika tumeweka mfumo wa mishahara bora yenye ushindani kuhakikisha tunadumisha kundi letu la ugawaji kwa viwango vya juu.

Biashara ya Bima ya Jumla tuliyonunua wakati wa kipindi cha mwaka pia haikutenda kazi kulingana na matarajio yetu. Hii ilisababishwa kwa kiasi fulani na tashwishi iliyotokana na ununuzi huo, pamoja na ongezeko la kiwango kikubwa la kutengea malipo madai yaliyokuwepo baada ya kukubali utaratibu wa kuhifadhi zaidi madai. Hii inaweka msingi thabiti kwa utendaji bora siku zijazo.

Tuna furaha kuripoti kwamba biashara ya Usimamizi wa Rasilimali iliafikia utendaji bora na kukuza rasilimali zilizo chini ya usimamizi wake kwa asilimia 16 licha ya kupungua kwa biashara katika soko la hisa.

Tunaendelea kuwa na imani na matarajio mema ya siku zijazo ya kampuni yetu katika biashara zetu zote.

Mgao wa Faida

Halmashauri ya Wakurugenzi haijapendekeza mgao wa faida kuhusiana na matokeo ya 2015. Hatua hii imesababishwa na kupungua kwa faida kutokana na utendaji duni katika soko la uwekezaji ambapo vitengo vya biashara vinahusishwa. Tunajitahidi kila mara kusawazisha malipo ya mgao wa fedha na haja ya kuhifadhi mtaji kufadhili ukuaji na miradi ya maendeleo inayoendelea.

Tuzo na Utambuzi 2015

Ulimwengu wa biashara kwa mara nyingine umetambua nyanja ambapo Pan Africa imefanya vizuri zaidi. Mnamo mwaka wa 2016, tulikuwa washindi katika tuzo za FiRe (sekta ya bima). Kadhalika tulishinda tuzo zifuatazo za Think Business :

- Tuzo la Habari, Mawasiliano na Tekinolojia (ICT), Nafasi ya pili
- Tuzo la Usimamizi wa Mashaka, Nafasi ya pili
- Kuridhisha Wateja, Nafasi ya tatu

Taarifa ya Usimamizi wa Kampuni

Usimamizi bora ni nguzo muhimu ya biashara yetu na ni muhimu kwa ufanisi wa muda mrefu wa Kundi. Kama kampuni ya umma iliyoorodheshwa katika soko la hisa, Pan Africa inazingatia mwongozo na kanuni zilizotolewa na Halmashauri ya Masoko ya Hisa na pia inaendesha shughuli zake kuambatana na viwango vya kimataifa vilivyokubalika vya usimamizi bora. Kundi pia linajifahamisha na mabadiliko mapya katika kanuni. Kuhusiana na haya, Pan Africa inatilia makini utekelezaji wa Sheria za Usimamizi wa Mashirika kwa Watoaji Dhamana kwa Umma iliyotolewa mwaka wa 2015.

Mtazamo wa mwaka wa 2016

Ukuaji duniani kwa mwaka wa 2016 unakisiwa kuwa asilimia 3.4, ongezeko kutoka asilimia 3.1 mnamo mwaka wa 2015. Ukuaji wa kiuchumi, haswa katika makoso yanayoibuka na chumi zinazoendelea unatarajiwa kupungua. Hii itaathiri pakubwa uchumi wa dunia, ikitiliwa maanani kwamba, kwa pamoja masoko yanayoibuka na chumi zinazoendelea zinajumuisha zaidi ya asilimia 70 ya ukuaji. Hata hivyo, ukuaji katika masoko yanayoibuka na chumi zinazoendelea unatarajiwa kuongezeka kutoka asilimia 4 mwaka wa 2015 hadi asilimia 4.3 mnamo mwaka wa 2016.

Nchini Kenya ukuaji wa kuichumi unatarajiwa kupata kiwango cha wastani cha zaidi ya asilimia 6. Matarajio ya biashara ya hisa

wakati wa kipindi cha mwaka ni mchanganyiko kutokana na athari za misukumo ya nje ya chumi kuu. Hata hivyo matumaini bora ya jumla ya kiuchumi mnamo mwaka wa 2016 huenda yakachochea utendaji bora kwenye soko. Licha ya matokeo duni katika mwaka uliopita, kunao matumaini ya jumla kwamba hali ya uchumi itakuwa bora mwaka wa 2016. Kuna matumaini kuwa hii itachochea ukuaji katika sekta ya huduma za kifedha na kuondolea mbali athari mbaya kwenye upatikanaji wa faida. Hata hivyo hii itawezekana tu iwapo kampuni zitafikiria mwelekeo tofauti wa ukuaji, kuwekeza katika uendeshaji bora wa shughuli na kuthibiti mizania zao ili kuimarisha ukuaji na kujiandaa kwa kanuni bora za mtaji zinazohitajika. Mnamo mwezi Machi 2016, Halmashauri ya Usimamizi wa Bima ilitoa kifaa cha kujitathmini kuhusu kuwatendea haki wateja,ambacho kitakuwa msingi wa biashara yote ya bima kuanzia tarehe 1 Januari 2017. Tunaukaribisha mfumo huu kwani unaambatana na maadili yetu muhimu ya kuzingatia maslahi ya wateja. Kampuni yetu itatekeleza mabadiliko yanayohitajika kukabiliana na changamoto hii na kutii mahitaji hayo mapya.

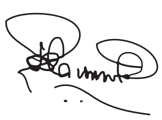
Kama kampuni tunasalia kuwa na matumaini mema kuhusu matarajio yetu. Tumeingia tena kwenye soko la bima ya jumla na tunajivunia nafasi yetu kama kampuni ya huduma mbalimbali za kifedha. Hii inatuweka katika nafasi nzuri ya kukabiliana na misukosuko yoyote na kuafikia matokeo bora.

Hitimisho

Nachukua nafasi hii kutoa shukurani kwa Halmashauri, Wasimamizi na Wafanyakazi kwa juhudi zao licha ya kukabiliwa na changamoto za hali ya kiuchumi. Nawashukuru kwa dhati na kuwatakia kila la kheri wanapoendelea kutoa huduma bora kwa wateja na wenyehisa.

Ningependa pia kuwashukuru wenyehisa kwa kuendelea kutuunga mkono na kwa imani yao kwetu.

Halmashauri ikizingatia mikakati ya maendeleo ya Pan Africa ina imani kwamba Kundi la Pan Africa Insurance Holdings litakua kwa kiwango kikubwa katika kipindi kijacho.



Dkt. John P N Simba, MBS OGW
Mwenyekiti
17 Machi 2016

Financial Performance

It is my pleasure to present to you a review of the Pan Africa Insurance Holdings' performance and operations for the year ended 31 December 2015. The year was marked by growth in our Asset Management and Property businesses, exceeding the 2014 operating profit levels. The performance of Life Insurance and Loans businesses however declined. The newly acquired General Insurance business also underperformed. This translated into a 95% decline in profit before tax for the group.

- Profit before tax of KShs. 54 million, down from KShs. 1.15 billion in 2014; a 95% decline
- Shareholders' funds up by 1% to KShs.3.8 billion
- Total assets up by 10% to KShs. 27 billion
- Pan Africa Life Embedded Value (EV) increased by 4% to KShs. 3.73 billion while Group EV decreased by 19% to KShs. 5.22 billion
- Group Capital Adequacy Requirement (Solvency) covered 3.55 times

The Group results are analysed as follows;

	2015 KShs' M	2014 KShs' M
Operating surplus	512	688
Investment income on shareholders' assets	106	464
Goodwill impairment	(564)	-
Profit before tax	54	1,152
Tax	(27)	(281)
Net surplus for the period	27	871
(Loss)/ Profit attributable to:		
Owners of the parent	(62)	871
Non-controlling interests	89	-

Following is a brief overview of our different business lines.

Life Business

The Life Insurance business' performance was negatively impacted by challenges in our distribution network from the third quarter of 2014 through to the third quarter of 2015. This was coupled with adverse investment and market conditions. Gross written premiums declined by 12% to KShs. 4.6 billion from KShs. 5.3 billion in 2014. Investment returns earned on the capital portfolio also declined by 34% from KShs.1.75 billion in 2014 to KShs. 2.64 billion in 2015, primarily due to the significant decline in the equities market during the year. Profit before tax declined by 39% to KShs. 337 million from KShs. 550 million in 2014. In 2015, we bolstered our agency force through a series of recruitment drives and have also put in place competitive remuneration to ensure that we retain our distribution force at optimal levels.

General Business

The General Insurance business, which was brought onboard with the acquisition of Gateway Insurance Company Limited in February 2015, performed below expectation, leading to a loss before tax of KShs. 302 million. The poor performance was partly due to uncertainty created by the acquisition; as well as a significant increase in provisioning for outstanding claims upon adoption of a more conservative claims reserving methodology in line with regulatory requirements. The change in the reserving policy was part of a business re-organisation exercise carried out by the Group after the acquisition and was aimed at laying a strong foundation for optimal performance in the future.

Apart from the factors above, performance was also adversely impacted by a goodwill impairment of KShs. 564 million recorded in the year. This relates to goodwill recognised in respect of the acquisition of Gateway Insurance Company Limited. The impairment loss was mainly driven by the increase in claims provisioning that reduced the company's net asset value, combined with use of a more conservative internal discount rate to value the business for impairment testing purposes. The impairment is therefore not a reflection of management's view of the future potential of the acquired entity.

Asset Management Business

The Asset Management business delivered strong performance, growing its assets under management by 16% despite the sharp decline in the equities market. This supported higher fee income and a 65% increase in profit before tax to KShs. 28.5 million.

Other Income

Sales from our property portfolio more than doubled to KShs. 518 million from KShs. 190 million the previous year, also positively impacting the 2015 profit before tax.

The Assets Under Management at the end of fourth quarter were KShs. 13.9 billion of which 23.8% was from third parties. The Assets Under Management for the year were 14.8% higher than the value of assets at the end of 2014 despite the impairment of the equity and fixed income assets in the portfolio.

The Asset Management Business returned positive performance for all portfolios. Consequently, our decision to hold a higher allocation on money market assets and a neutral allocation offshore was richly rewarded. The business remained ahead of budget on revenue, profitability and asset inflows but suffered from the impairment of equity and fixed income holdings.

We continue to engage productively with scheme trustees, administrators, brokers and independent financial advisors. We expect the outcomes of these engagements to be by way of higher and consistent inflows.

Our Unit Trust product recovered spectacularly to close at 98% of the budgeted inflows (KShs. 584 million against KShs. 595 million). Our expansion of the distribution to include independent financial advisors continues to bear fruit even as sales by the Life agency force gains traction.

Group Strategy

Pan Africa Insurance Holdings has embarked on implementing an ambitious 5 year strategic plan that is aimed at positioning it as a leading comprehensive financial services company in Kenya by the year 2020. This will be achieved by aligning our growth to the most promising segments in the economy, and diversifying our offering to wider customer solutions that will be delivered to them in the most efficient way backed by excellent service. The group will therefore make significant investments in re-designing the organisation structure and moving towards an integrated target operating model. The main objective of the plan will be attainment of operational efficiency through integrating core support functions at the group level and disseminating associated costs and benefits in a manner that exploits the full potential of opportunities across the group, delivers seamless service, reduced costs and improved profitability.

At the centre of this integration journey will be our people and distribution partners that we work closely with to attain the ambitious goals.

Rebranding

In line with the ongoing group strategy exercise, we plan to embark on a rebranding exercise which will see Pan Africa Insurance Holdings Limited and its subsidiaries (Pan Africa Life Assurance Limited, Pan Africa Asset Management Limited and Gateway Insurance Company Limited) fully assume the identity of the renowned Sanlam brand. The rebranding exercise is also aimed at giving the group and all the business units a single identity and renewed focus on what matters most to all stakeholders. The proposed rebranding is currently undergoing approval by our shareholders and other key stakeholders.

Corporate Social Responsibility

Our Corporate Social Responsibility program revolves around three main pillars: Education, Environment and Caring for the Community. Our programs are geared towards empowering communities in which we operate, in addition to being aligned with the Millennium Development Goals as well as the National Vision 2030 objectives.

Some of the CSR initiatives we executed in 2015 are as detailed below:

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. Sponsorship requests from needy students across the country are normally vetted based on level of need, performance, gender and geographical balance. The program has now been improved to include career guiding and counseling from volunteer members of staff. In 2015, four male and two female students were enrolled in this program.

One of the graduate beneficiaries, Marthar Obote, joined Maseno University in 2014 to study International Relations, Diplomacy and IT and is now in her second year of study.

Youth Empowerment

Vijana Tujisort na Pan Africa program - This is a financial planning program that is targeted at young people. During the year, we reached over a thousand young people from across the country.

Supporting Educational contests - As a gesture to motivate youth to pursue their potential, we partnered with Nyandarua County and donated trophies that were awarded to excelling students during their Science contest in 2015. We also gave the same sponsorship to Yatta District during their annual education day.

One of the Sponsored students, Anne Raayo in the company of her guardian after receiving her scholarship award letter at Pan Africa Life Offices

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 initiative currently running include:

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

The main motivation of these programs is imparting 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 has not already been 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 for example ICDL, IHRM, LOMA. 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.

In 2015 we had 20 beneficiaries of the Graduate Trainee and Internship program.

Caring for our Community

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

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. We also partnered with the Standard Chartered Nairobi marathon whose proceeds go towards giving needy children a chance to sight treatment, by donating a cheque of KShs. 250,000.

Chairman's Fund

Apart from our Corporate Social Responsibility fund, we have established 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 through a donation of KShs.100,000. The Kitty was also utilized to make donations towards Nyandoche Ibere Girls Secondary School and Palmhouse Foundation.

Pan Africa team at the Nyayo National Stadium during Mater Heart Run 2015.

Group Chief Executive Officer

17 March 2016

NOTICE IS HEREBY GIVEN that the 70th Annual General Meeting of the Company will be held at the Ballroom, Stanley, Kenyatta Avenue, Nairobi on Friday, 20th May 2016 at 10.00 am to conduct the following business:

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

2. To read the Notice convening the meeting.

3. To confirm the minutes of the previous Annual General Meeting held on 13th May 2015.

4. To consider, and if approved, adopt the Balance Sheet and Accounts for the year ended 31 December 2015 together with the reports of the Chairman, the Group Chief Executive, the Directors, the Auditor and the Statutory Actuary.

5. To note that the Directors do not recommend the payment of Dividend for the financial year ended 31 December 2015.

6. To elect Directors:

    6.1 Dr John Simba retires by rotation in accordance with the Company's Articles of Association and having attained the age of seventy years, retires in accordance with the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015; and being eligible, offers himself for re-election.

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

    6.3 Jonathan Paul Wrench, retires by rotation in accordance with the Company's Articles of Association and does not offer himself for re-election.

7. To approve the Directors' remuneration.

8. To note that the auditor, PricewaterhouseCoopers will continue in office in accordance with Section 721(2) of the Companies Act No. 17 of 2015 until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.

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

Special Resolutions

10. Change of Name

    To consider and if found fit, to pass the following resolution as a special resolution:

    "That the name of the Company be and is hereby changed from "Pan Africa Insurance Holdings Limited" to "Sanlam Kenya Plc"; with effect from the date set out in the Certificate of Change of Name issued by the Registrar of Companies."

By Order of the Board

Group Company Secretary
25 April 2016

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 Wednesday 18th May 2016.

2. In accordance with the Company's Articles of Association, a copy of the entire Annual Report and Accounts will be available for viewing or from the Company's website www.pan-africa.com or from the registered office of the Company, Pan Africa House, Kenyatta Avenue, Nairobi. An abridged set of the Balance Sheet, Income Statement, Statement of Changes in Equity and Cashflow Statement for the year ended 31 December 2015 have been published in two daily newspapers with nationwide circulation.

