BRITISH-AMERICAN INVESTMENTS COMPANY (KENYA) LIMITED

Annual Report & Financial Statements 2011

British-American - Vision, Mission and Values

Vision

To be the most trusted financial services company.

Mission

To delight our customers with outstanding financial services

Brand Positioning

Our great past will lead us to a great future

Brand Idea

Values

Mutual respect
Innovate
Challenge
Implement
Accountability
Integrity

Personality

Forward-thinking
Approachable

Operating Principles

Outstanding leadership
Professionalism
Synergy
Operational excellence

Contents

REGISTERED OFFICE

BRITISH-AMERICAN INVESTMENTS COMPANY (KENYA) LIMITED

Britak Centre

Junction of Mara and Ragati Roads, Upper Hill

P.O. Box 30375, 00100 Nairobi

Tel: (020)2710927 – 38

Fax: (020)2717626

Website: www.british-american.co.ke

Email: british-american@british-american.co.ke

SUBSIDIARIES

BRITISH-AMERICAN INSURANCE COMPANY (KENYA) LIMITED
Physical, postal and website addresses as under the holding company
E-mail: insurance@british-american.co.ke

BRITISH-AMERICAN ASSET MANAGERS LIMITED
Physical, postal and website addresses as under the holding company
Email: assetmanagement@british-american.co.ke

BRITAM INSURANCE COMPANY (UGANDA) LIMITED
Course View Towers, 1st Floor, Plot 21 Yusuf Lule Road
Kampala, Uganda
Tel: +256 417 7026000
Email: britam@britam.co.ug

RELATED PARTIES - INTERNATIONAL

BRITISH-AMERICAN INVESTMENT CO. (MTIUS) LTD

25 Pope Hennessy Street
P.O. Box 331
Port Louis
MAURITIUS
Tel: (230) 202 3600
Fax: (230) 208 3713
E-mail: info@bainvestment.com

BRITISH-AMERICAN (UK) LIMITED

138 Piccadilly
London WIJ 7NR
ENGLAND
President: Mr J. Nicholas Ashford-Hodges
Tel: (44) 207 629 79 60
Fax: (44) 207 629 79 66
E-mail: info@bahgroup.com

BAI CO (MTIUS) LTD

British American Centre
217 Royal Road
Curepipe
MAURITIUS
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Tel: (230) 602 3000
Fax: (230) 670 3384
E-mail: bai@bai.intnet.mu

GLOBALCAPITAL Plc

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MALTA
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Fax: (356) 21 333 100
E-mail: info@globalcapital.com.mt

SECRETARY

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SHARE REGISTRAR

Image Registrars Limited
Transnational Plaza
Mama Ngina Street
P.O. Box 9287 - 00100, Nairobi
Tel: +254 2230330
Email: info@image.co.ke

LEGAL ADVISORS

Kaplan & Stratton, Advocates
Daly & Figgis, Advocates
Walker Kontos, Advocates
Katende, Ssempebwa & Company Advocates

AUDITOR

PricewaterhouseCoopers
Rahimtulla Tower, Upper Hill Road

ACTUARIAL SERVICES

Aon Hewitt Actuarial
Sandton, South Africa

Triangle Actuarial Services
Wake Forest, North Carolina USA

BANKERS

Commercial Bank of Africa Ltd
Equity Bank Ltd
Barclays Bank of Kenya Ltd
Citibank
Kenya Commercial Bank Ltd
National Bank of Kenya Ltd
Standard Chartered Bank
Co-operative Bank

NAIROBI

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NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE 16TH ANNUAL GENERAL MEETING of the Company will be held at the Bomas of Kenya, Langata Road, Nairobi on Friday, 20 April 2012 at 10.00 am to transact the following business:

1. To table the proxies and note the presence of a quorum.
2. To read the Notice convening the meeting.
3. To receive, consider and if approved, adopt the Consolidated audited financial statements for the year ended 31 December 2011, together with the Chairman's, Directors' and Auditors' Reports thereon.
4. To approve the payment of a final dividend for the year ended 31 December 2011 of Kshs 0.15 per ordinary share of Ksh 0.10 each, subject to withholding tax where applicable, in respect of the financial year ended 31 December 2011 to Shareholders on the Register of members at the close of business as at 26th April 2012.
5. To elect Directors:
   i) Mr. Peter K. Munga retires by rotation in accordance with Articles 92 and 93 of the Company's Articles of Association and being eligible, offers himself for re-election as a director;
   ii) Mr. Jimnah M. Mbaru retires by rotation in accordance with Articles 92 and 93 of the Company's Articles of Association and being eligible, offers himself for re-election as a director;
   iii) Mr. J. Nicholas Ashford-Hodges retires by rotation in accordance with Articles 92 and 93 of the Company's Articles of Association and being eligible, offers himself for re-election as a director;
   iv) Mrs. Agnes N. Odhiambo having been appointed to fill a casual vacancy in accordance with Article 115 of the Company's Articles of Association is retiring and being eligible, offers herself for re-election as a director.
6. To approve the remuneration of the Directors' for the year ended 31 December 2011.
7. To note that the auditors Messrs PricewaterhouseCoopers , being eligible and having expressed their willingness, will continue in office in accordance with Section 159 of the Companies Act (Cap 486) and to authorise the directors to fix their remuneration.
8. To consider any other business for which due notice has been given.

By order of the Board

Nancy K. Kiruki

Company Secretary

NOTES:

1. A member entitled to attend and vote at the meeting and who is unable to attend, is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company.

   A Proxy Form may be obtained from the Company's website www.british-american.co.ke , registered office of the Company, Britak Centre, Mara/Ragati Road, Upperhill, Nairobi, P.O. Box 30375 – 00100, Nairobi, or offices of the Company's shares registrar firm, Image Registrars Limited, Transnational Plaza, 8th Floor, Mama Ngina Street, Nairobi.

   To be valid, a form of Proxy, must be duly completed by the member and must either be lodged with the Company Secretary at the Company's head office situated at Britak Centre, Mara/Ragati Road, Upperhill, Nairobi, P.O. Box 30375 – 00100, Nairobi or the Shares Registrar, Image Registrars Limited, Transnational Plaza, 8th Floor, Mama Ngina Street, Nairobi, not later than 10.00 am Wednesday 18 April 2012, failing which it will be invalid. Alternatively, duly signed proxies can be scanned and emailed to info@image.co.ke in pdf format. In the case of a corporate body, the proxy must be under its common seal.
2. In accordance with Article 151 of the Articles of Association of the Company, a copy of the entire Annual Report & Accounts may be viewed at the Company's website at www.british-american.co.ke or a printed copy may be obtained from the registered Office of the Company, Britak Centre, Mara/Ragati Road, Upperhill, Nairobi, P.O. Box 30375 – 00100, Nairobi

ILANI YA MKUTANO MKUU WA KILA MWAKA

ILANI INATOLEWA HAPA KWAMBA, MKUTANO MKUU WA 16 WA KILA MWAKA wa Kampuni utaandaliwa katika Bomas of Kenya, Langata Road, Nairobi mnamo Ijumaa, Aprili 20, 2012 saa 4.00 asubuhi kuendesha shughuli zifuatazo:

1. Kuwasilisha fomu za uwakilishi na kutambua kuwepo kwa idadi ya kutosha ya wanachama kuendesha shughuli
2. Kusoma Ilani ya kuandaa mkutano
3. Kupokea, kuchunguza na iwapo itakubalika, idhinisha taarifa za kifedha zilizokaguliwa kwa mwaka uliomalizika Desemba 31, 2011, pamoja na Ripoti za Mwenyekiti, Wakurugenzi na Wahasibu zilizoambatanishwa.
4. Kuidhinisha malipo ya mgao wa mwisho wa faida kwa mwaka uliomalizika Desemba 31, 2011 ya Ksh 0.15 kwa kila hisa ya kawaida ya Ksh 0.10 baada ya kuondoa ushuru wa kushikilia inavyohitajika, kuhusiana na kipindi cha matumizi ya fedha kilichomalizika Desemba 31, 2011 kwa Wenyehisa walio kwenye Sajili ya wanachama kufikia mwisho wa shughuli za siku Aprili 26, 2012.
5. Kuchagua Wakurugenzi:
   i) Bw. Peter K. Munga anastaafu kwa mzunguko kwa mujibu wa Vifungu 92 na 93 vya Katiba ya Kampuni na kwa kuwa bado anahitimu, ajitokeza tena kwa uchaguzi kama mkurugenzi;
   ii) Bw. Jimnah M. Mbaru anastaafu kwa mzunguko kwa mujibu wa Vifungu 92 na 93 vya Katiba ya Kampuni, na kwa kuwa bado anahitimu, ajitokeza tena kwa uchaguzi kama mkurugenzi;
   iii) Bw. J. Nicholas Ashford-Hodges anastaafu kwa mzunguko kwa mujibu wa Vifungu 92 na 93 vya Katiba ya Kampuni na kwa kuwa bado anahitimu, ajitokeza tena kuchaguliwa kama Mkurugenzi;
   iv) Bi. Agnes N. Odhiambo baada ya kuteuliwa kujaza nafasi iliyokuwa wazi kwa muda kwa mujibu wa Kifungu 115 cha Katiba ya Kampuni anastaafu na kwa kuwa bado anahitimu, ajitokeza kuchaguliwa tena kama mkurugenzi.
6. Kuidhinisha malipo ya Wakurugenzi kwa mwaka uliomalizika Desemba 31, 2011.
7. Kutambua kuwa wahasibu PricewaterhouseCoopers, kwa kuwa wanahitimu na wameelezea nia yao ya kuendelea kuhudumu kwa mujibu wa Sehemu ya 159 ya Sheria za Kampuni (Sura 486) na kuidhinisha Wakurugenzi kuamua ujira wao.
8. Kuangalia shughuli zingine zile ambazo ilani ifaayo imepeanwa.

Kwa Amri ya Bodi

Nancy K. Kiruki
Katibu wa Kampuni

MAELEZO:

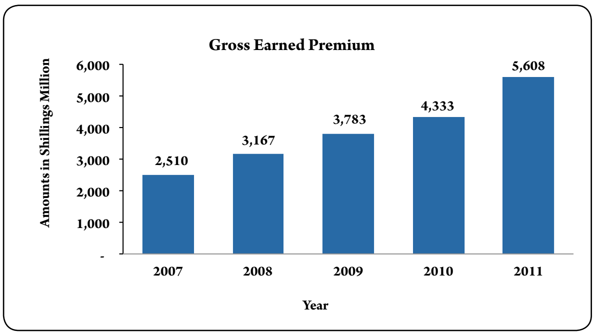
1. Mwanachama aliye na haki ya kuhudhuria na kupiga kura kwenye mkutano na ambaye hawezi kuhudhuria, anaweza kumteua mwakilishi kuhudhuria na kupiga kura kwa niaba yake. Mwakilishi si lazima awe mwanachama wa Kampuni.

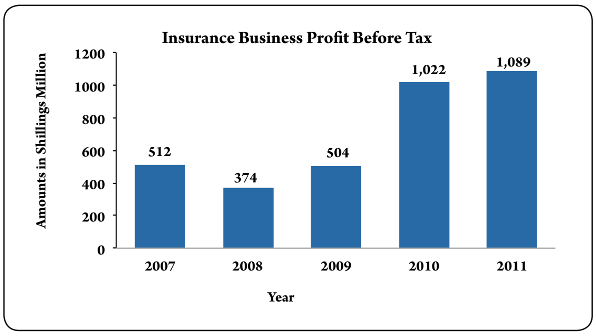
   Fomu ya Uwakilishi inaweza kupatikana kwenye mtandao wa Kampuni www.british-american.co.ke, afisi rasmi za Kampuni Britak Centre, makutano ya barabara za Mara/Ragati, Upperhill, Nairobi, S.L.P 30375 – 00100, Nairobi, au afisi za msajili wa Hisa wa Kampuni, Image Registrars Limited, Transnational Plaza, Ghorofa ya. nane, Mama Ngina Street, Nairobi.

