BRITISH-AMERICAN INVESTMENTS COMPANY (KENYA) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

British American
With you every step of the way

Our Services

- ASSET MANAGEMENT
- LIFE ASSURANCE
- GENERAL INSURANCE
- PENSIONS
- MEDICAL INSURANCE

Contents

Company Overview

An exciting journey begins

Founded in 1920, the British-American group entered the Kenyan market in 1965 when the first branch office was opened in Nairobi. During the next 15 years the branch network was expanded throughout the country and the management was fully indigenised. A local company was incorporated in 1979 following a government directive that all branches of foreign owned insurance companies should be incorporated locally, with at least one third of the ownership in the hands of local Kenyans. The insurance company has evolved over a 46-year period from a start-up home service based branch to its current status as a leading composite insurance company providing all classes of insurance.

In 1997, the foreign held equity was acquired by BAI Co (Mtius) Ltd as part of a regional strategy of the group. In that same year the insurance company expanded its offering to include general insurance lines of business.

In 2004 British-American Investments Company (Kenya) Limited was established as an investment holding company and assumed control of British-American Insurance Company (Kenya) Limited and the newly formed investments advisory and asset management company, British-American Asset Managers Limited.

In 2006, a further rationalisation of the equity ownership of the group saw the majority of share ownership passing to Kenyan investors, with BAI Co (Mtius) Ltd remaining as a key strategic partner.

British-American Investments Company (Kenya) Limited commenced its regional expansion strategy during 2010 by registering Britam Insurance Company (Uganda) Limited which commenced insurance business in Uganda in November 2010.

Our Vision

To be the most trusted financial services company.

Our Mission

To delight our customers with outstanding financial services

Our values

- Mutual respect
- Innovate, challenge and implement
- Accountability
- Integrity

Our Outlook

Our rich heritage is the cornerstone of our future.

Our brand positioning

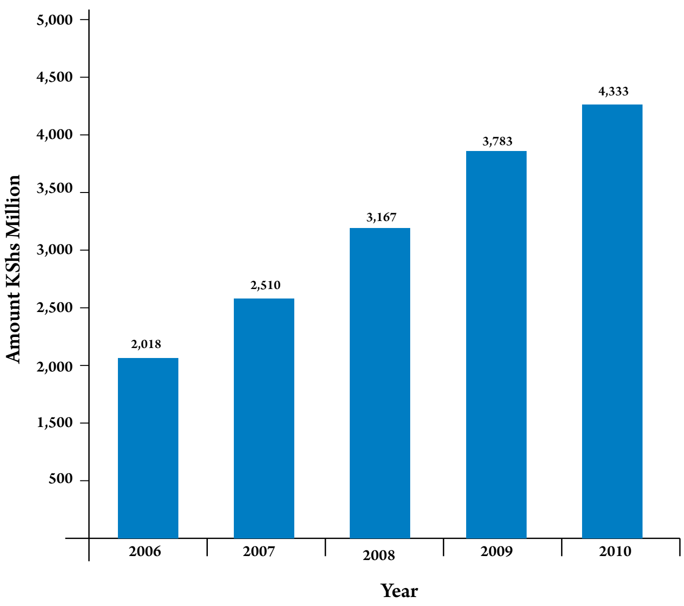
“Our great Past will lead us to a great Future”

Our operating principles

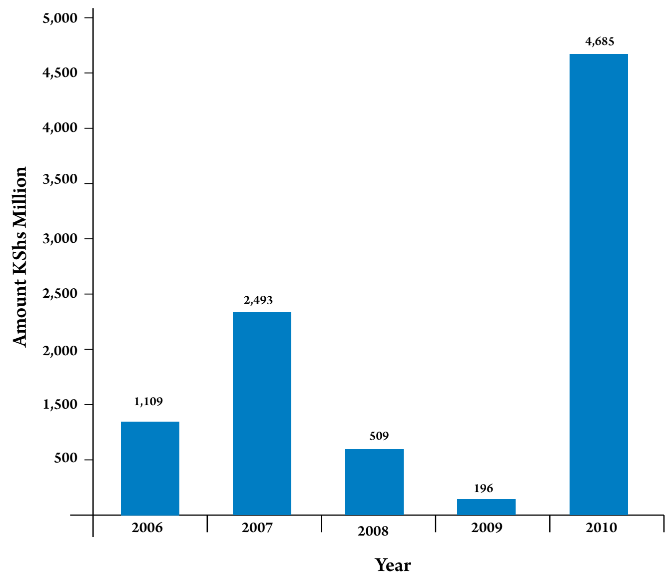
Outstanding leadership, Professionalism, Synergy, Operational excellence

Five year financial highlights

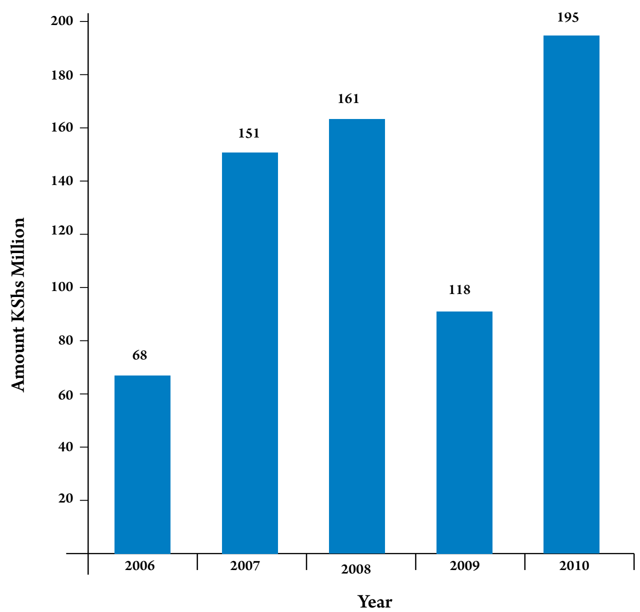
Gross earned premium



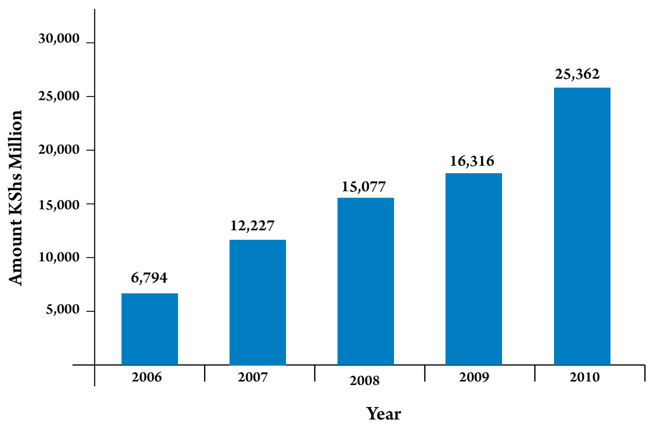
Investment income

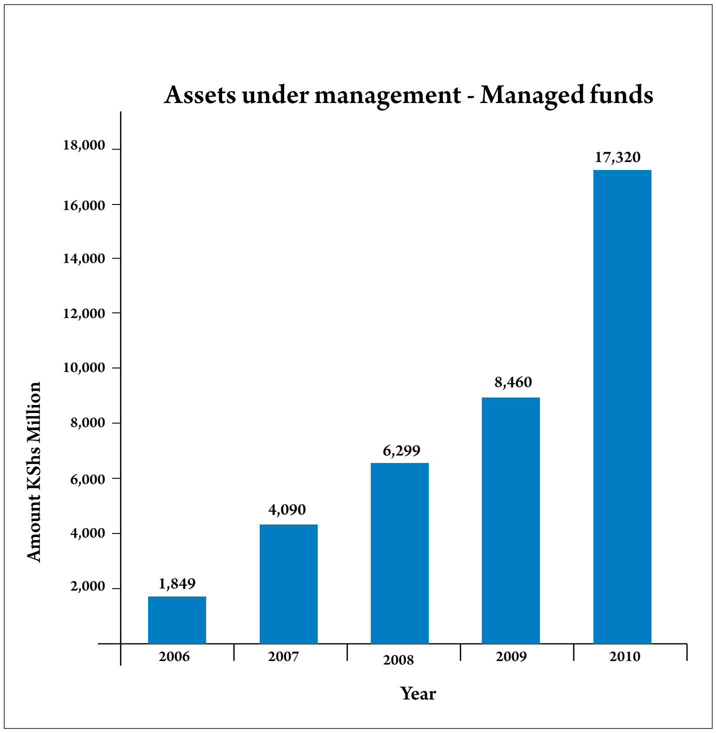


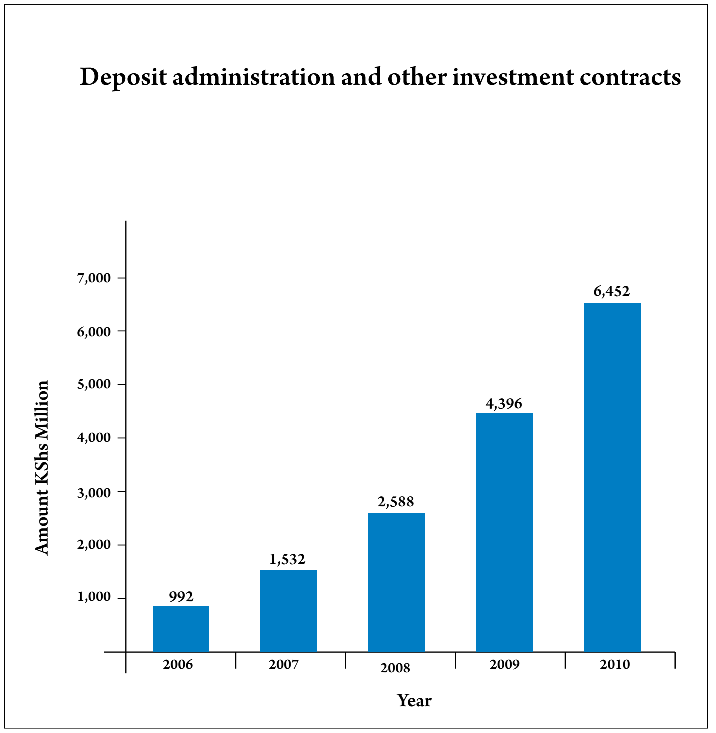
Fund management fees



Total assets




Assets under management - Managed funds
Amount KShs Million
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
1,849
4,090
6,299
8,460
17,320
2006
2007
2008
2009
2010
Year


Deposit administration and other investment contracts
Amount KShs Million
7,000
6,000
5,000
4,000
3,000
2,000
1,000
992
1,532
2,588
4,396
6,452
2006
2007
2008
2009
2010
Year

Chairman's Statement

It is my pleasure to present the Annual Report and Financial Statements for British-American Investments Company (Kenya) Limited and its subsidiaries for the year ended 31 December 2010.

GROUP'S BUSINESS ACTIVITIES

The Group comprises an investment holding company, British-American Investments Company (Kenya) Limited, and three wholly owned operating subsidiaries: British-American Insurance Company (Kenya) Limited, British-American Asset Managers Limited and Britam Insurance Company (Uganda) Limited. British-American Insurance Company (Kenya) Limited underwrites all classes of life and non-life insurance risks as defined by the Kenyan Insurance Act except for aviation and bond investment. It is regulated by the Insurance Regulatory Authority (IRA). British-American Asset Managers Limited provides investment advisory and fund management services to retail and institutional investors and is regulated by the Capital Markets Authority (CMA). Britam Insurance Company (Uganda) Limited started operations in November 2010 and is licensed to underwrite all classes of life and non-life insurance risks as defined by the Uganda Insurance Act. It is regulated by the Uganda Insurance Commission (UIC). The Group also owns strategic stakes of 11.05% in Equity Bank Limited and 12.55% in Housing Finance Company of Kenya Limited (HF) which are both listed on the Main Investment Board in the Nairobi Stock Exchange.

REVIEW OF BUSINESS ENVIRONMENT

The economy registered an impressive growth in Gross Domestic Product (GDP) estimated at 5% in 2010. This compares favourably to a growth of 2.1% and 2.6% in 2008 and 2009 respectively, and demonstrates the recovery of the economy from the performance in 2008 and 2009.

The equity markets performed very strongly during the year with an overall return of 36.4% buoyed by positive investment sentiment and active foreign investor participation. The bond market was also very active during the year with Shs. 483 billion of government bonds transacted in 2010, compared to Shs. 110.6 billion in 2009, an increase of 337%.

Inflation experienced a downward trend dropping from 4.7% in January 2010 to 3.2% in August 2010 to October 2010 but closing at 4.5% in December 2010. The overall inflation for the year was 4.0%.

During the year, short term interest rates decreased with the 91-day Treasury bill rate falling to 2.36% at the close of the year from 6.61% at the beginning of the year, while the 182-day Treasury bill rate dropped from 7.25% to 2.63% during the same period. These decreases reflected increased liquidity in the economy and the loose monetary policy pursued by the Central Bank of Kenya to stimulate economic growth through availability of affordable credit..

FINANCIAL SECTOR DEVELOPMENTS

The latest available figures show that worldwide insurance premium volume fell on an inflation-adjusted basis but premium growth in emerging markets remained positive. The insurance industry recovered significantly but did not reach pre-crisis levels. In most countries insurance premium grew faster than GDP, showing the robustness of the industry. Life insurance premium volumes grew globally to US $2,359 billion but Non-life premium volumes grew only in emerging markets to a total of US $1,743 billion (Swiss Re Sigma).

Available statistics for Kenya show gross written premium volume for the industry in 2009 was Shs. 64 billion compared to Shs. 55 billion in 2008 representing 16.8% growth whereas GDP growth was 2.6%. There were 24 underwriters in the Life business whilst 35 underwriters were in Non-Life business. Overcapacity and price wars continue to be a challenge despite zeal to grow the market and to innovate.

The promulgation of the new constitution was a seminal event that will define the development of Kenya positively for decades. Legislative changes included a definition of ownership and control in Section 23 of the Insurance Act that goes beyond the norm. We trust that the implications will be reflected upon by government as it is important to retain attraction of investment for existing and prospective shareholders in the industry.

The taxation of management expenses for life insurance business remains as an anomaly that requires correction. The 30% limitation on appropriation of life fund surplus including non-participating life funds continues to be a dampener on investment. While the review of the Insurance Act is behind schedule, we are hopeful that these anomalies will be revisited in the interim through supplementary legislation.

Micro-insurance has significant potential to support socio-economic development not only through supporting access to credit through credit life insurance but by covering areas such as specialised health, agricultural and life insurance covers. As insurance companies strive to foster appropriate awareness levels and develop their business and distribution models, it is vital that the Government support these efforts. Government can add its support through sustained public insurance education campaigns, by expanding the mandatory insurance regime to include crop, livestock, hospitalisation, funeral and education insurance through a public private partnership (PPP) model, and through tax deductibility of expenses incurred in product research and experimentation.

We thank the Insurance Regulatory Authority and the Government for the initiatives conducted in micro-insurance and the promotion of a risk-based approach to business among others. Our trail-blazing endeavours in micro-insurance speak for themselves whilst our establishment of a Risk Department and an Actuarial Services Department demonstrate our commitment to risk-based approach to business management.

We acknowledge the support the Fund Management industry continues to receive from the Government in provision of appropriate tax incentives and in enhancing awareness of Collective Investment Schemes and the industry in general.

We salute the infrastructural improvements and the investments in the energy and road transport sectors throughout the country. These will contribute to driving down the cost of doing business in Kenya. We also acknowledge the embrace by the Government of the role of the private sector and Public Private Partnerships (PPPs). Such an approach is sure to pay dividends for all concerned particularly as Kenya enters a year of critical constitutional reforms in 2011.