ILANI INATOLEWA HAPA kwamba Mkutano Mkuu wa Kila Mwaka wa 70 wa Kampuni utafanyika katika ukumbi wa Ballroom, Hoteli ya Stanley, iliyoko barabara ya Kenyatta Avenue mjini Nairobi siku ya Ijumaa tarehe 20 Mei 2016 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 uliofanyika tarehe 13 Mei 2015.

4. Kufikiria na iwapo itaidhinishwa, kupitisha mizania na taarifa za kifedha kwa mwaka uliomalizika tarehe 31 Desemba 2015 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 tarehe 31 Desemba 2015.

6. Kuchagua Wakurugenzi:

    6.1 Dkt John Simba anastaafu kwa zamu kulingana na sheria za kampuni na kwa kuwa ametimiza umri wa miaka sabini anastaafu kuambatana na Sheria za Kanuni za Usimamizi wa Mashirika kwa Watoaji Dhamana kwa Umma ya mwaka 2015 na kwa kuwa amehitimu anajiwasilisha kuchaguliwa tena.

    6.2 Susan Mudhune, anastaafu kwa zamu kulingana na sheria za kampuni na anajiwasilisha kuchaguliwa tena.

    6.3 Jonathan Paul Wrench, anastaafu kwa zamu kulingana na sheria za kampuni na hajiwasilishi kuchaguliwa tena.

7. Kuidhinisha malipo ya Wakurugenzi.

8. Kubaini kwamba wakaguzi wa hesabu wa PricewaterhouseCoopers wataendelea mbele na jukumu lao kulingana na Sehemu ya 721(2) ya Sheria za kampuni Nambari 17 ya 2015 hadi kukamilika kwa Mkutano Mkuu wa Mwaka ujao na kuwaidhinisha Wakurugenzi kuamua malipo yao.

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

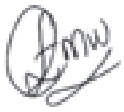
Maazimio Maalum

10. Kubadilika kwa Jina

    Kufikiria na iwapo itakubaliwa, kupitisha azimio lifuatalo kama azimio maalum:

    “Kwamba jina la Kampuni liwe na hapa linabadilishwa kutoka “Pan Africa Insurance Holdings Limited” kuwa “Sanlam Kenya Plc”; kuanzia tarehe iliyowekwa kwenye cheti cha Kubadilisha Jina kilichotolewa na Msajili wa Kampuni.”

Kwa Amri ya Halmashauri



Katibu wa Kampuni
25 Aprili 2016

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 sio 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, Nairobi, Kenya ili kufika kabla ya saa nne asubuhi siku ya Jumatano tarehe 18 Mei 2016.

2. Kwa mujibu wa sheria za Kampuni, nakala ya Ripoti nzima ya Mwaka na Hesabu za Fedha zitawasilishwa kutizamwa au kupatikana kutoka kwa tovuti ya mtandao wa kampuni www.pan-africa.com au kutoka kwa afisi iliyosajiliwa ya Kampuni, Jumba la Pan Africa House, Barabara ya Kenyatta Avenue, mjini Nairobi. Muhtasari wa Mizania, taarifa ya mapato, taarifa ya mabadiliko katika hisa na taarifa ya mapato halisi ya kifedha kwa mwaka uliomalizika tarehe 31 Desemba 2015 tayari zimechapishwa kwenye magazeti mawili ya kila siku yanayosambazwa na kusomwa kwa wingi nchini.

Principles of Corporate Governance

As a public listed company, Pan Africa Insurance Holdings Limited is vigilant to uphold best practice in corporate governance. In this regard, the Board has entrenched company policies and guidelines in line with the regulatory framework of the Capital Markets Authority, Nairobi Securities exchange and the Constitution of Kenya. The Company has also ensured that its policies are in compliance with the Corporate Governance Practices for Issuers of Securities to the Public, 2015 as well as other best practices. The Board of Directors that prides itself in the stewardship of a Group that is responsible, fair, transparent and accountable is charged with ensuring that Pan Africa Insurance Holdings Limited and its constituent subsidiaries are managed in a sound manner that delivers shareholders value within an environment of good corporate governance and inclusive environment for all employees. The Board is responsible for approving the business strategic objectives and providing the necessary leadership and oversight to the management of the Pan Africa Group of Companies.

The Pan Africa Group is unwavering in its commitment to developing and implementing policies that not only incorporate best practice in corporate governance, but also encapsulate the corporate values of the Group which are client focus, accountability, professionalism, integrity, dynamism and nurturing. These core values inform the operations of Pan Africa Insurance Holdings Limited and its subsidiaries. To this end, Pan Africa Group of Companies continued to implement the following policies in 2015:

1. Code of Ethics: This outlines 10 ethical principles that are designed to prevent employees from engaging in activities that would compromise the Group's integrity, respect for diversity, impartiality or reputation;
2. Gift Policy: This outlines the policy on receipt and issue of gifts by employees and is designed to prevent the unfair granting of a gift or a favour;
3. Financial Crime Combating Policy: This outlines the guidelines of combating financial crime and unlawful conduct. This policy is in line with the Capital Markets Authority Guidelines on the Prevention of Money Laundering and Terrorism Financing in the Capital Markets;
4. Schedule of Offences: This defines the different instances of unlawful conduct and the respective sanctions;
5. Zero Tolerance Approach: This stipulates zero tolerance to financial crimes and unlawful conduct. It further outlines consequences of committing a financial crime and/or unlawful act.

Board of Directors

The Board of Directors is responsible for formulating the Company's policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholder value, are achieved. The Board also retains the overall responsibility for effective control of the Company and implements corporate governance polices of the Company. In carrying out the above responsibilities, the Board delegates its authority to the Group Chief Executive Officer to oversee the day to day business operations of the Company and its subsidiaries.

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

Self Evaluation

The Board undertakes a Board and Sub-Committee effectiveness review as a form of self-evaluation annually for members of the Board and its Committees. This facilitates the Board to review its performance collectively, together with the performance of the Chairman, Group Chief Executive and the Group Company Secretary.

Board Responsibilities

The primary responsibility of the Board is to lead and control the company. The directors are responsible for the enforcement of the corporate vision and mission, and for ensuring financial soundness of the company with an emphasis on observance of shareholders' interests, efficient practices and open corporate communication. The Board deliberates upon and approves strategy and business plans, and monitors the performance of the company and its subsidiaries against set objectives. The Board also considers operational reports, reports from each Board Committee, specific proposals for capital expenditure and acquisitions and strategic opportunities for the Group.

Board Meetings

The Board meets at least once every quarter to review the financial performance and operations of the Group. 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.

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.

Board Composition

The current Board consists of eight directors comprising of the Chairman, the Group Chief Executive as the only executive director, four directors representing the strategic partner Sanlam and two non-executive directors thus balancing the board composition. The Board is composed of directors with a good mix of skills, experience and each brings independent judgment and valuable contribution to the business. The directors abridged biographies appear on pages 10 & 11 of this Annual Report.

Appointments to the Board

In 2015, Mugo Kibati was appointed as the Group Chief Executive Officer of the Company and as an Executive Director. Mr. Kibati has a wealth of experience from both the private and public sectors of the economy. He served as the Director General at Vision Delivery Secretariat spearheading Vision 2030 until 2013. He brings to the Board of the Pan Africa Group significant expertise and experience.

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 2016 Annual General Meeting, Susan Mudhune and Jonathan Paul Wrench will retire by rotation as directors to be unanimously re-election to the Board. In addition, the Chairman, Dr John Simba having attained the age of 70 years retires and offers himself up for re-election.

Independence of Directors

The Board consists of eight Directors and two of the eight Directors are Independent Directors. This is in compliance with regulation 2.1.3 of the Corporate Governance Practices for Issuers of Securities to the Public 2015.

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 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.

Directors Participation at Meetings

The Board is the custodian of the group strategy. Attendance and active participation in meetings is the avenue for discussion on progress of strategy implementation. Through the year, the Group Company Secretary maintains a Board calendar with pre-set meeting dates and she convenes the meetings as they fall due.

The Group Company Secretary shares the agenda and board papers on the content of discussion items well in advance for adequate preparation and for constructive discussions. Generally, the Board members attend Board and Committee meetings as scheduled and send through apologies for non-attendance before meetings. The Board may be called for ad-hoc meetings from time to time, to deliberate on matters in the interest of the group.

Remuneration

The Board remunerates directors and executives fairly and responsibly based on a compensation structure aligned with the strategy of the company and linked to individual performance. The Shareholders at every Annual General Meeting approve the directors' remuneration.

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 118.

Service Contracts and Compensation

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

Disclosure of Interests

In line with regulation 2.1 of the Corporate Governance Practices for Issuers of Securities to the Public - 2015, 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 Company, 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 arm's 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 Group 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 and the Group Chief Executive Officer

The roles of Chairman and Group Chief Executive Officer are separate. The Chairman leads the Board in agreeing on strategy, monitoring operational and financial performance and establishing the Group's risk appetite. The Chairman facilitates effective contribution of non-executive directors and constructive relations between the Executive Director and non-executive directors.

The Group Chief Executive Officer has the direct charge of day to day business of the Group and is accountable to the Board for the financial and operational performance of the Group. The non-executive directors constructively challenge and help develop proposals on strategy, review the performance of management in meeting the agreed objectives and monitor the reporting of performance. They seek assurance on the integrity of the financial information that the financial controls and systems of risk management are robust and defensible.

Role of the Board and the Executive Management

The roles of the Board and that of the executive management team is separate and except for the office of the Group Chief Executive who acts both as a director and as a member of the Executive Management, the offices are not vested in the same person. The abridged biographies are as detailed on page 10-13 of this Annual Report. The Board is responsible for the long term strategic direction and profitable growth of the Group. While the Executive Management is responsible for the operational day to day running of the Group. The Group adheres to an Approval Framework Policy which clearly sets out the exact decisions which can be made by the Board and those which can be made by the Executive Management.

COMMITTEES OF THE BOARD

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

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

Members and attendance of these committees are provided on page 32.

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 2015 were as follows:

Table 1: Audi, Actuarial, Risk and Compliance Committee Membership and Attendance 2015

	Member	Directorship Status	Number of Meetings scheduled in 2015
1	John Burbidge (Chairman)	Non-Executive Director	3/4
2	Margaret Dawes	Non-Executive Director	4/4
3	Olivier Wikus	Non-Executive Director	3/4
4	Susan Mudhune	Non-Executive Director	4/4

Investment Committee

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

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

Table 2: Investment Committee Membership and Attendance 2015

	Member	Directorship Status	Number of Meetings scheduled in 2015
1	Rohan Patel (Chairman)	Non-Executive Director	4/4
2	Jonathan Wrench	Non-Executive Director	3/4
3	Dr John PN Simba	Chairman of the Board	4/4

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 2015*

	Member	Directorship Status	Number of Meetings scheduled in 2015
1	Susan Mudhune (Chairperson)	Non-Executive Director	4/4
2	Margaret Dawes	Non-Executive Director	4/4
3	Dr John PN Simba	Non-Executive Director	4/4
4	Rohan Patel	Non-Executive Director	4/4

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 Group 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 Committee (MANCOM) that meets bi-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

The Company Secretary who is a member of the Certified Public Secretaries of Kenya (ICPSK) provides guidance to the Board on the duties of the directors and good governance, ensures Board and Committee charters are kept up to date, prepares and circulate board papers, elicit responses, input, feedback for board and Board Committee meetings, assist in drafting yearly board work plans and ensure preparation and circulation of minutes of board and committee meetings.

External Auditor

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 auditor examines and gives their opinion on the reasonableness of the financial statements. The auditor reports independently and directly to the Board at the half year and end year board meetings. PricewaterhouseCoopers were appointed as the company's external auditor and have carried out the company's audit for 2015.

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 Actuaries

Giles Waugh (of Deloitte, South Africa) and Abed Muriithi (of Actuarial Services (East Africa) Limited) are the Group's statutory actuaries responsible for examining the financial soundness of the Group's Life and General Insurance Companies respectively. They do this by independently valuing the Companies assets and policy liabilities. The statutory actuaries report 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.

Gateway Insurance Company Limited

The Group acquired 56% stake in Gateway Insurance Company Limited in 2015. Gateway provides general insurance services. It offers personal insurance policies that include risk, domestic package, personal accident, WIBA, and private motor insurance; commercial insurance policies, such as public liability, professional indemnity for lawyers, fire and perils, group personal, director and officers, product liability, marine/transit, construction all risk, commercial motor, and goods and money in transit.

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 Company 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 2015

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)	29,369,977
2.	Dr John PN Simba	106,950

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. 2 billion divided into 400 million shares of KShs 5/= each. 144 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 2015 are shown in Table 7 below:

Table 7: Top ten Shareholders as at 31st December 2015

	Name	2015 No of shares	%age	2014 No of shares	%age
1.	Hubris Holdings Limited	81,074,600	56.30%	53,585,600	55.82%
2.	Patel Baloobhai Chhotabhai	29,369,977	20.40%	19,196,784	20%
3.	Mayfair Insurance Company Ltd	1,282,050	0.89%	854,700	0.89%
4.	Thammo Holdings Limited	1,079,907	0.75%	742,242	0.77%
5.	APA Insurance Limited	1,013,363	0.70%	735,138	0.77%
6.	Anjay Vithalbhai Patel	900,000	0.62%	576,600	0.60%
7.	Financial Futures Limited	861,711	0.60%	574,474	0.60%
8.	Standard Chartered Nominees A/C 9595	852,600	0.59%	568,400	0.59%
9.	Cannon Assurance (Kenya) Limited	653,237	0.45%	455,491	0.47%
10.	Leverton Limited	600,000	0.42%	400,000	0.42%

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

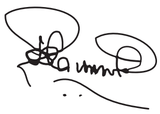
Range	Number of Shareholders	Number of Shares	%
1 to 500	559	115,389	.08
501 to 1,000	244	181,977	.13
1,001 to 5,000	1,975	5,132,707	3.56
5,001 to 10,000	231	1,674,818	1.16
10,001 to 500,000	290	6,049,632	4.20
50,0001 to 100,000	40	2,753,820	1.91
100,001 to 500,000	45	9,376,903	6.51
500,001 to 1,000,000	7	4,894,857	3.40
1,000,001 and above	5	113,819,897	79.04
Grand Totals	3,396	144,000,000	100.00%

Table 9: Shareholder's Profile

Category	Number of Shareholders	Number of Shares	% Shareholding
Local Institutions	146	90,985,249	63.18%
Local Individuals	3,029	50,485,295	35.06%
Foreign Investors	221	2,529,456	1.76%
Total	3,396	144,000,000	100%

Going Concern

The Board submits this annual report and audited financial statements for the year ended 31 December 2015. The annual report and audited financial statements present, in the opinion of the directors, a fair, balanced and understandable assessment of the state of the affairs of the Group's position and prospects. The Board reports that the business is a going concern and they have no reason to believe that the Group and its subsidiaries will not be a going concern into the foreseeable future.



John P N Simba
Chairman
17 March 2016

Mugo Kibati
Group Chief Executive Officer
17 March 2016

Statement of Directors' Responsibilities

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and Company as at the end of the financial year and of the Group's and Company'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 and Company. The directors are also responsible for safeguarding the assets of the Group and Company.

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:

i. designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements;

ii. selecting and applying appropriate accounting policies; and

iii. 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 31 December 2015 and of its profit 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 Group and Company will not remain a going concern for at least twelve months from the date of this statement.

Approved by the board of directors on 17th March 2016 and signed on its behalf by:

John P N Simba
Chairman

Mugo Kibati
Group Chief Executive Officer

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 2015.

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 2015.

GTWaugh

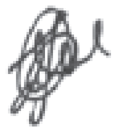
Giles T Waugh FASSA FIA
Statutory Actuary
Fellow of the Actuarial Society of South Africa
17 March 2016

I have conducted an actuarial valuation of the general business of Gateway Insurance Company Limited as at 31 December 2015.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Insurance Act Cap 487 of the Laws of Kenya. These principles require that 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 financial statements of the Company.