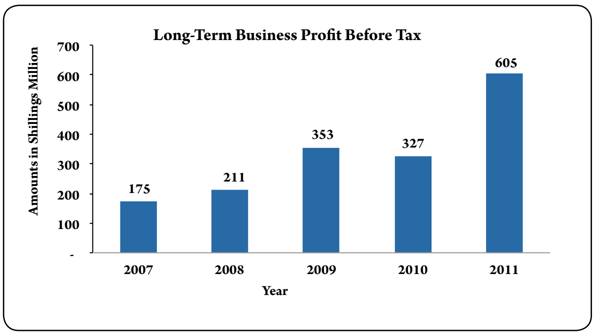
   Ili kuwa halali, fomu ya uwakilishi inapasa kujazwa kwa ukamilifu na mwanachama na kuwasilishwa kwa Katibu wa Kampuni katika afisi kuu za Kampuni zilizoko Britak Centre, makutano ya barabara za Mara/Ragati, Upperhill, Nairobi, S.L.P 30375 – 00100, Nairobi, au afisi za msajili wa Hisa wa Kampuni, Image Registrars Limited, Transnational Plaza, Ghorofa ya. nane, Mama Ngina Street, Nairobi kabla ya saa 4.00 asubuhi, Jumatano Aprili 18, 2012 la sivyo, haitakuwa halali. Ama kwa njia nyingine, fomu za uwakilishi zilizojazwa na kutiwa sahini zaweza kutolewa nakala na kutumwa kwa njia ya barua pepe kwa info@image.co.ke kwa muundo wa pdf. Na endapo ni shirika, basi fomu hiyo ya uwakilishi ni lazima iwe na nembo rasmi ya shirika hilo.

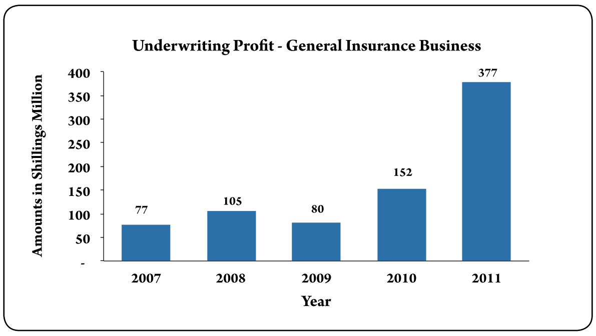
2. Kwa mujibu wa Kifungu 151 cha Katiba ya Kampuni, nakala ya Ripoti nzima ya Kila Mwaka na Hesabu inaweza kuangaliwa kwenye mtandao wa Kampuni www.british-american.co.ke au nakala iliyochapishwa inaweza kupatikana katika afisi za Kampuni, Britak Centre, makutano ya barabara za Mara/Ragati, Upperhill, Nairobi, S.L.P 30375 – 00100, Nairobi.

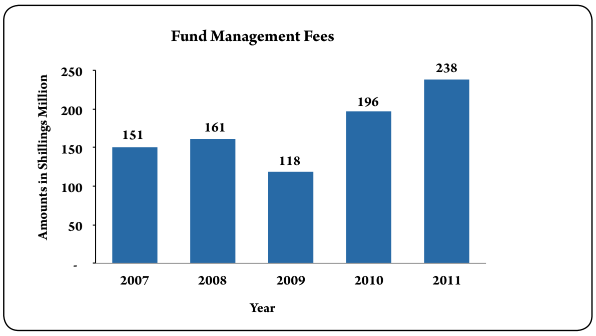
Five year financial highlights

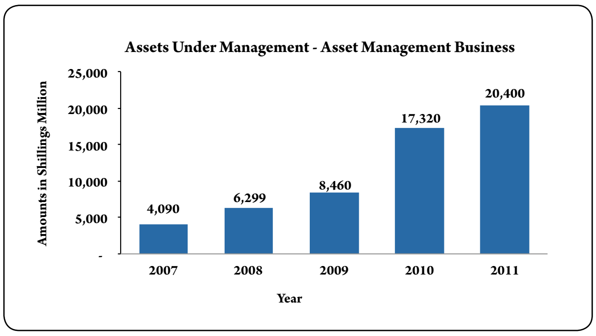


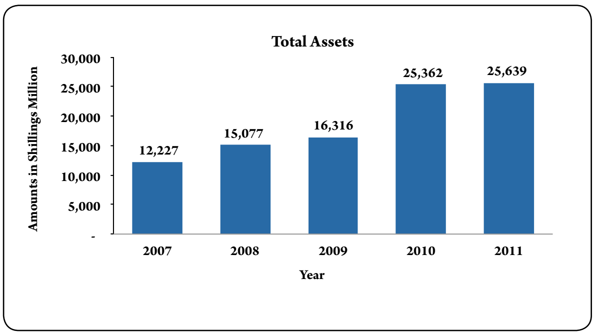


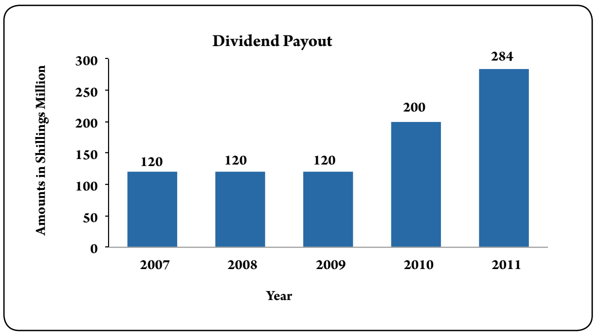




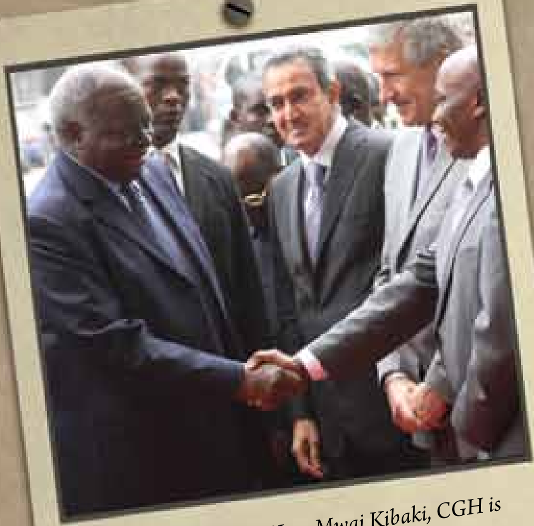




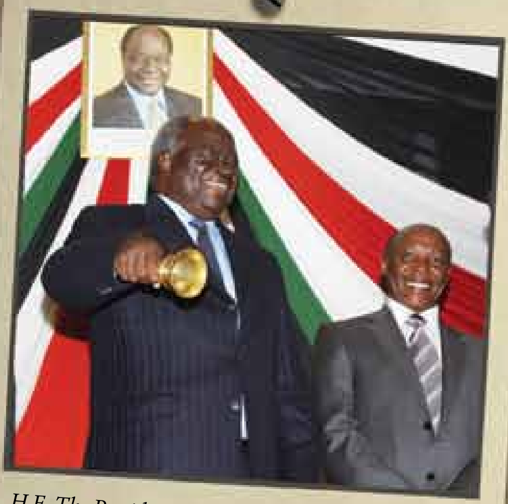




British-American IPO Launch and Listing



H.E. The President Hon. Mwai Kibaki, CGH is introduced to the Board of Directors



H.E. The President Hon. Mwai Kibaki, CGH rings the bell to mark the listing of the shares

H.E. The President Hon. Mwai Kibaki, CGH receives a gift from Mr. D.A. Rawat and Mr. B. I. Wairegi on behalf of the company

H.E. The President Hon. Mwai Kibaki, CGH cuts the cake in celebration of the listing

Mr. D.A. Rawat, Rt Hon. The Prime Minister Raila Odinga, Mr. B.I. Wairegi and Mr. J.N. Ashford-Hodges toast to the launch

Mr. J. N. Ashford-Hodges, Mr. B. I. Wairegi and Rt Hon. The Prime Minister Raila Odinga unveil the share price

British-American Awards and Recognition

Mr. Peter Kinyanjui, Accounts Assistant, receives an award and cheque as the longest serving employee

Mr. Simon Kibira, Supervisor - Customer Relationship and Front Office, is awarded the best employee of the year 2010

The British-American fraternity celebrates the AKI Agent of the Year Company Award

Mr. S. O. Wandera receives the AKI Agent of the Year Company Award

Mr. B. I. Wairegi leads the British-American team in celebrating the AKI Agent of the Year Company Award

Chairman's Statement

On behalf of the Board of Directors of British-American Investments Company (Kenya) Limited and its subsidiaries, I have pleasure in presenting to you the Annual Report and Financial Statements of the Company for the year ended 31 December 2011.

This is my first Chairman's Statement since the Company was listed on the Nairobi Securities Exchange (NSE) in September 2011. Last year was a very turbulent one for the world financial markets, especially those of Europe and North America, and the NSE was directly and indirectly impacted and suffered one of its worst years losing over 30% of its value over the course of the year. A major turning point, the downgrading of US government debt, disappointingly occurred right in the midst of the Initial Public Offering (IPO) of our shares and in that context it was satisfactory to achieve the 60% take-up which allowed us to complete the IPO and list. The listing of our shares was a major milestone for the British-American Group in Kenya and the ceremony on 8 September 2011 marked the commencement of trading of 1.9 billion shares in the hands of some 28,000 shareholders.

The depressed state of the stock market unfortunately continued after the IPO and regrettably equity values had deteriorated even further by the end of 2011. Given the major exposure of our balance sheet to the equity markets, the market anticipated our poor financial results for the year and the value of our shares witnessed a significant fall below the IPO price of Kshs 9.00, closing the year at Kshs 5.60 and falling as low as Kshs 3.80 in February 2012 before regaining some value subsequently.

Though our reported results for the calendar year do show a significant adverse impact on shareholders' funds of some Kshs 4 billion, it is important that investors are aware of the key drivers of results and value. The business fundamentals of the Group remain very sound. The reported loss is largely attributable to market value adjustment of our quoted equity portfolio, though such fair value adjustments are expected to be temporary in nature. British-American Insurance Company (Kenya) Limited wrote record levels of new business during the year and the value of the in-force book of business increased by more than Kshs 1 billion despite the prevailing market conditions. British-American Asset Managers Limited increased its Assets Under Management to Kshs 20.4 billion from Kshs 17.3 billion in 2010 and posted a Profit Before Tax of Kshs 44 million compared to Kshs 24 million in 2010.

The more detailed review below needs to be considered in that context.

GROUP'S BUSINESS ACTIVITIES

The Group comprises an investment holding company, British-American Investments Company (Kenya) Limited, and four wholly owned operating subsidiaries British-American Insurance Company (Kenya) Limited, British-American Asset Managers Limited, Britam Insurance Company (Uganda) Limited and Britam Insurance Company Limited in South Sudan. 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 and it is regulated by the Uganda Insurance Commission (UIC). Britam Insurance Company Limited in South Sudan was incorporated in March 2012 and is expected to commence operations within the first half of 2012. The Group also owns strategic stakes of 10.64% in Equity Bank Limited and 20.88% in Housing Finance Company of Kenya Limited (Housing Finance) which are both listed on the Main Investment Market Segment of the Nairobi Securities Exchange. The increase in the Housing Finance stake owned by the Group to over 20% in 2011 effectively changed Housing Finance to an associate of British-American in 2011 and the financial statements have been prepared on this basis.

In pursuit of performance excellence, the company has in the last two years participated in the Organization Performance Index which is a tool that evaluates management practices and is facilitated by the Kenya Institute of Management (KIM). In 2011, our Group Managing Director was recognised as the CEO of the Year 1st runner up.

REVIEW OF OUR BUSINESS STRATEGY

By way of utilisation of the Kshs 3.5bn proceeds of the IPO, we have commenced implementation of our very ambitious plans in line with those presented in the prospectus. Our strategies will focus on expanding to the region, as well as growing the Kenyan market.

Our first pillar is to increase the scope of our operations and widen our footprint to the rest of East Africa. We have already begun implementing this ambition by opening subsidiary companies in Uganda and are in the process of seeking a license for our subsidiary in South Sudan as well as registering an asset management business alongside our Uganda insurance business. The next step will be to open offices in Tanzania and Rwanda subject to receiving regulatory approvals in those markets.

Apart from the regional expansion we will also take advantage of the emerging opportunities in the Kenyan market at the micro and corporate level. One of British American's strengths is the large sales force of over 1000 financial advisors coupled with our wide branch network spread throughout the country. While exploring additional distribution channels, we have started growing this number significantly and are in the process of opening more branches in the counties in line with the new constitution.

Furthermore, we have advanced plans for ramping up our investment in the real estate sector and have recently launched the development of a large scale iconic office development in the Upper Hill area of Nairobi. We are also in an advanced stage of setting up a property fund to be managed by our asset management business. We will continue developing strategic alliances in the housing sector to enable more Kenyans access to affordable housing.

OPERATING ENVIRONMENT

The global economy experienced some shocks, principally the Eurozone crisis and the downgrading of the US sovereign debt by the Standard and Poors, the rating agency.