PERFORMANCE REVIEW

On the back of a vibrant economic environment and the positive performance of the Nairobi Stock Exchange, the Group made a profit before tax of Shs 2.9 billion as compared to a loss before tax of Shs 334 million in 2009. The total comprehensive income for the year was Shs 5.5 billion compared to a loss of Shs 1.1 billion in 2009. This positive performance was boosted by significant fair value gains on equity investments, a reflection of the good performance of the Stock Market during the year.

The Group's gross income increased from Shs 3.9 billion to Shs 4.5 billion during the year, an admirable growth of 16% reflecting the upturn in the economic sentiment.

Total operating costs were up 8% to Shs 1,317 million from 1,223 million reflecting the Group's investment in its human capital, infrastructure and technology in support of the planned growth.

Total assets under management grew from Shs 25.0 billion as at 31 December 2009 to Shs 43.0 billion as at 31 December 2010.

The insurance business registered a respectable 15% growth in gross earned premium income from Shs 3.8 billion to Shs 4.3 billion during the year while management fees for the asset management business increased by 65% to reach Shs 196 million in 2010.

Assets under management (AUM) in the investment advisory and fund management business grew by 105% to Shs 17.3 billion up from Shs 8.5 billion in 2009.

DIVIDEND

The Board of Directors is recommending a total dividend for the year of Shs 200 million (2009: Shs120 million) or Shs 6.67 (2009: Shs 4) per share.

FUTURE OUTLOOK

In 2011 Global GDP, which expanded by 3.9% in 2010, is estimated by the World Bank to slow down to 3.3% as the global economy transitions from the bounce-back phase of the recovery to a period of slower but sustainable growth. Strong growth in domestic demand from developing countries is leading the growth in the world economy, with forecast growth of 6% in 2011 more than twice the rate projected for high-income countries.

The Group remains committed to building a long term, sustainable business in the East Africa region and will aggressively pursue geographical expansion. Untapped potential stands to be realised for the country as a whole from the ongoing programme of reforms and through restored investor confidence.

As part of the Group's ambitious growth strategy, the Directors are launching an Initial Public Offering (IPO) of the Company's Shares and a subsequent listing on the Main Investment Market Segment of the Nairobi Stock Exchange ("NSE") in the course of 2011, subject to the necessary approvals from the shareholders and the Capital Markets Authority ("CMA"). This offer is an issue of new shares. The new capital raised will be used to drive British-American's ambitious growth strategy.

The public listing of our shares will give an opportunity to Kenyans to own a piece of the company they have supported loyally for the last 46 years and to be part of our ambitious growth and expansion strategy. This IPO will indeed give us an opportunity to increase the scope of our operations and widen our footprint. Having recently opened operations in Uganda, our strategic intent is to spread our wings even further to the rest of East Africa that is, foreseeably- Tanzania, Rwanda and Southern Sudan. Apart from the regional expansion we are also keen to take advantage of emerging opportunities in the Kenyan market as well as to enhance service and product delivery across the board.

The Group will continue to work closely with other industry players to engage government on common industry issues.

ACKNOWLEDGEMENT

We have enjoyed tremendous support and goodwill from all our esteemed customers, strategic alliance partners, business associates and the regulators. We greatly value and appreciate this support and trust that we can continue to count on it in the future. On our part we undertake to reciprocate this support and confidence by exceeding your expectations and delivering the brand promise.

Last but by no means least: I would like to express my gratitude to my fellow directors for their wise counsel and to all our staff and financial advisors for their hard work, loyalty and commitment.

Thank you.

J Nicholas Ashford-Hodges
Chairman
18 February 2011

Group Managing Director's Report

As foreshadowed in my report last year, the economy registered strong recovery in 2010 driven by agriculture, financial services, communication and information technology, infrastructure spending and the benefits from the fiscal stimulus programme initiated by the government. The GDP growth is estimated at 5%, a very strong rebound from its lackluster performance of 2.6% in 2009. This strong performance was reflected in the stock market with the NSE index registering a growth of 36.4% during the year.

GROUP FINANCIAL PERFORMANCE

In line with the performance of the economy, our financial results during the year were excellent. The consolidated profit before tax was Shs 2.9 billion compared to a loss of Shs 334 million in 2009. The total comprehensive income for the year was Shs 5.5 billion compared to a loss of Shs 1.1 billion in 2009. The core insurance and asset management operations registered good growth in gross earned premiums and management fees of 16.0% from Shs 3.9 billion in 2009 to Shs 4.5 billion in 2010. It was the strong stock market recovery however that boosted our exceptional performance.

Total Group assets stood at Shs 25.4 billion and shareholders' funds at Shs 10.6 billion compared with Shs16.3 billion and Shs 5.2 billion in 2009 respectively.

OPERATIONS AND RESOURCE LEVERAGE

The One Company One Brand Strategy adopted in 2009 has been an unqualified success. By sharing the infrastructure and capabilities in the Group, we have been able to capture synergy across the business units. The unified sales forces and branch network have resulted in better market coverage, enhanced convenience for our customers and a stronger brand image. With time, it should result in reduced selling costs as larger volumes of business are processed through the distribution channel. In order to entrench and build on this success, additional investment was made to upgrade our ICT infrastructure throughout our branch network and the Head Office. All front and back office systems that were hitherto resident in the Head Office were rolled out in the branches. We also introduced an Electronic Document Management System (EDMS) which has enabled us to issue policies within one day. It is expected that these initiatives will make a difference to our customers by exceeding their expectations for financial protection and capital accumulation and making the future real and tangible for them.

HUMAN RESOURCES AND PERFORMANCE MANAGEMENT

One of the strategic imperatives in the organization is to have an empowered, motivated and productive workforce. To this end, we are committed to creating opportunities for both personal and professional growth through our training policy. The Group has invested heavily in Leadership, Managerial and functional training that aims at empowering staff to achieve their objectives and attain professional growth. In 2010, more than 95% of our staff attended at least one functional and leadership training.

We have linked performance and reward and the company uses the Balanced Scorecard methodology to measure performance and ensure that objectives are linked to strategy. This has ensured that strategy is cascaded to all employees and has created a performance and goal oriented culture. Our open and continuous dialogue and feedback sessions ensure that employees are empowered and productive. As part of our retention strategy, the company is committed to rewarding and recognizing staff who have exceeded their performance goals.

One of the emerging phenomena in Human Resources Management is the emergence of Generation Y or Millenials, the young and mobile workforce born between 1981 and 2000. During the year, the company participated in the national PWC survey which highlighted this issue. In response, we have developed programmes that are geared to manage the generational diversity in order to effectively manage this very ambitious, innovative and forward looking generation. Some of these programmes include embedding the balanced scorecard performance management methodology, having conversations regarding career aspirations in order to align company and staff expectations and continue with management development programs to enhance skills. This cohort of employees forms a significant 48% of our staff complement.

To ensure the safety and health of our employees, a committee has been constituted whose mandate is to carry out regular health and safety audits and provide employees and other stakeholders who visit our premises with the requisite knowledge and awareness. The workplace environment is one of the motivating factors and we are proud to note that we indeed have a safe and comfortable environment for all employees and customers.

ENTERPRISE RISK MANAGEMENT

We recognize that risk management is an integral component of our business operations and an important contributor to the sustainability of our business and the protection of shareholder value. Accordingly, during the year, the Group launched an Enterprise Risk Management Framework (ERM) and a Business Continuity Management programme. The ERM project involves the development of an ERM Framework, updating the risk register, and the implementation of an internal audit and risk management software, which will ultimately enhance both the internal audit and risk management processes.

The Business Continuity Management (BCM) programme will ensure operational resilience and availability of our products and services to our customers in case of a business interruption. Both projects are being coordinated by consultants and are expected to be fully implemented before the end of the year.

PROPERTY DEVELOPMENT

Property provides an attractive investment opportunity. Historically, British-American has engaged in property development both for rental and outright sale albeit, on a small but profitable scale. Going forward, we will scale up property development initiatives in order to enhance returns and diversify our investment portfolio while at the same time meet the big demand for affordable housing. In addition to residential developments, we will also engage in commercial office developments. Plans are in progress for the design and subsequent construction of a landmark office block in the Upper Hill area of Nairobi.

During 2010 we acquired several parcels of land for the land bank and efforts to increase the land bank will be accelerated. We successfully completed and sold off the apartments in Thompsons Glade, our latest residential property development in the Lavington area of Nairobi.

In 2009, the government stated that it was going to enact legislation in Parliament to provide for Real Estate Investment Trusts (REITS). This legislation, if enacted will be a major innovation in the Kenyan real estate market and will increase liquidity in the otherwise illiquid property sector and allow a wider cross section of Kenyans to invest in property. It will also contribute to a further deepening of the financial markets.

GEOGRAPHICAL EXPANSION

Britam Insurance Company (Uganda) Ltd. was licensed by the Uganda Insurance Commission and commenced operations in November 2010. It offers group life, pensions and the full range of general insurance products. We are very excited about this new initiative which is in line with our strategic intent to expand our horizons by opening operations in the East African Community member countries.

FUTURE PROSPECTS

The macroeconomic environment in Kenya is stable and the prospects for the economy look bright. The enactment of the new constitution in Kenya in August 2010 heralds fundamental reforms in the country's governance framework. The economies of member countries of the East African Community are expected to register high GDP growth rate in 2011. The opportunities for new markets and business are therefore good and we will be accelerating our efforts to actualize our strategic intent to enter these markets. There are risks however. The current drought in Kenya is likely to adversely affect agriculture and lead to increased food prices while weaknesses in the Eurozone are likely to reduce the growth of tourism and horticulture. The increase in global crude oil prices will also lead to increase in transport costs, inflation, interest rates and therefore a slowdown in economic growth. On balance, we are optimistic that 2011 will be another good year for our businesses.

BWairegi

Benson I. Wairegi
Group Managing Director
18 February 2011

Board of Directors

Seated L to R
Peter K. Munga, EBS • J. Nicholas Ashford-Hodges, Chairman
Standing L to R
Benson I. Wairegi, Group Managing Director • James N. Mwangi, MBS • Nancy K. Kiruki, Group Head of Legal & HR & Company Secretary • Saleem Beebeejaun • Jimnah M. Mbaru, EBS

Board of Directors

British-American Investments Company (Kenya) Limited (the "Company") and her subsidiaries (together the "Group") continue to be a responsible corporate citizen with a Board of Directors that is committed to upholding high standards of corporate governance by applying the principles of integrity and accountability to all stakeholders.

BOARD OF DIRECTORS

The Board of Directors normally meets at least once every quarter and is chaired by a non-executive Chairman. The Board comprises one executive and five non executive Directors who have a wide range of skills and experience and who each bring independent judgement and considerable knowledge to the Board discussion.

The Board has a formal schedule of matters reserved for it. The Directors receive appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance and governance matters.

Ultimately, the Board determines the Group's strategic objectives, values, key policies and procedures in accordance with best practice. It is responsible for establishing and maintaining the overall internal controls of financial, operational and compliance functions as well as monitoring performance of the executive management.

The Board has delegated the authority for day-to-day management of the Group to the Group Managing Director. However, it retains overall responsibility for the Group's financial performance, compliance with laws and regulations, monitoring and operations as well as ensuring competent management of the business.

J. NICHOLAS ASHFORD-HODGES

CHAIRMAN

Mr. Ashford-Hodges, who was appointed a Director of the Board in 2002, is a Fellow of the Institute of Chartered Accountants in England and Wales and has an MA from Oxford University.

As well as being President of British-American (UK) Limited, a representative office in the UK for the British-American group of companies, Mr. Ashford-Hodges is Vice Chairman of British-American Investment Co. (Mtius) Limited and a Director of several other Boards and committees of the British-American Group in Mauritius and Malta, where he also chairs GlobalCapital p.l.c. which is listed on the Malta Stock Exchange.

BENSON I. WAIREGI

GROUP MANAGING DIRECTOR

Mr. Wairegi is the Vice Chairman of Equity Bank Limited, Chairman of Kenyatta University Council and a Director of Housing Finance Company of Kenya Limited. He is former Chairman of the Association of Kenya Insurers (AKI) and also former member of the Board of Trustees of the Insurance Training and Education Trust.

Mr. Wairegi holds a Master of Business Administration degree and Bachelor of Commerce degree from The University of Nairobi and is a Certified Public Accountant – CPA (K).

Peter K. Munga, EBS

Mr. Munga is a retired Deputy Secretary. He holds an Honorary Doctorate in Business Administration (Honoris Causa) from United Graduate College and Seminary (US). He is a Certified Public Secretary with vast experience in both public and private sector management. He also holds the Yara Prize for a Green Revolution in African Laureate 2009 award.

Mr. Munga is the Chairman of Equity Bank Limited, Chairman of National Oil Corporation of Kenya (NOCK), Chairman of Micro-Enterprise Support Programme Trust (MESPT), Chairman of Kenya Genetic Resource Centre (KAGRC), Chairman of Equatorial Nut Processors Ltd and Chairman of Fresho International Ltd. He is an enterprising businessman and runs the Pioneer Groups of Schools.

Jimnah M. Mbaru, EBS

Mr. Mbaru is the Chairman of Dyer and Blair Investment Bank Limited and the Chairman of National Cereals and Produce Board and Jitegemee Trust.He is also a Director of several other financial and non financial institutions.

He is a former chairman of the African Stock Exchange and is a current member of National Economic and Social Council.

He is also an Associate Professor, graduate school of business, University of Stellenbosch Business School, South Africa.

Mr. Mbaru holds a Master of Business Administration from IMD formerly IMEDE in Lausanne, Switzerland, a Bachelor of Commerce degree and a Bachelor of Laws degree both from the University of Nairobi.

James N. Mwangi, MBS

Dr. Mwangi has wide experience in the banking industry spanning over 19 years. He is the Chief Executive Officer & Managing Director of Equity Bank Limited.

Dr. Mwangi holds an Honorary Doctorate in Business Administration (Honoris Causa), from Kenya Methodist University, Doctor of Humane Letters (Honoris Causa) from Kenyatta University, Doctor of Entrepreneurship from Jomo Kenyatta University of Agriculture and Technology and Doctor of Letters from African Nazarene University.

He is also a holder of a Bachelor of Commerce degree from the University of Nairobi and is a Certified Public Accountant – CPA (K). Dr. Mwangi is a graduate of Advanced Management Programme (Strathmore-IESE Business School, Barcelona Spain). Dr. Mwangi is the Chairman of Kenya's Vision 2030 Delivery Board and sits on the Board of African Leadership Academy in South Africa.

Saleem Beebeejaun

Mr. Beebeejaun is the President & CEO of British American Investment Co. (Mtius) Limited and since 2010, he has also been appointed Chairman of the company. He is a Director on several other Boards and committees of the British American Group in Mauritius, Kenya and Malta.

He was formerly President of the Mauritius Insurers Association and Board member of the Mauritius Employers' Federation.

Mr Beebeejaun represents Malaysia in Mauritius as its Honorary Consul since 2008.

Mr. Beebeejaun is a Fellow of the Chartered Institute of Insurance. He is a graduate of the Advanced Management Programme (Harvard Business School) and holder of a Licence – ès Sciences Economiques from the University of Montpellier.

Nancy K. Kiruki

Mrs. Kiruki is the Company Secretary and holds a Bachelor of Laws degree (LLB) from the University of Nairobi and a Master of Laws degree (LLM) from the University of Cape Town . She is an advocate of the High Court of Kenya, a Commissioner of Oaths, Notary Public and a Certified Public Secretary (CPS). She is also the Group Head of Legal and Human Resources and joined the group in 2008.