In my opinion, the general business of the Company was financially sound and the actuarial value of the liabilities in respect of all the classes of general business did not exceed the amount of outstanding claims liabilities of the general business at 31 December 2015.



Abed Muriithi
Actuarial Services (East Africa) Limited
17 March 2016

1. a) Definition of Embedded Value

This report sets out the embedded value and the value of new business of Pan Africa Insurance Holdings Limited (PAIHL). 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 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 Insurance Holdings Limited 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

	2015 KShs.'000	2014 KShs.'000
a) Group embedded value		
Shareholders' adjusted net assets	3,167,136	4,328,877
Net value of in force business	2,053,254	2,113,690
Gross value of in-force business	3,411,813	3,494,437
Tax provision	(1,023,544)	(1,048,331)
Cost of Capital Adequacy Requirement (CAR)	(335,015)	(332,416)
Embedded value	5,220,390	6,442,567

b) Embedded Value Earnings

The embedded value earnings are derived as follows:

	2015 KShs.'000	2014 KShs.'000
Embedded value at end of year	5,220,390	6,442,567
Embedded value at beginning of year	(6,442,567)	(5,342,139)
Change in embedded value	(1,222,177)	1,100,428
Dividends paid in the year	-	432,000
Embedded value earnings	(1,222,177)	1,532,428

2. Embedded Value Results (continued)

(b) Embedded Value Earnings continued

	2015 KShs.'000	2014 KShs.'000
These earnings can be analysed as follows:		
Adjustment to fair value of subsidiary	(1,130,100)	119,761
Roll forward	422,148	291,566
Investment return on free assets	35,741	23,826
Expected return on life business in-force	386,407	267,740
Change over the period	(514,226)	1,121,101
Value of new business at year end	108,287	195,079
Value of new business at point of sale	197,922	311,471
Tax on value of new business	(59,377)	(93,441)
Cost of capital on new business	(33,683)	(37,059)
Expected return on new business to end of year	3,425	14,109
Changes in assumptions and methodology	(133,460)	192,633
Experience variations	(252,319)	233,499
Increase in NAV for other subsidiaries	(236,734)	499,890
Total earnings	(1,222,177)	1,532,428

3. Value of New Business

	2015 KShs.'000	2014 KShs.'000
Value at point of sale (gross of tax)	197,922	311,471
Tax on value at point of sale	(59,377)	(93,441)
Cost of CAR at point of sale	(33,683)	(37,059)
Value of New Business at point of sale	104,862	180,971
Expected Return	3,425	14,109
Value of new business at year end	108,287	195,080

4. Sensitivity to the Risk Discount Rate

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

Risk Discount Rate	18.10%	19.10% (basis)	20.10%
	KShs.'000	KShs.'000	KShs.'000
Shareholders' net assets	3,167,136	3,167,136	3,167,136
Value of in-force business	2,143,742	2,053,254	1,953,890
Embedded value	5,310,878	5,220,390	5,121,026
Value of one year's new business at valuation date	127,047	108,287	92,485

5. Assumptions

The assumptions used in the calculation of the embedded value are based on the Group'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:

	2015 % p.a.	2014 % p.a.
Risk discount rate	19.10	16.2
Overall investment returns (pre tax)	14.83	11.92
Expense inflation rate	11.10	8.20

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

	2015 KShs.'000	2014 KShs.'000
Risk discount rate	(169,459)	52,268
Overall investment returns (pre tax)	373,483	(66,009)
Expense inflation rate	(70,908)	16,829
Total	133,166	3,088

b) Mortality Rates

The assumptions for future mortality rates are based on the results of recent experience investigations conducted by the Group. 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 2015.

e) Persistency / Surrender Basis

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

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 2015	**2,053,254**	
Investment return (and inflation) decreased by 1,0% and with bonus rates and discount rates changing commensurately	2,125,756	3.5%
Equity/property assets fall by 10% without a corresponding fall/rise in dividend/rental yield - Assume portfolio asset mix is rebalanced after fall in market values	2,034,528	- 0.9%
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	2,109,959	2.8%
'Shock scenario *	2,151,378	4.8%
Expenses and persistency		
Non commission maintenance unit expenses (excluding investment expenses) decrease by 10%	2,169,736	5.7%
Discontinuance rates decrease by 10%	2,059,891	0.3%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	2,083,546	1.5%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	2,037,149	- 0.8%

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

Values of one year new business as at 31 December 2015	108,287	
Investment return (and inflation) decreased by 1,0% and with bonus rates and discount rates changing commensurately	126,244	16.6%
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	111,830	3.3%
'Shock scenario *	115,739	6.9%
New business volumes decrease by 10%	88,529	-18.5%
Expenses and persistency		
Maintenance unit expenses(excluding investment expenses) decrease by 10%	124,131	14.6%
Non commission acquisition expenses decrease by 10%	130,890	20.9%
Discontinuance rates decrease by 10%	117,626	8.6%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	114,029	5.3%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	107,295	- 0.9%

Notes:

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

Assumed Management Action

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

GTWaugh

Giles T Waugh FASSA FIA
Statutory Actuary, Fellow of the Actuarial Society of South Africa.
17 March 2016

Report of the Independent Auditor to the members of Pan Africa Insurance Holdings Limited

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Pan Africa Insurance Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), as set out on pages 46 to 152. These financial statements comprise the consolidated statement of financial position at 31 December 2015 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and the 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 2015, statement of profit or loss, the statement of changes in equity and statement of cash flows of the company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion the accompanying financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2015 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 Kenyan Companies Act.

PricewaterhouseCoopers CPA. PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P O Box 43963 – 00100 Nairobi, Kenya
T: +254 (20)285 5000 F: +254 (20)285 5001 www.pwc.com/ke

Report of the Independent Auditor to the members of Pan Africa Insurance Holdings Limited (continued)

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

ii. In our opinion, proper books of account have been kept by the Group and the Company, so far as appears from our examination of those books;

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 responsible for the audit resulting in this independent auditor's report was FCPA Richard Njoroge, Practicing Certificate No. 1244.

Certified Public Accountants
Nairobi
31 March 2016

Statement of Profit or Loss

For the year ended 31 December 2015

	Note	Group 2015 KShs.'000	Group 2014 KShs.'000	Company 2015 KShs.'000	Company 2014 KShs.'000
Gross premium income	4(a)	5,181,614	5,246,527	-	-
Premium ceded to reinsurers	4(b)	(384,628)	(255,757)	-	-
Net premium income		4,796,986	4,990,770	-	-
Fees and commission income	5	80,220	49,013	-	-
Investment income	6(a)	2,388,531	1,993,175	4,962	24,777
Fair value(losses) /gains	6(b)	(637,144)	648,386	-	-
Other operating revenue	6(c)	608,591	293,651	517,790	190,313
Total other revenue		2,440,198	2,984,225	522,752	215,090
Total revenue		7,237,184	7,974,995	522,752	215,090
Gross benefits and claims paid	7(a)	(3,620,249)	(2,710,948)	-	-
Claims ceded to reinsurers	7(a)	96,593	121,405	-	-
Gross change in insurance contract liabilities	7(a)	(1,469,763)	(1,556,685)	-	-
Gross change in market linked insurance liabilities	7(a)	663,994	(863,878)	-	-
Change in contract liabilities ceded to reinsurers	7(a)	72,210	(43,588)	-	-
Net benefits and claims		(4,257,215)	(5,053,694)	-	-
Fee and commission expense	7(b)	(834,991)	(778,294)	-	-
Cost of sales	7(c)	(63,178)	(19,848)	(63,178)	(19,848)
Other operating and administrative expenses	8	(1,466,658)	(973,171)	(279,961)	(120,247)
Impairment of goodwill	13(b)	(564,080)	-	-	-
Impairment of investment in subsidiary	15(a)	-	-	(539,562)	-
Total benefits, claims and other expenses		(7,186,122)	(6,825,007)	(882,701)	(140,095)
Profit before share of profit of associate		51,062	1,149,988	(359,949)	74,995
Share of profit of associate	15(b)	3,263	2,610	-	-
Profit before tax		54,325	1,152,598	(359,949)	74,995
Income tax expense	10	(26,975)	(281,408)	(56,201)	(26,518)
Profit for the year		27,350	871,190	(416,150)	48,477
Profit attributable to:					
Owners of the parent		(61,559)	871,190	(416,150)	48,477
Non-controlling interests		88,909	-	-	-
Earnings per share:					
Basic	32	(0.43)	6.05	(2.89)	0.34
Diluted	32	(0.43)	6.05	(2.89)	0.34

Statement of Comprehensive Income

For the year ended 31 December 2015

		Group		Company	
		2015	2014	2015	2014
	Note	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Profit for the year:		27,350	871,190	(416,150)	48,477
Other comprehensive income net of tax		-	-	-	-
Total comprehensive income for the year		27,350	871,190	(416,150)	48,477
Attributable to:					
Owners of the parent		(61,599)	871,190	(416,150)	48,477
Non-controlling interests		88,909	-	-	-

Statement of Financial Position
As at 31 December 2015

	Note	Group 2015 KShs.'000	Group 2014 KShs.'000	Company 2015 KShs.'000	Company 2014 KShs.'000
ASSETS					
Intangible assets	11	129,821	128,614	-	-
Property and equipment	12	134,138	111,145	3,870	5,218
Goodwill	13	-	-	-	-
Investment properties	14	2,674,799	1,091,407	-	-
Investments in subsidiaries	15(a)	-	-	1,129,929	968,784
Investment in associate	15(b)	21,792	18,529	4,861	4,861
Deferred income tax	29	170,225	3,359	17,236	327
Loans	16	965,495	1,057,864	-	-
Held to maturity financial assets	17(a)	8,069,169	7,026,753	-	-
Available for sale financial assets	17(a)	80,364	-	-	
Financial assets at fair value through profit or loss	17(a)	10,039,667	10,430,570	-	-
Reinsurance share of insurance contract liabilities	18	326,697	145,397	-	-
Land and development	22	77,038	133,219	77,038	133,219
Current income tax	10	27,329	99,789	-	71,681
Insurance receivables	23(a)	234,576	253,042	-	-
Receivables and other financial assets	23(b)	222,224	118,426	155,455	64,234
Deferred acquisition costs	23(c)	19,776	-	-	-
Deposits with financial institutions	24	3,693,324	3,767,707	-	79,306
Cash and bank balances	24	222,844	213,589	57,634	55,430
TOTAL ASSETS		27,109,278	24,599,410	1,446,023	1,383,060
EQUITY AND LIABILITIES					
CAPITAL AND RESERVES					
Issued share capital	25	720,000	480,000	720,000	480,000
Share premium	25	-	124,431	-	124,431
Statutory fund	25	2,184,710	1,848,043	-	-
Retained earnings		811,364	1,325,159	(401,141)	130,578
Shareholder's funds		3,716,074	3,777,633	318,859	735,009
Non-controlling interests		85,973	-	-	-
TOTAL CAPITAL AND RESERVES		3,802,047	3,777,633	318,859	735,009
LIABILITIES					
Insurance contract liabilities	26	11,397,467	8,512,313	-	-
Market linked insurance liabilities	26	8,269,515	8,933,562	-	-
Payables under deposit administration contracts	26	1,434,573	1,583,895		
Unearned premium	27	273,895	-	-	
Deferred income tax	29	655,413	555,598	-	-
Provisions	28	51,925	51,925	-	-
Current income tax	10	4,438	7,002	1,429	-
Insurance payables	30	464,273	439,894	-	-
Payables and other charges	31	755,732	737,588	1,125,735	648,051
TOTAL LIABILITIES		23,307,231	20,821,777	1,127,164	648,051
TOTAL EQUITY AND LIABILITIES		27,109,278	24,599,410	1,446,023	1,383,060

The financial statements were approved by the Board of Directors on 17 February 2015 and signed on its behalf by:

John PN Simba
Chairman
17 March 2016

Mugo Kibati
Group Chief Executive
17 March 2016

Group Statement of Changes in Equity

For the year ended 31 December 2015

		Attributable to owners of Pan Africa Insurance Holdings Limited						
	Note	Share capital KShs.'000	Share premium KShs.'000	Statutory Fund KShs.'000	Retained earnings KShs.'000	Total KShs.'000	Non Controlling Interests KShs.'000	Total KShs.'000
Year Ended 31 December 2015:								
At 1 January		480,000	124,431	1,848,043	1,325,159	3,777,633	-	3,777,633
Profit or loss:								
(Loss)/profit for the year		-	-	-	(61,559)	(61,559)	88,909	27,350
Transactions with owners:								
Minority interests at date of acquisition		-	-	-	-	-	(2,936)	(2,936)
Bonus issue		240,000	(124,431)	-	(115,569)	-	-	-
Transfer to statutory fund	25	-	-	336,667	(336,667)	-	-	-
At 31 December		720,000	-	2,184,710	811,364	3,716,074	85,973	3,802,047
Year Ended 31 December 2013:								
At 1 January		480,000	124,431	1,274,251	1,459,761	3,338,443	-	3,338,443
Profit or loss:								
Profit for the year		-	-	-	871,190	871,910	-	871,910
Transactions with owners:								
Bonus issue		-	-	-	-	-	-	-
Dividends paid		-	-	-	(432,000)	(432,000)	-	(432,000)
Transfer to statutory fund	25	-	-	573,792	(573,792)	-	-	-
At 31 December		480,000	124,431	1,848,043	1,325,159	3,777,633	-	3,777,633

Company Statement of Changes in Equity
For the year ended 31 December 2015

	Note	Share capital KShs.'000	Share premium KShs.'000	Retained earnings KShs.'000	Total KShs.'000
Year Ended 31 December 2015:					
At 1 January		480,000	124,431	130,578	735,009
Total comprehensive income:					
Loss for the year		-	-	(416,150)	(416,150)
Transactions with owners:					
Bonus issue		240,000	(124,431)	(115,569)	-
Dividends paid		-	-	-	-
At 31 December		720,000	-	(401,141)	318,859
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		-	-	(432,000)	(432,000)
At 31 December		480,000	124,431	130,578	735,009

Group Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 KShs. '000	2014 KShs. '000
OPERATING ACTIVITIES			
Net cash generated from operations	35(a)	(762,835)	969,046
INVESTING ACTIVITIES			
Purchase of Intangible assets	11	(13,813)	(13,941)
Purchase of property and equipment	12	(40,983)	(27,888)
Purchase of investment property	14	(424,192)	(77,125)
Net purchase of financial assets through profit and loss	17	(293,512)	(1,692,466)
Purchase of government securities	17	(878,550)	(1,377,476)
Disposal/Maturities of government securities		-	224,533
Purchase of Gateway		(456,428)	-
Proceeds from disposal of property	12	350,041	-
Proceeds from disposal of investment property	14	50,000	-
Investments in land and development	22	56,181	12,490
Policy and Mortgage Loans advanced	19/20	(757,750)	(780,325)
Policy and Mortgage Loans repaid	19/20	974,563	832,977
Rental income	6	41,975	25,188
Dividend income received	6	132,757	92,851
Interest received		1,957,418	1,537,335
Net cash generated from/(used in) investing activities		697,707	(1,243,847)
FINANCING ACTIVITIES			
Dividends paid		-	(432,000)
Net cash used in financing activities		-	(432,000)
Increase in cash and cash equivalents		(65,128)	(706,801)
Cash at start of year		3,981,296	4,688,097
Cash at end of year	24	3,916,168	3,981,296

Company Statement of Cash Flows
For the year ended 31 December 2014

	Note	2015 KShs. '000	2014 KShs. '000
OPERATING ACTIVITIES			
Net cash generated from operations	35(b)	562,630	(38,892)
INVESTING ACTIVITIES			
Investment income		4,962	15,460
Investment in land and development	21	56,181	12,490
Purchase of property and equipment		(168)	(10)
Purchase of Gateway	13	(700,707)	-
Net cash generated from investing activities		(639,732)	27,286
FINANCING ACTIVITIES			
Dividends paid		-	(432,000)
Net cash used in financing activities		-	(432,000)
Decrease in cash and cash equivalents		(77,102)	(442,952)
Cash at start of year	24	134,736	577,688
Cash at end of year	24	57,634	134,736

1. GENERAL INFORMATION

Pan Africa Insurance Holdings Limited underwrites life and non-life insurance risks such as those associated with death, disability, credit protection, mortgage protection and property protection through its subsidiaries Pan Africa Life Assurance Limited and Gateway Insurance Company Limited. 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 employs over 1,000 employees (staff and agents).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

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

The financial statements comprise the statement of profit or loss, statements of other comprehensive income, statements of financial position, statements of changes in equity, statements of cash flows, and notes. For purposes of the Kenyan companies Act, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss. 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 management to exercise its judgement in the process of applying the accounting policies adopted by the Group. Although such estimates and assumptions are based on the directors' best knowledge of the information available, actual results may differ from those estimates. The judgements and estimates are reviewed at the end of each reporting period, and any revisions to such estimates are recognised in the year in which the revision is made. The areas involving the judgements of most significance to the financial statements, and the sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year, are disclosed in note (ff).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company

The following standards and amendments have been applied by the Group for the first time for the financial year beginning 1 January 2015:

- IFRS 3 – clarifies that IFRS 3 does not apply to the accounting for the formation of any joint arrangement
- IFRS 8 – requires disclosure of the judgements made by management in aggregating operating segments and clarifies that a reconciliation of segment assets must only be disclosed if segment assets are reported.
- IAS 40 – clarifies that IAS 40 and IFRS 3 are not mutually exclusive when distinguishing between investment property and owner-occupied property and determining whether the acquisition of an investment property is a business combination.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2015 are not material to the Group.