The Kenyan economy registered a low growth in Gross Domestic Product (GDP) estimated at 4.7% compared to 5.6% in 2010, 2.6% in 2009 and 2.1% in 2008.

The equity markets performed dismally during the year with an overall loss of value for the NSE index in excess of 30% as a result of negative investment sentiment, high inflation and a subdued participation from foreign investors. The bond market remained active during the year with Kshs 445 billion of government bonds transacted in 2011, compared to Kshs 483 billion in 2010, a decline of 7.8%.

Inflation experienced an increasing trend from January 2011 at 5.4% to November 2011 at 19.7%. However, the inflation was checked in November and December closing the year at 18.9%. The overall inflation for the year was 18.9%. This trend of increasing inflation was consistent for all East Africa countries.

During the year, short term interest rates escalated significantly with the 91-day Treasury bill rate increasing to 19% at the close of the year from 2.36% at the beginning of the year, while 182-day Treasury bill rate increased to 18.95% from 2.63% at the start of the year. These increases reflected tightening liquidity in the economy and the tightened monetary policy pursued by the Central Bank of Kenya in an attempt to curb inflation and run away exchange rate

The Kenya shilling exchange rate to the dollar hit an all time high of 107 in October 2011 but stabilised to close the year at Kshs 85.07 to the dollar following the measures taken by the Central Bank of Kenya through it Monetary Policy Committee.

FINANCIAL SECTOR DEVELOPMENTS

The insurance penetration in Kenya remains a lowly 3% and only 0.65% in Uganda. Available statistics for Kenya show gross written premium volume for the industry in 2010 was Kshs 70.06 billion compared to Kshs 64.47 billion in 2009 representing 16% growth whereas GDP growth was 5.6%. That is an encouraging trend but penetration would be given a significant boost by fiscal incentives, particularly for life insurance whose penetration is even lower than for general insurance at only 1% in Kenya and 0.06% in Uganda.

There were 23 underwriters in the Life business compared with 38 underwriters in Non-Life business. Overcapacity and price wars continue to be a challenge despite zeal to grow the market and to innovate.

The taxation of life insurance business remains an anomaly. The taxation of the management expenses and commissions in excess of the amounts allowed under the Insurance Act and the 30% limitation on appropriation of life fund surplus, including non-participating life funds, continue to be a dampener on investment. 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 (IRA) and the Government for the initiatives conducted in micro-insurance and the promotion of a risk-based approach to business among others. Our endeavours in micro-insurance will continue.

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

We also 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 2012.

PERFORMANCE REVIEW

On the back of the poor performance of the Nairobi Securities Exchange, the Group made a loss before tax of Kshs 1.7 billion compared to a profit before tax of Kshs 2.9 billion in 2010. This negative performance is attributed to significant unrealised fair value losses on equity investments, a reflection of the negative performance of the Stock Market during the year.

The core businesses of the Group however continued to perform exceptionally well. The Group's gross income increased from Kshs 4.3 billion to Kshs 5.6 billion during the year, an admirable growth of 30%.

Total operating costs were up 32% to Kshs 1,743 million from Kshs 1,317 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 Kshs 43.0 billion as at 31 December 2010 to Kshs 46.0 billion as at 31 December 2011. Assets under management (AUM) in the investment advisory and fund management business grew by 18% to Kshs 20.4 billion up from Kshs 17.3 billion in 2010.

BOARD CHANGES

In an effort to improve corporate governance, three independent directors joined the board.

Mr. Bocar E. Dia and Mr. Joseph N. Muli joined the Board in May 2011, while Mrs. Agnes N. Odhiambo joined in March 2012. In addition, Mr. E.M. Swadeck Taher was appointed in March 2012 as Alternate Director to Mr. Saleem R. Beebeejaun . They all bring extensive experience (both local and international) which will enrich Board decisions.

Mr. Muli is currently the Managing Director, Kenya Railways Corporation. He holds an Executive Master of Business Administration from Moi University and a Bachelor of Land Economics from University of Aberdeen, Scotland.

Mr. Dia is an international consultant for UNDP, UNICEF and UNAIDS and acts as the Chairperson for Network System Area, Societe de Batiments et Travaux Publiques and Amayelle Transport, three Senegal-based companies. He has worked extensively for UNESCO occupying several senior posts. He also taught Economics and International Relations at the University of Montreal in Canada. Mr. Dia holds a Master of Political Science and Bachelor of Political Science from University of Montreal. He also holds an honours degree in International Economics and International Relations.

Mrs. Odhiambo is currently the Controller of Budget of the Republic of Kenya and possesses over twenty-five (25) years experience in strategy formulation and implementation and finance. Mrs. Odhiambo holds a Master of Business Administration degree and a Bachelor of Commerce degree from the University of Nairobi and is a Certified Public Accountant of Kenya - CPA (K).

Mr. Taher is a fellow of both the Institute of Chartered Accountants of England and Wales and Association of Chartered Certified Accountants of UK and is currently the President and Chief Executive Officer of Bramer Corporation in Mauritius. He has extensive experience in financial services sector and was the recipient of the prestigious ACCA Achievement Award in 2007 for his contribution to the accounting profession in Mauritius .

It is my pleasure therefore, to welcome Mr. Dia, Mr. Muli, Mrs. Odhiambo and Mr. Taher to the Board.

DIVIDEND

The Board of Directors is recommending a total dividend for the year of Kshs 284 million (2010: Kshs 200 million) or Kshs 0.15 per share (2010: Kshs 0.13).

FUTURE OUTLOOK

In 2012 Global GDP, which expanded by 2.6% in 2011, is estimated by the World Bank to slow down to 2% as the global economy transitions from the bounce-back phase of the recovery to a period of slower but sustainable growth. Although reduced demand from western export markets is adversely affecting emerging markets, strong growth in domestic demand from developing countries is leading the growth of these economies, with forecast growth of 5% in 2012 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 both local and geographical expansion. The Group will also continue to pursue its property development initiatives. Untapped potential stands to be realised for the country as a whole from the ongoing programme of reforms and through restored investor confidence.

The Group will place emphasis on its position as a market leader in the life insurance and asset management markets and take advantage of the well founded and extraordinary optimism of the Kenyan population about this country's economic potential. Life insurance has long been recognised for its ability to create, mobilise and distribute capital through the sale of long term insurance products and the re-injection of accumulated savings into the economy through loans and other investments such as land and property development. The Group will continue to champion this long established business model even as it builds and develops the other lines of business.

The future of the Group is indeed promising as it takes strides to be at the forefront of both local and regional expansion as well as property investment and development. We believe that 2012 will be a better year for the Group and, looking beyond, we are confident that we will continue to go from strength to strength.

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 investors, 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.

J. Nicholas Ashford-Hodges
Chairman

21 March 2012

Kwa niaba ya Bodi ya Wakurugenzi wa British-American Investments Company (Kenya) Limited na kampuni zake tanzu, nina furaha kuwasilisha, Ripoti ya kila Mwaka na Taarifa za Kifedha za Kampuni kwa mwaka uliomalizika Desemba 31, 2011.

Hii ndio taarifa yangu ya kwanza kama Mwenyekiti tangu Kampuni iorodheshwe kwenye Soko la Hisa la Nairobi (NSE) mnamo Septemba 2011. Mwaka uliopita ulikuwa na msukosuko kwa masoko ya kifedha duniani, hasa yale ya Ulaya na Amerika Kaskazini, na NSE kwa njia moja au nyingine, iliathiriwa na kushuhudia mojawapo ya vipindi vigumu zaidi na kupoteza zaidi ya asilimia 30 ya thamani yake mwaka uliopita. Na kipindi muhimu, ambacho ni kupunguzwa kwa kiwango cha deni la Serikali ya Amerika, kwa bahati mbaya kilitokea katikati ya Toleo la Kwanza la Hisa kwa Umma (IPO) la hisa zetu na katika muktadha huo, ni jambo la kujivunia kuwa asilimia 60 ya hisa zilichukuliwa na hivyo kutuwezesha kukamilisha toleo hilo na kuorodheshwa katika soko la hisa. Kuorodheshwa kwenye soko la hisa ni tukio la kihistoria kwa kampuni ya British-American Group nchini Kenya na sherehe hiyo iliyofanyika Septemba 8, 2011 ilikuwa mwanzo wa uuzaji wa hisa 1.9 bilioni zilizomo mikononi mwa wenyehisa 28,000.

Kudidimia kwa thamani ya hisa kwenye soko la hisa la Nairobi kwa bahati mbaya kuliendelea hata baada ya toleo la kwanza la hisa (IPO) na thamani ya hisa ilipungua hata zaidi kufikia mwisho wa 2011. Ikizingatiwa kuwa mizania yetu inategemea kwa kiasi kikubwa soko la hisa, wanunuzi walitarajia matokeo mabaya kwa mwaka na thamani ya hisa zetu ilishuka maradufu chini ya bei ya toleo la kwanza ya Kshs 9.00, na kumaliza mwaka kwa Kshs 5.60 na hata kushuka wakati mmoja hadi Kshs 3.80 mnamo Februari 2012 kabla ya thamani yake kuimarika tena.

Ingawa matokeo yaliyoripotiwa kwa mwaka uliomalizika yanaonyesha athari mbaya kwa hazina ya wawekezaji ya Kshs 4bilioni, ni muhimu kuwafahamisha wawekezaji kuhusu nguzo kuu za uzalishaji. Msingi wa Kampuni bado ni thabiti ilhali hasara iliyoripotiwa inatokana na marekebisho kwenye akiba katika soko la hisa, mabadiliko ambayo yanakadiriwa kuwa ya muda. British-American Insurance Company (Kenya) Limited ilifikia viwango vya kihistoria vya biashara mpya na thamani ya biashara iliyopo iliongezeka kwa zaidi ya Ksh1bilioni licha ya hali ngumu ya kibiashara. Na British-American Asset Managers Limited iliongeza thamani ya Raslimali Inazosimamia hadi Kshs 20.4 bilioni kutoka Kshs 17.3 bilioni mnamo 2010 na kupata Faida kabla ya Ushuru ya Kshs 44 milioni ikilinganishwa na Kshs 24 milioni mnamo 2010.

Ni muhimu kusoma tathmini ya kina zaidi hapa chini kuhusiana na suala hilo.

SHUGHULI ZA BIASHARA ZA KAMPUNI

Kundi letu linajumuisha kampuni ya uwekezaji British-American Investments Company (Kenya) Limited, na kampuni zingine nne tanzu za British-American Insurance Company (Kenya) Limited, British-American Asset Managers Limited, Britam Insurance Company (Uganda) Limited na Britam Insurance Company (Sudan) Limited. British-American Insurance Company (Kenya) Limited huchukua bima katika aina zote za bima ya maisha na zile zisizo za maisha kama zinavyofafanuliwa na Sheria kuhusu Bima Kenya isipokuwa ya uchukuzi wa ndege na uwekezaji katika dhamana. Inasimamiwa na Mamlaka ya Kusimamia Bima (IRA). British-American Asset Managers Limited inatoa ushauri kuhusu uwekezaji na huduma za usimamizi wa mtaji kwa wawezekaji binafsi na mashirika na inasimamiwa na Mamlaka ya Soko la Mtaji (CMA). Britam Insurance Company (Uganda) Limited ilianzisha huduma zake Novemba 2010 na ina kibali cha kuchukua aina zote za bima ya maisha zile zisizo za maisha kama ilivyoainishwa na Sheria ya Bima Uganda (UIC). Britam Insurance Company (Sudan) ilianzishwa Februari 2012 na inatarajiwa kuanza shughuli zake katika nusu ya kwanza ya 2012. Kundi hili pia linamiliki asilimia 10.64 ya hisa katika Equity Banki Limited Limited na asilimia 20.88 katika Housing Finance Company of Kenya Limited (HF) ambazo zote zimeorodheshwa kwenye kitengo cha Uwekezaji katika Soko la Hisa la Nairobi. Nyongeza ya hisa zinazomilikiwa na Kampuni katika Housing Finance kwa hadi asilimia 20 mnamo 2011 kimsingi iligeuza Housing Finance kama kampuni mshirika wa British-American mnamo 2011 na taarifa za kifedha zimeandaliwa kwa msingi huu.

Ili kutafuta matokeo bora zaidi, katika muda wa miaka miwili kampuni imeshiriki kwenye kiegezo cha kupima utendakazi wa shirika (OPI) ambacho ni chombo kinachotathmini usimamizi na kinachosimamiwa na Kenya Institute of Management (KIM). Mnamo 2011, Mkurugenzi wetu Mkuu alitambuliwa kama Afisa Mkuu Mtendaji wa pili wa Mwaka.