Group Management Team

Benson I. Wairegi
Group Managing Director

Nancy K. Kiruki
Group Head of Legal & Human Resources & Company Secretary

Gladys M. Karuri
Group Finance Director

Rose W. Lutta
Group Marketing & Corporate Affairs Manager

Peter N. Muiruri
Group Internal Audit Manager

Paul Gacheru
Group Chief Accountant

Ambrose N. Dabani
Chief Actuary, Risk & Investment Officer

Arthur M. Chege
Group ICT Manager

Jacqueline Nyaguthii
Property Manager

Julius Githinji
Internal Audit Manager

Asset Management Team

Dominic Kiarie
Managing Director

Kuria Ndonye
Business Development Manager

Joyce Gitau
Business Development Manager

Duncan Wanjohi
Business Systems Manager

Maina K. Wacieni
Portfolio Manager

Anne Kibebe
Manager, Fund Services

BRITAM INSURANCE COMPANY (UGANDA) TEAM

David Kuria
General Manager/Principal Officer

Janet Waweru
Chief Accountant

Edward Nambafu
Business Development Manager

Insurance Management Team

Stephen O. Wandera
Managing Director

Muthoga Ngera
General Manager, Life & Pension

Kennedy B. Aosa
General Manager, General Insurance

Solomon Kituyi
Business Systems Manager

Charles Muyodi
General Manager, Bancassurance & Microinsurance

Reuben W. Kibiru
Chief Accountant

Joseph Gathogo
Agency Operations Manager

Abigail K. Simiyu
Claims Manager, General Insurance

Kwameh N. Anyona
Claims Manager, Life

John K. Githinji
Sales Manager, General Insurance

Insurance Management Team

Johnstone K. Mitei
Underwriting Manager, Life

George Odinga
Underwriting Manager, General

Lucy N. Kariuki
Procurement Manager

Michael W. Mwangi
Policy Administration Manager

Margaret W. Kathanga
Sales Manager, Medical

Edward M. Gachoya
Agency Training Manager

Titus M. Ndeti
Pensions Administration Manager

Jane W. Gikonyo
HR Manager

James K. Irungu
Micro-Insurance Manager

Rose W. Wakiria
Sales Manager, Group Life & Pensions

Corporate Governance

Board Committees

The Board is responsible for the management of the Group. It has delegated the detailed discussions on audit, investments, risk and compliance, compensation and nomination to five committees which have specific and detailed terms of reference as summarised below.

Audit Committee

The members of the Audit Committee are:

Mr. Jimnah M. Mbaru - Chairman

Mr. Peter K. Munga

Mr. Saleem R. Beebeejaun.

The Audit Committee meets twice a year and is chaired by a non-executive director. Its primary responsibilities are (a) to monitor and strengthen the effectiveness of internal and external audit functions, as well as underlying information and internal control systems and (b) to review and recommend to the Board all published financial information issued by the Company.

The Audit Committee regularly reviews the internal controls and the effectiveness of financial and operational reporting through the internal audit function and ensures that the function is independent, adequately resourced and well equipped to carry out it's duties.

The Audit Committee is responsible for ensuring that financial statements give a true and fair view of Group's state of affairs. The members ensure that the Group keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Group. The committee is also charged with the responsibility of safeguarding the Group's assets.

The Audit Committee reports to the Board on a quarterly basis. The Group Head of Internal Audit acts as the secretary of the committee and senior management regularly attend the committee meetings.

Investment and Strategy Committee

The Investment Committee meets as frequently as required, but at least once every quarter. Its primary responsibility is to determine the Group's investment strategy and policy. It also monitors the performance of the Group's investment portfolio and scrutinises ad hoc investment proposals before submission to the Board. The committee monitors the performance of the appointed investment managers through quarterly reports from managers.

The members of the Investment Committee are:

Dr. James N. Mwangi - Chairman

Mr. Jimnah M. Mbaru

Mr. Saleem R. Beebeejaun

Mr Benson I. Wairegi

To enhance its performance, the Investment Committee has further constituted a Property Committee whose responsibility is to provide oversight on the real estate development projects undertaken by the Group as well as drive the strategy of the Group with regard to real estate development.

The members of the Property Committee are:

Mr. Jimnah M. Mbaru - Chairman

Mr. Peter K. Munga

Mr. Benson I. Wairegi

Risk and Compliance Committee

The Committee meets four times a year with the primary duty of monitoring the Group's compliance with relevant laws and regulations. It also reviews management's implementation and maintenance of appropriate systems, procedures and codes of conduct in accordance with the Group's policy guidelines regarding identification, analysis, mitigation and control of risks.

The members of the Risk and Compliance Committee are:

Mr. Peter K. Munga - Chairman

Mr. Saleem R. Beebeejaun

Mr. Benson I. Wairegi

Compensation Committee

This committee meets at least twice a year. Its primary role is to appraise the performance of senior management and determine their remuneration. It also recommends the sitting allowance for non-executive directors.

The members of the Compensation Committee are:

Mr. J. Nicholas Ashford-Hodges - Chairman

Mr. Peter K. Munga

Dr. James N. Mwangi

Nomination Committee

The Nomination Committee's role is to review and consider proposals for the appointment of new directors and senior managers.

The members of the Nomination Committee are:

Mr. J. Nicholas Ashford-Hodges - Chairman

Mr. Jimnah M. Mbaru.

Board Composition and Review of Attendance

Names of the board members together with an analysis of board committee members are as detailed in the table below. During the period to 31 December 2010, there were three main board meetings and five board committee meetings.

Board Members	Main Board	Board committees				Total meetings held	Total attended	% age attendance
		Audit	Risk	Investment	Compensation			
Meetings held	3	3	3	3	3	15	15	
J. Nicholas Ashford-Hodges	3	N/A	N/A	N/A	3	6	6	100
Peter K. Munga	3	2	3	N/A	2	12	10	83
Jimnah M. Mbaru	3	1	N/A	2	N/A	9	6	66
Benson I. Wairegi	3	N/A	3	3	N/A	9	9	100
James N. Mwangi	3	N/A	N/A	2	1	9	6	66
Saleem R. Beebeejaun	2	2	2	2	N/A	12	8	66

Remuneration of the Directors

In determining the remuneration of the Directors, the demands and requirements made of the Directors in relation to the Group's business and the availability of the Directors to consult on ad hoc basis are considered.

Apart from the executive directors, no other director or party related to a director has a service contract or receives compensation from the Group.

Sitting allowances to the Directors are only paid subject to attendance at the Board/Committee meetings.

The emolument and fees paid to Directors are disclosed in note 41.

Professional advice

In order to carry out its responsibilities in an independent and objective manner, the Board seeks professional counsel from among others;

Actuaries: Mr. P.C. Falconer of Aon Hewitt Actuarial is the insurance company's statutory actuary responsible for independently examining the financial soundness of the company. The actuary reports independently and directly to the Board. Mr R. Leiser-Banks of Triangle Actuarial Services provides actuarial services in regard to the British-American Group employee pension scheme.

Tax advisors: PricewaterhouseCoopers are the Group's independent tax advisor. They liaise with management to ensure that the Group optimises its tax position and complies with all tax laws and regulations.

Risk Management: The Group is developing an Enterprise Risk Management Framework with the assistance of Deloitte Consulting Limited.

Corporate Social Responsibility

British-American supports a number of national and local charities with both time and money. The firm provides time and advice free of charge to local groups and organizations as well as providing work placements for local students and support for educational establishments.

In consultation with the partners, shareholders and employees, the programme comprises:

- Community work
- Financial literacy
- Environmental work
- Ethical policy

British-American CSR initiatives seek not only to garner community support but also create a cohesive staff environment through staff involvement. In line with the Corporate Social Investment policy, the organization supported CSR initiatives in 2010 as described below.

The Nairobi Greenline has the objective of growing 300,000 trees to protect the Nairobi National Park from pollution, encroachment and human/wildlife conflict. An electrical fence has to be constructed to protect young seedlings from game browsing . British-American partnered with the Greenline project to help this dream come true and become a friend of the National Park. Staff members were involved in a tree planting exercise and proudly planted 1,000 tree seedlings in a fun-filled day.

Standard Chartered Marathon: British-American sponsored a team of 73 staff members to participate in the Standard Chartered Marathon dubbed 'Run for Sight'. This marathon helps to raise the funds needed to assist children with preventable blindness to access the surgery required to restore their sight and have them live full, productive and happy lives.

Mater Heart Run: The Mater Hospital invites partners to raise money for a fund that assists children with cardiac problems to get surgery required to survive. British-American sponsored 50 staff to participate in the Mater Heart Run.

Mother's Mercy Children's Home: The Mother's Mercy Home is an early intervention project that caters for disadvantaged children. It prevents them from suffering adverse health, neglect, delinquency or any other problem that interferes with positive child development. British-American staff donated computers to aid in lesson instruction, distributed assorted food stuffs to the home and had a pleasant day interacting with both the children and members of administration.

Roho Kwa Roho Foundation: The Roho Kwa Roho Foundation is a charitable arm of Peak Performance International. It is a scholarship fund in aid of mentally impaired children and orphans.

Staff members participated in the Extreme fun and challenge day organized by the foundation. In addition to interacting with the children and participating in the various sporting challenges, the staff helped raise funds for these vulnerable children as well as enhanced public awareness of the challenges they face.

Rhino Charge: The Rhino Charge is an annual off road motorsport competition that has been held in Kenya since 1989. It is a unique and exciting competition that requires bravery and a high level of skill in off-road driving and navigation. The event is held to raise funds for a very noble cause – conservation of Kenya's Aberdare Ecosystem. British-American sponsored Team Bundufundi which was the overall winning team.

Bloodlink Blood Drive: The organization's staff were involved in a blood donation organized by the Blood Link Foundation. The foundation seeks to replenish depleting blood banks in the country. The donation was open to staff members as well as those around the British-American premises.

Gele Gele Primary School– Sotik: British-American, through staff members from the Kisii Branch, donated computers to Gele Gele Primary School in Sotik. This was to assist the school administration overcome obstacles in curriculum instruction and implementation brought about by poor time management attributed to lack of modern equipment and understaffing.

Education Support to other Institutions

The organization through the Nakuru branch staff donated towards tuition sponsorship for an IDP student at the Lanet Teachers Training College. It also contributed to the Cardinal Otunga Scholarship at a fundraising held at Catholic University to raise funds for the education of needy students and pupils, in addition to supporting Starehe Girls Center through a fund raising dinner and donating brand merchandise to the school.

Sisters of Mercy Children's Home: British-American donated computers to Sisters of Mercy Children's home in Nairobi. This too was to assist the school administration overcome obstacles in curriculum instruction and implementation brought about by poor time management attributed to lack of modern equipment and understaffing.

Canteen handover to Kenya Episcopal Conference: British-American established a canteen for the members of staff of the Kenya Episcopal Conference. The canteen is a comfortable environment for the members of staff to eat and interact with each other.

Support to various Charity Organisations

British-American supported the Red Cross by assisting the Society to raise funds for various feeding, rescue and humanitarian projects they undertake. It also sponsored the Rotary Club of Lang'ata Nature Run. This is a run organized in support of education and the funds go toward educating needy students.

CONCLUSION

The Group participated in at least one CSR activity each month. British-American is committed to focus on the sectors identified in our CSR statement namely education and the environment.

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2010 which disclose the state of affairs of the Company and the Group.

PRINCIPAL ACTIVITIES

The Group is a holding and Investment Company and the principal activities of the subsidiaries are detailed in note 1.

RESULTS AND DIVIDEND

Profit of Shs 2,713,784,000 (2009: loss of Shs 421,123,000) has been added to the retained earnings.

The directors recommend the payment of a dividend of Shs 200 million (2009: 120 million)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities 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. The Group's overall risk management programme focuses on the identification and management of risks and the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The Group's risk management policies 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 reinsures. Investment policies are in place which help manage liquidity and seek to maximise return within an acceptable level of interest rate risk. Further, the internal audit and compliance function helps to monitor that these policies are followed.

The Group's risk management objectives and policies are detailed in note 3.

DIRECTORS

The directors who held office during the year were:

J. Nicholas Ashford-Hodges: *Chairman*

Jimnah M. Mbaru

Saleem R. Beebeejaun

Benson I. Wairegi

Peter K. Munga

James N. Mwangi

AUDITOR

The Group's auditor, PricewaterhouseCoopers, continues in office in accordance with Section 159 (2) of the Companies Act.

Nancy K. Kiruki
Secretary
18 February 2011

Directors' Responsibilities

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Company and of the profit/loss of the Group in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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

Chairman	Director
18 February 2011	

Report of the consulting actuary

I have conducted an actuarial valuation of the life assurance business of British-American Insurance Company (Kenya) Limited as at 31 December 2010.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act. Those 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 financial statements of the Company.

In my opinion, the long term insurance business of the Company was financially sound and the actuarial value of the liabilities in respect of all classes of long term insurance business did not exceed the amount of funds of the long term insurance business at 31 December 2010.

P C Falconer
Fellow of the Actuarial Society of South Africa
Fellow of the Faculty of Actuaries
Aon Hewitt Actuarial

18 February 2011

Report of the Independent Auditor to the members of British-American Investments Company (Kenya) Limited

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of British-American Investments Company (Kenya) Limited (the "Company") and its subsidiaries (together the "Group"), as set out on pages 32 to 88. These financial statements comprise the consolidated statement of financial position at 31 December 2010 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended, together with the statement of financial position of the Company standing alone as at 31 December 2010 and the statement of changes in equity of the Company for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statement

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

Auditor's responsibility

Our responsibility is to express an opinion on the 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 our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and the Company at 31 December 2010 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

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

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

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

PricewaterhouseCoopers

Certified Public Accountants, Nairobi

18 February 2011

CONSOLIDATED INCOME STATEMENT

	Notes	2010 Shs'000	2009 Shs'000
Gross earned premiums	**4**	**4,333,428**	**3,782,606**
Less: reinsurance premium ceded		(674,672)	(504,552)
Net earned premiums		**3,658,756**	**3,278,054**
Fund management fees		195,852	118,404
Net earned premiums and management fee		**3,854,608**	**3,396,458**
Investment income	5	4,684,635	196,169
Commissions earned		209,514	176,739
Other income	6	220,439	32,135
Net income		**8,969,196**	**3,801,501**
Claims and policy holder benefits payable		4,084,670	2,134,171
Less: amount recoverable from reinsurers		(266,562)	(160,676)
Net claims and policyholder benefits payable	7	**3,818,108**	**1,973,495**
Operating and other expenses	8	1,316,822	1,222,876
Commissions payable		960,677	939,464
Total expenses		**2,277,499**	**2,162,340**
Profit / (loss) before income tax		**2,873,589**	**(334,334)**
Income tax expense	10	(159,805)	(86,789)
Profit / (loss) for the year after tax		**2,713,784**	**(421,123)**
Basic and diluted earnings per share (Shs)	12(ii)	90.46	(14.04)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2010	2009
		Shs'000	Shs'000
Profit/ (loss) for the year		**2,713,784**	**(421,123)**
Other comprehensive income: **Items net of tax**			
Gains on revaluation of land and buildings	14	13,533	32,755
Gains/ (losses) on revaluation of available-for-sale financial assets	17(ii)	2,755,565	(731,999)
Total other comprehensive income/ (loss)		**2,769,098**	**(699,244)**
Total comprehensive income/ (loss) for the year		**5,482,882**	**(1,120,367)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Notes	2010 Shs'000	2009 Shs'000
CAPITAL EMPLOYED			
Share capital	13	150,000	150,000
Other reserves	11	6,127,936	3,207,206
Retained earnings		4,092,044	1,729,892
Proposed dividends	12 (i)	200,000	120,000
Shareholders' funds		**10,569,980**	**5,207,098**
REPRESENTED BY:			
Assets			
Property and equipment	14	581,420	520,933
Intangible assets	15	91,878	78,098
Investment property	16	1,173,571	1,092,785
Available for sale quoted investments	17(ii)	5,979,690	3,282,105
Financial assets at fair value through profit or loss:			
- quoted ordinary shares	17(i)	7,535,861	4,608,842
- unquoted ordinary shares	18	50,490	-
- government securities	24(i)	361,360	523,561
- unit trusts	25	4,265,612	2,122,003
Government securities held to maturity	24(ii)	2,109,214	1,573,543
Corporate bond held to maturity		305,717	287,848
Mortgage loans	19	576,464	659,877
Loans to policy holders	20	303,418	357,789
Receivables arising out of reinsurance arrangements		10,081	54,090
Receivables arising out of direct insurance arrangements		161,277	196,757
Reinsurers' share of insurance liabilities	21	463,893	275,956
Receivables from related parties	41	2,696	33,060
Deferred acquisition costs	22	73,461	52,941
Deferred income tax	36	11,789	22,662
Current income tax receivable		-	13,785
Other receivables	23	388,547	159,492
Deposits with financial institutions	39	500,102	206,640
Cash and bank balances	39	415,376	193,040
Total assets		**25,361,917**	**16,315,807**
Liabilities			
Insurance contract liabilities	27	6,346,198	4,950,516
Amount payable under deposit administration contracts	33	3,268,977	2,754,617
Liabilities under investment contracts	32	3,183,016	1,640,902
Unearned premium	35	715,745	567,373
Creditors arising from reinsurance arrangements		60,011	17,334
Retirement benefit liability	43	25,715	35,433
Bank loan	34	749,318	747,618
Other payables	37	418,408	283,764
Dividends payable		-	60,000
Overdraft	39	1,360	51,152
Current income tax payable		23,189	-
Total liabilities		**14,791,937**	**11,108,709**
Net assets		**10,569,980**	**5,207,098**