(ii) New standards and interpretations that are not yet effective and have not been early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the Group, except the following set out below.

IFRS 9, '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.

IFRS 15, 'Revenue from contracts with customers' 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 2018 and earlier application is permitted. The company is assessing the impact of IFRS 15.

IAS 27, 'Separate financial statements'. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Changes in accounting policy and disclosures (Continued)

(i) New standards and interpretations that are not yet effective and have not been early adopted (Continued)

IAS 1, 'Presentation of financial statements'. These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports. Effective for annual periods beginning on or after 1 January 2016.

Annual improvements 2014. These set of amendments, effective 1 January 2016, impacts 4 standards:

- IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
- IAS 19, 'Employee benefits' regarding discount rates.
- IAS 34, 'Interim financial reporting' regarding disclosure of information

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.

c) Consolidation

The consolidation of financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2015.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Consolidation (Continued)

i. Subsidiaries (Continued)

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Consolidation (Continued)

(ii) Associates (Continued)

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.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Business combinations and goodwill (Continued)

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

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

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

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

e) Segment reporting

An operating segment is a component of an entity:

i. 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)
ii. 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
iii. 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.

f) Revenue recognition

Revenue represents the fair value of consideration received or receivable for the sale of goods and services in the course of the Group's activities. It is recognised when it is probable that future economic benefits will flow to the Group and the amount of revenue can be measured reliably. It is stated net of Value Added Tax, rebates and trade discounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Revenue recognition (Continued)

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.

i. 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.

ii. 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 and general insurance 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 or risk is assumed. 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.

iii. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Revenue recognition (continued)

iv. 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

v. 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.

vi. Financial services income

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

g) Benefits, claims and expenses recognition

i. 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.

ii. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Reinsurance

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

i) Policyholder benefits

Policyholder benefits incurred comprise benefits paid in the year and changes in the provision for insurance contract liabilities. Benefits paid represent all cash payments made during the year, whether arising from events during that or earlier years. Insurance contract liabilities represent the estimated ultimate cost of settling all benefits accruing to policyholders and are discounted to the present value.

j) Deposit administration contracts

The Group administers the funds of a number of retirement benefit schemes on behalf of the retirement schemes. The liability of the Group to the schemes is measured at fair value and is included in the statement of financial position. Deposits, withdrawals and investments returns are recorded directly as an adjustment to the asset and liability in the statement of financial position and are not recognised as gross premium and investments income in the consolidated 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.

k) Property and equipment

All categories of property and equipment are initially recognised at cost. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system, that is an integral part of the related hardware is capitalised as part of the computer equipment.

Motor vehicles, furniture, equipment and computers are 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. Repairs and maintenance expenses are charged to the statement of profit or loss in the year in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Property and equipment (Continued)

Land and buildings are subsequently stated at valuation. Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are charged to the statement of profit or loss. Annually, the difference between depreciation charge based on the re-valued carrying amount of the asset charged to the statement of profit or loss and depreciation based on the asset's original cost is transferred from the revaluation surplus reserve to retained earnings.

Depreciation is calculated using the straight line method to write down the cost or the re-valued amount of each asset to its residual value over its estimated useful life using the following annual rates:

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

As no parts of items of property and equipment have a cost that is significant in relation to the total cost of the item, the same rate of depreciation is applied to the whole item. The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

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

l) Investment properties

Investment property is property held to earn rentals or for capital appreciation or both. Investment property, including interest in leasehold land, is initially recognised at cost including the transaction costs. Subsequently, investment property is carried at fair value representing the open market value at the reporting date determined by annual valuations carried out by external registered valuers/directors. Gains or losses arising from changes in the fair value are included in determining the profit or loss for the year to which they relate. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. The Investment properties are stated at fair value, which has been determined based on valuations performed by Knight Frank Limited and Lloyd Masika as at 31 December 2015.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Investment properties (Continued)

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.

m) Intangible assets

Software license 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 license 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.

Software under implementation are recognised as work in progress at historical costs less any accumulated impairment loss. The cost of such software includes professional fees and costs directly attributable to the software. The software 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Intangible assets (Continued)

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 de-recognition 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.

n) Borrowing costs

In the instance of specific funding being obtained, the net borrowing cost capitalised is the actual borrowing cost incurred on the amount borrowed specifically to finance the asset less any investment income earned on surplus funds. In the case of general borrowings, the capitalised borrowing cost is determined using the overall weighted average cost of the general borrowings during the year and applying this rate to the costs incurred on the asset. The amount capitalised can never exceed the borrowing costs incurred. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised in the profit or loss in the year in which they are incurred.

o) Financial instruments

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

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

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

i) Financial assets at fair value though profit or loss

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Financial instruments (Continued)

i) Financial assets at fair value though profit or loss (Continued)

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, de-recognition 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, de-recognition 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 de-recognition or impairment, the cumulative fair value gains and losses previously reported in equity are transferred to the statement of profit or loss.

De-recognition 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Financial instruments (Continued)

De-recognition of financial assets (Continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Financial instruments (Continued)

Fair value (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.

Reclassification of financial assets

Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Financial instruments (Continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Financial instruments (Continued)

Impairment of financial assets (Continued)

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.

p) Fair value measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the Group operates), which is Kenya Shillings. Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the reporting date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in the 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.

r) Accounting for leases

Finance leases as the lessee

Leases of property and equipment including hire purchase contracts where the Group assumes substantially all the risks and rewards incident to ownership and are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease payment is allocated between the liability and finance cost using the interest rate implicit in the lease.

The finance cost is charged to the 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 leaser) 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 leaser 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 leaser by way of penalty is recognised as an expense in the period in which termination took place.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Land and development

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

t) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss. Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in (o) have been met.

u) Financial and insurance liabilities

Insurance contract liabilities (including investment contracts with discretionary participation features) and reinsurance assets. Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income (for non-market linked insurance contracts this item is excluded) from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included.

A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Group. Adjustments to the liabilities at each reporting date are recorded in the 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 aa), by using an existing liability adequacy test as laid out under the Kenyan Insurance Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) Employee entitlements

i. Retirement benefit obligations

The Company operates a defined contribution retirement benefit scheme for qualifying employees. The Company and all its employees also contribute to the National Social Security Fund which is also a defined contribution scheme. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Company's contributions to the defined contribution schemes are charged to the 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 are entitled to a bonus which is based on preset performance parameters on an annual basis. The full cost of the bonus is expensed in the year in which it is earned.

iv. Other entitlements

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

w) Other financial liabilities and insurance payables

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit or loss, which are initially recognised at fair value and the transaction costs are expensed in the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

w) Other financial liabilities and insurance payables (Continued)

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

x) Income taxes

Income tax expense is the aggregate amount charged/ (credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognised in the 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

x) Income taxes (Continued)

Deferred Income tax (Continued)

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.

y) Dividends

Dividends on ordinary shares are recognised as a liability in the year in which they are declared. Proposed dividends are accounted for as a separate component of equity until they have been declared at an annual general meeting. Dividends for the year that are approved after the reporting date are dealt with as a non-adjusting event after the reporting date.

z) Comparatives

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

aa) Deferred acquisition cost

Incremental costs directly attributable to the acquisition of insurance and investment contracts with discretionary participating features and investment management services are capitalized to a Deferred acquisition cost (DAC) asset if they are separately identifiable, can be measured reliably and its probable that they will be recovered. DAC are amortized in the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 re-valued amount, in which case the reversal is treated as a revaluation increase.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

cc) Impairment of non-financial assets (Continued)

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 December 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 future taxable profits will be available against which temporary differences can be utilised;
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; and
c. Whether the Group has control over investee in view of the criteria set out under IFRS 10. These are;

- power over the investee
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the investor's returns

ii. Key sources of estimation uncertainty

a) Valuation of insurance contract liabilities

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

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group base mortality and morbidity on standard industry and Kenya's mortality tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. 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.

2. SUMMARY OF SIGNIFICANT 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)

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

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

b) Property and equipment

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

c) Impairment losses

Estimates made in determining the impairment losses on receivables and goodwill. Such estimates include the determination the recoverable amount of the asset.

d) 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.

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
(c) Whether assets are impaired.
(d) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

hh) Share capital and share premium (Continued)

ii) Statutory fund - Life business

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 2015: 30% (2014:30%) is incurred.

3. SEGMENT INFORMATION

The core business of the Group is underwriting of long-term and short-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, industrial life assurance business and aviation.

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 decision making, allocation of resources, products and services.

The four 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 short term insurance segment offers general insurance products
(iv) 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. The General business segment is the business of Gateway Insurance Company 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.

3. SEGMENT INFORMATION (Continued)

Segment statement of profit or loss for the year ended 31 December 2015:

	Ordinary life KShs.'000	Super-annuation KShs.'000	General business KShs.'000	Investments KShs.'000	Consolidation adjustment KShs.'000	Total KShs.'000
Gross written premiums from external customers	2,591,505	2,051,535	538,574	-	-	5,181,614
Premiums ceded to reinsurers	(34,040)	(232,864)	(117,724)	-	-	(384,628)
Net premium Income	2,557,465	1,818,671	420,850	-	-	4,796,986
Fee and commission income	44,576	-	35,644	-	-	80,220
Interest income	780,728	455,621	47,212	48,305	-	1,331,866
Investment income	526,065	396,249	15,848	118,504	-	1,056,666
Fair value gains and losses	(767,533)	-	183,349	(52,960)	-	(637,144)
Other operating revenue	6,630	-	-	601,960	-	608,590
Total other revenue	590,466	851,870	282,053	715,809	-	2,440,198
Total revenue	3,147,931	2,670,541	702,903	715,809	-	7,237,184
Gross benefits and claims paid	(1,772,849)	(1,536,836)	(310,564)	-	-	(3,620,249)
Claims ceded to reinsurers	22,004	31,235	43,354	-	-	96,593
Gross change in insurance contract liabilities	(663,373)	(813,258)	6,868	-	-	(1,469,763)
Gross change in market linked insurance liabilities	663,994	-	-	-	-	663,994
Change in contract liabilities ceded to reinsurers	-	52,192	20,018	-	-	72,210
Net benefits and claims	(1,750,224)	(2,266,667)	(240,324)	-	-	(4,257,215)
Cost of sales	-	-	-	(63,178)	-	(63,178)
Fee and commission expense	(586,447)	(175,058)	(60,899)	(12,587)	-	(834,991)
Depreciation and amortization	(17,496)	(26,245)	(8,333)	(3,271)	-	(55,345)
Other operating and administrative expenses	(548,877)	(110,791)	(369,882)	(921,325)	*539,562	(1,411,313)
Goodwill impairment	-	-	-	-	(564,080)	(564,080)
Total benefits, claims and other expenses	(2,903,044)	(2,578,761)	(679,438)	(1,000,361)	(24,518)	(7,186,122)
Profit before share of profit of associate	244,887	91,780	23,465	(284,552)	(24,518)	51,062
Share of profit of associate	-	-	-	-	3,263	3,263
Profit before tax	244,887	91,780	23,465	(284,552)	(21,255)	54,325
Income tax expense	(64,904)	(67,552)	130,601	(73,120)	-	(74,975)
Consolidation adjustment	-	-	-	-	48,000	48,000
Profit for the year	179,983	24,228	154,066	(357,672)	26,745	27,350

All expenses, including depreciation and amortization costs, have been charged to the respective operating segments. All revenues and expenses are included in the consolidated statement of profit or loss.

The consolidation adjustment of KShs 539,562,000, relates to the impairment of investment in Gateway Insurance Company Limited recorded in the Company's statement of profit or loss. The goodwill arising on acquisition was impaired by KShs 564,080,000 in the Group's statement of profit or loss.

3. SEGMENT INFORMATION (Continued)

The 48,000,000 consolidation adjustment relates to deferred tax credit charged to the Company statement of other comprehensive income of Gateway Insurance Company Limited which is charged to the Group statement of profit or loss.

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

	Ordinary life KShs.'000	Super-annuation KShs.'000	Investments KShs.'000	General business 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.