TATHMINI YA MKAKATI WETU WA BIASHARA

Kama njia ya matumizi ya mapato ya toleo la hisa kwa umma ya Kshs 3.5 bilioni, tumeanzisha utekelezaji wa mipango yetu mikuu sambamba na ilivyoonyeshwa kwenye jarida kuhusu toleo hilo la hisa. Mikakati yetu itaangazia kusambaza huduma zetu katika eneo zima, pamoja na kupanua soko la Kenya linaloendelea kukua.

Nguzo yetu ya kwanza ni kuongeza mawanda ya operesheni zetu na kusambaa kote Afrika Mashariki. Tayari tumeanza kutekeleza azima hii kwa kufungua kampuni tanzu nchini Uganda na tumo kwenye harakati za kutafuta leseni kufungua kampuni nyingine Sudan Kusini pamoja na kufungua kusajili biashara, usimamizi wa raslimali pamoja na biashara yetu ya bima nchini Uganda. Hatua nyingine itakuwa ufunguzi wa afisi Tanzania na Rwanda ikitegemea idhini za taasisi simamizi katika masoko hayo.

Mbali na upanuzi katika maeneo hayo, pia tutatumia fursa za nafasi zinazoibuka katika soko la Kenya katika kiwango cha watu binafsi na pia mashirika. Mojawapo ya nguzo kuu za British American ni kundi kubwa la maafisa wa mauzo wanaotoa ushauri wa kifedha pamoja na mtandao wetu mkubwa wa matawi yaliyoko kote nchini. Huku tukitafuta njia zaidi za usambazaji, tumeanzisha kuongeza maradufu idadi hii na tunajiandaa kufungua matawi zaidi katika kaunti sambamba na katiba mpya.

Isitoshe, tumepanga kuongeza uwekezaji wetu katika sekta ya nyumba na hivi majuzi, tulizindua ujenzi wa afisi za kifahari katika eneo la Upper Hill, Nairobi. Tuna mipango pia ya kuanzisha hazina ya nyumba itakayosimamiwa na kitengo chetu cha usimamizi wa raslimali. Tutaendelea kukuza ushirikiano ufaao katika sekta ya nyumba kuwezesha Wakenya zaidi kupata makazi ya gharama nafuu.

MAZINGIRA YA UTENDAKAZI

Uchumi duniani umekumbwa na misukosuko, hasa janga katika mataifa yanayotumia Euro na kupunguzwa kwa deni la serikali ya Amerika na shirika la Standard and Poors.

Uchumi wa Kenya ulizorota huku jumla ya mapato ya nchi (GDP) yakiongezeka kwa asilimia 4.7, ikilinganishwa na asilimia 5.6 mnamo 2010, 2.6 mnamo 2009 na 2.1 mnamo 2008. Masoko ya hisa yalididimia mwaka uliopita huku kukiwa na jumla ya hasara kwa kielezo cha kampuni 20 bora katika Soko la Hisa la Nairobi ya zaidi ya asilimia 30 iliyotokana na hisia mbaya kuhusu uwekezaji, mfumko wa bei za bidhaa na kuondoka kwa wawekezaji wa kigeni. Soko la hisa hata hivyo liliendelea kuwa na shughuli nyingi mwaka uliopita huku dhamana za serikali za thamani ya Kshs 445 bilioni zikiuzwa mnamo 2011, ikilinganishwa na Kshs 483 bilioni mnamo 2010, upungufu wa asilimia 7.8.

Gharama ya maisha iliendelea kupanda kutoka asilimia 5.4 mnamo Januari hadi asilimia 19.7 mnamo Novemba 2011. Hata hivyo, mfumko huo wa bei za bidhaa ulipungua Novemba na Desemba na kufikia asilimia 18.9. Kwa ujumla, kiwango cha gharama ya maisha kwa mwaka uliomalizika kilikuwa asilimia 18.9. Mkondo huu wa kupanda kwa gharama ya maisha ulishuhudiwa katika mataifa yote ya Afrika Mashariki.

Katika mwaka huo, viwango vya riba vya muda mfupi vilipanda kwa kiwango kikubwa huku kiwango cha riba cha hati za dhamana za siku 91 kikiongezeka hadi asilimia 19 mwishoni mwa mwaka, kutoka asilimia 2.36 mwanzoni mwa mwaka, ilhali kiwango cha riba cha hati za dhamana za siku 182 kikiongezeka hadi asilimia 18.95 kutoka asilimia 2.63 mwanzoni mwa mwaka. Kupanda kwa viwango vya riba kuliashiria kupungua kwa pesa zilizosambaa katika uchumi na sera madhubuti ya kifedha iliyokumbatiwa na Benki Kuu ya Kenya katika hatua ya kukabiliana na mfumko wa bei za bidhaa na kupungua katika thamani ya shilingi.

Shilingi ya Kenya ilibadilishwa kwa dola kwa kiwango cha juu zaidi cha Kshs 107 mnamo Oktoba 2011 lakini ikatulia kufikia mwishoni mwa mwaka kwa Kshs 85.07 kufuatia hatua zilizochukuliwa na Benki Kuu ya Kenya kupitia Kamati yake ya Sera ya Kifedha.

MATUKIO KATIKA SEKTA YA KIFEDHA

Usambazaji wa huduma za bima Kenya bado ni chini katika kiwango cha asilimia 3 ilhali ni asilimia 0.65 nchini Uganda. Takwimu zilizopo kuhusu Kenya zaonyesha wateja walichukua bima katika sekta hiyo 2010 ya jumla ya Kshs 70.06 bilioni ikilinganishwa na Kshs 64.47 bilioni mnamo 2009, na hivyo ukuaji wa asilimia 16 ilhali ukuaji wa jumla ya mapato ya nchi ulikuwa asilimia 5.6. Huo ni mkondo wa kutia moyo lakini usambazaji wa huduma hizo utapigwa jeki hata zaidi kukiwa na vishawishi vya kifedha, hasa katika bima ya maisha ambayo imefikia asilimia 1 tu ya raia nchini Kenya na asilimia 0.06 nchini Uganda. Kulikuwa na mashirika 23 yanayojihusisha na biashara ya bima ya Maisha ikilinganishwa na 38 katika biashara isiyojishughulisha na Maisha.

Idadi kubwa ya mashirika ya bima na ushindani kuhusu bei zinaendelea kuwa changamoto kubwa licha ya msukumo wa kupanua soko na kuwa wabunifu.

Utozaji ushuru wa biashara ya bima ya maisha umebaki kuwa tatizo ambalo linahitaji kurekebishwa. Utozaji ushuru wa gharama za usimamizi na ada zilizo juu ya kiwango kinachoruhusiwa chini ya Sheria ya Bima na kizuizi cha asilimia 30 katika matumizi ya fedha za ziada za maisha ikiwa ni pamoja na fedha zilizo shirikishi kimeendelea kuzuia uwekezaji. Tuna matumaini kwamba tatizo hili litaangaziwa tena katika kipindi kifupi kijacho kupitia sheria.

Bima ya kiwango kidogo ina uwezo wa kusaidia katika ustawi wa jamii na kiuchumi sio tu kupitia mkopo wa bima ya maisha lakini pia kushughulikia nyanja kama vile matibabu ya kipekee, bima ya kilimo na maisha. Huku mashirika ya bima yakijikakamua kuendeleza uhamasishaji ufaao na kubuni miundo ya kibiashara na ya usambazaji, ni muhimu kwa Serikali kuunga mkono jitihada hizi. Serikali inaweza kusaidia katika jitihada hizi kupitia kampeni za kuelimisha raia kuhusu bima, kwa kupanua aina ya bima ya lazima ili

kujumuisha mimea, mifugo, matibabu, mazishi na elimu kupitia mfumo wa ushirikiano wa serikali na sekta ya kibinafsi (PPP), na kupitia kuondolewa kwa gharama zilizotokana na utafiti na majaribio.
Tunashukuru Mamlaka ya Kusimamia Sekta ya Bima na Serikali kwa mipango iliyoanzishwa katika bima ya kiwango kidogo na kuunga mkono mfumo wenye changamoto wa kuendesha biashara miongoni mwa hatua zingine. Jitihada zetu za kujihusisha na bima ya kiwango cha chini zitaendelea.

Tunatambua msaada ambao sekta ya Usimamizi wa Hazina inaendelea kupokea kutoka kwa Serikali katika utoaji wa vishawishi vya ushuru na kuimarisha uhamasishaji kuhusu Miradi ya Pamoja ya Uwekezaji na sekta ya bima kwa jumla.

Pia, tunachangamkia uimarishaji wa muundomsingi na uwekezaji katika sekta za kawi na barabara kote nchini. Hii itasaidia kupunguza gharama ya kuendesha biashara nchini Kenya. Pia tunatambua namna Serikali imekumbatia wajibu wa sekta ya kibinafsi na ushirikiano kati ya sekta ya umma na ile ya kibinafsi (PPP). Ushirika kama huo bila shaka utazalisha matunda kwa wote wanaohusika, hasa wakati huu Kenya inaingia katika kipindi muhimu cha marekebisho ya kikatiba 2012.

UKAGUZIWA WA MATOKEO

Kwenye matokeo mabaya katika Soko la Hisa la Nairobi, kampuni hiyo ilipata hasara ya Kshs 1.7 bilioni kabla ya kutozwa ushuru ikilinganishwa na faida ya Kshs 2.9 bilioni iliyopata kabla ya kutozwa ushuru mnamo 2010. Matokeo hayo mabaya yanahusishwa na hasara kuu iliyotokana na uwekezaji katika hisa, kiashirio cha matokeo mabaya yaliyopatikana katika soko la hisa mwaka huo.

Biashara kuu ya kampuni hiyo hata hivyo iliendelea kunawiri vyema zaidi. Mapato ya jumla ya kampuni yaliongezeka kutoka Kshs 4.3 bilioni hadi Kshs 5.6 bilioni katika mwaka huo, ukuaji wa kupendeza wa asilimia 30.

Matumizi ya jumla ya shughuli za kampuni yaliongezeka kwa asilimia 32, yakafikia Kshs 1,743 milioni kutoka Kshs 1,317 milioni ambayo yaliashiria uwekezaji wa kampuni katika faida inayoletwa na wafanyikazi, muundo-msingi na teknolojia ili kusaidia ukuaji uliopangwa.

Thamani ya jumla ya mali iliyo chini ya usimamizi ilikua kutoka Kshs 43.0 bilioni kufikia Desemba 31, 2010 hadi Kshs 46.0 bilioni kufikia Desemba 31, 2011. Thamani ya mali iliyo chini ya usimamizi (AUM) katika idara ya ushauri wa uwekezaji na usimamizi wa fedha ilikua kwa asilimia 18 hadi Kshs 20.4 bilioni kutoka Kshs 17.3 bilioni mwaka wa 2010.

MABADILIKO KATIKA BODI

Katika juhudi za kuimarisha usimamizi wa shirika, wakurugenzi wanne huru walijiunga na halmashauri mwaka huo.

Bw. Bocar E. Dia na Bw. Joseph N. Muli walijiunga na Halmashauri mwezi Mei, 2011. Ilhali Bi. Agnes N. Odhiambo alijiunga nayo Machi 2012. Vilevile, Bw. E.M. Swadeck Taher aliteuliwa Mkurugenzi Mwandamizi wa Bw. Saleem R. Beebeejaun. Wote walikuja na tajriba (ya humu nchini na ya kimataifa) ambayo itaimarisha maamuzi ya halmashauri.

Kwa sasa, Bw. Muli ndiye Meneja Mkurugenzi wa Kenya Railways Corporation. Ana Shahada ya Uzamili katika Usimamizi wa Biashara kutoka Chuo Kikuu cha Moi na Shahada ya Kwanza ya Masuala ya Ardhi kutoka Chuo Kikuu cha Aberdeen, Scotland.

Bw. Dia ni mshauri wa kimataifa wa UNDP, UNICEF na UNAIDS na pia ni mwenyekiti wa kampuni za Network System Area, Societe de Batiments et Travaux Publiques na Amayelle Transport ambazo ziko Senegal. Amefanyia kazi shirika la UNESCO kwa miaka mingi akiwa na vyeti kadha vikuu. Vilevile, alifunza somo la Masuala ya Kiuchumi na Mahusiano ya Kimataifa katika Chuo Kikuu cha Montreal nchini Canada. Bw. Dia ana Shahada ya Uzamili ya Sayansi ya Kisiasa kutoka Chuo Kikuu cha Montreal. Pia na Shahada ya Heshima ya Masuala ya Uchumi wa Kimataifa na Mahusiano ya Kimataifa.