The financial statements on pages 32 to 88 were approved for issue by the board of directors on 18 February 2011 and signed on its behalf by:

Chairman

Director

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Notes	2010 Shs'000	2009 Shs'000
CAPITAL EMPLOYED			
Share capital	13	150,000	150,000
Retained earnings		3,330,535	1,223,625
Proposed dividend		200,000	120,000
Shareholders' funds		**3,680,535**	**1,493,625**
REPRESENTED BY:			
Assets			
Property and equipment	14	3,989	4,784
Intangible assets	15	197	197
Investment in subsidiary companies	42	760,000	560,000
Financial assets at fair value through profit or loss	17(i)	4,380,171	2,354,048
Receivables from related parties	41	25,303	20,900
Other receivables	23	4,500	-
Deposit with financial institutions		8,490	5,873
Cash and bank balances		10,407	2,077
Total assets		**5,193,057**	**2,947,879**
Liabilities			
Bank loan	34	749,318	747,618
Amounts due to related parties	41	751,465	640,505
Dividends payable		-	60,000
Other payables	37	11,739	6,131
Total liabilities		**1,512,522**	**1,454,254**
Net assets		**3,680,535**	**1,493,625**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to equity holders				
		Share capital	Other reserves	Retained earnings	Proposed dividends	Total equity
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2009						
At start of year		150,000	3,728,524	2,448,941	120,000	6,447,465
Total comprehensive loss for the year						
Loss for the year		-	-	(421,123)	-	(421,123)
Other comprehensive income/ (loss):						
Gains on revaluation of land and buildings	14	-	32,755	-	-	32,755
Fair value losses on available-for-sale financial assets	17(ii)	-	(731,999)	-	-	(731,999)
Total other comprehensive loss			**(699,244)**		**-**	**(699,244)**
Total comprehensive loss for the year		**-**	**(699,244)**	**(421,123)**	**-**	**(1,120,367)**
Transfer to other reserves	11		177,926	(177,926)	-	-
Transactions with owners						
Dividends:						
- Final for 2008 paid		-	-	-	(120,000)	(120,000)
- Proposed final for 2009	12(i)	-	-	(120,000)	120,000	-
Total transactions with owners		**-**	**-**	**(120,000)**	**-**	**(120,000)**
At end of year		**150,000**	**3,207,206**	**1,729,892**	**120,000**	**5,207,098**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to equity holders				
		Share capital	Other reserves	Retained earnings	Proposed dividends	Total equity
Year ended 31 December 2010		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year		150,000	3,207,206	1,729,892	120,000	5,207,098
Total comprehensive income for the year						
Profit of the year		-	-	2,713,784	-	2,713,784
Other comprehensive income:						
Gains on revaluation of land and buildings	14	-	13,533	-	-	13,533
Fair value gains on available-for-sale financial assets	17(ii)	-	2,755,565	-	-	2,755,565
Total other comprehensive income		-	**2,769,098**	-	-	**2,769,098**
Total comprehensive income for the year		-	**2,769,098**	**2,713,784**	-	**5,482,882**
Transfer to other reserves			151,632	(151,632)	-	-
Transactions with owners						
Dividends:						
- Final for 2009 paid		-	-	-	(120,000)	(120,000)
- Proposed final for 2010	12(i)	-		(200,000)	200,000	-
Total transactions with owners		-	-	**(200,000)**	**80,000**	**(120,000)**
At end of year		**150,000**	**6,127,936**	**4,092,044**	**200,000**	**10,569,980**

COMPANY STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Company			
	Notes	Share capital	Retained earnings	Proposed dividends	Total equity
		Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2009					
At start of year		150,000	1,979,338	120,000	2,249,338
Comprehensive loss for the year					
Loss for the year		-	(635,713)	-	(635,713)
Total comprehensive loss		**-**	**(635,713)**	**-**	**(635,713)**
Transactions with owners					
Dividends:					
- Final for 2008 paid		-	-	(120,000)	(120,000)
- Proposed final for 2009	12(i)	-	(120,000)	120,000	-
Total contributions by and distributions to owners		**-**	**(120,000)**	**-**	**(120,000)**
At end of year		**150,000**	**1,223,625**	**120,000**	**1,493,625**
Year ended 31 December 2010					
At start of year		150,000	1,223,625	120,000	1,493,625
Comprehensive income for the year					
Profit for the year		-	2,306,910	-	2,306,910
Total comprehensive income		**-**	**2,306,910**	**-**	**2,306,910**
Transactions with owners					
Dividends:					
- Final for 2009 paid		-	-	(120,000)	(120,000)
- Proposed final for 2010	12(i)		(200,000)	200,000	-
Total transactions with owners		**-**	**(200,000)**	**80,000**	**(120,000)**
At end of year		**150,000**	**3,330,535**	**200,000**	**3,680,535**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2010 Shs'000	2009 Shs'000
Operating activities			
Cash generated from operations	40	1,698,851	1,940,227
Income tax paid		(100,096)	(105,534)
Net cash from operating activities		**1,598,755**	**1,834,693**
Investing activities			
Purchase of property and equipment	14	(97,467)	(91,559)
Purchase of intangible assets	15	(34,420)	(32,303)
Purchase of investment property	16	(279,229)	(85,565)
Sale of investment property	16	270,717	-
Net investment in government securities at fair value through profit or loss		162,200	125,352
Investment in government securities held to maturity		(587,271)	(819,082)
Investment in unit trusts		(1,441,964)	(1,075,136)
Purchase of corporate bond		(17,869)	(183,625)
Purchase of quoted shares at fair value through profit or loss	17(i)	(348,712)	(274,067)
Proceeds from disposal of quoted shares- at fair value through income statement	17(i)	405,764	57,809
Purchase of available for sale quoted shares	17(ii)	(414,372)	(31,310)
Proceeds from disposal of available for sale quoted shares	17(ii)	472,352	8,935
Purchase of unquoted shares	18	(50,490)	-
Mortgage loans advanced	19	(29,784)	(71,097)
Mortgage loans repayments	19	113,197	105,252
Policy loans advanced	20	(164,909)	(238,422)
Policy loans repayments	20	219,280	243,595
Dividend received		251,395	188,442
Rent and interest received		813,272	406,742
Net cash used in investing activities		**(758,310)**	**(1,766,039)**
Financing activities			
Loan repayment	34	(94,855)	(130,211)
Dividends paid		(180,000)	(60,000)
Net cash used in financing activities		**(274,855)**	**(190,211)**
Increase / (decrease) in cash and cash equivalents		**565,590**	**(121,557)**
Movement in cash and cash equivalents			
At start of year		348,528	470,085
Increase / (decrease)		565,590	(121,557)
At end of year	**39**	**914,118**	**348,528**

NOTES

1 General information

British-American Investments company (Kenya) Limited is incorporated in Kenya under the Companies Act as a private limited liability Company, and is domiciled in Kenya. The address of its registered office is:

Britak Centre
Junction of Mara and Ragati Roads
Upper Hill
Nairobi

The company acts as an investment company and a holding company for insurance and investment businesses in Kenya and Uganda.

The Group comprises four entities: British-American Investments Company (Kenya) Limited (BAICL), which is the holding company; British-American Insurance Company (Kenya) Limited, British-American Asset Managers Limited and Britam Insurance Company (Uganda) Limited. The group's insurance business includes the underwriting of all classes of life and non-life insurance risks as defined by the Insurance Act, with the exception of aviation, bond investment and industrial life assurance. It also issues investment contracts to provide its customers with asset management solutions for their savings and retirement needs. The asset management company's principal activity is the provision of investment advisory and fund management services, and is subject to the provisions of the Kenyan Capital Markets Act.

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires the directors to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

(i) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant

Amendments to IFRS 2: Group cash-settled share-based payment transactions – effective 1 January 2010. The amendment clarifies the accounting for group cash-settled share-based payment transactions. The entity receiving the goods or services shall measure the share-based payment transaction as equity-settled only when the awards granted are its own equity instruments, or the entity has no obligation to settle the share-based payment transaction. The entity settling a share-based payment transaction when another entity in the group receives the goods or services recognises the transaction as equity-settled only if it is settled in its own equity instruments. In all other cases, the transaction is accounted for as cash-settled.

IFRS 3 Business Combinations – Revised – effective 1 July 2009. The new standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed.

IAS 27 Consolidated and Separate Financial Statements – Revised – effective 1 July 2009. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement Eligible Hedged Items – effective 1 July 2009. The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges.

IFRIC 17 Distributions of Non-cash Assets to Owners – effective 1 July 2009. IFRIC 17 applies to the accounting for distributions of non-cash assets (commonly referred to as dividends in specie) to the owners of the entity. The interpretation clarifies that: a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; and an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

IFRIC 18 Transfers of assets from customers - effective for periods beginning 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). This interpretation does not impact on the Group's financial statements.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

IFRS 9, 'Financial instruments' – effective 1 January 2013. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. It introduces new requirements for classifying and measuring financial assets and financial liabilities and is likely to affect the Company's accounting for its financial assets and liabilities.

IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. IFRS 9 largely explains the classification and measurement rules for financial liabilities as set out in IAS 39 as currently applied by the Group.The Group is yet to assess IFRS 9's full impact as the directors are yet to make certain decisions relating to the business model to be adopted for certain financial asset portfolios.

IAS 24 (Revised) 'Related party disclosures' – effective 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. When the revised standard is applied, the company will need to disclose any transactions between itself and associates of its parent company. The Group is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

Classification of rights issues' (amendment to IAS 32) – effective 1 February 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities.

The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. This amendment is not expected to have any impact on the Group's financial statements.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments' - effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. It is not expected to have any impact on the Group's financial statements.

IFRIC 14 The limit on a defined benefit assets, minimum funding requirements and their interaction amendments – effective 1 January 2011. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments should be applied retrospectively to the earliest comparative period presented. It is not expected to have a material impact on the Group's financial statements.

Annual improvements 2009 and 2010 – This is a collection of amendments to 12 standards as part of the IASB programme to annual improvements and no significant impact is expected when the Group will apply them.

(b) Consolidation

Subsidiaries

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

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value over any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The consolidated financial statements incorporate the financial statements of British American Investments Company (Kenya) Limited and its wholly owned subsidiaries, British American Insurance Company (Kenya) Limited and British-American Asset Managers Limited made up to 31 December 2010.

(c) Insurance contracts

i) Classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk, the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. See accounting policy for these contracts under 2(e). Insurance contracts and investment contracts are classified into two main categories depending on the duration of risk and as per the provisions of the Insurance Act

a) Long term insurance business

Includes insurance business of all or any of the following classes, namely, life assurance business (ordinary life and Group life), superannuating business, industrial life assurance business and bond investment business and business incidental to any such class of business.

Life assurance business means the business of, or in relation to, the issuing of, or the undertaking of liability to pay money on death (not being death by accident or in specified sickness only) or on the happening of any contingency dependent on the termination or continuance of human life (either with or without provision for a benefit under a continuous disability insurance contract), and include a contract which is subject to the payment of premiums for term dependent on the termination or continuance of human life and any contract securing the grant of an annuity for a term dependent upon human life. Superannuating business means life assurance business, being business of, or in relation to, the issuing of or the undertaking of liability under superannuating, Group life and permanent health insurance policy.

b) General insurance business

Means insurance business of any class or classes not being long term insurance business.

Classes of General Insurance Include Aviation insurance, Engineering insurance, Fire insurance – domestic risks, Fire insurance – industrial and commercial risks, Liability insurance, Marine insurance, Motor insurance – private vehicles , Motor insurance – commercial vehicles, Personal accident insurance, Theft insurance ,Workmen's Compensation and Employer's Liability insurance and Miscellaneous insurance (i.e. class of business not included under those listed above)

Motor insurance business means the business of affecting and carrying out contracts of insurance against loss of, or damage to, or arising out of or in connection with the use of, motor vehicles, inclusive of third party risks but exclusive of transit risks.

Personal Accident insurance business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class or becoming incapacitated in consequence of disease or of disease of a specified class. It also includes business of effecting and carrying out contracts of insurance against risk of persons insured incurring medical expenses.

Fire insurance business means the business of affecting and carrying out contracts of insurance, otherwise than incidental to some other class of insurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business. damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business.

ii) **Recognition and measurement**

a) **Premium income**

For long term insurance business, premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission. For general insurance business, premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the un expired terms of policies in force at the financial reporting date, and is computed using the 365ths method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums

b) **Claims**

For long term insurance business, benefits are recorded as an expense when they are incurred. Claims arising on maturing policies are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for on payment.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions.

Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of un expired insurance risk of the contracts in-force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at each financial reporting date using the assumptions established at inception of the contracts.

For general insurance business, claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the financial reporting date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported ("IBNR"). Outstanding claims are not discounted.

a) **Commissions earned and payable and deferred acquisition costs ("DAC")**

Commissions earned and payable are recognized in the period in which relevant premiums are written. A proportion of commissions' payable is deferred and amortised over the period in which the related premium is earned. Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the year end.

b) **Liability adequacy test**

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss as part of claims incurred.

Contracts entered into by the Group with reinsures under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

c) Reinsurance contracts held

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsures, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsures are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit or loss. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in Note 2(j).

d) Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit or loss. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets. These processes are described in Note 2(j).

e) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

(d) Revenue recognition

i) Insurance premium revenue

The revenue recognition policy relating to insurance contracts is set out under note (c) above.

ii) Commissions

Commissions receivable are recognised as income in the period in which they are earned.

iii) Rendering of services

Revenue arising from asset management and other related services offered by the Group recognised in the accounting period in which the services are rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument.

These services comprise the activity of trading financial assets in order to reproduce the contractual returns that the Group's customers expect to receive from their investments.

Such activities generate revenue that is recognised by reference to the stage of completion of the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts. For practical purposes, the Group recognises these fees on a straight-line basis over the estimated life of the contract.