3. SEGMENT INFORMATION (Continued)

Segment statement of financial position

At 31 December 2015:	Ordinary life	Super-annuation	Investments	General business	Consolidation adjustment	Total
ASSETS	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Intangible assets	115,837	-	3,221	10,763	-	129,821
Property and equipment	96,387	-	9,941	27,810	-	134,138
Investment properties	1,558,099	-	-	1,116,700	-	2,674,799
Equity accounted investments	-	-	4,861	-	16,931	21,792
Investments in subsidiaries	-	-	1,188,529	-	(1,188,529)	-
Financial instruments	8,789,176	7,722,631	1,372,812	289,581	-	18,174,200
Long term reinsurance assets	-	93,205	-	233,492	-	326,697
Land and development	-	-	77,038	-	-	77,038
Insurance receivables	77,252	28,565	-	128,759	-	234,576
Other assets	3,847,070	481,033	1,573,829	467,861	(1,033,576)	5,336,217
Total assets	14,483,821	8,325,434	4,230,231	2,274,966	(2,205,174)	27,109,278
LIABILITIES						
Insurance contracts liabilities	6,560,260	3,324,299	-	1,512,908	-	11,397,467
Market linked insurance liabilities	3,912,122	4,357,393	-	-	-	8,269,515
Deposit administration contracts	1,434,573	-	-	-	-	1,434,573
Other non-current liabilities	655,413	-	-	-	-	655,413
Other liabilities	791,023	94,692	1,223,824	474,300	(1,033,576)	1,550,263
Total liabilities	13,353,391	7,776,384	1,223,824	1,987,208	(1,033,576)	23,307,231
NET ASSETS	1,130,430	549,050	3,006,407	287,758	(1,171,598)	3,802,047

3. SEGMENT INFORMATION (Continued)

Segment statement of financial position (Continued)

At 31 December 2014: ASSETS	Ordinary life KShs.'000	Super-annuation KShs.'000	Investments KShs.'000	General business KShs.'000	Consolidation adjustment KShs.'000	Total KShs.'000
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
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						
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
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

Other segment reporting disclosures

For the year ended 31 December 2015	Ordinary life KShs.'000	Super-annuation KShs.'000	Investments KShs.'000	General business KShs.'000	Consolidation adjustment KShs.'000	Total KShs.'000
Additions to non-current assets	1,242,696	521,752	1,477,379	24,252	-	3,266,079
For the year ended 31 December 2014						
Additions to non-current assets	1,114,830	1,784,127	833,151	-	-	3,732,108

4. a) GROUP GROSS PREMIUM INCOME

The principal activity of the Group is the underwriting of long-term and short term insurance business as defined by the Insurance Act. Premium income can be analysed between the two main lines of insurance business as follows

i) Long term insurance business	2015 KShs.'000	2014 KShs.'000
New business: Recurring		
Individual life	434,580	485,624
Group business	225,631	209,860
New business: Single premiums		
Individual life	2,648	1,847
Group business	1,455,724	1,853,622
Total new business	2,118,583	2,550,953
Renewal recurring		
Individual life	2,154,277	2,107,430
Group business	370,180	588,144
Total renewal premium income	2,524,457	2,695,574
Total long term business gross premium income	4,643,040	5,246,527

ii) Short term insurance business

Class of business

Engineering	11,750	-
Fire	14,787	-
Liability	8,838	-
Marine	2,670	-
Motor	310,365	-
Personal Accident	7,015	-
Medical	116,347	-
Theft	51,858	-
Workman's Compensation	7,867	-
Other	7,077	-
Total short term business gross premium income	538,574	-
Total group gross premium income	5,181,614	5,246,527

4. 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 premiums ceded to reinsurers can be analyzed by the main classes of business as follows;

	2015 KShs.'000	2014 KShs.'000
Long term insurance business		
Ordinary life	34,040	22,707
Super annuation	232,864	233,050
Short term insurance business	117,724	-
Total premiums ceded to reinsurers	384,628	255,757

5. FEE AND COMMISSION INCOME

	2015 KShs.'000	2014 KShs.'000
Fee	-	2,176
Commission received	80,220	46,837
	80,220	49,013

6. INVESTMENT RETURN

a) Investment income

	Group		Company	
	2015 KShs.'000	2014 KShs.'000	2015 KShs.'000	2014 KShs.'000
Rental income:				
Gross rental income	56,023	35,426	-	-
Net rental expenses	(14,048)	(10,238)	-	-
	41,975	25,188	-	-
Rental income:				
Gross rental income	56,023	35,426	-	-
Net rental expenses	(14,048)	(10,238)	-	-
	41,975	25,188	-	-
Financial assets designated at fair value through profit or loss				
- Interest income	806,494	529,990	-	-
- Dividend income	132,757	92,581	-	-
Interest income on held to maturity financial assets	974,078	853,450	-	-
Interest income on loans to related parties	15,611	-	-	-
Interest income on loans and receivables	250,493	154,088	-	-
Interest income on cash and cash equivalents	167,122	337,878	4,962	24,777
Total investment income	2,388,531	1,993,175	4,962	24,777

6. INVESTMENT RETURN (Continued)

b) Fair value gains/ (losses)

	Group 2015 KShs.'000	Group 2014 KShs.'000
Unrealised fair value gains on investment properties	175,200	92,000
Financial assets at fair value through profit or loss		
- Realised gains on equity securities	176,604	124,657
- Unrealised losses on debt securities	(20,049)	9,459
- Unrealised losses on equity securities	(968,899)	422,270
Total fair value gains/(losses)	(637,144)	648,386

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

c) Other operating revenue and expenses

	Group		Company	
	2015 KShs.'000	2014 KShs.'000	2015 KShs.'000	2014 KShs.'000
Plot sales	563,500	178,000	563,500	178,000
Other income	45,091	115,651	(45,710)	12,313
Total other income	608,591	293,651	517,790	190,313

7. DETAILS OF EXPENSES

a) Claims and benefits paid

	Group 2015 KShs.'000	Group 2014 KShs.'000
Insurance contracts with fixed and guaranteed terms		
- Death and disability claims	1,360,962	1,563,786
- Maturity and survival benefits	1,071,588	391,829
- Policy surrenders	156,029	165,058
- Annuities	721,106	590,275
Short term insurance business claims	310,564	-
Gross benefits and claims paid	3,620,249	2,710,948
Claims ceded to reinsurers	(96,593)	(121,405)
Gross change in actuarial value of contract liabilities	1,469,763	1,556,685
Gross change in actuarial value of investment liabilities	(663,994)	863,878
Change in contract liabilities ceded to reinsurers	(72,210)	43,588
Net benefits and claims	4,257,215	5,053,694

7. DETAILS OF EXPENSES (continued)

b) Fee and commission expense

	Group	
	2015 KShs.'000	2014 KShs.'000
Payable to agents	647,346	551,977
Administration fee	12,587	10,836
Payable to brokers and other intermediaries	175,058	215,481
Fee and commission expense	834,991	778,294

c) Cost of sales

	Group		Company	
	2015 KShs.'000	2014 KShs.'000	2015 KShs.'000	2014 KShs.'000
Construction	42,378	13,314	42,378	13,314
Land	12,873	4,044	12,873	4,044
Legal costs	7,927	2,490	7,927	2,490
	63,178	19,848	63,178	19,848

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

8. OPERATING EXPENSES

	Group		Company	
	2015 KShs.'000	2014 KShs.'000	2015 KShs.'000	2014 KShs.'000
Other operating charges include:				
Staff costs (Note 9)	603,485	452,193	65,439	8,824
Amortisation (Note 11)	16,437	8,786	-	-
Depreciation (Note 12)	41,860	31,494	1,516	1,612
Fees for managerial and administrative services:				
Auditors remuneration	9,552	5,738	-	-
Tax audit	2,550	1,806	-	-
Legal fees	21,037	4,359	5,741	2,960
Actuarial fees	7,871	5,904	-	-
Total fees for managerial and administrative services:	41,010	17,807	5,741	2,960
Premium tax and stamp duty	39,738	34,575	-	-
Premium collection charges	73,974	74,481	-	-
Advertising	29,606	39,233	6,171	3,817
Office rent	59,503	36,336	730	1,832
Repairs and maintenance	7,345	8,554	365	818
Other expenses	553,700	269,712	199,999	100,384
Total operating expenses	1,466,658	973,171	279,961	120,247

9. STAFF COSTS

	Group 2015 KShs.'000	Group 2014 KShs.'000	Company 2015 KShs.'000	Company 2014 KShs.'000
Staff costs include the following:				
Defined contribution pension costs	42,382	31,448	6,397	838
Social security benefit costs	1,944	901	52	22
Salaries and other short term benefits	559,159	419,844	58,990	7,964
	603,485	452,193	65,439	8,824

10. INCOME TAX EXPENSE

	Group 2015 KShs.'000	Group 2014 KShs.'000	Company 2015 KShs.'000	Company 2014 KShs.'000
Statement of financial position:				
At start of the year:	92,787	21,171	71,681	(13,752)
Installment tax paid	69,517	176,181	-	94,419
Under/(over)provision from prior years	3,434	(21,171)	-	13,752
Current income tax expense	(142,847)	(83,394)	(73,110)	(22,738)
	22,891	92,787	(1,429)	71,681
At the end of the year:				
Assets				
Income tax receivable	27,329	99,789	-	71,681
Deferred income tax (Note 29)	170,225	3,359	17,236	327
	197,554	103,148	17,236	72,008
Liabilities				
Current tax liability	(4,438)	(7,002)	(1,429)	-
Deferred income tax (Note 29)	(655,413)	(555,598)	-	-
	(659,851)	(562,600)	(1,429)	-
Statement of profit or loss				
Current year tax expense	142,847	83,394	73,110	22,738
Deferred income tax credit	(119,306)	219,185	(16,909)	(9,972)
Under/(over) provision from prior years	3,434	(21,171)	-	13,752
Current year tax charge	26,975	281,408	56,201	26,518

10. INCOME TAX EXPENSE (Continued)

	Group		Company	
	2015 KShs.'000	2014 KShs.'000	2015 KShs.'000	2014 KShs.'000
Reconciliation of income tax expense to tax based on accounting profit:-				
Profit before income tax	54,325	1,152,598	(359,949)	74,995
Tax calculated at a statutory rate of 30%	16,298	345,779	(107,985)	22,499
Tax effect of:				
Income not subject to tax	(57,882)	(292,051)	(236)	(4,220)
Expenses not deductible for tax	187,865	28,541	181,331	4,459
Income tax expense	146,281	82,269	73,110	22,738

11. GROUP INTANGIBLE ASSETS

Year ended 31 December 2015	Work-in-progress KShs.'000	Software KShs.'000	Total KShs.'000
Cost:			
At 1 January	-	155,851	155,851
Acquired through business combinations	-	14,217	14,217
Additions	-	13,813	13,813
At 31 December	-	183,881	183,881
Amortisation and impairment			
At start of year	-	(27,237)	(27,237)
Acquired through business combinations	-	(10,386)	(10,386)
Charge for the year	-	(16,437)	(16,437)
At 31 December	-	(54,060)	(54,060)
Carrying amount			
At 31 December	-	129,821	129,821

11. GROUP INTANGIBLE ASSETS (Continued)

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

12. (a) GROUP PROPERTY AND EQUIPMENT

Year ended 31 December 2015	Land and buildings	Motor vehicles KShs.'000	Computer equipment KShs.'000	Furniture and equipment KShs.'000	Total KShs.'000
Cost					
At 1 January	-	12,485	141,773	201,948	356,206
Acquired through business combinations	350,000	3,117	30,071	38,480	421,668
Adjustment	-	(6)	-	-	(6)
Additions	-	-	9,148	31,835	40,983
Disposals	(350,000)	-	-	-	(350,000)
At 31 December	-	15,596	180,992	272,263	468,851
Depreciation and impairment					
At 1 January	-	(10,431)	(124,492)	(110,138)	(245,061)
Acquired through business combinations	-	(3,117)	(23,414)	(21,261)	(47,792)
Charge for the year	-	(2,024)	(14,960)	(24,876)	(41,860)
At 31 December	-	(15,572)	(162,866)	(156,275)	(334,713)
Carrying amount					
At 1 January	-	2,054	17,281	91,810	111,145
At 31 December	-	24	18,126	115,988	134,138

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 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)
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

(b) COMPANY PROPERTY AND EQUIPMENT

Year ended 31 December 2015

	Computer equipment KShs.'000	Furniture and equipment KShs.'000	Total KShs.'000
Cost			
At 1 January	1,039	12,100	13,139
Additions	168	-	168
At 31 December	1,207	12,100	13,307
Depreciation and impairment			
At 1 January	(1,111)	(6,810)	(7,921)
Charge for the year	(32)	(1,484)	(1,516)
At 31 December	(1,143)	(8,294)	(9,437)
Carrying amount			
At 1 January	64	3,806	3,870

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

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
Depreciation and impairment			
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 1 January	(72)	5,290	5,218

13. (a) GOODWILL

In 2015, the Group completed part acquisition of Gateway Insurance Company Limited "Gateway" with Gateway becoming a subsidiary of the Group. The transaction resulted in the recognition of goodwill in the consolidated accounts of the Group as a result of the business combination.

The following table summarises the consideration paid to shareholders of Gateway to acquire a 51% stake in the company, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	KShs.'000
Total consideration	561,024
Recognised amounts of identifiable net liabilities at fair value	5,992
Non-controlling interest	(2,936)
Goodwill	564,080

Acquisition-related costs of KShs 37,764,000 have been charged to operating costs in the consolidated statement of profit or loss for the year ended 31 December 2015.

Goodwill on acquisitions of subsidiaries is included in intangible assets; Goodwill upon acquisitions represents payments made by the Group in anticipation of future economic benefits from assets that cannot be identified individually and cannot be recognized separately. These relate, for example, to synergies expected from integrating the acquired companies and the workforces of the acquired companies.

13. (a) GOODWILL (Continued)

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to groups of cash-generating units for the purpose of impairment testing. The allocation is made to those groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

The recognised amounts of the identifiable net liabilities at fair value were as follows;

	KShs.'000
Property and equipment	373,876
Intangible assets	3,831
Investment property	1,034,000
Equity investments	113,948
Secured loans	6,673
Insurance receivables	79,592
Reinsurers' share of insurance liabilities	188,377
Deferred acquisition costs	17,984
Other receivables	23,132
Government securities	229,700
Deposits with financial institutions	174,984
Corporate tax payable	8,411
Cash and bank balances	13,757
Outstanding claims provisions	(1,714,347)
Incurred but not reported provisions	(24,827)
Unearned premium	(240,220)
Payables arising from reinsurance arrangements	(64,606)
Other payables	(54,232)
Bank overdraft	(84,146)
Income tax payable	(42,665)
Deferred income tax liability	(48,821)
Dividend payable	(393)
Total identifiable net liabilities	(5,992)

Had Gateway been consolidated from 1 January 2015, the consolidated statement of profit or loss would show pro-forma revenue of KShs 5,261,883,000 and loss of KShs 9,227,000.

(b) IMPAIRMENT OF GOODWILL

The Group tests whether intangible assets (being goodwill and acquisition-related intangible assets) have suffered any impairment. The recoverable amounts of cash-generating units have been determined using value-in-use calculations. These calculations require the use of estimates. Based on these impairment tests, impairment losses, if any, are identified and recorded in the financial statements.

The recoverable amount of the cash-generating unit is based on the higher of value in use and fair value less cost to dispose. The value in use is determined by means of cash flow projections based on the five year budgeted cash flows of the cash generating unit.

Cash flows to perpetuity have been arrived at by assuming a 7% growth rate and these have been used to compute the terminal value of the company. The discount rate used to determine the value in use of the cash generating unit is 22.4% which was determined by adding the risk adjustment of 10% to the risk free rate of 12.4% as determined by the yield on a treasury bond.

13. (b) IMPAIRMENT OF GOODWILL (Continued)

The annual impairment tests carried out by the Group for 2015 indicate that the operating segment that contains goodwill is impaired since the carrying value of the cash-generating unit is higher than the recoverable amount of the cash-generating unit. The Group has therefore recognised an impairment loss in the consolidated statement of profit or loss for the year ended 31 December 2015 equal to the carrying value before impairment (KShs 564,080,000).

14. INVESTMENT PROPERTY

	2015 KShs.'000 Work in Progress	2015 KShs.'000 Other	2015 KShs.'000 Total	2014 KShs.'000
At 1 January	84,407	1,007,000	1,091,407	922,282
Additions	424,192	-	424,192	77,125
Disposals	-	(50,000)	(50,000)	-
Acquisitions	-	1,034,000	1,034,000	-
Fair value gains	-	175,200	175,200	92,000
At 31 December	508,599	2,166,200	2,674,799	1,091,407

Investment properties are stated at fair value, which has been determined based on valuations performed by Knight Frank Limited and Lloyd Masika as at 31 December 2015 and 31 December 2014. Knight Frank Limited and Lloyd Masika 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 and Lloyd Masika 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.

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 leaser 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.

14. INVESTMENT PROPERTY (Continued)

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 6.

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 headquarters 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.

15. (a) INVESTMENTS IN SUBSIDIARIES

Company	Shareholding	2015 KShs.'000	2014 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
Gateway Insurance Company Limited	56%	700,707	-
		1,669,491	968,784
Less: Impairment provision		(539,562)	-
		1,129,929	968,784

In 2015, the Company completed part acquisition of Gateway with Gateway becoming a subsidiary of the company. The Company paid to shareholders of Gateway Insurance Company an amount of KShs 561,024,000 to acquire a 51% stake in the company and subscribed to additional shares in Gateway amounting to KShs 139,684,000 to increase its shareholding to 56%. The total investment in Gateway was therefore KShs 700,707,000.

Acquisition-related costs of KShs 37,764,000 have been charged to operating costs in the statement of profit or loss for the year ended 31 December 2015. The summarised financial information for Gateway is included in the general business column in the segmental information.

As a result of prior year adjustments passed in the books of Gateway, the shareholder funds of the Company have significantly reduced from the date of acquisition. As a result the management of Pan Africa Insurance Holdings Limited carried out an impairment test on the investment in Gateway.