Bi. Odhiambo wakati huu ni Mdhibiti wa Bajeti wa Jamhuri ya Kenya na ana tajriba ya miaka zaidi ya ishirini na mitano (25) katika kubuni na kutekeleza mikakati na fedha.

Bw. Taher ni mshirika wa Taasisi ya Wahasibu Wasajiliwa wa Uingereza na Wales na pia Chama cha Wahasibu Wasajiliwa wa UK. Kwa sasa ni Rais na Afisa Mkuu Mtendaji wa Bramer Corporation nchini Mauritius. Ana tajiriba pana katika sekta ya huduma za kifedha na pia alipokea tuzo la hadhi kuu la ACCA Achievement Award mnamo 2007 kwa mchango wake katika uhasibu.

Ni furaha yangu, hivyo basi, kukaribisha Bw. Dia, Bw. Muli, Bi. Odhiambo na Bw. Taher katika Halmashauri ya Wakurugenzi.

MGAO WA FAIDA

Halmashauri ya Wakurugenzi inapendekeza jumla ya mgao wa faida wa Kshs 284 milioni mwaka wa 2011 (2010: Kshs 200 milioni) au Kshs 0.15 kila hisa (2010: 0.13).

MATARAJIO YA SIKU ZIJAZO

Mapato ya jumla duniani (GDP) mwaka wa 2012, ambayo yaliongezeka kwa asilimia 2.6 mwaka wa 2011, yanakisiwa na Benki ya Dunia kupungua kwa asilimia 2 uchumi wa dunia unapobadilika kutoka awamu ya kuinuka tena hadi kipindi cha ukuaji wa polepole ila unaoweza kudumishwa. Ingawa uagizaji wa bidhaa zinazouzwa nje ya nchi wa masoko ya mataifa ya magharibi uliopungua unaathiri vibaya mno masoko yanayoibuka, ongezeko imara la uagizaji bidhaa kwenye mataifa yanayoendelea linawezesha chumi hizo kukua, ukuaji ukikisiwa kuwa wa asilimia 5 mwaka wa 2012 ambao ni zaidi ya mara mbili ya ya ukuaji uliotarajiwa katika mataifa yaliyo na mapato makubwa.

Kampuni hii ingali inajitolea kikamilifu kujenga biashara ya muda mrefu, inayoweza kudumishwa katika eneo la Afrika Mashariki na itaendelea na harakati kabambe za kupanuka nchini na katika maeneo. Vilevile, kampuni hii itaendelea na mikakati yake ya maendeleo katika ujenzi. Nchi hii kwa jumla itapata uwezo wa kibiashara ambao haujafikiwa kutokana na mpango unaoendelea wa mabadiliko na kupitia kumakinika upya kwa wateja.

Kampuni hii itatilia mkazo kudumisha nafasi yake ya kwanza katika biashara ya bima ya maisha na usimamizi wa soko la mali na ijinufaishe na kumakinika kusiko kwa kawaida ila kunakotokana na sababu tosha kwa Wakenya kuhusu uwezo wa kiuchumi wa nchi hii. Bima ya maisha imetambuliwa kwa muda mrefu kutokana na uwezo wake wa kuunda, kukusanya na kusambaza mtaji kuitia uuzaji wa huduma za bima za mipango ya muda mrefu na kuwekeza tena katika uchumi fedha zilizohifadhiwa kwa muda mrefu. Pesa hizo huwekezwa tena kupitia utoaji mikopo na uwekezaji mwingineo kama vile ununuzi wa ardhi na ujenzi. Kampuni hii itaendela kusisitiza kuhusu aina ya hii ya biashara iliyopata msingi zamani huku ikiendelea kujenga na kuendeleza nyanja nyingine za biashara.

Siku za baadaye za kampuni hii zinapendeza inapoelekea kuwa katika mstari wa mbele wa kupanuka nchini na kieneo pamoja na kununua ardhi na kujenga. Tunaamini kwamba, 2012 utakuwa mwaka mwingine imara kwa kampuni hii na tukiangalia mbele zaidi, tunaamini kwamba tutaendelea kukua.

Kampuni hii itaendela kufanya kazi kwa karibu na wadau wengine katika sekta hii ili kushirikisha Serikali katika masuala sawa katika sekta yenyewe.

SHUKRANI

Tumepata uungaji mkono mkubwa na kuaminika kutoka wawekezaji wetu wote, wateja, washirika wa kimipango, washirika wa kibiashara na taasisi za usimamizi. Tunathamini na kutambua sana uungaji mkono huo na tunaamini tunaweza kuendelea kuutegemea siku za usoni. Kwetu sisi, tunaahidi kulipa uungwaji mkono huo na umakinifu kwa kuzidisha matarajio yenu na kutimiza maazimio ya kampuni.

Mwisho, ningetaka kushukuru wakurugenzi wenzangu kwa ushauri wao wa busara na wafanyikazi wetu pamoja na washauri wa kifedha kutokana na bidii yao, uaminifu na kujitolea.

J. Nicholas Ashford-Hodges

Mwenyekiti

21 Machi 2012

Group Managing Director's Report

ECONOMIC OVERVIEW

As predicted in my report last year, 2011 was a challenging year for the Kenyan economy characterized by high inflation, high interest rates and a depreciating currency. The overall inflation accelerated, peaking at 18.9%, domestic interest rates rose with the Central Bank of Kenya raising the benchmark CBR rate to 18.5%. The Kenya Shilling depreciated by 30% to an all time low of Kshs 107.00 to the US dollar, although it recovered towards the end of the year. GDP growth slowed to 4.7% compared to 5.2% in 2010. Growth slowed mostly in the manufacturing and retail trade sectors but the services and tourism sectors remained robust and supported growth.

The local equity market was driven by extreme investor risk aversion and anxiety. While profitability of the companies listed in the Nairobi Securities Exchange was mostly up, negative investor sentiment engulfed investor behaviour resulting in a 30% decline in the equities market prices. Annual turnover was down 71%.

On the fixed income front, the Central Bank adopted a very aggressive monetary policy stance to address runaway inflation and inflationary pressures. In addition to raising the Central Bank Rate, the Central Bank also increased the Cash Reserve Ratio by 50 basis points in an effort to tighten liquidity.

The unfavourable macroeconomic environment in Kenya was replicated in Uganda. The annual headline inflation accelerated rapidly from 5.00% in January 2011 to 30.50% in October 2011 before declining to 27% by close of the year. In its bold move to bring down inflation, the Bank of Uganda maintained a tight monetary stance by increasing the bank rate to 23.00% by close of 2011. Commercial Banks' lending rates consequently shot up substantially since June 2011 to between 22.00% and 30.00% leading to a significant reduction in the demand for new loans. The shilling hovered around Ushs 2,450 to the US$ by the close of the year 2011.

GROUP PERFORMANCE

British-American achieved a historic milestone in her long history in Kenya by issuing an Initial Public Offering (IPO) and listing her shares on the Nairobi Securities Exchange on 8th September 2011. Due to the falling share prices in the market, the share price dropped below the IPO price of Kshs 9.00 to Kshs 5.60 by the close of the year.

As an investment company, our performance is positively correlated with the performance of the underlying businesses and the performance of the listed equities on the Nairobi Securities Exchange. In 2011, our investment portfolio was heavily weighted towards listed equities which constituted about 40% of assets. The financial performance of the company therefore tracked the performance of the Nairobi Securities Exchange which on average declined by 30% with some stocks falling by as high as 58% of their 2010 prices.

The core insurance and asset management operations of the Group registered very strong performance with gross earned premiums and management fees growing by 30% from Kshs 4.3 billion in 2010 to Kshs 5.6 billion in 2011. The insurance business registered a profit before tax of Kshs 1.1 billion representing a 6.6% increase over 2010. The general insurance underwriting profit increased by 148% to Kshs 377 million compared to Kshs 152 million in 2010. Profit before tax for the life insurance business increased to Kshs 605 million from Kshs 327 million in 2010 representing an increase of 85% growth.

British-American Asset Managers Limited achieved a profit before tax of Kshs 43.9 million compared to Kshs 23.8 million in 2010 representing a growth of 85%. This was mainly due to a 22% increase in revenues compared to a 7% increase in expenses. Assets under Management (AUM) grew to Kshs 20.4 billion from Kshs 17.3 billion in 2010, an 18% increase; driven by a 44% increase in assets managed under discretionary mandates, and a 166% increase of wealth management assets.

The strong performance of the insurance and asset management business was however more than offset by the steep drop of share prices on the Nairobi Securities Exchange which as mentioned earlier dropped by 30% during the year resulting in a consolidated loss before tax of Kshs 1.7 billion compared to a profit of Kshs 2.9 billion in 2010. These are however unrealized fair value losses which we expect will reverse in 2012. Despite this disappointing performance the company's dividend payout increased by 42% from Kshs 200 million to Kshs 284 million.

The financial position of the Group is extremely strong with total Group assets at Kshs 25.6 billion and shareholders' funds at Kshs 8.6 billion.

OPERATIONS AND RESOURCE LEVERAGE

The "One Company One Brand Strategy" adopted in 2009 has been successful. By sharing the infrastructure and capabilities in the Group, we have been able to capture synergy across the business units. The unified sales force and branch network have resulted in better market coverage, enhanced convenience for our customers and a stronger brand image. This initiative has resulted in reduced selling costs as larger volumes of business are processed through the distribution channel. We implemented a service call center, whereby all new customers receive a welcome call which works as a mechanism for customer feedback on their experience.

With the assistance of IT consultants, we have also undertaken a comprehensive review of our IT environment and determined that there are gaps and our IT Systems will require an upgrade in order to meet our current and future business objectives and deliver our vision to delight our customers.

HUMAN RESOURCES AND PERFORMANCE MANAGEMENT

One of the strategic priorities of British-American is to have an empowered, motivated, productive and engaged workforce. Accordingly, we have linked performance and reward by embedding the Balanced Scorecard methodology which ensures that employee objectives are linked to strategy. As a result, strategy is cascaded to all employees. We are focused on driving a high performance culture that will deliver the business strategy. 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 pursuit of operational excellence, the company has in the last two years participated in the Organization Performance Index (OPI) which is a tool that evaluates management practices and is facilitated by the Kenya Institute of Management (KIM).

To ensure the safety and health of our employees, a committee is in place 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.

A reorganization of the management team was recently undertaken. The objective of the reorganization was to focus the Group on the strategic initiatives to deliver better customer experience, in line with our vision to delight our customers with outstanding financial services.

INTERNAL CONTROLS AND 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 initiated implementation of an Enterprise Risk Management Framework (ERM) and a software for Internal Audit, Risk Management and Compliance. A significant achievement of this initiative is the risk awareness created among all employees. This will help the Group to become a risk intelligent organization with the capacity to protect shareholder value.

The complete 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.

PROPERTY DEVELOPMENT

One of the strategic initiatives identified in the IPO was property development. Property provides an attractive investment opportunity which is at the core of almost every business and certainly at the core of most people's wealth. Historically, British-American has engaged in residential and commercial property development both for rental and outright sale. Building on past property development successes, we plan to invest on a much broader scale in land and large scale property development, including both commercial office buildings and residential housing.

We have scaled 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. We have advanced the planning for the construction of a landmark Class A iconic office block in the Upper Hill area of Nairobi having appointed a team of consultants led by top local and international consultants to ensure that the project is marked to international standards.

Also secured in our portfolio is some very prime land in Kilimani area, Nairobi ripe for development.

Plans are also at an advanced stage for the setting up of a Property Fund targeting both local and international investors.

REGIONAL EXPANSION

Good progress has been made towards the regional expansion objectives. Britam Insurance Company (Uganda) Limited 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. Although the company has not made a profit, it has continued to perform very well in penetrating the Uganda market and we expect that it should start contributing to the group's profit by 2013.

Following extensive research into the South Sudan market, the Board approved the setting up of insurance business in South Sudan which has since been incorporated. We expect to commence business in this market within 2012.

FUTURE PROSPECTS

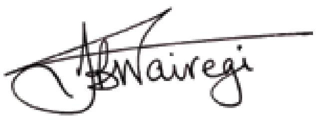
Globally, 2012 is expected to be a challenging year in view of a possible slowdown in global growth, the Eurozone sovereign debt crisis, rising oil prices and potential softening in emerging markets such as China.