Certain upfront payments received for asset management services ('front-end fees') are deferred and amortised in proportion to the stage of completion of the service for which they were paid.

The Group charges its customers for asset management and other related services using the following different approaches:

Front-end fees are charged to the client on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis; and;

Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period; fees charged at the end of the period are accrued as a receivable that is offset against the financial liability when charged to the customer.

iv) Interest income

Interest income for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, is recognized within 'investment income' (Note 5) in the profit or loss using the effective interest rate method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

v) Dividend income

Dividend income for equities is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

(e) Investment contracts

The Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate). The investment contracts include funds administered for a number of retirement benefit schemes.

Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial assets (these contracts are also known as unit-linked investment contracts) and are designated at inception as at fair value through profit or loss. The Group designates these investment contracts to be measured at fair value through profit and loss because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. See Note 2 (i) for the financial assets backing these liabilities.

The best evidence of the fair value of these financial liabilities at initial recognition is the transaction price (i.e. the fair value received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profit on day 1. The Group has not recognised any profit on initial measurement of these investment contracts because the difference is attributed to the prepayment liability recognised for the future investment management services that the Group will render to each contract holder.

The Group's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data. The fair value of financial liabilities for investment contracts without fixed terms is determined using the current unit values in which the contractual benefits are denominated. These unit values reflect the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability. The fair value of the financial liabilities is obtained by multiplying the number of units attributed to each contract holder at the financial reporting date by the unit value for the same date.

When the investment contract has an embedded put or surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

For investment contracts with fixed and guaranteed terms, the amortised cost basis is used. In this case, the liability is initially measured at its fair value less transaction costs that are incremental and directly attributable to the acquisition or issue of the contract.

Subsequent measurement of investment contracts at amortised cost uses the effective interest method. This method requires the determination of an interest rate (the effective interest rate) that exactly discounts to the net carrying amount of the financial liability, the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period if the holder has the option to redeem the instrument earlier than maturity.

The Group re-estimates at each reporting date the expected future cash flows and recalculates the carrying amount of the financial liability by computing the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognised as income or expense in the income statement.

(f) Property and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	40 years
Leasehold improvements	10 years
Motor vehicles	5 years
Computer equipment	5 years
Furniture, fixtures, and fittings	5 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only 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. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Property and equipment are reviewed annually for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amounts and are taken into account in determining operating profit. Buildings are revalued on an annual basis with the change credited/debited to revaluation reserves in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserves.

On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

(g) Intangible assets

Costs that are directly associated with identifiable and unique software products that will generate economic benefits beyond one year, are recognised as intangible assets. These assets are amortised using the straight-line method over a period of seven years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

(h) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation and which are not occupied by the Group are classified as investment property. Investment property is treated as a long term investment and is carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are included in investment income in the profit or loss. Land held under operating lease is classified and accounted for as investment property if and only if the property meets the definition of an investment property.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit or loss.

(i) Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity financial assets; and available-for-sale assets. Management determines the appropriate classification of its financial assets at initial recognition.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Financial assets are designated at fair value through profit or loss when doing so significantly reduces or eliminates a measurement inconsistency; or they form part of a Group of financial assets that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Certain equity investments of the Group, government securities and investments in unit trusts are classified in this category. The assets in this category had a total carrying value of Shs 12,213,323,000 at the financial reporting date (2009: Shs 7,254,406,000). The Company's assets in this Category at the end of the year were Shs 4,380,171,000 (2009: Shs 2,354,048,000).

ii) Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those classified as held for trading and those that the Group on initial recognition designates as at fair value through profit or loss; (b) those that the Group upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

The Group's receivables out of direct insurance and reinsurance arrangements, mortgage loans, loans to policy holders, deposits with financial institutions under the cash category, reinsurer's share of insurance liabilities, receivables from related parties and other receivables are classified in this category. The assets in this category had a total carrying value of Shs 2,406,478,000 at the reporting date (2009: Shs 1,943,661,000). The Company's assets in this Category at the end of the year were Shs 38,293,000 (2009: Shs 28,850,000).

iii) Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the Group to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale.

Certain investments in government securities and corporate bonds are classified in this category. The assets in this category had a total carrying value of Shs 2,414,931,000 at the financial reporting date (2009: Shs 1,861,391,000). The Company had no assets in this category (2009: Nil).

iv) Available-for-sale

Available-for-sale investments are those non-derivative financial assets that are not classified under any of categories (i) to (iii) above.

Certain of the Group's investment in equities are classified in this category. The Group's assets in this category had a total carrying value of Shs 5,979,690,000 at the reporting date (2009: Shs 3,282,105,000). The Company had no assets in this category (2009: Nil).

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Investments are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit or loss. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

Fair values of quoted investments in active markets are based on current bid prices. Fair values for unlisted equity securities are estimated using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

(j) Impairment of financial assets

i) Assets carried at amortised cost

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 impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or Group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a) significant financial difficulty of the borrower;

b) a breach of contract, such as default or delinquency in interest or principal repayments;

c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Group would not otherwise consider;

d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

e) the disappearance of an active market for that financial asset because of financial difficulties; or

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:

- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

The estimated period between losses occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between 6 and 12 months.

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost 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 credit losses that have not been incurred) discounted at the financial instrument's original 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 profit or loss. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

ii) Assets carried at fair value

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit or loss. Impairment losses recognised in the income statement on equity instruments are not reversed through the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are Grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for Groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a Group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and 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 that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

(k) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the renegotiated terms apply in determining whether the asset is considered to be past due.

(l) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(m) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into the functional currency, Kenya Shillings, at rates ruling at the transaction dates. Monetary assets and liabilities at the financial reporting date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the profit or loss in the year in which they arise.

(n) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(o) Employee benefits

The Group has established a contributory final salary defined benefit plan covering substantially all its employees, including agents. The plan is funded under a Trust, and the principal asset held by the Trustees is a deposit administration policy issued by the Group.

Plan liabilities and costs are established by independent actuaries using the Projected Unit Credit Method. The plan is fully valued at least every two years.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Effective January 1, 2006, the Group established a defined contribution section as a supplementary scheme to the existing plan. Existing members were given the irrevocable option of (a) remaining in the defined benefit section and continuing to accrue benefits, or (b) participating in the defined contribution section with effect from January 1, 2006, and relinquishing prior defined benefit entitlement in return for a "conversion value" transferred from the defined benefit section into the defined contribution section. The costs associated with the defined contribution section are separately identified and included in the staff costs.The estimated monetary liability for employees' accrued annual leave entitlement at the financial reporting date is recognised as an expense accrual.

(p) Income tax expense

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the financial reporting date and are expected to apply when the related deferred income tax liability is settled.

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 provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings.

(r) Dividends

Dividends payable to the Group's shareholders are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(s) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as deduction from the proceeds net of tax.

3 Risk management objectives and policies

The Group's activities expose it to a variety of financial risks, including underwriting risk, liquidity risk, credit risk and the effects of changes in debt and equity market prices, and interest rates. The Group's overall risk management programme focuses on the identification and management of risks and the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The Group's risk management policies 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 reinsures. Investment policies are in place which help manage liquidity and seek to maximise return within an acceptable level of interest rate risk. Further, the internal audit function helps to monitor that these policies are followed.

(a) Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

The following tables disclose the concentration of insurance risk by the class of business in which the contract holder operates analysed by the maximum insured loss limit included in the terms of the policy (gross and net of reinsurance).

Year ended 31 December 2010					
		Maximum insured loss			
Class of business		Shs 0m - Shs 15m	Shs 15m-Shs 250 m	Shs 250m-Shs 1000m	Total
		Shs'000	Shs'000	Shs'000	Shs'000
General Insurance business					
Motor	Gross	2,731,647	1,618,327	1,456,631	5,806,605
	Net	2,698,616	1,165,195	1,092,473	4,956,284
Fire	Gross	7,408,673	19,514,912	41,681,896	68,605,481
	Net	7,408,673	8,895,407	1,228,386	17,532,466
Personal accident	Gross	335,387	5,867,835	3,040,000	9,243,222
	Net	298,987	2,101,041	196,000	2,596,028
Other	Gross	4,775,759	19,433,612	14,758,847	38,968,218
	Net	4,123,513	4,484,154	1,197,153	9,804,820
Long term business					
Ordinary life	Gross	20,168,725	355,000	-	20,523,725
	Net	15,079,016	13,000	-	15,092,016
Group life	Gross	130,048,366	27,394,229	-	157,442,595
	Net	91,793,277	1,762,362	-	93,555,639
Total	**Gross**	**165,468,557**	**74,183,915**	**60,937,374**	**300,589,846**
	Net	**121,402,082**	**18,421,159**	**3,714,012**	**143,537,253**

A 10% change in the Group's claims experience would result in a Shs 82,317,500 change in the Company's profit for the year (2009 : Shs 38,322,700).

Year ended 31 December 2009					
		Maximum insured loss			
Class of business		Shs 0m - Shs 15m	Shs 15m-Shs 250m	Shs 250m-Shs 1000m	Total
		Shs'000	Shs'000	Shs'000	Shs'000
General Insurance business					
Motor	Gross	2,383,340	1,443,278	1,376,077	5,202,695
	Net	2,383,340	1,429,278	1,376,077	5,188,695
Fire	Gross	7,041,731	16,590,869	39,319,484	62,952,084
	Net	7,034,601	6,282,114	894,638	14,211,353
Personal accident	Gross	1,961,601	3,229,805	464,250	5,655,656
	Net	1,874,469	558,170	52,242	2,484,881
Other	Gross	4,953,229	7,784,121	11,007,882	23,745,232
	Net	4,318,515	1,942,768	460,642	6,721,925
Long term business					
Ordinary life	Gross	16,973,195	45,000	-	17,018,195
	Net	14,691,936	2,000	-	14,693,936
Group life	Gross	186,641,203	17,499,225	-	204,140,428
	Net	94,367,291	927,000	-	95,294,291
Total	**Gross**	**219,954,299**	**46,592,298**	**52,167,693**	**318,714,290**
	Net	**124,670,152**	**11,141,330**	**2,783,599**	**138,595,081**

The concentration by sector of maximum insured loss at the end of the year is broadly consistent with prior years.

(b) Credit risk

The Group takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss to the Group by failing to pay amounts in full when due. Credit risk is an important risk for the Group's business: management therefore carefully manages the exposure to credit risk. Credit exposures arise from;

- Investment activities;
- Reinsures' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders; and
- Amounts due from insurance intermediaries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers. Such risks are monitored on a revolving basis and subject to annual or more frequent review.

The exposure to any one borrower is further restricted by sub-limits. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings if available or historical information about counterparty default rates. None of the Group's credit risk counter parties are rated except the Government of Kenya, the issuer of the Group's government securities which has B+ rating. The Company classifies counterparties without an external credit rating as below:

Group 1 - new customers/related parties.

Group 2 - existing customers/related parties with no defaults in the past.

Group 3 - existing customers/related parties with some defaults in the past. All defaults were fully recovered.

	Maximum exposure to credit risk before collateral held		
GROUP	External credit rating/credit quality grouping	2010 Shs'000	2009 Shs'000
Government securities held for trading	B+	361,360	523,561
Government securities held to maturity	B+	2,109,214	1,573,543
Corporate bond	Group 2	305,717	287,848
Unit trusts	Group 2	4,265,612	2,122,003
Mortgage loans	Group 2	576,464	659,877
Loans to policy holders	Group 2	303,418	357,789
Receivables arising out of reinsurance arrangements	Group 2	10,081	54,090
Receivables out of direct insurance arrangements	Group 2	161,277	196,757
Reinsurers' share of insurance contract liabilities	Group 2	463,893	275,957
Receivables from related parties	Group 2	2,696	33,060
Other receivables	Group 2	388,547	151,506
Deposits with financial institutions	Group 2	500,102	206,640
Bank balances	Group 2	415,376	192,870
		9,863,757	**6,635,501**

COMPANY	External credit rating/credit quality grouping	2010 Shs'000	2009 Shs'000
Receivables from related parties	Group 2	25,303	20,900
Other receivables	Group 2	4,500	-
Deposits with financial institutions	Group 2	8,490	5,873
Bank balances	Group 2	10,407	2,067
		48,700	**28,840**

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2010 and 2009, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

As shown above, 26% of the total maximum exposure is derived from government securities (2009: 27%). In the opinion of the directors there is no other significant concentration of the credit risk at year end.

Mortgage loans of Shs 576,464,000 (2009: Shs 659,877,000) are secured by collateral in the form of charges over land and building and/or plant and machinery or corporate guarantees. Policy loans of Shs 303,418,000 (2009: Shs 357,789,000) are secured by the surrender value of the policies. The fair values of collateral held for mortgages amounted to Shs 1,832,665,500 (2009: Shs 2,147,700,000) while the surrender values of the policies with loans amounted to Shs 1,072,655,000 (2009: Shs 1,120,475,000)

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from mortgage loans and debt securities based on the following:

- the Group exercises stringent controls over the granting of new loans
- 95% (2009: 97%) of the mortgages portfolio are neither past due nor impaired
- 100% (2009:100%) of the mortgages portfolio are backed by collateral
- 53% (2009: 51%) of the investments in debt securities are government securities.

The credit quality for the receivables that are neither past due nor impaired, can be classified as below:

	2010 Shs'000	2009 Shs'000
Receivables from direct insurance arrangements		
Counterparties without external credit rating - Group 2	161,277	196,757
	161,277	**196,757**

	2010 Shs'000	2009 Shs'000
Receivables from reinsurance arrangements		
Counterparties without external credit rating - Group 2	10,081	54,090
	10,081	**54,090**

Financial assets that are past due or impaired

GROUP

Mortgage loans are summarised as follows:	2010 Shs '000	2009 Shs '000
Neither past due nor impaired	550,058	637,019
Past due but not impaired	26,406	22,858
Impaired	25,073	25,073
Gross	601,537	684,950
Less: provision for impairment	(25,073)	(25,073)
Net	**576,464**	**659,877**

Movement in the provision account	2010 Shs 000	2009 Shs 000
At 1 January	25,073	5,758
Increase	-	19,315
As 31 December	**25,073**	**25,073**
Fair value of collateral	**31,500**	**30,000**

Mortgage loans past due but not impaired

Loans and advances less than 180 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2010 Shs 000	2009 Shs 000
Past due up to 30 days	4,878	4,999
Past due 31 – 60 days	4,691	3,937
Past due 61 – 180 days	16,837	13,922
Total	**26,406**	**22,858**

The fair value of collateral approximates the carrying value of these loans.

Mortgage loans individually impaired

Mortgage loans are considered impaired if they fall in arrears for more than six months or other information becomes available which indicates that the borrower will not be able to meet their obligation.

Impaired mortgage loans of Shs 25,073,000 as at 31 December 2010 were secured by collateral of Shs 31,500,000 (2009 Shs 30,000,000).

As at 31 December 2010, there is no repossessed collateral and no renegotiated loans.

Receivables out of direct insurance arrangements:

	2010 Shs '000	2009 Shs '000
Past due but not impaired (Credit quality Grouping 2)	161,277	196,757
Impaired	9,215	2,507
Gross	170,492	199,264
Less: provision for impairment	(9,215)	(2,507)
Net	**161,277**	**196,757**
Movements in the provision account :		
At 1 January	2,507	4,883
Increase	7,046	1,623
Write-offs	(338)	(3,999)
At 31 December	**9,215**	**2,507**

Premium debtors that are past due but not impaired

Premium debtors less than 180 days past due are not considered impaired, unless other information is available to indicate the contrary. The amounts for debtors that were past due but not impaired were as follows:

	2010 Shs '000	2009 Shs '000
Past due 1 – 60 days	91,373	92,138
Past due 61 – 90 days	17,319	23,182
Past due 91 - 180 days	52,585	81,437
Total	**161,277**	**196,757**

These premium debtors are unsecured

Premium debtors individually impaired

Premium debtors are considered impaired if they fall in arrears for more than 180 days or other information becomes available that indicates that the debt may not be collected.