The recoverable amount of the subsidiary was determined based on the valuation described in note 13(b). Based on this valuation, an impairment charge of KShs539,562,000 was recognised in the Company statement of profit or loss.

15. (b) INVESTMENT IN ASSOCIATE

	Group		Company	
	2015 KShs.'000	2014 KShs.'000	2015 KShs.'000	2014 KShs.'000
At 1 January	18,529	15,919	4,861	4,861
Share of results before tax	4,661	3,729	-	-
Share of tax	(1,398)	(1,119)	-	-
Share of profit of associate	3,263	2,610	-	-
Movements in carrying amount	3,263	2,610	-	-
At 31 December	21,792	18,529	4,861	4,861
Share of associates' statement of financial position:				
Assets	59,670	47,736	-	-
Liabilities	(33,420)	(26,736)	-	-
Net assets	26,250	21,000	-	-
Share of associates' revenue and profit:				
Revenue	39,031	31,225	-	-
Profit	4,661	3,729	-	-

Investments comprise:	Principal activity	Share holding	Share Holding
Runda Water Limited	Water distribution	24.90%	24.90%

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

The 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

16. LOANS

	Group 2015 KShs.'000	Group 2014 KShs.'000
Mortgage loans (Note 19)	384,968	392,379
Policy loans (Note 20)	580,527	665,485
Total Loans	965,495	1,057,864

Loans, receivables and other financial assets, cash and cash equivalents make up the loans receivable category. As at the reporting date, the carrying value of the loans receivable fairly approximates the fair value of the loans. Mortgage loans are secured on the underlying property while policy loans are secured on policyholder benefits due.

17. FINANCIAL INSTRUMENTS

(a) Summary per category

	Designated as fair value through profit or loss KShs.'000	Held-to-maturity KShs.'000	Available for sale KShs.'000	Total KShs.'000
As at 31 December 2015:				
Public sector stocks and loans	6,095,168	8,069,169	-	14,164,337
Equities and similar securities	3,944,499	-	80,364	4,024,863
	10,039,667	8,069,169	80,364	18,189,200

	Designated as fair value through profit or loss KShs.'000	Held-to-maturity KShs.'000	Available for sale KShs.'000	Total KShs.'000
As at 31 December 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

17. FINANCIAL INSTRUMENTS (Continued)

The movement of financial assets is as shown below:

	Designated as fair value through profit or loss KShs.'000	Held-to-maturity KShs.'000	Available for sale KShs.'000	Total KShs.'000
As at 31 December 2015:				
Opening balance	10,430,570	7,026,753	-	17,457,323
Purchases	293,512	878,550	-	1,172,062
Acquired through business combinations	127,928	229,700	80,364	437,992
Maturities	-	(27,741)	-	(27,741)
Net investment income:				
Premium/(Discount)	-	(38,093)	-	(38,093)
Fair value gains	(812,343)	-	-	(812,343)
Closing balance	10,039,667	8,069,169	80,364	18,189,200

	Designated as fair value through profit or loss KShs.'000	Held-to-maturity KShs.'000	Available for sale KShs.'000	Total KShs.'000
As at 31 December 2014:				
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/(Discount)	-	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 2015:					
Public sector stocks and loans	424,931	3,257,797	10,481,609	-	14,164,337
Equities and similar securities	-	-	-	4,024,863	4,024,863
	424,931	3,257,797	10,481,609	4,024,863	18,189,200
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

Loans and receivables are analyzed in Notes 19 and 20. 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 2015 of Held-to-maturity investments was KShs. 7.563 billion (2014: KShs 6.893 billion). Loans are adequately secured while Government bonds that are considered to be risk free hence the securities are not impaired.

17. FINANCIAL INSTRUMENTS (Continued)

(b) Determination of fair value and fair value hierarchy

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

Level 1

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

Level 2

Included in level 2 category are financial assets and liabilities measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For example, instruments measured using a valuation technique such as discounted cash flows, based on assumptions that are supported by prices from observable current market transactions are categorised as level 2. The Group's level 2 financial assets indicated below comprise of government securities which are held to maturity. Fair value is determined by discounting estimated cash flows with a discount rate based on a market yield for similar instruments at year-end. Inputs applied include a market discount rate and credit risk of the counterparty.

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 2015:	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Financial assets :				
Equities and similar securities	2,655,610	1,288,889	80,364	4,024,863
Public sector stocks and loans	6,095,168	8,069,169	-	14,164,337
Non-financial assets at fair value;				
Investment properties	-	-	2,674,799	2,674,799
	8,750,778	9,358,058	2,755,163	20,863,999

17. FINANCIAL INSTRUMENTS (Continued)

(b) Determination of fair value and fair value hierarchy (continued)

As at 31 December 2015:	Level 1 KShs.'000	Level 2 KShs.'000	Level 3 KShs.'000	Total fair value KShs.'000
Financial liabilities:				
Investment contract liabilities	-	8,269,515	-	8,269,515
Deposit administration contracts	-	1,434,573	-	1,434,573
	-	9,704,088	-	9,704,088

As at 31 December 2014:	Level 1 KShs.'000	Level 2 KShs.'000	Level 3 KShs.'000	Total fair value KShs.'000
Financial assets :				
Equities and similar securities	5,438,598	-	-	5,438,598
Public sector stocks and loans	4,980,661	7,026,753	-	12,007,414
Non-financial assets at fair value				
Investment properties	-	-	1,091,407	1,091,407
	10,419,259	7,026,753	1,091,407	18,537,419
Financial liabilities:				
Investment contract liabilities	-	8,933,562	-	8,933,562
Deposit administration contracts	-	1,583,895	-	1,583,895
	-	10,517,457	-	10,517,457

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 2015 are as shown below

Description	Input	Sensitivity used*	Effect on fair value KShs '000
Investment property	Estimated rental value	10%	+/ -267,480
	Discount rate	1%	+/ - 26,748
	Rental growth rate	1%	+/ - 26,748
	Inflation rate	10%	+/ -267,480
	Long term vacancy rate	1%	+/ - 26,748

*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.

17. FINANCIAL INSTRUMENTS (Continued)

(b) Determination of fair value and fair value hierarchy (Continued)

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

Investment properties (Continued)

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 14.

18. REINSURANCE ASSET

The reinsurance asset can be broken down as follows;

	Group	
	2015 KShs.'000	2014 KShs.'000
Long term business reinsurance asset	93,205	145,397
Short term business reinsurance asset	233,492	-
	326,697	145,397

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

	2015 KShs.'000	2014 KShs.'000
i. Long term reinsurance asset movement		
Opening balance	145,397	101,809
Current year movement	(52,192)	43,588
	93,205	145,397
ii. Short term reinsurance asset movement		
Acquired through business combinations		
Reinsurer's share of contract liabilities (Note 26(a))	158,025	-
Reinsurer's share of unearned premium (Note 27)	30,352	-
Current year movements		
Increase in reinsurer's share of contract liabilities (Note 26(a))	8,346	-
Increase in reinsurer's share of unearned premiums (Note 27)	36,769	-
At 31 December		
Reinsurer's share of contract liabilities (Note 26(a))	166,371	-
Reinsurer's share of unearned premium (Note 27)	67,121	-
Total reinsurer's share of liabilities	233,492	-

19. MORTGAGE LOANS

	2015 KShs.'000	2014 KShs.'000
At start of year	398,130	372,653
Accrued interest	38,957	7,786
Additional loans advanced	40,929	48,925
Loan repayments	(87,297)	(31,234)
At end of year	390,719	398,130
Impairment:		
At 1 January	(5,751)	(5,751)
Decrease during the year	-	-
At 31 December	(5,751)	(5,751)
At end of year (Note 16)	384,968	392,379
Maturity profile of mortgage loans		
Loans maturing:		
Within 1 year	2,377	2,422
In 1 - 5 years	14,272	14,546
After 5 years	374,070	381,162
Provision for impairment	(5,751)	(5,751)
	384,968	392,379
Loans at:		
Market rate	88,580	83,756
Concessionary rate:		
Staff loans	302,139	314,374
Provision for impairment	(5,751)	(5,751)
	384,968	392,379

These loans are carried at amortized cost. None of the above loans have had their terms renegotiated. The fair value of collateral (charged buildings) on the mortgage loans amounted to KShs. 1,064,575,000 (2014: KShs. 801,450,000). The Group can liquidate the collateral in case of default. The average concessionary rate was at 8% (2014: 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. MORTGAGE LOANS (Continued)

	Group	
	2015 KShs.'000	2014 KShs.'000
At start of year	665,782	640,014
Additions	716,821	731,310
Repayments	(887,266)	(801,653)
Interest accrued	85,487	96,111
At end of year	580,824	665,782
Provision for impairment:		
At start of the year	(297)	-
(Increase) during the year	-	(297)
At end of the year	(297)	(297)
Net policy loans	580,527	665,485

The collateral for the policy loans is the cash surrender value of the underlying policy. In case of default the loan is written off against the cash surrender value. The carrying amount disclosed above reasonably approximate fair value at the reporting date.

21. 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.

	2015	2014
Treasury bills	9%	9%
Treasury bonds	12%	12%
Mortgage loans and commercial papers	11%	11%
Deposits with financial institutions	12%	12%
Policy loans	16%	16%

22. LAND AND DEVELOPMENT

	Group		Company	
	2015 KShs.'000	2014 KShs.'000	2015 KShs.'000	2014 KShs.'000
At start of year	133,219	145,709	133,219	145,709
Disposals	(56,181)	(12,490)	(56,181)	(12,490)
As at December	77,038	133,219	77,038	133,219

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

23. RECEIVABLES AND DEFERRED ACQUISITION COSTS

a) Insurance receivables

		Group	
		2015 KShs.'000	2014 KShs.'000
Due from policyholders		1,164,802	1,091,845
Provision for doubtful debts	38(u)	(957,828)	(888,898)
Amount due from policyholders		206,974	202,947
Amounts due from reinsurers		48,288	38,010
Provision for doubtful debts		(20,686)	-
Amounts due from agents, brokers and intermediaries		-	12,085
Provision for doubtful debts		-	-
		234,576	253,042

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 period.

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

(b) Receivables and other financial assets

	Group		Company	
	2015 KShs.'000	2014 KShs. '000	2015 KShs.'000	2014 KShs. '000
Amounts due from related parties (Note 36)	25,804	13,626	82,752	39,179
Rent outstanding	3,940	13,995	-	-
Other receivables	176,253	54,976	72,703	25,055
Prepayments	16,227	35,829	-	-
Total	222,224	118,426	155,455	64,234

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

23. RECEIVABLES AND DEFERRED ACQUISITION COSTS (Continued)

(c) Deferred acquisition costs

The movement in deferred acquisition costs is shown below;

	Group	
	2015 KShs.'000	2014 KShs.'000
At start of year	-	-
Acquired through business combinations	17,984	-
Net movements in the year	1,792	-
At end of year	19,776	-

24. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2015 KShs.'000	2014 KShs. '000	2015 KShs.'000	2014 KShs. '000
Cash and bank balances	222,844	213,589	57,634	55,430
Deposits with financial institutions	3,693,324	3,767,707	-	79,306
Total	3,916,168	3,981,296	57,634	134,736

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 13.7% (2014: 12%). The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

25. SHARE CAPITAL AND RESERVES

Share capital	Ordinary shares	2015 KShs.'000	2014 KShs.'000
At start and end of year	96,000	480,000	480,000
Bonus issue (1:2)	48,000	240,000	-
At the end of the year	144,000	720,000	480,000

The total number of authorised ordinary shares is 400,000,000 with a par value of KShs. 5 per share. There are 144,000,000 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.

25. SHARE CAPITAL AND RESERVES (Continued)

Share premium (continued)

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.

In 2015, the company issued 48,000,000 bonus shares in the proportion of 1 new share for two fully paid. The whole share premium of KShs 124,431,000 was capitalised and the remaining KShs 115,569,000 capitalised from retained earnings. The issued shares were listed at the Nairobi Securities Exchange in July 2015.

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 the statement of changes in equity.

	Group	
	2015 KShs.'000	2014 KShs.'000
Balance at the beginning of the year	1,848,043	1,274,251
Surplus for the year	336,667	573,792
Closing fund	2,184,710	1,848,043

26. INSURANCE CONTRACT LIABILITIES

The insurance contract liabilities are made up of liabilities arising from both short term and long term insurance contracts. The balances as presented in the statement of financial position are made up as follows;

	2015 KShs.'000	2014 KShs.'000
Insurance contract liabilities		
- Short term policy liabilities	1,512,908	-
- Long term policy liabilities	9,884,559	8,512,313
Total insurance contract liabilities	11,397,467	8,512,313
Market linked insurance contract liabilities - long-term	8,269,515	8,933,562
Payables under deposit administration contracts - long-term	1,434,573	1,583,895

For purposes of the financial statement disclosures, the liabilities have been categorized as follows;

	2015 KShs.'000	2014 KShs.'000
Short term policy liabilities (Note 26(a))	1,512,908	-
Long term policy liabilities (insurance and investment contracts) (Note 26(b))	18,154,074	17,445,875
Payables under deposit administration (Note 26(b))	1,434,573	1,583,895

26. INSURANCE CONTRACT LIABILITIES (Continued)

a) Group short-term policy liabilities

The movement in the Group short term insurance contract liabilities and reinsurance assets are shown below;

	2015			2014		
	Gross KShs.'000	Reinsurance KShs.'000	Net KShs.'000	Gross KShs.'000	Reinsurance KShs.'000	Net KShs.'000
At beginning of year	-	-	-	-	-	-
Acquired through business combinations						
Notified claims	1,714,347	153,997	1,560,350	-	-	-
Incurred but not reported	24,827	4,028	20,799	-	-	-
Cash paid for claims settled in year	(608,982)	(55,625)	(553,357)	-	-	-
Movement in liabilities						
- arising from IBNR	50,279	23,971	26,308	-	-	-
- arising from current year claims	332,437	40,000	292,437	-	-	-
Total at end of year	1,512,908	166,371	1,346,537	-	-	-
Notified claims	1,361,318	130,125	1,231,193	-	-	-
Incurred but not reported	151,590	36,246	115,344	-	-	-
Total at end of year	1,512,908	166,371	1,346,537	-	-	-

b) Group long-term policy liabilities

Long term policy liabilities refer to the amount that needs to be set aside by the life assurance company 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.

26. INSURANCE CONTRACT LIABILITIES (Continued)

b) Group long-term policy liabilities (Continued)

Summary of movements is shown below:

	2015 Total KShs.'000	2015 Insurance & Investment contracts KShs.'000	2015 Deposit admin contracts KShs.'000	2014 Total KShs.'000	2014 Insurance & Investment contracts KShs.'000	2014 Deposit admin contracts KShs.'000
(i) Analysis of movement in policy liabilities:						
Premium income/contributions (net)	4,636,807	4,376,136	260,671	5,314,072	4,990,770	323,753
Income on Investment	1,537,462	1,460,388	77,074	2,353,753	2,185,286	168,467
Asset management fees	(72,847)	(62,627)	(10,220)	(63,865)	(55,998)	(7,867)
Net investment income	1,464,615	1,397,761	66,854	2,289,888	2,129,288	160,600
Income	6,101,422	5,773,897	327,525	7,603,960	7,120,058	483,902
Policy benefits (net)	(3,712,799)	(3,256,446)	(456,353)	(2,820,926)	(2,589,543)	(231,383)
Sales remuneration and administrative expenses	(1,440,887)	(1,420,393)	(20,494)	(1,517,117)	(1,492,572)	(24,545)
Transfer from shareholders	-	-	-	-	-	-
Transfer to statutory fund	(336,667)	(336,667)	-	(573,792)	(573,792)	-
Outflow	(5,490,353)	(5,013,506)	(476,847)	(4,911,835)	(4,655,907)	(255,928)
Net movement for the year	611,069	760,391	(149,322)	2,692,125	2,464,151	227,974
Balance at beginning of the year	18,886,373	17,300,478	1,583,895	16,192,248	14,836,327	1,355,921
Contract liabilities ceded to reinsurers	93,205	93,205	-	145,397	145,397	-
Balance at end of year	19,588,647	18,154,074	1,434,573	19,029,770	17,445,875	1,583,895

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.