Locally, the short-term economic outlook is somewhat unclear. The economy is reeling from high inflation coupled with tight monetary conditions, which have stunted credit growth and distorted money markets. The forthcoming general elections under the new constitutional dispensation is also contributing to uncertainty. On the positive side, the country's economic reform program has started to produce results, inflation has started to decline and the shilling has stabilized. The IMF projects the GDP to grow by 5% in 2012.

ACKNOWLEDGEMENT

The growth of the business during the year has been due to the support we continue to receive from all our esteemed clients and business partners. We thank them for this support and look forward to working closely with them to achieve and exceed their investment objectives.

I would also like to express my gratitude to the board of directors for its support of the Management, Staff and Financial Advisors. This support has gone a long way in creating a strong team and ensuring that British-American will continue to prosper for the benefit of all our stakeholders.



Benson I. Wairegi
Group Managing Director

21 March 2012

HALI YA UCHUMI KWA UFUPI

Kama ilivyobashiriwa kwenye ripoti yangu mwaka uliopita, 2011 ulikuwa mwaka mgumu kwa uchumi wa Kenya ulioshuhudia kupanda kwa gharama ya maisha, viwango vya juu vya riba na kudorora kwa shilingi ya Kenya. Kiwango cha mfumko kilipata, na kufika kilele cha asilimia 18.9, viwango vya riba navyo vikapanda huku Benki Kuu ya Kenya ikiongeza kiwango cha riba cha CBR hadi asilimia 18.5. Shilingi ya Kenya nayo ilishuka thamani na kufikia kiwango cha chini kabisa cha Kshs 107.00 dhidi ya dola ya Amerika, ingawa ilijikwamua mwishoni mwa mwaka. Ukuaji wa GDP ulipunguza kasi hadi asilimia 4.7 ikilinganishwa na asilimia 5.2 mwaka 2010. Ukuaji ulipunguza kasi, hasa katika sekta za viwanda na biashara ya rejareja lakini sekta za huduma na utalii zikabaki imara na kusaidia ukuaji.

Soko la hisa nchini liliathiriwa na wawekezaji kujiepusha na hatari pamoja na wasiwasi. Ingawa kampuni nyingi zilizoorodheshwa kwenye Soko la Hisa la Nairobi zilitengeneza faida, mtazamo wa wasiwasi wa wawekezaji ulitawala na kupelekea kushuka kwa asilimia 30 kwa bei za hisa sokoni. Mauzo ya jumla yalishuka asilimia 71.

Katika upande wa mapato yasiyosonga, Benki Kuu ilikumbatia msimamo mkali wa sera ya kifedha kukabiliana na mfumko wa bei za bidhaa. Kando na kuongeza Kiwango cha Riba cha Benki Kuu (CBR), Benki Kuu pia ilipandisha Kiwango cha Hazina ya Fedha kwa alama 50 katika juhudi za kushikamanisha upatikanaji wa pesa.
Mazingira magumu ya kiuchumi yaliyoshuhudiwa Kenya yalishuhudiwa pia nchini Uganda. Mfumko wa kila mwaka ulipanda kwa kasi kutoka asilimia 5.00 mwezi Januari 2011 hadi asilimia 30.50 Oktoba 2011 kabla ya kushuka hadi asilimia 27 kufikia mwisho wa mwaka. Katika hatua yake ya kijasiri ya kuteremsha kiwango cha gharama ya maisha, Benki ya Uganda ilidumisha msimamo mkali wa kifedha kwa kupandisha kiwango chake cha riba hadi asilimia 23.00 kufikia mwisho wa 2011. Viwango vya Utoaji Mikopo vya Benki za Kibiashara vilipanda pakubwa tangu Juni 2011 hadi kati ya asilimia 22.00 na asilimia 30.00 na kupelekea kupungua kwa mahitaji ya mikopo mipya. Shilingi ilikuwa katika kiwango cha Ushs 2,450 kwa US$ kufikia mwisho wa mwaka 2011.

MATOKEO YA KAMPUNI

Kampuni ilipiga hatua za kihistoria katika historia yake ndefu Kenya kwa Toleo la Hisa kwa Umma (IPO) ambalo lilipelekea kuorodheshwa kwa hisa zake katika Soko la Hisa la Nairobi Septemba 8, 2011. Kutokana na kushuka kwa bei za hisa sokoni, bei ya hisa ilishuka chini ya bei ya IPO ya Kshs 9.00 hadi Kshs 5.60 kufikia mwisho wa mwaka.

Kama kampuni ya uwekezaji, matokeo yetu yana uhusiano wa karibu sana na matokeo ya biashara nyingine na ya hisa zilizoorodheshwa katika Soko la Hisa la Nairobi. Mwaka 2011, uwekezaji wetu uliathiriwa sana na hisa zilizoorodheshwa ambazo zilijumuisha asilimia 40 ya mali yote. Matokeo ya kifedha ya kampuni kwa hivyo yaliambatana na matokeo ya Soko la Hisa la Nairobi ambayo kwa kiwango cha kadiri yalishuka kwa asilimia 30 huku baadhi ya hisa zikishuka thamani kwa hadi asilimia 58 ikilinganishwa na bei za mwaka 2010.

Biashara kuu ya kampuni ambayo ni bima na usimamizi wa mali iliandikisha matokeo bora huku malipo ya bima na ada za usimamizi wa mali zikikua kwa asilimia 30 kutoka Kshs 4.3 bilioni mwaka 2010 hadi Kshs 5.6 bilioni mwaka 2011. Biashara ya bima iliandikisha faida kabla ya kutozwa ushuru ya Kshs 1.1 bilioni, likiwa ongezeko la asilimia 6.6 ikilinganishwa na mwaka 2010. Faida ya jumla ya bima iliongezeka kwa asilimia 148 hadi Kshs 377 milioni ikilinganishwa na Kshs 152 milioni mwaka 2010. Faida kabla ya kutozwa ushuru ya biashara ya bima ya maisha iliongezeka hadi Kshs 605 milioni kutoka Kshs 327 milioni mwaka 2010 ukiwa ni ukuaji wa asilimia 85.

Kampuni ya British-American Asset Managers Ltd ilipata faida ya Kshs 43.9 milioni kabla ya kutozwa ushuru ikilinganishwa na Kshs 23.8 milioni mwaka 2010, ambalo ni ongezeko la asilimia 85. Hii ilitokana sana na ongezeko la asilimia 22 katika mapato likilinganishwa an ongezeko la asilimia 7 pekee la matumizi. Mali iliyo chini ya Usimamizi (AUM) katika mwaka huo ilikuwa hadi Kshs 20.4 bilioni kutoka Kshs 17.3 bilioni mwaka 2010, likiwa ongezeko la asilimia 18; hii hasa ilitokana na ongezeko la asilimia 44 katika mali yanayosimamiwa chini ya mamlaka huru, na ongezeko la asilimia 166 katika usimamizi wa utajiri wa mali.

Matokeo mema ya biashara za bima na usimamizi wa mali hata hivyo yaliathiriwa na kushuka sana kwa bei za hisa katika Soko la Hisa la Nairobi ambazo kama ilivyoelezwa awali, zilishuka thamani kwa takriban asilimia 30 mwaka huo na kupelekea hasara iliyoungwanishwa kabla ya kutozwa ushuru ya Kshs 1.7 bilioni ikilinganishwa na faida ya Kshs 2.9 bilioni mwaka 2010.
Kuna hata hivyo, hasara iliyotokana kwa njia za haki na ambayo tunapanga kubatilisha athari zake 2012. Licha ya matokeo haya ya kuvunja moyo, mgawo wa faida kwa wenye hisa uliolipwa na kampuni uliongezeka kwa asilimia 42 kutoka Kshs 200 milioni hadi Kshs 284 milioni.

Hali ya kifedha ya Kampuni ni thabiti na imara kabisa huku mali ya Kampuni kwa jumla ikiwa Kshs 25.6 bilioni na fedha za wenyehisa zikiwa katika Kshs 8.6 bilioni.

UENDESHAJI SHUGHULI NA ULAINISHAJI WA RASILIMALI

Mkakati wa "One Company One Brand" (Mkakati wa Kampuni Moja Nembo Moja) ulioanza kutekelezwa 2009 umefanikiwa. Kwa kutumia pamoja miundo msingi na uwezo katika Kampuni, tumeweza kutumia vyema nguvu na uwezo katika vitengo vyote vya kibiashara. Kuunganishwa kwa nguvu ya uuzaji kulipelekea kuangazia vyema eneo la soko, kuhakikisha utoaji wa haraka wa huduma kwa wateja na kuimarisha nembo ya kampuni. Mkakati huu umepelekea kupungua kwa gharama za uuzaji kwani viwango vikubwa vya biashara hushughulikiwa katika muundo wa usambazaji.
Tulianzisha kituo cha kupiga simu kupata huduma, ambapo wateja wote wapya hupokea simu ya kuwakaribisha ambacho hufanya kazi kama mbinu ya kupata majibu na maoni kutoka kwa wateja ambao hutueleza waliyopitia.

Tukitumia usaidizi wa washauri wa masuala ya IT, tumefanya utathmini wa kina wa mazingira yetu ya IT na tumejitolea kuziba mapengo yaliyopo na Mifumo yetu ya IT itafanyiwa uimarishaji ili kutimiza malengo yetu ya kibiashara ya sasa na ya siku za usoni na kutimiza ruwaza yetu ya kutoa huduma bora zaidi kwa wateja wetu.

WAFANYAKAZI NA USIMAMIZI WA UTENDA KAZI

Moja ya mikakati ambayo imepewa kipaumbele na British-American ni kuwa na wafanyakazi waliowezeshwa, wenye motisha, wa kuleta matokeo bora na wanaofanya kazi kikamilifu. Kuambatana na hili, tumehusisha matokeo na zawadi kwa kuambatanisha mfumo wa Kusawazisha Alama au Balanced Scorecard ambao unahakikisha malengo ya wafanyakazi yanaambatana na mikakati yetu. Kutokana na hili, mikakati imeteremshwa hadi kwa kila mfanyakazi. Tumeangazia kuendeleza desturi ya kuleta matokeo mema ambayo itahakikisha kutimizwa kwa mikakati ya kibiashara. Ili kutimiza haya, tumejitolea kubuni nafasi za ukuaji wa watu kibinafsi na kitaalamu kupitia sera ya mafunzo. Kampuni imewekeza sana katika mafunzo ya Uongozi, Usimamizi na Utekelezaji ambayo lengo lake ni kuwawezesha wafanyakazi kutimiza malengo yao na kukua kitaaluma.

Katika juhudi za kufikia ufanisi, Kampuni katika kipindi cha miaka miwili iliyopita ilishiriki katika Organization Performance Index (OPI) ambayo ni huduma inayotathmini shughuli za usimamizi na hufanikishwa na Taasisi ya Usimamizi ya Kenya (KIM).
Ili kuhakikisha usalama na afya ya wafanyakazi wetu, kamati imeundwa ambayo majukumu yake ni kufanya uchunguzi wa mara kwa mara wa afya na usalama na kuwafahamisha na kuwahamasisha wafanyakazi na wadau wengine wanaozuru afisi zetu kama inavyohitajika.
Kubadilishwa kwa kundi la usimamizi kulifanywa majuzi. Lengo la mabadiliko hayo lilikuwa kuelekeza Kampuni kwenye mikakati ya kufaa ili kupelekea huduma bora kwa wateja, kuambatana na ndoto yetu ya kuridhisha wateja kwa huduma za kipekee za kifedha.

VIDHIBITI VYA NDANI NA USIMAMIZI WA HATARI KATIKA BIASHARA

Tunatambua kuwa usimamizi wa hatari ni sehemu muhimu ya shughuli zetu za kibiashara na mhusika mkuu katika uendelevu wa bishara yetu na ulinzi wa thamani ya wenyehisa. Kuambatana na hiyo, mwaka huo, Kampuni ilianzisha utekelezaji wa Mfumo wa Usimamizi wa Hatari za Kibiashara (ERM) na programu ya kompyuta ya Ukaguzi wa Hesabu, Usimamizi wa Hatari na Utiifu. Mafanikio makubwa ya hatua nii ni uhamasisho wa wafanyakazi wote kuhusu hatari. Hii itasaidia Kampuni kuwa na ujuzi zaidi kuhusu hatari na kuwa na uwezo wa kulinda vyema thamani ya wenyehisa.

Mpango wa Usimamizi wa Uendelevu wa Biashara (BCM) utahakikisha ustahimilivu wa uendeshaji shughuli na kupatikana kwa bidhaa na huduma zetu kwa wateja hata kukiwa na tukio la kuvuruga biashara.