The total gross amount of impaired receivables is owed by brokers.

Other than the above, there are no other financial assets are either past due or impaired.

(c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities as they fall due.

The Group is exposed to daily calls on its available cash resources from maturing policy, claims and calls on cash settled contingencies. The finance department monitors liquidity on a daily basis.

The table below presents the cash flows payable by the Group under liabilities by the remaining contractual maturities (other than insurance and investment contract liabilities which are based on expected maturities) at the reporting date. All figures are in thousands of Kenya Shillings.

GROUP

At 31 December 2010	**0 – 4 Months**	**5-12 Months**	**1-5 years**	**Over 5 Years**	**Totals**
Liabilities					
Insurance contract liabilities	632,145	1,170,819	3,373,660	1,169,574	6,346,198
Amounts payable under deposit administration contracts	170,856	341,713	2,321	2,754,087	3,268,977
Liabilities under investment contracts	102,623	278,669	1,705,454	1,096,270	3,183,016
Creditors arising out of reinsurance arrangements	60,011	-	-	-	60,011
Bank loan	-	-	119,161	630,157	749,318
Other payable	194,351	103,964	120,093	-	418,408
Overdraft	1,360	-	-	-	1,360
Total financial liabilities (at contractual maturity dates other than insurance contracts liabilities which are based on expected maturity) dates)	**1,161,346**	**1,895,165**	**5,320,689**	**5,650,088**	**14,027,288**
Assets					
Available for sale quoted investments	5,979,690	-	-	-	5,979,690
Investments at fair value through profit or loss					
- quoted investments	3,155,691	-	4,380,170	-	7,535,861
- unquoted investments	50,490	-	-	-	50,490
- government securities	65,227	29,485	211,331	55,317	361,360
- Unit trusts	374,009	52,843	855,343	2,983,417	4,265,612
Government securities held to maturity	-	37,093	340,668	1,731,453	2,109,214
Corporate bond	196	-	155,780	149,741	305,717
Mortgage loans	1,849	13,811	198,914	361,890	576,464
Loans to policyholders	15,465	46,680	240,801	472	303,418
Receivables arising out of reinsurance arrangements	10,081	-	-	-	10,081
Receivables arising out of direct insurance arrangements	-	161,277	-	-	161,277
Reinsurers' share of insurance liabilities	18,910	54,286	153,283	237,414	463,893
Loans and receivables from related parties	2,696	-	-	-	2,696
Other receivables	156,296	124,130	102,069	6,052	388,547
Deposits with financial institutions	500,102	-	-	-	500,102
Cash and bank balances	415,376	-	-	-	415,376
Total financial assets (expected maturity dates)	**10,746,078**	**519,605**	**6,638,359**	**5,525,756**	**23,429,798**

At 31 December 2009	0 – 4 months	5-12 months	1-5 Years	Over 5 Years	Totals
Liabilities					
Insurance contract liabilities	279,784	1,163,020	1,194,611	2,313,101	4,950,516
Amounts payable under group deposit administration contracts	540,000	127,000	1,001,000	1,086,617	2,754,617
Liabilities under investment contracts	65,739	85,602	967,961	521,600	1,640,902
Creditors arising out of reinsurance Arrangements	17,334	-	-	-	17,334
Bank loan	-	-	119,162	628,456	747,618
Dividends payables	-	60,000	-	-	60,000
Retirement benefit liability	-	35,433	-	-	35,433
Other payables	109,699	66,111	107,954	-	283,764
Overdraft	50,696	456	-	-	51,152
Total financial liabilities (expected maturity dates)	**1,063,252**	**1,537,622**	**3,390,688**	**4,549,774**	**10,541,336**
Assets					
Available for sale quoted shares investments	3,282,105	-	-	-	3,282,105
Investments at fair value through profit and loss:					
- quoted investments	4,608,842	-	-	-	4,608,842
- government securities	86,705	86,975	273,031	76,850	523,561
- Unit trusts	-	-	36,898	2,085,105	2,122,003
Government securities held to maturity	57,744	4,920	344,854	1,166,025	1,573,543
Corporate bond	62,650	-	132,429	92,769	287,848
Mortgage loans	7,413	2,865	19,803	629,796	659,877
Loans to policyholders	18,236	55,045	283,951	557	357,789
Receivables arising out of reinsurance arrangements	54,090	-	-	-	54,090
Receivables arising out of direct insurance arrangements	-	196,757	-	-	196,757
Reinsurers' share of insurance liabilities	11,249	32,293	91,184	141,231	275,957
Loans and receivables from related parties	33,060	-	-	-	33,060
Other receivables	10,106	42,457	101,789	5,140	159,492
Deposits with financial institutions	206,640	-	-	-	206,640
Cash and bank balances	193,040	-	-	-	193,040
Total financial assets (expected maturity dates)	**8,631,880**	**421,312**	**1,283,939**	**4,197,473**	**14,534,604**

COMPANY

At 31 December 2010	0 – 4 months	5-12 Months	1-5 years	Totals
Company Liabilities				
Bank loan	-	119,162	630,156	749,318
Due to related parties	-	-	751,465	751,465
Other payables	-	11,739	-	11,739
Total financial liabilities (expected maturity dates)	**-**	**130,901**	**1,381,621**	**1,512,522**

At 31 December 2009	0 – 4 months	5-12 months	1-5 years	Totals
Company Liabilities				
Bank loan	-	119,162	628,456	747,618
Due to related parties	-	-	640,505	640,505
Dividend payable	-	60,000	-	60,000
Other payables	-	6,131	-	6,131
Total financial liabilities (expected maturity dates)	**-**	**185,293**	**1,268,961**	**1,454,254**

(d) Market risk

i) Price risk

The Group is exposed to equity securities price risk because of investments in quoted shares classified either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity and debt securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Group.

At 31 December 2010, if the Nairobi Stock Exchange (NSE) Index had changed by 15% (2009: 15%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation to the index, consolidated post tax profit for the year would have been Shs 1,130,378,752 (2009: Shs 691,320,274) higher/lower, and the equity would have been Shs 896,953,206 (2009: Shs 492,315,495) higher/lower. The Company's post tax profit for the year would have been Shs 657,026,000 (2009: Shs 353,107,000) higher/lower, and the Company's equity would have been Shs 657,026,000 (2009: Shs 353,107,000) higher/lower.

The concentration on equities in general and on specific counters is closely monitored. As at 31 December 2010, the group held shares in Equity Bank Limited amounting to Shs 10,949,056,811 (2009: Shs 6,092,613,000) or 43% (2009: 37%) of the total assets.

(ii) Cash flow and fair value interest rate risk

The Group's interest bearing assets are quoted corporate bonds, mortgages, staff loans; inter company loans, deposits with financial institutions, bank balances and policy loans all of which are at fixed rate. The Group also has borrowings at fixed rates. No limits are placed on the ratio of variable rate borrowing to fixed rate borrowing. At 31 December 2010, if interest rates on government securities classified as financial assets at fair value through profit or loss had been 1% higher/lower with all other variables held constant, the Group's post tax profit for the year would have been Shs 621,125 (2009: Shs 1,407,278) higher\lower. The Company did not have a material exposure to interest rate risk in 2009 and 2010.

(iii) Foreign exchange risk

The Group has no material exposure to foreign exchange risk.

e) Capital management

The Group's objectives when managing capital, which is a broader concept than 'equity' on the statement of financial position are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain a strong capital base to support the development of its business.
- To provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.
- To comply with the capital requirements set by the Insurance Act.
- To comply with the capital requirements of the Capital Markets Authority.

The Group's capital comprises share capital as disclosed on Note 13 and the regulatory capital held in subsidiary comprises as disclosed below.

Capital adequacy and use of regulatory capital are monitored regularly by management. The capital requirement for insurance companies in Kenya was revised in 2007. Existing composite insurance companies are required to increase their capital to Shs 450 million by 2010. The insurance subsidiary, British-American Insurance Company (Kenya) Limited has met this requirement.

In addition to the capital requirements, the Group's insurance subsidiary is subject to solvency requirements by Insurance Regulatory Authority. These solvency requirements involve application of a formula that limits various assets by distribution of investment exposure to any single counter party, nature of asset etc. The Company met the required solvency margins at 31 December 2009 and 2010.

The table below summarises regulatory capital requirements and the capital maintained by insurance subsidiary at 31 December

	2010		2009	
	Regulatory requirement	Maintained by the Company	Regulatory requirement	Maintained by the Company
	Shs'000	Shs'000	Shs'000	Shs '000
Capital at 31 December	450,000	480,000	300,000	480,000
Solvency margin	793,029	1,757,100	575,318	1,120,904

The Group's asset management subsidiary, British-American Asset Managers Limited, files the required information with the Capital Markets Authority on a quarterly basis. The Capital Markets Authority requires that the company maintains the following capital:

- Minimum share capital of Shs 10 million; and
- Working capital should not fall below the higher of 20% of the required minimum share capital of Shs 10million or 3 times the average monthly operating costs.

The table below summarises regulatory capital requirements and the capital maintained by the asset management subsidiary, at 31 December:

	2010		2009	
	Regulatory requirement	Maintained by the Company	Regulatory requirement	Maintained by the Company
	Shs'000	Shs'000	Shs'000	Shs '000
Capital at 31 December	10,000	60,660	10,000	47,764
Working capital at 31 December	39,690	73,371	37,517	46,483

f) Fair value estimation

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy for financial instruments that are measured in the statement of financial position at fair value by level of the following hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's and Company's assets and liabilities that are measured at fair value at 31 December 2010 and 2009:

GROUP 2010	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total balance Shs'000
Assets				
Financial assets at fair value through profit or loss				
- Quoted Equity securities	7,535,861	-		7,535,861
- Government securities	-	361,360	-	361,360
- Unit trust	-	4,265,612	-	4,265,612
- Unquoted ordinary shares		-	50,490	50,490
Available-for-sale equity investments	5,979,690	-		5,979,690
Total assets	**13,515,551**	**4,626,972**	**50,490**	**18,193,013**

GROUP 2009	Level 1 Shs'000	Level 2 Shs'000	Total balance Shs'000
Assets			
Financial assets at fair value through profit or loss			
- Equity securities	4,608,842	-	4,608,842
- Government securities	-	523,561	523,561
- Unit trust	-	2,122,003	2,122,003
Available-for-sale equity investments	3,282,105	-	3,282,105
Total assets	**7,890,947**	**2,645,564**	**10,536,511**

COMPANY	Level 1 2010 Shs'000	Level 1 2009 Shs'000
Assets		
Financial assets at fair value through profit or loss	4,380,171	2,354,048

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if 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. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily NSE equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, government bonds and investments in asset trusts) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The fair value of financial instruments that are not traded in an active market (for example, unquoted equity investments and unit trusts) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- The fair value of government securities is based on a yield curve which is based on trades of equivalent bonds in the Nairobi stock exchange.
- The fair value of unit trusts is based on the computed net share in each fund which is based on applying the market value of underlying investments to units held.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Note that all of the resulting fair value estimates are included in level 2.

The Group had level 3 financial instruments (unquoted stock) amounting to Shs 50,490,000 as at 31 December 2010 (2009: Nil).

Fair values of financial assets and liabilities

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the financial reporting date. The fair value of government securities held-to-maturity at 31 December 2010 is estimated at Shs 2,244,003,235 (2009: Shs 1,613,858,952) compared to their carrying value of Shs 2,109,214,000 (2009: Shs 1,573,543,000) while the carrying values of mortgage loans and policy loans are Shs 576,464,000 (2009: Shs 659,877,000) and Shs 303,418,000 (2009: Shs 357,789,000) respectively.

The fair value of the Group's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates.

Critical judgments in applying the entity's accounting policies

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

- actuarial liabilities (see Note 31 for the carrying amounts of these liabilities and assumptions respectively)
- classification of financial assets. As disclosed in note (2i)
- whether land and building meet criteria to be classified as investment property as disclosed in note (2f)

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

The key source of estimation uncertainty is the mortality rates, future interest rates, future expenses, tax and inflation.

4 Gross earned premium

The income of the Group can be analysed between the main classes of business as shown below:

	GROUP	
	2010	2009
	Shs'000	Shs'000
Long term insurance business:		
Ordinary life	2,065,695	1,912,873
Group life	608,665	588,977
Total - Long term	**2, 674,360**	**2, 501,850**
Short term insurance business:		
Motor	603,100	433,735
Fire	120,034	110,203
Marine	110,097	81,409
Personal accident and medical	622,748	521,800
Other	203,089	133,609
Total - Short term	**1,659,068**	**1,280,756**
Grand Total	**4,333,428**	**3,782,606**

5 Investment income

	GROUP	
	2010	2009
	Shs'000	Shs'000
Interest from government securities	252,143	184,890
Bank deposit interest	26,414	30,235
Other interest receivable	129,236	150,718
Rental income from investment properties	s54,876	55,326
Fair value gains on investment properties (Note 16)	72,274	163,105
Dividends receivable from equity investments	254,684	188,442
Realised (loss)/ gains on government securities at fair value through profit or loss	(495)	1,208
Realised gains (losses) on quoted investments at fair value through profit or loss	247,778	(4,507)
Realised gains on sale of Investment property	86,040	1,350
Fair value gains/ (losses) on financial assets at fair value through profit or loss	3,561,685	(574,598)
	4,684,635	**196,169**

6 Other income

	GROUP	
	2010	2009
Fee income	Shs'000	Shs'000
- arising on long term insurance contracts	178,143	948
- arising on short term insurance contract	8,679	264
- arising on deposit administration	8,429	10,066
- Other miscellaneous	25,188	20,857
	220,439	**32,135**

7 Net claims and policyholder benefits payable

Long term business		
	2010	2009
	Shs'000	Shs'000
Insurance contracts with fixed and guaranteed terms		
- death, maturity and surrender benefits	1,344,732	590,766
- bonuses	480,887	429,764
- interest on deposit administration and other contracts	393,817	189,091
- increase in policyholder liabilities	897,937	199,745
Less: reinsures' share	(99,590)	(65,057)
	3,017,783	**1,344,309**
Short term business		
Claims payable by principal class of business:		
- Motor	483,866	360,022
- Fire	72,265	31,535
- Personal accident and medical	60,035	201,174
- Marine	19,929	38,945
- Other	331,202	93,130
Less : reinsures' share	(166,972)	(95,620)
	800,325	**629,186**
Total long term and short term	**3,818,108**	**1,973,495**

8 Operating and other expenses

	2010	2009
	Shs'000	Shs'000
Staff costs (Note 9)	533,036	472,441
Auditor's remuneration	4,547	5,295
Depreciation on leasehold improvements and equipment	47,530	31,278
Amortisation of intangible assets	21,896	20,028
Provision for impairments on receivables	7,046	922
Repairs and maintenance expenditure	21,164	42,108
Other	681,603	651,497
	1,316,822	**1,222,876**

9 Staff costs

	GROUP	
	2010	2009
	Shs'000	Shs'000
Staff costs include the following:		
Salaries and wages	447,611	400,798
Retirement benefits costs		
- defined contribution scheme	66,356	59,287
- defined benefit scheme (Note 43)	18,393	11,726
- Social security benefits costs	676	630
	533,036	**472,441**

The number of persons employed by the Group at the year-end was 277 (2009: 254).