26. INSURANCE CONTRACT LIABILITIES (Continued)

b) Group long-term policy liabilities (Continued)

(ii) 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 2015:					
Linked and market-related insurance contract liabilities	225,230	2,459,752	5,156,561	427,972	8,269,515
Insurance Contract liabilities:					
Reversionary bonus policies	307,071	314,483	653,748	-	1,275,302
Other non-participating liabilities	982,636	1,226,904	2,368,745	4,030,972	8,609,257
	1,289,707	1,541,387	3,022,493	4,030,972	9,884,559
Total insurance contracts liabilities:	1,514,937	4,001,139	8,179,054	4,458,944	18,154,074
Deposit administration contracts	-	-	-	1,434,573	1,434,573
Total long term policy liabilities	1,514,937	4,001,139	8,179,054	5,893,517	19,588,647
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	3,529,884	7,539,045
	1,094,831	1,314,391	2,573,207	3,529,884	8,512,313
Total insurance contracts liabilities:	1,338,147	3,971,662	8,143,843	3,992,223	17,445,875
Deposit administration contracts	-	-	-	1,583,895	1,583,895
Total long term policy liabilities	1,338,147	3,971,662	8,143,843	5,576,118	19,029,770

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.

26. INSURANCE CONTRACT LIABILITIES (Continued)

b) Group long-term policy liabilities (Continued)

The following is a summary of the contract provisions and related reinsurance assets as at 31 December 2015.

	Gross provisions KShs.'000	Reinsurance assets KShs.'000	Net KShs.'000
Long-term business			
Insurance contracts liabilities	9,884,559	(93,205)	9,791,354
Market linked insurance liabilities	8,269,515	-	8,269,515
Deposit administration contracts	1,434,573	-	1,434,573
	19,588,647	(93,205)	19,495,442

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 summary of the movements in the reinsurance asset is outlined in Note 18.

c) 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 5.00% (2014: 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:

	2015	2014
Reversionary bonus	2.00%	2.50%
Terminal bonus	2.00%	2.50%
Total bonus declared	4.00%	5.00%

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

27. UNEARNED PREMIUM

Unearned premiums reserve represents the liability for short term business contracts where the Group's obligations are not yet expired at the year end. The movements in the reserve are as shown below;

	2015			2014		
	Gross KShs.'000	Reinsurance KShs.'000	Net KShs.'000	Gross KShs.'000	Reinsurance KShs.'000	Net KShs.'000
At beginning of year	-	-	-	-	-	-
Acquired through business combinations	240,220	(30,352)	209,868	-	-	-
Net increase in the period	33,675	(36,769)	(3,095)	-	-	-
At end of year	273,895	(67,121)	206,773	-	-	-

28. PROVISIONS

The following is a summary of the contract provisions and related reinsurance assets as at 31 December 2014.

	Group	
	2015 KShs.'000	2014 KShs.'000
General provision on insurance claims	34,620	34,620
Specific provision for financial guarantee	17,305	17,305
	51,925	51,925
The movement in the provisions is as follows:		
At 1 January	51,925	56,418
Unused amounts reversed	-	(4,493)
At end of year	51,925	51,925

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.

29. 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% (2014: 30%). The movement on the deferred income tax account is as follows:

For the year ended 31 December 2015	At start of year KShs. '000	Acquired through business combinations KShs. '000	(Charge)/credit to profit or loss KShs. '000	At end of year KShs. '000
Property and equipment	(1,766)	(48,821)	54,666	4,079
Quoted shares – fair value gain	(22,649)		13,214	(9,435)
Unrealised fair value losses	518		280	798
Provisions	26,071		148,712	174,783
Tax losses carried forward	3,234		-	3,234
Deferred tax on life fund surplus	(554,413)		(101,000)	(655,413)
	(549,005)	(48,821)	115,872	(481,954)
Pan Africa Life Assurance Limited	(554,413)		(101,000)	(655,413)
PA Securities Limited	(1,185)		20,890	19,705
Mae Properties Limited	3,234		-	3,234
Pan Africa Asset Management Limited	3,032		471	3,503
Pan Africa Insurance Holdings Limited	327		16,909	17,236
Gateway Insurance Company Limited	-	(48,821)	178,602	129,781
	(549,005)	(48,821)	115,872	(481,954)

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.

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

For the year ended 31 December 2015	At start of year KShs. '000	Acquired through business combinations KShs. '000	(Charge)/credit to Income Statement KShs. '000	At end of year KShs. '000
Property and equipment	(1,766)	(48,821)	54,666	4,079
Quoted shares – fair value gain	(22,649)	-	13,214	(9,435)
Unrealised fair value losses	518	-	280	798
Provisions	26,071	-	148,712	174,783
Tax losses carried forward	3,234	-	-	3,234
Deferred tax on life fund surplus	(554,413)	-	(101,000)	(655,413)
	(549,005)	(48,821)	115,872	(481,954)
Deferred tax not recognised	3,234	-	-	3,234
Deferred tax asset	3,359	-	166,866	170,225
Deferred tax liability	(555,598)	(48,821)	(50,994)	(655,413)

Included in the quoted shares fair value gain was deferred tax attributable to Capital Gains Tax (CGT) which came into effect in January 2015 but was later scrapped off in July 2015.

29. DEFERRED INCOME TAX (Continued)

a) Group (Continued)

For the year ended 31 December 2014	At start of year KShs. '000	Acquired through business combinations 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 Assurance 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
Deferred tax liability	(350,991)	-	(198,014)	(549,005)

b) Company

For the year ended 31 December 2015	At start of year KShs. '000	(Charge)/credit to profit or loss KShs. '000	At end of year KShs. '000
Plant and equipment	224	88	312
Provisions	103	16,821	16,924
Deferred tax	327	16,909	17,236

For the year ended 31 December 2014	At start of year KShs. '000	(Charge)/credit Income statement KShs. '000	At end of year KShs. '000
Plant and equipment	110	114	224
Provisions	3,997	(3,894)	103
Deferred tax	4,107	(3,780)	327

30. INSURANCE PAYABLES

	Group	
	2015 KShs.'000	2014 KShs.'000
Outstanding claims	418,412	360,004
Payables arising out of direct insurance	519	74,178
Payables arising out of reinsurance operations	45,342	5,712
Total insurance payables	464,273	439,894

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

31. PAYABLES AND OTHER CHARGES

	Group		Company	
	2015 KShs.'000	2014 KShs.'000	2015 KShs.'000	2014 KShs.'000
Amounts due to related parties (Note 36)	23,033	17,171	929,278	483,906
Unclaimed dividends	31,322	31,715	31,715	31,715
Stale cheques	58,560	58,281	-	-
Deposits received from sale of plots	11,400	33,983	11,400	33,983
Accruals	138,639	67,229	52,762	-
Other payables	492,778	529,209	100,580	98,447
	755,732	737,588	1,125,735	648,051

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.

32. EARNINGS PER SHARE

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

a) Group

	2015 KShs.'000	2014 KShs.'000
Net profit attributable to ordinary shareholders for basic and diluted earnings	(61,559)	871,190
Weighted average number of ordinary shares for basic and diluted earnings per share	144,000	144,000
Basic earnings per ordinary share KShs.	(0.43)	6.05
Diluted earnings per ordinary share KShs.	(0.43)	6.05

b) Company

	2015 KShs.'000	2014 KShs.'000
Net (loss)/profit attributable to ordinary shareholders for basic and diluted earnings	(416,150)	48,477
Weighted average number of ordinary shares for basic and diluted earnings per share	144,000	144,000
Basic earnings per ordinary share KShs.	(2.89)	0.34
Diluted earnings per ordinary share KShs.	(2.89)	0.34

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

33. CONTINGENT LIABILITIES – GROUP

Companies in the Group are defendants to legal proceedings filed against them by third parties. Unverified claims have also been placed against the former Pan Africa Insurance Group Limited (See Note 28). 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.

33. CONTINGENT LIABILITIES – GROUP (Continued)

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 these are detailed in Note 37. There are no contingencies associated with the Group's compliance or lack of compliance with such regulations.

34. CAPITAL COMMITMENTS – GROUP

The Group has no capital commitments as at 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	
	2015 KShs.'000	2014 KShs.'000	2015 KShs.'000	2014 KShs.'000
Not later than 1 year	17,299	15,726	10,831	9,846
Later than 1 year but not later than 5 years	88,304	80,276	55,289	50,263
More than 5 years	27,856	25,324	17,443	15,857
	133,459	121,326	83,563	75,966

35. CASH GENERATED FROM OPERATIONS

a) Group

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

	2015 KShs.'000	2014 KShs.'000
Profit before tax:	54,325	1,152,598
Adjusted for:		
Interest income on financial assets at fair value through profit and loss	(806,494)	(529,990)
Interest income on held to maturity financial assets	(974,078)	(853,450)
Revaluation gain on investment property	(175,200)	(92,000)
Depreciation and amortization	58,297	40,280
Fair value gains on financial assets at fair value through profit or loss	812,344	(556,386)
Rental income	(41,975)	(25,188)
Investment income	(566,178)	(584,547)
Goodwill impairment write back	564,080	-
Consolidation adjustments (share of associate's profit)	(3,263)	(2,610)
	(1,078,142)	(1,451,293)
Changes in working capital:		
Actuarial value of policyholders liabilities	481,933	2,420,563
Payables under deposit administration contracts	(149,322)	227,974
Reinsurance asset	7,077	(43,588)
Insurance receivables	96,266	(93,752)
Insurance payables	(6,552)	96,695
Other receivables	(80,666)	(15,816)
Trade and other payables	36,088	4,445
Cash generated from / (used in) operations	(693,318)	1,145,228
Tax paid	(69,517)	(176,182)
Net cash generated from/(used in) operations	(762,835)	969,046

35. CASH GENERATED FROM OPERATIONS (Continued)

b) Company

Reconciliation of profit before income tax to cash generated from operations

	2015 KShs.'000	2014 KShs.'000
(Loss) / profit before tax	(359,949)	74,995
Adjustment for:		
Investment income	(4,962)	(24,777)
Depreciation and amortization	1,516	1,612
Impairment in investment in subsidiary	539,562	-
	176,167	51,830
Changes in working capital:		
Other receivables	(91,221)	(2,118)
Trade and other payables	477,684	5,815
	562,630	55,527
Tax paid	-	(94,419)
Net cash generated from/(used in) operations	562,630	(38,892)

36. RELATED PARTY TRANSACTIONS

a) Amounts due from related parties:

Reconciliation of profit before income tax to cash generated from operations

	Group		Company	
	2015 KShs.'000	2014 KShs.'000	2015 KShs.'000	2014 KShs.'000
PA Securities Limited (Subsidiary)	-	-	40,247	39,179
Hubris Holdings Limited (Parent)	25,643	13,626	1,429	-
SIM South Africa (Sister company)	161	-	-	-
Gateway Insurance Company Limited (Subsidiary)	-	-	41,076	-
Total	25,804	13,626	82,752	39,179

There were no provisions made or amounts written off on related party balances during the year (2014: nil).The amounts due from related parties are non interest bearing and will be paid using cash and cash equivalents.

36. RELATED PARTY TRANSACTIONS (Continued)

b) Amounts due to related parties:

	Group		Company	
	2015 KShs.'000	2014 KShs.'000	2015 KShs.'000	2014 KShs.'000
Payables to related parties				
Pan Africa Life Assurance Limited (Subsidiary)	-	-	284,959	133,260
Pan Africa Securities Limited (Subsidiary)	-	-	581,879	288,206
Sanlam Emerging Markets (Parent)	23,033	17,332	-	-
Mae properties (Subsidiary)	-	-	62,440	62,440
SIM South Africa (Sister company)		(161)		
Pan Africa Asset Management Limited (Subsidiary)	-	-	-	-
Total	23,033	17,171	929,278	483,906

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.

c) Key management compensation:

	Group		Company	
	2015 KShs.'000	2014 KShs.'000	2015 KShs.'000	2014 KShs.'000
Salaries and other short-term employment benefits	219,584	123,015	60,210	19,184
Post-employment benefits	26,196	12,960	6,342	2,332
	245,780	135,975	66,552	21,516

d) Directors' remuneration:

	Group 2015	Group 2014	Company 2015	Company 2014
Fees	19,340	11,778	5,712	3,534
Other emoluments (included in (c) above	33,745	32,743	33,745	3,532
Total	53,085	44,521	39,457	7,066
Mortgage loans to key management where collateral is accepted as security	85,568	74,532	-	-

36. RELATED PARTY TRANSACTIONS (Continued)

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		Company	
	2015 KShs.'000	2014 KShs.'000	2015 KShs.'000	2014 KShs.'000
Investment income:				
Investment management fees- Pan Africa Asset Management Limited	56,799	(2,223)	-	-
Other operating income				
Management expenses:				
Management fees- Sanlam Developing Markets	11,611	16,403	-	-
	11,611	16,403	-	-

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
Gateway Insurance Company Limited	Kenya	General insurance	56
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.

37. CAPITAL MANAGEMENT (Continued)

The General insurance part of the Group business is subject to the following external capital requirements;

Condition:	Status:	
a) Required share capital (Life Insurer)	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

The General insurance part of the Group business is subject to the following external capital requirements;

Condition:	Status:	
a) Required share capital (General Insurer)	KShs. 200 million	Achieved
b) Margin of Solvency: Insurance Act-S.41(1)	AA>AL+KShs. 10m or 15% of prior year net premiums	Not 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)	5% AA under lien with CBK	Achieved

The Group intends to inject additional capital into Gateway Insurance Company in 2016 to enable it comply with the statutory capital requirements.

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 8 to 11. 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.

37. CAPITAL MANAGEMENT (Continued)

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.

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.

37. CAPITAL MANAGEMENT (Continued)

b) Required capital (Continued)

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.

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 Group-wide IT risks

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

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

38. RISK MANAGEMENT (continued)

a) 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 modeling techniques prior to such decisions being implemented.

Objective

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

Philosophy

SRM is achieved by:

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

38. RISK MANAGEMENT (continued)

a) Group risk policies and guidelines (Continued)

Philosophy (continued)

ii. Implementing maximum loss limits, by using measures such as "value at risk", as long (term solvency requirements, capital adequacy requirements and sensitivities on return on embedded value/value of new business; and
iii. Clearly defining and documenting the business's risk appetite, being the degree of uncertainty that a business is willing to accept in pursuit of its goals, and describing it both qualitatively and quantitatively.

Risk is inherent in doing business, and includes all of the uncertain consequences of business activities that could prevent Pan Africa Insurance Holdings Limited from achieving its strategic goals. Pan Africa Insurance Holdings Limited SRM process is aimed at managing three elements of risk: i.All risks which could jeopardise or enhance achievement of the Group's strategic goals are identified;

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:

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

38. RISK MANAGEMENT (continued)

d) Risk management

Operational risk

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

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

The following functionaries assist in mitigating operational risk:

Internal audit

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

External audit

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

External consultants

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

e) Information and technology risk

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

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

f) Going concern / business continuity risk

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

38. RISK MANAGEMENT (continued)

g) Legal risk

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

h) Compliance risk

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

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

i) Fraud risk

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

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

j) Taxation risk

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

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

38. RISK MANAGEMENT (continued)

k) Reputational risk

Actions with a potential reputational impact are escalated to the appropriate level of senior management. The Audit committee and board of directors are involved as required. Events with an industry-wide reputational impact are addressed through industry representative groups.

l) Legislation risk

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

m) Strategic risk

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

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

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

n) Risk management - life insurance

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

38. RISK MANAGEMENT (continued)

n) Risk management - life insurance (Continued)

Market risk

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

Equity risk

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

i. Direct equity shareholdings in shareholder funds
ii. 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
iii. Equity assets backing insurance liabilities that are not participating or not fully market linked
iv. Its interest in the free estate of long term with profit funds

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

	Gross Portfolio KShs.'000	% change in base	KShs.'000
31 December 2015			
Equities and similar securities	1,759,095	+(-)32.1%	+(-)564,669
31 December 2014			
Equities and similar securities	768,340	+(-)32.1%	+(-)246,435

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.