USTAWISHAJI WA MALI

Moja ya mikakati ya kufaa ambayo ilitambuliwa wakati wa IPO ilikuwa ni ustawishaji wa maji. Mali hutoa fursa njema ya uwekezaji ambayo imo kwenye kiini cha kila biashara na bila shaka katika kiini cha mali ya kila mtu. Kihistoria, British-American imejihusisha katika ustawishaji wa nyumba za makazi na za kibiashara za kukodisha na za kuuza moja kwa moja. Kwa kutumia ufanisi huu wa awali, tunapanga kuwekeza kwa njia pana katika ardhi na ustawishaji wa mali wa kiwango kikubwa, ikiwa ni pamoja na majumba ya afisi za kibiashara na ya makazi.
Tumeimarisha mikakati ya ustawishaji wa mali ili kuongeza mapato na kupanua uwekezaji wetu na wakati huo huo kukidhi mahitaji ya nyumba za bei nafuu. Tumesonga mbele sana katika mipango ya ujenzi wa jumba kubwa la afisi la Class A katika eneo la Upper Hill, Nairobi na tumeteua kundi la washauri wa humu nchini na kimataifa kuhakikisha mradi huo unatekelezwa kwa viwango vya kimataifa.

Pia, katika mipango yetu ni ardhi iliyo pahala pazuri sana katika eneo la Kilimani, Nairobi ambayo iko tayari kwa ustawishaji.

Mipango pia iko karibu kukamilika ya kuanzisha Mfuko wa Mali wa kulenga wawekezaji wa huu nchini na wa kimataifa.

UPANUZI KATIKA ENEO

Hatua nzuri zimepigwa katika kutimiza malengo yetu ya upanuzi katika eneo hili. Kampuni ya Britam Insurance Company (Uganda) Ltd. Ilipewa leseni na Tume ya Bima ya Uganda na kuanza shughuli zake Novemba 2010. Hutoa bima ya maisha, marupurupu ya uzeeni na bidhaa nyingine za bima ya kawaida. Ingawa kampuni hiyo haijatengeneza faida, imeendelea kupata matokeo mema na inajipenyeza vyema katika soko la Uganda. Tunatarajia kuwa itaanza kuchangia faida ya Kampuni kufikia mwaka 2013.

Kufuatia utafiti wa kina katika soko la Sudan Kusini, Bodi iliidhinisha kuanzishwa kwa biashara ya bima Sudan Kusini. Tunatarajia kuanza biashara katika soko hilo mwaka huu wa 2012.

MATARAJIO YA SIKU ZA USONI

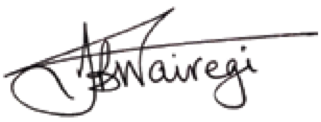
Ulimwenguni kote, 2012 unatarajiwa kuwa mwaka mgumu kutokana na kushuka kasi kunakotarajiwa kwa uchumi wa dunia, mgogoro wa mikopo eneo la Euro, kupanda kwa bei za mafuta na uwezekano wa kuyeyuka kidogo kwa masoko yanayoibuka kama vile Uchina.

Humu nchini, mtazamo wa kipindi kifupi wa uchumi hauko wazi kabisa. Uchumi unaathiriwa na kupanda kwa viwango vya mfumko pamoja na masharti makali ya kifedha, ambayo yamepunguza upatikanaji wa mikopo na pesa na pia kupotosha masoko. Uchaguzi mkuu unaotarajiwa chini ya katiba mpya pia unapelekea hali ya kutotabirika. Katika upande mwingine, mpango wa kutekeleza mageuzi nchini umeanza kuzaa matunda, mfumko nao umeanza kurudi chini huku shilingi nayo ikirejelea uthabiti. IMF inabashiri kuwa GDP itakua kwa asilimia 5 mwaka 2012.

SHUKRANI

Ukuaji wa biashara katika mwaka huo umetokana sana na uungaji mkono ambao tumeendelea kupata kutoka kwa wateja wetu watukufu na washirika wetu wa kibiashara. Tunawashukuru kwa uungaji mkono huu na tunatarajia kuendelea kufanya kazi nao kwa karibu kuwasaidia kutimiza na hata kuzidisha malengo yao ya uwekezaji.

Ningependa pia kutoa shukrani zangu kwa bodi ya wakurugenzi kwa kuunga mkono Wasimamizi, Wafanyakazi na Washauri wa Kifedha. Uungaji mkono huu na usaidizi umesaidia sana katika kuunda kundi lenye nguvu na kuhakikisha British-American inaendelea kunawiri na kustawi kwa manufaa ya wadau wote.



Benson I. Wairegi
Meneja Mkurugenzi wa Kampuni

21 Machi 2012

BOARD OF DIRECTORS

Seated L to R: Benson I. Wairegi, EBS, Group Managing Director | Peter K. Munga, CBS | J. Nicholas Ashford-Hodges, Chairman
Standing L to R: Jimnah M. Mbaru, EBS | Agnes N. Odhiambo | Joseph N. Muli, EBS | Bocar E. Dia | Saleem R. Beebeejaun | James N. Mwangi, CBS

At British-American Investments Company (Kenya) Limited, we are committed to the highest standards of corporate governance and business ethics. Recognizing that good corporate governance is key to the enhancement of our business performance, the Board of Directors seeks to discharge its duties and responsibilities in the best interest of the Company, its shareholders, business partners and the community. Our corporate values and ethics are entrenched in our strategic and business objectives and are focused on accelerating growth in value for the benefit of all our stakeholders.

Board of Directors

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

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 (Non-Executive 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 Chairman of British-American Investment Co. (Mtius) Limited and a Director of several other Boards and sub-committees of the British-American Group in Mauritius and Malta, where he also chairs GlobalCapital Plc which is listed on the Malta Stock Exchange.

Benson I. Wairegi , EBS - Group Managing Director

Mr. Wairegi is the Vice Chairman of Equity Bank Limited and a Director of Housing Finance Company of Kenya Limited and Chairman of Kenyatta University Council. He is a former Chairman of the Association of Kenya Insurers (AKI) and also a 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, CBS (Non-Executive Director)

Mr. Munga is a retired Deputy Secretary. He holds an Honorary Doctorate in Business Administration (Honoris Causa) from United Graduate College and Seminary. 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 Limited and Chairman of Fresho International Limited.

He is an enterprising businessman and runs the Pioneer Group of Schools.

Jimnah M. Mbaru, EBS (Non-Executive Director)

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 Association and a former 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, CBS (Non-Executive Director)

Dr. Mwangi holds five honorary doctorate degrees in recognition of his contributions to the Kenyan society. He holds a Bachelor of Commerce degree and is a Certified Public Accountant. Dr Mwangi has been honoured thrice with Presidential national awards. Dr. Mwangi is a graduate of Advanced Management Programme (Strathmore- IESE Business School, Barcelona, Spain).

He was vested the First Class Chief of the Order of the Burning Spear (CBS) national decoration - the highest presidential award to a civilian, for outstanding contribution in economic development. He is currently the Chairman of Kenya's Vision 2030 Delivery Board charged with the responsibility of ensuring Kenya becomes a middle income country with global high standards of living by the year 2030.

He serves on several international bodies as an advisor or board member. He has wide experience in the banking industry and inclusive finance.

Saleem R. Beebeejaun (Non-Executive Director)

Mr. Beebeejaun is a former President & CEO of British American Investment Co. (Mtius) Limited. He retired from the company as of 31 December 2011. He remains a Director on several other Boards and committees of the British American Group in Mauritius and Kenya.

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.

Joseph N. Muli , EBS (Non-Executive and Independent Director)

Mr. Muli is the Managing Director of Kenya Railways Corporation.

He holds an Executive Master of Business Administration from Moi University, Nairobi Campus, a Bachelor of Land Economics from University of Aberdeen, Scotland and has done various leadership and management programmes from Cornell University.

Bocar E. Dia (Non-Executive and Independent Director)

Mr. Dia is currently an international consultant for UNDP, UNICEF and UN Aid and acts as the Chairperson for Network System Area, Societe de Batiments et Travaux Publiques and Amayelle Transport, three Senegal-based companies. He has worked extensively for UNESCO occupying several senior posts. He also taught Economics and International Relations at the University of Montreal in Canada.

Mr. Dia holds a Master of Political Science and Bachelor of Political Science from University of Montreal, Canada. He also holds an honours degree in International Economics and International Relations.

Agnes N. Odhiambo (Non-Executive and Independent Director)

Mrs. Odhiambo is the Controller of Budget for the Government of Kenya and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). She is also a member of the Association of Women Accountants of Kenya (AWAK). She is a former Secretary to the Constituencies Development Fund Board and a former Board Member of the Kenya Women Finance Trust affiliated to Women's World Bank.

Mrs. Odhiambo holds a Master of Business Administration degree and a Bachelor of Commerce degree from the University of Nairobi and is a Certified Public Accountant of Kenya - CPA (K).

E. M. Swadeck Taher, OSK (Alternate Director to Mr. Saleem R. Beebeejaun)

Mr. Taher is currently the President and Chief Executive Officer of Bramer Corporation Limited, the holding Company of entities operating within the Financial Services Sector of the British American Group in Mauritius, and sits on various subsidiary Boards of the British American Group in Mauritius. He is a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW), a Fellow of the Association of Chartered Certified Accountants and also holds the Corporate Finance Qualification from the ICAEW. He is a former member of the Board of the Financial Reporting Council in Mauritius, a former President of the Mauritius Institute of Professional Accountants and the recipient of the ACCA Achievement Award in 2007 for his contribution to the accounting profession in Mauritius. In recognition of the extensive experience and contribution to the financial sector, the distinction of the Order of the Star and Key of the Indian Ocean (OSK) was conferred upon him by the Republic of Mauritius in 2009.

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 Director, Legal and Human Resources. She joined the Group in 2008.

Group Management Team

Benson I. Wairegi
Group Managing Director

Gladys M. Karuri
Group Finance Director

Nancy K. Kiruki
Director, Legal & Human Resources & Company Secretary

Peter N. Muiruri
Group Internal Audit Manager

Paul K. Gacheru
Group Chief Accountant

Muthoga Ngera
Director, Marketing & Corporate Affairs

Rose W. Lutta
Group Marketing & Corporate Affairs Manager

Jack W. Maina
Group Chief Information Officer

Jacqueline Nyaguthii
Property Manager

Arthur M. Chege
Group IT Manager, Operations

Julius Githinji
Internal Audit Manager

Asset Management Team

Edwin H. Dande
Managing Director

Anne N. Kibebe
Operations Manager

Patricia N. Wanjama
Manager, Legal & Compliance

Andrew Kasaine
Portfolio Manager

BRITAM UGANDA MANAGEMENT TEAM

David N. Kuria
Chief Executive Officer

Janet Waweru
Chief Accountant

Edward N. Nambafu
Business Development Manager

INSURANCE MANAGEMENT TEAM

Stephen O. Wandera
Managing Director

Ambrose N. Dabani
General Manager, Life & Pensions

Kennedy B. Aosa
General Manager, General Insurance

Charles Muyodi
General Manager, Bancassurance & Microinsurance

Reuben W. Kibiru
Chief Accountant

Lydia W. Njoroge
Manager, Bancassurance

Joseph Gathogo
Manager, Branch Operations

Lucy N. Kariuki
Manager, Procurement

Rose W. Wakiria
Manager, Group Life & Pensions Sales

John K. Githinji
Manager, General Insurance Sales

Joyce W. Gitau
Manager,
Agency Operations Sales

Solomon W. Kituyi
Manager, Regional IT Support Manager

INSURANCE MANAGEMENT TEAM

James K. Irungu
Manager, Microinsurance

George O. Odinga
Manager, General Underwriting

Johnstone K. Mitei
Manager, Life Underwriting

Kwameh N. Anyona
Manager, Life Claims

Margaret W. Kathanga
Manager, Medical Insurance Sales

Edward M. Gachoya
Manager, Agency Training

Titus M. Ndeti
Manager, Pensions Administration

Alex M. Onsongo
Manager, Medical Underwritting & Claims

Mercy W. Andaro
Manager, General Insurance Claims

Geoffrey N. Wangondu
Manager, Customer Relationship & Front Office

Emmanuel Kitonyo
Manager, IT Innovation

Michael W. Mwangi
Manager, Policy Administration

Jane W. Gikonyo
Manager, Human Resources

Board Composition and Appointment

The Board of Directors consists of the Chairman, who has non-executive responsibilities, seven non-executive directors and one executive director. Three of the non-executive Directors are Independent Directors. The Board meets at least four times a year and continues to maintain effective control over strategic, financial operational and policy issues.

The Directors have a wide range of skills and experience and each contributes independent judgment and knowledge to the Board discussions.