10 Income tax expense

	GROUP	
	2010	2009
	Shs'000	Shs'000
Income tax expense	**159,805**	**86,789**

The Group's current tax charge is computed in accordance with income tax rules applicable to the subsidiaries. Deferred tax losses in the funds management business has however been provided for since the recovery of those losses is reasonably certain in the foreseeable future. A reconciliation of the tax charge is shown below. The income not subject to tax is mainly unrealised gains, which forms the bulk of the Company's investment income. The current year's tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory income tax rates as follows:

	GROUP	
	2010	2009
	Shs'000	Shs'000
Profit / (loss) before tax	2,873,589	(334,334)
Tax calculated at a tax rate of 30%	862,077	(100,300)
Add / (Less):		
Tax effect of (loss) / income not subject to tax	(726,428)	117,490
Overprovision of deferred tax for prior year	(3,928)	(4,204)
Tax effect of expenses not deductible for tax purposes	28,084	73,803
Tax charge	**159,805**	**86,789**

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	2010			2009		
	Before tax	Tax (charge) credit	After tax	Before tax	Tax (charge) credit	After tax
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Fair value gains/(losses):						
– Building	13,533	-	13,533	32,755	-	32,755
– Available-for-sale financial assets	2,755,565	-	2,755,565	(731,999)	-	(731,999)
Other comprehensive income	**2,769,098**	-	**2,769,098**	**(699,244)**	-	**(699,244)**
Current tax	-	-	-	-	-	-
Deferred tax	-	-	-	-	-	-

11 Other reserves

Other reserves include fair value reserves arising from revaluation of assets carried as available for sale, revaluation reserves on property and general reserves which are undistributed retained earnings all for the long term business. General reserves represent accumulated surpluses from the life fund whose distribution is subject to the restrictions imposed by the Kenyan Insurance Act. The Insurance Act limits the amounts of surpluses of the life business available for distribution to shareholders to 30% of the accumulated surplus of the life business. A transfer to or from retain earnings is recorded each year to ensure that only amounts available for distribution to shareholders are held in the retained earnings.

	Fair value reserve	Revaluation reserve	General reserves	Total
	Shs '000	Shs '000	Shs '000	Shs'000
Balance at 1 January 2009	3,661,863	31,144	35,517	3,728,524
Revaluation gain on building	-	32,755	-	32,755
Revaluation gain on available for sale quoted investments (Note 17(ii))	(731,999)	-	-	(731,999)
Transfer from retained earnings	-	-	177,926	177,926
Balance at 31 December 2009	**2,929,864**	**63,899**	**213,443**	**3,207,206**
Balance at 1 January 2010	2,929,864	63,899	213,443	3,207,206
Revaluation gain on building	-	13,533	-	13,533
Revaluation gain on available for sale quoted investments(Note 17(ii))	2,755,565	-	-	2,755,565
Transfer from retained earnings	-	-	151,632	151,632
Balance at 31 December 2010	**5,685,429**	**77,432**	**365,075**	**6,127,936**

12 Dividends and earnings per share

(i) Proposed dividends are accounted for as a separate component of equity until they have been declared at an annual general meeting. At the annual general meeting held on 18th February 2011, a final dividend in respect of the year ended 31 December 2010 of Shs 6.67 per share (2009: Shs 4) amounting to a total of Shs 200,000,000 was declared. (2009: Shs 120,000,000).

Payment of dividends is subject to withholding tax at the rate of either 5% or 10%, depending on the residence of the individual shareholders.

(ii) Earnings per share

Basic earnings per share have been calculated by dividing the net profit/ (loss) for the year by the number of ordinary shares.

	2010	2009
Profit/ (loss) attributed to equity holders (Shs thousands)	2,713,784	(421,123)
Weighted number of ordinary shares in issue (Thousands)	30,000	30,000
Basic and diluted earnings per share (Shs)	90.46	(14.04)

There were no potentially dilutive shares as at 31 December 2010 or 31 December 2009.

13 Share capital

	Number of shares	Ordinary shares (Shs)
Authorised, issued and fully paid:		
Balance at 1 January and 31 December 2010 (Shs 5 per share)	30,000,000	150,000,000

14 Property and equipment

GROUP	Lands & buildings Shs'000	Leasehold improvements Shs'000	Motor vehicles Shs'000	Furniture, fixtures and fittings Shs'000	Computer equipment Shs'000	Total Shs'000
Year ended 31 December 2010						
Cost or valuation						
At start of year	360,300	158,274	16,856	151,625	84,724	771,779
Additions	-	15,570	-	59,220	22,677	97,467
Disposals	-	-	-	(324)	(1,512)	(1,836)
Valuation	13,533	-	-	-	-	13,533
At end of year	**373,833**	**173,844**	**16,856**	**210,521**	**105,889**	**880,943**
Depreciation						
At start of year	-	117,639	7,913	79,305	45,989	250,846
Charge for the year	-	9,923	3,213	22,779	12,869	48,784
Additions	-	-	-	-	296	296
Disposal	-	-	-	(26)	(377)	(403)
At end of year	**-**	**127,562**	**11,126**	**102,058**	**58,777**	**299,523**
Net book amount						
At 1 January 2010	360,300	40,635	8,943	72,320	38,735	520,933
At 31 December 2010	**373,833**	**46,282**	**5,730**	**108,463**	**47,112**	**581,420**
Year ended 31 December 2009						
Cost or valuation						
At start of year	327,545	154,592	22,488	95,839	52,754	653,218
Reclassification	-	(121)	-	-	-	(121)
Additions	-	3,803	-	55,786	31,970	91,559
Disposals	-	-	(5,632)	-	-	(5,632)
Valuation	32,755	-	-	-	-	32,755
At end of year	**360,300**	**158,274**	**16,856**	**151,625**	**84,724**	**771,779**
Depreciation						
At start of year	4,799	107,785	10,268	66,086	35,857	224,795
Charge for the year	(4,799)	9,854	3,277	13,219	10,132	31,683
Disposals			(5,632)			(5,632)
At end of year	**-**	**117,639**	**7,913**	**79,305**	**45,989**	**250,846**
Net book amount						
At 1 January 2009	322,746	46,807	12,220	29,753	16,897	428,423
At 31 December 2009	**360,300**	**40,635**	**8,943**	**72,320**	**38,735**	**520,933**

COMPANY	Motor vehicles Shs'000	Furniture, fixtures and fittings Shs'000	Computer equipment Shs'000	Total Shs'000
Year ended 31 December 2010				
Cost or valuation				
At start of year	5,179	607	269	6,055
Additions	-	113	348	461
At end of year	**5,179**	**720**	**617**	**6,516**
Depreciation				
At start of year	1,208	26	37	1,271
Charge for the year	1,036	134	86	1,256
At end of year	**2,244**	**160**	**123**	**2,527**
Net book amount				
At 1 January 2010	3,971	581	232	4,784
At 31 December 2010	**2,935**	**560**	**494**	**3,989**
Year ended 31 December 2009				
Cost or valuation				
At start of year	5,179	-	-	5,179
Additions	-	607	269	876
At end of year	**5,179**	**607**	**269**	**6,055**
Depreciation				
At start of year	172	-	-	172
Charge for the year	1,036	26	37	1,099
At end of year	**1,208**	**26**	**37**	**1,271**
Net book amount				
At 1 January 2009	5,007	-	-	5,007
At 31 December 2009	**3,971**	**581**	**232**	**4,784**

In the opinion of the directors, there is no impairment of leasehold improvements and equipment. The valuation of buildings was carried out by independent, registered professional valuers, GIMCO Limited, on 31 December 2010 in an open market basis. The carrying amount of the building would have been Shs 138,427,000 (2009: Shs 136,500,000) had it been carried out under the cost model.

All property and equipment is classified as non current assets.

15 Intangible assets

Computer and software costs	GROUP 2010 Shs'000	GROUP 2009 Shs'000	COMPANY 2010 Shs'000	COMPANY 2009 Shs'000
At the start of year	78,098	64,725	197	-
Additions	34,420	32,303	-	197
Amortisation	(20,640)	(18,930)	-	-
At end of year	**91,878**	**78,098**	**197**	**197**
Cost	224,534	190,115	197	197
Accumulated amortisation	(132,656)	(112,017)	-	-
Net book amount	**91,878**	**78,098**	**197**	**197**

Intangible assets are classified as non current assets.

16 Investment property

	GROUP 2010 Shs'000	GROUP 2009 Shs'000
At start of year	1,092,785	844,115
Additions	279,229	85,565
Disposal	(270,717)	-
Fair value gains	72,274	163,105
At end of year	**1,173,571**	**1,092,785**

The valuation exercise was carried out by Gimco Limited, registered professional valuers on 31 December 2010. Investment property is valued on an open market basis.

Investments in property is classified as non current assets.

17 Quoted equity investments

(i) At fair value through profit or loss

	GROUP 2010 Shs '000	GROUP 2009 Shs '000	COMPANY 2010 Shs '000	COMPANY 2009 Shs '000
At start of year	4,608,842	4,971,225	2,354,048	3,217,968
Additions	348,712	274,067	-	-
Disposals	(405,764)	(62,316)	-	(334,982)
Fair value (losses)/gains	2,984,071	(574,134)	2,026,123	(528,938)
At end of year	**7,535,861**	**4,608,842**	**4,380,171**	**2,354,048**

(ii) Available for sale

	GROUP	
	2010	2009
	Shs '000	Shs '000
At start of year	3,282,105	3,991,729
Additions	414,372	31,310
Disposals	(472,352)	(8,935)
Fair value gains/ (loss) (Note 10/11)	2,755,565	(731,999)
At end of year	**5,979,690**	**3,282,105**

18 Unquoted investments

	2010	2009
	Shs '000	Shs '000
At start of year	-	-
Additions	50,490	-
At end of year	**50,490**	-

19 Mortgage loans

	2010	2009
	Shs '000	Shs '000
At start of year	684,950	719,105
Loans advanced	29,784	71,097
Loan repayment	(113,197)	(105,252)
Less:	601,537	684,950
Provision for impairment losses	(25,073)	(25,073)
At end of year	**576,464**	**659,877**
Lending commitments:		
Mortgage loans approved by directors but not advanced as at 31 December	**46,474**	**7,420**

Mortgage loans to related parties are disclosed in note 41

20 Loans to policyholders

	GROUP	
	2010	2009
	Shs'000	Shs'000
At start of year	357,789	362,962
Loans advanced	164,909	238,422
Surrenders	(29,810)	(124,981)
Loan repayments	(189,470)	(118,614)
At end of year	**303,418**	**357,789**

21 Reinsurers' share of insurance liabilities

	2010	2009
	Shs'000	Shs'000
Reinsurers' share of:		
- notified claims outstanding – long term	56,816	26,512
- notified claims outstanding – short term (Note 30)	259,572	151,816
- unearned premium (Note 35)	105,055	82,703
- claims incurred but not reported (Note 30)	42,450	14,925
	463,893	**275,956**

Amounts due from reinsures in respect of claims already paid by the Group on contracts that are reinsured are included in receivables arising out of reinsurance arrangements on the statement of financial position.

22 Deferred acquisition costs

	GROUP	
	2010	2009
	Shs'000	Shs'000
At start of year	52,941	34,660
Net increase	20,520	18,281
At end of year	**73,461**	**52,941**

Deferred acquisition costs represent a proportion of acquisition costs that relates to policies that are in force at year-end. The basis of deferral is explained in note 2(c).Deferred acquisition costs are classified as current assets.

23 Other receivables

	GROUP		COMPANY	
	2010	2009	2010	2009
	Shs'000	Shs'000	Shs'000	Shs'000
Staff and agents loans	103,877	107,062	-	-
Dues from managed funds	2,539	8,988	-	-
Prepayments	5,528	13,027	-	-
Other receivables	276,603	30,415	4,500	-
	388,547	**159,492**	**4,500**	**-**

All prepayments are classified as current. The ageing analysis of other receivables is presented in note 3(c).

24 Government securities

	GROUP	
	2010	2009
	Shs'000	Shs'000
(i) At fair value through profit or loss		
Treasury bills and bonds maturing		
- Within 1 year	94,712	173,680
- In 1 – 5 years	211,331	273,031
- After 5 years	55,317	76,850
	361,360	**523,561**
Treasury bills and bonds movement		
- At start	523,561	648,912
- Additions	29,748	69,500
- Fair value gains	21,852	13,502
- Disposals and maturities	(213,801)	(208,353)
	361,360	**523,561**
(ii) Investment held to maturity		
At start of year	1,573,543	754,461
Additions	756,045	829,082
Maturities	(220,374)	(10,000)
	2,109,214	**1,573,543**

25 Unit trusts

	2010 Shs'000	2009 Shs'000
At start of year	2,122,003	926,914
Additions	1,441,964	1,075,136
Fair value gains	701,645	119,953
	4,265,612	**2,122,003**

Unit-linked investment contracts are designated as contracts at fair value through profit or loss. The benefits offered under these contracts are based on the return of a portfolio of equities and debt securities.

26 Weighted average effective interest rates

The following table summarises the weighted average effective interest rates at the year end on the principal interest-bearing investments:

	GROUP	
	2010 %	2009 %
Mortgage loans	12.04	13.12
Policy loans	14.50	14.50
Government securities	11.02	11.16
Deposits with financial institutions	2.62	8.37
Corporate bond	10.45	11.71

Deposits with financial institutions have an average maturity of 3 months (2009: 3 months)

27 Insurance contract liabilities

	GROUP	
	2010 Shs'000	2009 Shs'000
Long term insurance contracts		
- claims reported and claims handling expenses	367,418	142,880
- actuarial value of long term liabilities (Note 31)	5,155,605	4,257,668
Total – long term	**5,523,023**	**4,400,548**
Short term non-life insurance contracts		
- claims reported and claims handling expenses	625,673	431,832
- claims incurred but not reported (Note 30)	197,502	118,136
Total – short term (Notes 30)	**823,175**	**549,968**
Total gross insurance liabilities	**6,346,198**	**4,950,516**

Movements in insurance liabilities and reinsurance assets are shown in note 30.

28 Short term non-life insurance contracts liabilities

The Group uses chain-ladder techniques to estimate the ultimate cost of claims and the IBNR provision. Chain ladder techniques are used as they are an appropriate technique for mature classes of business that have a relatively stable development pattern. This involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not fully developed to produce an estimated ultimate claims cost for each accident year.

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The table below illustrates how the Group's estimate of total claims outstanding for each accident year has changed at successive year ends.

Accident year	2006 Shs'000	2007 Shs'000	2008 Shs'000	2009 Shs'000	2010 Shs'000	Total Shs'000
Estimate of ultimate claims costs:						
–at end of accident year	236,213	249,607	376,624	469,746	744,229	2,076,419
–one year later	263,638	297,986	453,452	589,677	-	1,604,753
–two years later	265,699	302,040	448,578	-	-	1,016,317
–three years later	279,251	315,286	-	-	-	594,537
–four years later	281,914	-	-	-	-	281,914
Current estimate of cumulative claims	281,914	315,286	448,578	589,677	744,229	2,379,684
Add: Incurred but not reported	-	-	-	-	197,502	197,502
Add: Liability in respect of prior years	21,484	-	-	-	-	21,484
Less: Cumulative payments to date	207,903	216,852	307,540	418,096	625,104	1,775,495
Liability included in the balance sheet	**95,495**	**98,434**	**141,038**	**171,581**	**316,627**	**823,175**

29 Long term insurance contract liabilities

The Group determines its liabilities on long term insurance contracts based on assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. A margin for risk and uncertainty is added to these assumptions. The liabilities are determined on the advice of the consulting actuary and actuarial valuations carried out on an annual basis. As at 31 December 2010, the valuation showed a surplus of Shs 6,136 million (2009: Shs 3,375 million).