38. RISK MANAGEMENT (continued)

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 2015, all stable and reversionary bonus business portfolios had a funding level in excess of 100%. (2014: 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;
- 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.

38. RISK MANAGEMENT (continued)

p) Interest rate risk (Continued)

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 in base	2015 KShs.'000	Gross portfolio	% change in base	2014 KShs.'000
Financial assets	-	-	-	-	-	-
Public sector stocks and loans	4,980,661	+(-)12.0%	+(-) 574,495	4,406,166	+(-)21.0%	+(-) 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)

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 Flexi saver 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.

38. RISK MANAGEMENT (continued)

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 2015 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	3,629,820	2,465,348	-	-	-		6,095,168
Held to maturity	8,069,169	-	-	-	-	-	8,069,169
Reinsurers' share of technical provisions and reserves	-	-	326,697	-			326,697
Receivables arising out of direct insurance arrangements	-	-	234,576	-	-	-	234,576
Loans	-	-	-	-	-	965,495	965,495
Receivables and other financial assets	-	-	-	-	-	222,224	222,224
Cash and cash equivalents	-	-	3,916,168	-	-	-	3,916,168
	11,698,989	2,465,348	4,477,441	-	-	1,187,719	19,829,497
Company:							
Receivables and other financial assets	-	-	-	-	-	155,455	155,455
Cash and cash equivalents	-	-	57,634	-	-	-	57,634
	-	-	57,634	-	-	155,455	213,089

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 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)

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 2015	Neither past due nor impaired KShs.'000	Past due but not impaired KShs.'000	Impaired KShs.'000	Total KShs.'000
Financial Instruments:	14,164,337			14,164,337
Reinsurers' share of technical provisions and reserves	326,697	-	-	326,697
Receivables arising out of direct insurance arrangements	234,576	-	957,828	1,192,404
Loans	780,666	184,829	5,751	971,246
Receivables and other financial assets	222,224	-	-	222,224
Cash and cash equivalents	3,916,168	-	-	3,916,168
	19,644,668	184,829	963,579	20,793,076
Company: 31 DECEMBER 2015				
Financial Instruments:	-	-	-	-
Receivables and other financial assets	155,455	-	-	155,455
Cash and cash equivalents	57,634	-	-	57,634
	213,089	-	-	213,089

The fair value of collateral on the mortgage loans of KShs 384,968,000(2014: 392,379,000) amounted to KShs. 1,064,575,000 (2014: KShs. 801,450,000) while the surrender value of the policy loans adequately covers the outstanding loans of KShs 580,527 (2014: KShs 665,485,000) 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 13. The change in VIF relative to the base value is an indication of how the present value of future after-tax profits (including the allowance for the cost of capital at risk) are impacted based on these assumptions.

If investment return (and inflation) assumptions were to decrease by 1%, coupled with a 1% decrease in risk discount rates, and with bonus rates changing commensurately, the impact on the present value of future after-tax profits would be a decrease of KShs. 26.4 million (2014: decrease of KShs. 26.4million).

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 2015				
Interest rate	+(-) 3%	+(-)111,228	+(-)424,330	+(-)84,802
Equity/Property	+(-) 4%	+(-)33,673	+(-)93,274	+(-)70,323
31 December 2014				
Interest rate	+(-) 3%	+(-)96,720	+(-)368,983	+(-)73,741
Equity/Property	+(-) 4%	+(-)29,281	+(-)81,108	+(-)61,150

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.

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.

38. RISK MANAGEMENT (Continued)

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

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 and capital (continued)

At 31 December 2015:	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	6,095,168	-	-	6,095,168
Held to maturity financial assets	8,069,169	-	-	8,069,169
Reinsurance assets	326,697	-	-	326,697
Receivables and other financial assets	222,224		-	222,224
Mortgages	381,051	3,917	5,751	390,719
Policy loans	399,912	180,912	297	581,121
Insurance receivables	234,576	-	978,514	1,213,090
Deposits with financial institutions	3,693,324	-	-	3,693,324
Cash at bank	222,844	-	-	222,844
Gross financial assets	19,665,651	184,829	963,876	20,814,356

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

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 2015			
0-3 months	112,165	-	112,165
3-6 months	68,747	3,917	72,664
	180,912	3,917	184,829
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

The past due receivables are not impaired and continue to be paid. An impairment provision of KShs 963.9 million (2014: KShs894.9million) 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 2015	5,751	297	888,898	894,946
Additional provision	-	-	68,930	68,930
Unused amounts reversed	-	-	-	-
At end of year	5,751	297	957,828	963,876
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

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 2015:					
Group	1 Year	1-5 Years	>5 Years	Open ended	Total
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Market linked insurance contracts	225,230	2,459,752	5,156,561	427,972	8,269,515
Non market related insurance contracts	1,465,912	1,759,889	3,445,366	4,726,300	11,397,467
Deposit administration contracts	-	-	-	1,434,573	1,434,573
Insurance payables	-			464,273	464,273
Provisions	-	51,925	-	-	51,925
Payables and other charges	755,732	-	-	-	755,732
Total liabilities	2,446,874	4,271,566	8,601,927	7,053,118	22,373,485
Company					
Payables and other charges	1,125,735	-	-	-	1,125,735
Total liabilities	1,125,735	-	-	-	1,125,735

Year ended 31 December 2015:					
Group					
	1 Year	1-5 Years	>5 Years	Open ended	Total
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Financial Assets:					
Equities and similar securities	-	-	-	4,024,863	4,024,863
Public sector stocks and loans	360,223	2,761,705	8,885,486	-	12,007,414
Mortgages and policy loans	9,655	569,642	386,198	-	965,495
Reinsurance assets	75,496	249,337	1,864	-	326,697
Insurance receivables	234,576	-	-	-	234,576
Receivables and other financial assets	222,224	-	-	-	222,224
Deposits with financial institutions	3,693,324	-	-	-	3,693,324
Cash and bank balances	222,844	-	-	-	222,844
Total assets	4,818,342	3,580,684	9,273,548	4,024,863	21,697,437
Company					
Receivables and other financial assets	155,455	-	-	-	155,455
Deposits with financial institutions	-	-	-	-	-
Cash and bank balances	57,634	-	-	-	57,634
Total assets	213,089	-	-	-	213,089

38. RISK MANAGEMENT (Continued)

w) Liquidity risk (Continued)

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

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	-	1,057,865
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	4,841,338	3,410,562	9,311,540	5,449,909	23,013,349

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)

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	
	2015	2014	2015	2014	2015	2014
KShs.'000			KShs.'000	KShs.'000	KShs.'000	KShs.'000
0 – 500	235,142	273,781	3,115	4,856	2,179	3,266
500 - 1 000	42,489	49,471	10,519	16,399	7,302	10,943
1 000- 5 000	67,756	78,889	28,708	44,753	12,868	19,285
5 000- 8000	338	393	103,011	160,583	46,971	70,394
>8 000	384	447	154,615	241,029	71,668	107,407
	346,109	402,981	299,968	467,620	140,988	211,295

Non-participating annuity payable per annum per life insured

	Number of lives		Before Reinsurance		After reinsurance	
	2015	2014	2015	2014	2015	2014
KShs.'000			KShs.'000	KShs.'000	KShs.'000	KShs.'000
0 – 20	325	552	3,549	1,501	3,549	1,501
20 – 40	322	175	9,576	5,569	9,576	5,569
40 – 60	218	180	10,871	9,165	10,871	9,165
60 – 80	219	179	15,464	12,823	15,464	12,823
80-100	216	189	19,458	17,260	19,458	17,260
>100	1,943	1,662	674,561	564,286	674,561	564,286
	3,243	2,937	733,479	610,604	733,479	610,604

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	
	2015	2014	2015	2014	2015	2014
KShs.'000			KShs.'000	KShs.'000	KShs.'000	KShs.'000
With profits	5,369	2,871	539,696	345,134	539,696	345,134
Unit linked	76,705	60,021	-	-	-	-
Total	82,074	62,892	539,696	345,134	539,696	345,134

y) Capital adequacy risk

Refer to the capital management section (Note 38) 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 3.55 times by the excess of assets over liabilities.

38. RISK MANAGEMENT (Continued)

z) Claims development table - long term insurance

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 2006–2015.

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	Note	KShs.'000	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	,233,696	1,500,428	1,590,454	1,685,881	3,309,685	
One year later		785,650	1 ,288,327	1,007,647	889,072	913,483	1,254,273	1,575,449	1,669,976	1,770,175		
Two years later		795,789	1 ,297,268	1,000,060	892,122	956,981	1,316,987	1,654,222	1,753,475			
Three years later		815,286	1,319,302	984,372	924,156	1,004,830	1,382,836	1,736,933				
Four years later		881,969	1 ,293,495	1,069,131	970,364	1,055,072	1,451,978					
Five years later		909,024	1,278,268	1,122,588	1,018,882	1,107,826						
Six years later		886,147	1 ,342,181	1,178,717	1,069,826							
Seven years later		930,454	1,409,290	1,237,653								
Eight years later		976,977	1,479,755									
Nine years later		1,025,826										
Current estimate of cumulative claims incurred		1,025,826	1,479,755	1,237,653	1,069,826	1,107,826	1,451,978	1,736,933	1,753,475	1,770,175	3,309,685	15,943,131

38. RISK MANAGEMENT (Continued)

z) Claims development table - long term insurance

	Note	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	2015 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)	(2,912,806)	
One year later		(406,546)	(511,332)	(484,893)	(405,884)	(609,642)	(983,932)	(1,320,073)	(1,326,777)	(1,330,281)		
Two years later		(437,762)	(521,173)	(498,735)	(400,755)	(701,168)	(1,046,646)	(1,398,846)	(1,410,276)			
Three years later		(578,965)	(673,100)	(493,966)	(789,778)	(749,017)	(1,112,495)	(1,481,557)				
Four years later		(662,770)	(661,332)	(865,292)	(835,986)	(799,259)	(1,181,637)					
Five years later		(683,101)	(1,016,570)	(918,749)	(884,504)	(852,013)						
Six years later		(704,728)	(1,080,483)	(974,878)	(935,448)							
Seven years later		(749,035)	(1,147,592)	(1,033,814)								
Eight years later		(795,558)	(1,218,057)									
Nine years later		(844,407)										
Cumulative payments to date		(844,407)	(1,218,057)	(1,033,814)	(935,448)	(852,013)	(1,181,637)	(1,481,557)	(1,410,276)	(1,330,281)	(2,912,806)	(13,200,296)
Insurance payables per the statement of financial position		181,419	261,698	203,839	134,378	255,813	270,341	255,376	343,199	439,894	396,879	2,742,836

39. STATUTORY COMPLIANCE

Insurance Act

Pan Africa Life Assurance Limited, a wholly owned subsidiary and Gateway Insurance Company Limited which the Company controls are 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 while for an insurer carrying on short term business it is at least two hundred million shillings

The Group complied with this requirement with respect to long term insurance business as follows:

	2015 KShs.'000	2014 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

The Group complied with this requirement with respect to short term insurance business as follows:

	2015 KShs.'000	2014 KShs.'000
Paid up share capital	452,909	-
Share premium	135	-
Total paid up capital	453,044	-
Required capital	300,000	-

b) Admitted Assets - Pan Africa Life Insurance Company Limited

Section 41-1 defines what constitutes admitted assets for the purpose of complying with the Kenya Insurance Act for a life insurance company

	2015 KShs.'000	2014 KShs.'000
Total life assets	22,809,253	22,060,574
Non admitted assets	(295,911)	(414,577)
Admitted assets	22,513,342	21,645,997
Assets not admitted comprise the following:		
Premium debtors	91,248	202,947
Prepayment	15,181	13,795
Fixed assets	189,482	197,835
Total Non-admitted assets	295,911	414,577

39. STATUTORY COMPLIANCE

b) Admitted Assets - Pan Africa Life Insurance Company Limited (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.

	2015 KShs.'000	2014 KShs.'000
Total admitted assets(A)	22,513,342	21,645,997
Total admitted liabilities (B)	(21,128,983)	(20,030,099)
Surplus assets (A-B)	1,384,359	1,615,898
Less 5% of Admitted liabilities	1,056,449	1,001,505
Solvency Margin as per insurance Act	327,910	614,393
No of times solvency cover	1.31	1.63

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

	2015 KShs.'000	2014 KShs.'000
Total assets under lien with IRA (A)	1,728,350	1,728,350
Lien amount required by insurance regulation (B)	1,125,667	1,082,300
Number of times lien cover (A/B)	1.54	1.60

39. STATUTORY COMPLIANCE

c) Admitted Assets - Gateway Insurance Company Limited

Section 41-1 defines what constitutes admitted assets for the purpose of complying with the Kenya Insurance Act for a general insurance company

	2015 KShs.'000	2014 KShs.'000
Total general assets	2,041,474	-
Non admitted assets	(275,266)	-
Admitted assets (A)	1,766,208	-

Section 41 Subsection (1) of the Kenya Insurance Act requires an insurer carrying on in Kenya short term insurance business to keep at all times admitted assets of not less than the aggregate value of admitted liabilities and KShs10million, or 15% of net premium during the preceding financial year, whichever is greater.

	2015 KShs.'000	2014 KShs.'000
1. Solvency Margin		
Total admitted assets	1,766,208	-
Total admitted liabilities	(1,753,716)	-
Surplus	12,492	-
2. Net premium 2014	574,351	-
15% of net premium	86,153	-
3. KShs 10 million		

For the General insurance business the solvency margin has not been met as the actual margin is less than the options provided for by the insurance Act. The Group plans to inject additional capital into the general insurance business to insure that it complies with the requirements of the insurance act.

NOTES

NOTES

PROXY FORM

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

PROXY FORM

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

being member/members of PAN AFRICA INSURANCE HOLDINGS LIMITED

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

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

as my/our proxy to vote for me/us on my/our behalf at the 70th Annual General Meeting of the company to be held on 20th May 2016 at 10.00 am and at any adjournment thereof.

Signed/Sealed this …………………………………… day of ……………………………… 2016

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.

Pan Africa Insurance Holdings Limited
Pan Africa Life House, Kenyatta Avenue
P. O. Box 10493 - 00100 Nairobi
Tel: 020 2247600 / 2225050 / 2781000
Mobile: 0722 206900/1, 0733 418807
SMS Line: 30182

Pan Africa Life Assurance Limited
Pan Africa Life House, Kenyatta Avenue
P. O. Box 44041 - 00100 Nairobi
Tel: 020 2247600/ 2225050 / 2781000
Mobile: 0722 206900/1, 0733 418807
Email: customerservice@pan-africa.com
SMS Line: 30182

Pan Africa Asset Management
Pan Africa Life House, 3rd Floor, Kenyatta Avenue
P. O. Box 7848 - 00100 Nairobi
Tel: 020 2220559
Fax: 020 2242463
Email: info@paam.pan-africa.com

PA Securities Limited
Pan Africa Life House, Kenyatta Avenue
P. O. Box 10493 - 00100 Nairobi
Tel: 020 2247600 / 2225050 / 2781000
Mobile: 0722 206900/1, 0733 418807

Gateway Insurance Company Limited
Gateway Place, Milimani Road
P. O. Box 60656 - 00200, Nairobi
Tel: 020 2713131/7
Fax: 020 2713138
Mobile: 0719 035000
Email: info@gatewayinsurance.co.ke