Valuation assumptions

The latest actuarial valuation of the life fund was carried out as at 31 December 2010 by Aon Hewitt Actuarial, consulting actuaries, using the net premium valuation method as required by the Insurance Act.

Significant valuation assumptions are summarised below. The assumptions did not change in 2009:

a) Mortality

The Group uses table A49/52 as a base table of standard mortality. Statistical methods are used to adjust the rates reflected on the table based on the Group's experience. For contracts insuring survivorship, an allowance is made for future mortality improvements made on trends identified in the data.

b) Persistency

Statistical methods are used to determine an appropriate persistency rate, with reference to the Company's experience over the most recent five years. An allowance is then made for any trends in the data to arrive at a best estimate of future persistency rates.

c) Investment returns

A weighted average rate of investment return is derived with reference to the portfolio that backs the liabilities. For the current valuation, the rate of return assumed was 4% (2009: 4%)

d) Expenses, tax and inflation

The current level of expenses is taken to be an appropriate expense base. Expense inflation is assumed to be 9% (2009: 10%). It has been assumed that the current tax legislation and rates continue unaltered.

30 Movements in insurance liabilities and reinsurance assets

	2010			2009		
Short term insurance business	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Notified claims	431,832	151,816	280,016	238,791	89,403	149,388
Incurred but not reported	118,136	14,925	103,211	50,671	6,791	43,880
Total at beginning of year	**549,968**	**166,741**	**383,227**	**289,462**	**96,194**	**193,268**
Cash paid for claims settled in year	(829,368)	(166,972)	(662,396)	(535,129)	(86,099)	(449,030)
Increase in liabilities:						
- arising from current year claims	839,387	180,188	659,199	636,027	75,258	560,769
- arising from prior year claims	263,188	122,065	141,123	159,608	81,388	78,220
Total at end of year	**823,175**	**302,022**	**521,153**	**549,968**	**166,741**	**383,227**
Notified claims	625,673	259,572	366,101	431,832	151,816	280,016
Incurred but not reported	197,502	42,450	155,052	118,136	14,925	103,211
Total at the end of year	**823,175**	**302,022**	**521,153**	**549,968**	**166,741**	**383,227**

31 Actuarial value of long term liabilities

	2010			2009		
	Ordinary life	Group life	Total	Ordinary life	Group life	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At beginning of year	3,965,162	292,506	4,257,668	3,710,660	96,844	3,807,504
Policyholder bonuses and interest	(480,887)	-	(480,887)	(429,763)	-	(429,763)
Surrenders and annuity payments	(362,706)	-	(362,706)	(297,984)	-	(297,984)
Increase in the period (net)	1,493,031	248,499	1,741,530	982,249	195,662	1,177,911
At end of year	**4,614,600**	**541,005**	**5,155,605**	**3,965,162**	**292,506**	**4,257,668**

32 Liabilities under investment contracts

	GROUP	
	2010	2009
	Shs'000	Shs'000
At start of the year 1 January	1,640,902	747,582
Net investments	1,250,836	1,045,136
Liabilities released for payments:		
Surrenders	(3,453)	(199,488)
Fair value gain on investments	294,731	47,672
At 31 December	**3,183,016**	**1,640,902**

For the unit linked investment contracts, the benefits offered are based on the return of equities and debt securities. The maturity value of the financial liabilities is determined by the fair value of the linked assets. There will be no difference between the carrying amount and the maturity amount at maturity date.

33 Amounts payable under deposit administration contracts

Deposit administration contracts are recorded at amortised cost. Movements in amounts payable under deposit administration contracts during the year were as shown below. The liabilities are shown inclusive of interest accumulated to 31 December. Interest was declared and credited to the customer accounts at a weighted average rate of 15% for the year (2009: 9%).

	GROUP	
	2010	2009
	Shs'000	Shs'000
At 1 January	2,754,617	1,840,841
Pension fund deposits received	854,542	901,688
Surrender and annuities paid	(737,039)	(183,842)
Interest payable to policyholders	396,857	195,930
At 31 December	**3,268,977**	**2,754,617**

34 Bank loan

The loan is secured by lien on quoted shares at fair value through profit or loss, is repayable in 3 years and is charged interest at 11.5%. The loan was not in default at any time during the year.

	GROUP AND COMPANY	
	2010	2009
	Shs'000	Shs'000
At 1 January	747,618	777,416
Repayment	(94,855)	(130,211)
Interest payable	96,555	100,413
At 31 December	**749,318**	**747,618**

35 Unearned premium

Unearned premium represents the liability for short term business contracts where the Group's obligations are not expired at the year end. Movement in the reserve is shown below:

	2010			2009		
Unearned premium	Insurer's share	Reinsures' share	Gross	Insurer's share	Reinsures' share	Gross
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At beginning of year	484,670	82,703	567,373	311,360	77,148	388,508
Increase in the period (net)	126,020	22,352	148,372	173,310	5,555	178,865
At end of year	**610,690**	**105,055**	**715,745**	**484,670**	**82,703**	**567,373**

36 Deferred income tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2009: 30%). The movement on the deferred income tax account and the composition of the unrecognised deferred income tax asset is as follows:

	31.12.10 Shs'000	2010 Movement Shs'000	31.12.09 Shs'000	2009 Movement Shs'000	1.1.09 Shs'000
Property and equipment:					
- on historical cost basis	7,954	2,170	5,784	3,886	1,898
Provisions	4,660	(127)	4,787	4,013	774
Investment property	-	1,996	(1,996)	(1,996)	-
Tax losses carried forward:					
- British-American Insurance Company (Kenya) Limited	-	-	-	(2,909,689)	2,909,689
- British-American Asset Managers Limited	5,619	(10,834)	16,453	9,721	6,732
- British-American Investment Company (Kenya)	215,753	65,443	150,310	88,954	61,356
Less: Deferred tax asset not recognised:					
- British-American Insurance Company (Kenya) Limited	(4,313)	(3,677)	(636)	2,912,272	(2,912,908)
- British-American Investment Company (Kenya) Limited	(217,884)	(65,847)	(152,037)	(90,741)	(61,296)
Net deferred tax asset	**11,789**	**(10,876)**	**22,665**	**16,420**	**6,245**

The deferred tax on tax losses of one of the Company's subsidiaries, British-American Asset Managers Limited, has been recognised on the basis of management's projections which indicate that the Company will be able to make sufficient taxable income to off-set these losses within the maximum permitted carry-forward period of four years.

The movement on the deferred income tax account and the composition of the unrecognised deferred income tax asset for the company is as follows:

	31.12.10 Shs'000	2010 Movement Shs'000	31.12.09 Shs'000	2009 Movement Shs'000	1.1.09 Shs'000
Property and equipment:					
- on historical cost basis	(46)	6	(52)	9	(61)
Provisions	2,178	399	1,779	1,779	-
Tax losses carried forward					
- British-American Investment Company (Kenya) Limited	215,752	65,442	150,309	88,953	61,356
Net deferred tax asset	**217,884**	**65,847**	**152,036**	**90,741**	**61,295**

The deferred tax asset for the Company has not been recognised as the Company is unlikely to make sufficient taxable profits to off-set the tax losses within the 4 year period permitted by the Kenyan Income Tax Act. Deferred tax assets/liabilities are classified as non current assets/liabilities.

37 Other payables

	GROUP		COMPANY	
	2010	2009	2010	2009
	Shs'000	Shs'000	Shs'000	Shs'000
Accrued expenses	164,877	128,028	11,739	6,131
Premiums paid in advance	76,222	61,866	-	-
Other liabilities	177,309	93,870	-	-
	418,408	**283,764**	**11,739**	**6,131**

38 Commitments

The commitments as at the financial reporting date were Shs 275,000,000 (2009: Shs 261,618,168)

39 Cash and cash equivalents

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

	GROUP	
	2010	2009
	Shs'000	Shs'000
Cash and bank balances	415,376	193,040
Deposits with financial institutions	500,102	206,640
Treasury bills and bonds maturing within 90 days of the date of acquisition	-	-
Bank overdraft	(1,360)	(51,152)
Total cash and cash equivalents	**914,118**	**348,528**

The weighted average effective interest rate on short-term bank deposits was 2.67% (2009: 8.37%).

The effective interest rate on overdraft was 4.3% (2009: 10.6%) which was the applicable 91 day Treasury Bill rate plus a margin of 2%.

40 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2010 Shs'000	2009 Shs'000
Profit/ (loss) before tax	2,873,589	(334,334)
Adjustments for:		
Depreciation of leasehold improvements and equipment(Note 14)	48,784	31,683
Amortisation of intangible assets (Note 15)	20,640	18,930
Investment income	(4,684,634)	(196,169)
Changes in:		
Receivables arising out of direct insurance arrangements	35,480	1,333
Receivables arising out of reinsurance arrangements	44,009	(6,074)
Re-insurers' share of insurance liabilities	(187,937)	(72,666)
Increase in unearned premium reserves	148,372	178,865
Retirement benefit liability	(9,718)	11,726
Other payables	134,644	(6,023)
Receivables from related parties	30,364	15,736
Deferred acquisition costs	(20,520)	(18,281)
Other receivables	(229,055)	36,609
Increase in insurance contract liabilities	1,395,682	456,901
Actuarial liabilities under investment contract	1,542,114	893,319
Payable under deposit administration contracts	514,360	913,776
Creditors arising out of reinsurance arrangements	42,677	14,896
Cash generated from operations	**1,698,851**	**1,940,227**

41 Related party transactions

The ultimate parent for the Group is British-American Investment Co (Mtius) Limited, a Company registered in the Republic of Mauritius and listed on the Stock Exchange of Mauritius. There are several other companies related to the Group through common shareholdings or being controlled or significantly influenced by a director or management personnel of the Company.

The following transactions were carried out with related parties:

A management fee of Shs 18 million (2009: Shs 18 million) was paid to British-American (UK) Limited for consultancy services.

(i) Outstanding balances with related parties Dues from related parties – Group

	2010 Shs'000	2009 Shs'000
Staff saving and credit societies	2,538	3,366
Secured loan to a director	-	29,694
British- American Mauritius - other	158	-
	2,696	**33,060**

The value of Equity Bank Limited shares held by the Group at the end of the year amounted to Shs 10,949,055,000 (2009: Shs 6,092,613,000) while those of Housing Finance Limited amounted to 764,640,000 (2009: Shs 414,317,000). The Group has also invested Shs 4,265,612,000 (2009: Shs 2,122,003,000) in the various British-American unit trust funds.

	2010	2009
	Shs'000	Shs'000
Dues to related party – Company		
British-American Insurance Company (Kenya) Limited	751,465	640,505
Due from related party – Company		
British-American Asset Managers Company Limited	16,852	20,900
Britam Insurance Company (Uganda) Limited	8,451	-
	25,303	**20,900**

The inter-company balances attract interest at 11% (2009: 11%) and this amounted to Shs 72 million (2009: 55 million).

ii) Mortgage loans to directors of the Group

	2010	2009
	Shs'000	Shs'000
Loans to directors and their families		
At start of year	157,854	137,052
Loans advanced during the period	1,121	26,025
Loan repayments received	(44,937)	(5,223)
At end of year	**114,038**	**157,854**

The loans to directors, which are secured, were given on commercial terms and at market rates.

Interest charged on the loans to directors amount to Shs 16,295,909 (2009: Shs 19,825,810).

	2010	2009
	Shs'000	Shs'000
iii) Transactions with related parties		
Gross earned premium		
Equity Bank Limited	934,487	800,388
British-American Asset Managers	1,394	1,386
Net claims incurred - Equity Bank Limited	468,538	162,677
Interest on related party balances	55,338	67,221
Fair value gains/(losses)		
Equity Bank Limited	5,056,707	(1,359,043)
Housing Finance Company of Kenya Limited	211,894	(13,238)

The Group holds a 11.05% (2009: 11.47%) stake in Equity Bank Limited and 12.55% (2009: 10.01%) in Housing Finance Company of Kenya Limited.

Directors' – Group

	2010 Shs'000	2009 Shs'000
Directors' fees	3,300	3,393
Director's other remuneration	79,104	74,024
Short term benefits total	**82,404**	**77,417**
Long-term benefits	-	-
Long term benefits total	-	-
Other employees benefits	-	-
Other employees benefits total	-	-
Total	**82,404**	**77,417**

42 Investment in subsidiary companies - Company

	% holding in equity shares	2010 Shs'000	2009 Shs'000
British-American Insurance Company (Kenya) Limited	100	480,000	480,000
British-American Asset Managers Limited	100	80,000	80,000
Britam Insurance Company (Uganda) Limited	100	200,000	-
		760,000	**560,000**

Investments in subsidiary companies are classified as non current assets.

43 Retirement benefit liability

The amounts recognised in the statement of financial position are determined as follows:

	2010 Shs'000	2009 Shs'000
Present value of funded obligations	279,710	188,903
Fair value of plan assets	(139,003)	(99,569)
Present value of unfunded obligations	**140,707**	**89,334**
Unrecognised actuarial gains/(losses)	(114,992)	(53,901)
Liability in the statement of financial position	**25,715**	**35,433**

Retirement benefit liability is classified as a non current liability.

The movement in the defined benefit obligation over the year was as follows:

	2010 Shs'000	2009 Shs'000
At start of year	188,903	95,687
Current service cost	12,935	9,767
Interest cost	17,467	22,532
Actuarial (gains) / losses	70,486	63,187
Benefits paid	(10,081)	(2,270)
At end of year	**279,710**	**188,903**

The movement in the fair value of the plan assets is as follows:

	2010 Shs'000	2009 Shs'000
At start of year	99,569	85,437
Expected return on scheme assets	16,897	11,051
Actuarial (losses)/gains	(3,620)	(2,866)
Employer contributions	28,111	-
Employee contributions	8,127	8,217
Benefits paid	(10,081)	(2,270)
At end of year	**139,003**	**99,569**

Plan assets comprise:

	2010		2009	
	Shs'000	%	Shs'000	%
Equity instruments	53,517	39	36,841	37
Debt instruments	61,344	44	58,746	59
Property	9,188	7	996	1
Other	14,954	10	2,987	3
	139,003	**100**	**99,570**	**100**

Expected contributions to the plan for the year ending 31 December 2010 are Shs. 152,936,000 (2009: 92,913,000).

The amounts recognised in the income statement for the year are as follows:

	2010 Shs'000	2009 Shs'000
Current service cost	12,935	9,767
Interest cost	17,467	22,532
Expected return on scheme assets	(16,897)	(11,051)
Net actuarial losses recognised in the year	13,015	(1,305)
Contributions received from members	(8,127)	(8,217)
Total, included in employee benefit expense	**18,393**	**11,726**

The actual return on scheme assets was Shs 13,277,000 (2009: Shs 8,185,000).

The principal actuarial assumptions used were as follows:

	2010	2009
- discount rate	9.5%	12%
- expected rate of return on scheme assets	15%	12.5%
- future salary increases	8%	10%

Below is a five year summary of the defined benefits scheme assets/liabilities.

	2010 Shs'000	2009 Shs'000	2008 Shs'000	2007 Shs'000	2006 Shs'000
Present value of defined benefit obligation	(279,710)	(188,903)	(95,687)	(180,609)	(82,234)
Fair value of plan assets	139,003	95,569	85,437	84,984	73,587
Deficit in the plan	(140,707)	(93,334)	(10,250)	(95,625)	(8,647)
Experience adjustments on plan liabilities	(10,874)	(68,587)	70,262	93,773	59,893
Experience adjustments on plan assets	(804)	(2,866)	(8,672)	(1,684)	10,779

44 Contingent liabilities

The directors are of the opinion that there exists no matter with a material effect on the financial position or the profits of the company and the group to warrant any contingent liability.

Corporate Information

Contacts of the related parties are as shown below:

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