On appointment, each Director is provided with a comprehensive and tailored induction process covering the Group's business and operations and provided with information relating to their legal and regulatory obligations.

All non-executive Directors are required to submit themselves for re-election in accordance with the Company's Articles of Association.

Board Meetings - Information for Directors

The Board meets at least four times a year. The Board deals with all significant matters including strategic direction for the Company and Group; ensuring competent management of the business; internal control; compliance with laws and regulations and reporting performance to shareholders.

The directors are given appropriate and timely information on key activities of the business regularly and on request in order to carry out their roles. Specifically the directors are provided with all available information in respect of items to be discussed at a meeting of the Board or committee prior to the meeting. The Board members have open access to management through the Chairman, Group Managing Director and Company Secretary. Regular presentations are made by management to the Board and Board Committee meetings and directors may seek briefing from management on specific matters as well as seek independent professional advice.

Oversight Role of the Board

The board provides strategic direction with a focus on consistent business performance in an atmosphere of transparency and accountability whilst also reviewing and monitoring proper corporate governance throughout the Group

The responsibilities of the Board are clearly spelt out in both the Articles of Association of the Company and the Board Charter:

The Board defines the purpose of the Company, its strategic intent, objectives and its values. It ensures that procedures and practices are in place to protect the Company's assets and reputation.

The Board retains full and effective control over the Company and monitors Management's implementations of the plans and strategies of the Board; ensures ethical behavior and compliance with relevant laws and regulations, audit and accounting principles, corporate policies and procedures and Code of Ethics. It strives to act above and beyond the minimum requirements and benchmark performance against best international practices.

In accordance with the principles of good corporate governance, each Director undertakes to always act in the best interest of the Company and exercise his/her power in the execution of duties in good faith and act with care and prudence.
Each Director is fully aware that the Board is responsible for determining the Company's vision, mission and values, deciding its strategy objective, ensuring establishment of the organizational structure and procedures to achieve the objectives, ensuring effective control over the Company and accounting to its Shareholders.

Separation of Role of Chairman from the Group Managing Director

The Chairman is responsible for managing the Board and providing leadership to the Group while the Group Managing Director is responsible to the Board for strategically overseeing and managing the business units in the British-American Group in accordance with instructions given by the Board.

The Group Managing Director directs the implementation of Board decisions and instructions and the general management of the business units with the assistance of the management teams.

Conflict of Interest

The directors of the company are under a fiduciary duty to act honestly and in the best interests of the Company. Any such business transacted with British-American must be at arm's length, fully disclosed to the Board which must consider and approve it. A director must refrain from discussion or voting on matters of potential conflict of interests.

Committees of the Board

The Board is responsible for the management of the Group. It has delegated the detailed discussions to six committees: Audit Committee, Investments and Strategy Committee, Risk and Compliance Committee, Compensation and Human Resource Committee, Nominations and Governance Committee and Property Committee, which have specific and detailed terms of reference as summarised below:

Audit Committee

The members of the Audit Committee are:

- Mrs. Agnes N. Odhiambo - Chairman (Appointed 21 March 2012)
- Dr. James N. Mwangi
- Mr. Peter K. Munga - up to 21March 2012
- Mr. Saleem R. Beebeejaun - up to 21March 2012
- Mr. Joseph N. Muli

The Audit Committee will meet at least twice a year, with authority to convene additional meetings, as circumstances require. Its primary responsibilities are to assist the Board in ensuring integrity of the Group's financial statements and ensuring the Group's compliance with legal and regulatory requirements.

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. The Committee may delegate authority to subcommittees, including the authority to pre-approve all auditing and permitted non-audit services, providing that such decisions are presented to the full committee at its next scheduled meeting.

The Audit Committee regularly reports to the Board about committee activities and issues that arise with respect to the quality or integrity of the Group's financial statements, compliance with legal requirements, performance and independence of the Group's independent auditors, and the performance of the internal audit function. The Group Internal Audit Manager acts as the secretary of the committee and senior management regularly attend the committee meetings.

Investment and Strategy Committee

The Investment and Strategy Committee meets at least three times a year or at such other times as the Chairman of the Committee shall require. Its primary purpose is to determine the Group's investment strategy and policy and to consider the proposed strategic investments and make recommendation to the Board. It also maintains an interactive strategic planning, implementation and monitoring process with management.

The members of the Investment and Strategy Committee are:

- Mr. Peter K. Munga - Chairman
- Dr. James N. Mwangi
- Mr. J. Nicholas Ashford-Hodges
- Mr. Jimnah M. Mbaru - from 21March 2012
- Mr. Benson I. Wairegi

ICT Steering Committee

The ICT Steering Committee is a subcommittee of Investment and Strategy Committee.

The members are:

- Mr. Joseph N. Muli - Chairman
- Mr. Benson I. Wairegi
- Dr. James N. Mwangi

Property Committee

The primary responsibility of the Property Committee 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 developments.

The members of the Property Committee are:

- Mr. Joseph N. Muli - Chairman
- Mr. Jimnah M. Mbaru
- Mr. Peter K. Munga
- Mr. Benson I. Wairegi

Risk and Compliance Committee

The Committee meets at least three times a year or at such other times as the Chairman of the Committee shall require. Its primary purpose is to develop and implement risk management framework, policies, procedures and standards. It also monitors the Group's compliance with the relevant laws and regulations and 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. Saleem R. Beebeejaun - Chairman
- Mr. Bocar E. Dia
- Mr. Peter K. Munga - up to 21March 2012
- Mr. Benson I. Wairegi - up to 21March 2012
- Mr. Joseph N. Muli

Compensation and Human Resource Committee

The Committee meets at least three times a year or at such other times as the Chairman of the Committee shall require. Its primary role is to support the Company's strategic plan of ensuring that there is an empowered, motivated and productive workforce in a 'one company one culture' environment. Further, it will recommend the remuneration for non-executive directors, appraise the performance of senior management and determine their remuneration as well as establish the overall staff remuneration budget including performance bonus pools. The committee will also ensure implementation and compliance with the Human Resources Policies and Procedures and recommend to the Board relevant reviews.

The members of the Compensation Committee are:

- Mr. J. Nicholas Ashford-Hodges - Chairman
- Mr. Peter K. Munga
- Mr. Bocar E. Dia

Nomination and Governance Committee

The Committee meets at least three times a year or at such other times as the Chairman of the Committee shall require. Its main role is to review and consider proposals for the appointment of new directors and is chaired by the Chairman of the Board. The Committee shall also ensure that the Group adheres to the Corporate Governance Guidelines.

The members of the Nomination Committee are:

- Mr. J. Nicholas Ashford-Hodges - Chairman
- Mr. Jimnah M. Mbaru
- Mr. Peter K. Munga
- Mr. Bocar E. Dia

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 2011, there were four main board meetings and three board meetings for each committee.

Board Members	Main Board	Board Committees						Total meetings held	Total attended	%age attendance
		Audit	Risk	Investment	Compensation	Nomination	Property			
Meetings held	4	3	3	3	3	3	3	22	N/A	N/A
J. Nicholas Ashford-Hodges	4	N/A	N/A	3	3	3	N/A	13	13	100
Peter K. Munga	4	3	N/A	3	3	3	3	19	19	100
Jimnah M. Mbaru	4	N/A	N/A	N/A	N/A	3	3	10	10	100
Benson I. Wairegi	4	N/A	3	3	3	N/A	3	16	16	100
James N. Mwangi	2	2	N/A	2	1	N/A	N/A	13	7	54
Saleem R. Beebeejaun	4	2	2	2	N/A	N/A	N/A	13	10	77
Bocar E. Dia	2	N/A	3	N/A	3	3	N/A	11	11	100
Joseph N. Muli	2	3	3	N/A	N/A	N/A	3	11	11	100

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.

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 46(iv).

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 acts as 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 advisors. 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 has developed an Enterprise Risk Management Framework with the assistance of Deloitte Consulting Limited.

Conduct of Business and Performance Reporting

The Group's business is conducted in accordance with a carefully formulated strategy, annual business plans and budgets which set out very clear objectives. Roles and responsibilities have been clearly defined with approved authority being delegated. Performance against the objectives is reviewed and discussed monthly and quarterly by the management teams in the Group.

Compliance with Laws

The Board is satisfied that the Group has, to the best of its knowledge, complied with all applicable laws and conducted its business affairs in accordance within the law. To the knowledge of the Board, no director, employee or agent of the Group acted or committed any indictable offence under the Anti Corruption laws in conducting the business of the Group nor been involved or been used as conduit for money laundering or any other activity incompatible with the relevant laws. The Company Secretary is responsible for ensuring that all the Board procedures, corporate governance policies, rules and regulations are followed.

Directors' Shareholding

No.	Names	Role	Shares	% Shareholding
1	J. Nicholas Ashford-Hodges	Chairman	-	-
2	Benson I. Wairegi	CEO	100,201,500	5.30
3	Jimnah M. Mbaru	Director	300,000,000	15.86
4	Peter K. Munga	Director	75,000,000	3.97
5	James N. Mwangi	Director	75,000,000	3.97
6	Saleem R. Beebeejaun	Director	-	-
7	Joseph N. Muli	Director	-	-
8	Bocar E. Dia	Director	-	-
9	Agnes N. Odhiambo	Director	-	-
10	E.M. Swadeck Taher	Director (Alternate)	-	-

Company Secretary

All directors have access to the services of the company secretary who is responsible for ensuring that meeting procedures are followed and plays an active role in the facilitation of the induction of new directors and the improvement and monitoring of corporate governance processes.

Investor Relations

i) Communication with stakeholders

The Group places a great deal of importance on the quality and detail of financial disclosures to its stakeholders. The Company has also embraced technology to ensure this is done efficiently and regular communication with stakeholders also takes place via the company's website, twitter and blogs.

ii) Shareholder Register Management

The Management of the Register of shareholders is out-sourced to Image Registrars Limited who are specialized service providers in this area and attend to all shareholder maintenance queries.

Awards and Recognition

- The prestigious AKI Company of the Year Award for the last consecutive 5 years
- Mr. Benson I. Wairegi, CEO of the year 2011 1st Runner up in the Company of the Year Awards by Kenya Institute of Management
- Think Business Insurance Awards 2011, 1st Runner up Best Life Business Insurance Company
- Think Business Insurance Awards 2011, 1st Runner up Best Insurance

Company in Customer Satisfaction
- The Computer Society of Kenya, Outstanding Innovation Insurance Industry Award 2010 and 2011
- Company of the Year Award (COYA) – Marketing and Customer Orientation 2010
- Unit Trust of the Year Award by Think Business
- East African Superbrand Winner 2009 – 2011 - the only insurance company in the country to receive the accolade

Share Capital

The authorized and issued share capital of British-American consists of only ordinary shares as disclosed on note 16 of the financial statements. The holders of the ordinary shares are entitled to attend in person or through their proxy at the Annual General Meeting.

Shareholders Rights

The rights and restrictions attaching to the shares are set out in the articles which can only be amended at the Annual General Meeting (AGM). All shareholders are entitled to receive the annual report and financial statements and such distributions from the Company as may lawfully be declared. All shareholders are entitled to attend, speak and vote at the AGM including the appointment of proxies. On a poll shareholders are entitled to one vote for each share held. There are no shares carrying special rights.

Distribution of Shareholding

The table below provides details of the number of shareholders and shares held within each of the bands/ranges stated in the register of members as at 31 December 2011.

Shareholders Volume Analysis

Volume	No. of Shares	% Shares Held	No. of Shareholders	% Shareholders
1 to 500	88,500	0.005	308	1.10
501 to 5,000	54,421,000	2.88	21,431	76.72
5,001 to 10,000	26,421,200	1.40	3,341	11.96
10,001 to 100,000	65,414,650	3.46	2,696	9.66
100,000 to 1,000,000	21,141,900	1.12	126	0.45
1,000,001 and above	1,723,964,600	91.15	30	0.11
Total	**1,891,451,850**	**100.00**	**27,932**	**100.00**

Top Ten Shareholders

The major interests in the issued share capital as at 31 December 2011 are disclosed in the table below:

Shareholder No.	Names	Shares	% Holding
1	British-American (Kenya) Holdings Limited	452,504,000	23.92
2	Equity Holdings Limited	405,000,000	21.41
3	Jimnah M. Mbaru	300,000,000	15.86
4	Benson I. Wairegi	100,201,500	5.30
5	Filimbi Limited	90,000,000	4.76
6	Peter K. Munga	75,000,000	3.97
7	James N. Mwangi	75,000,000	3.97
8	Equity Nominees Limited A/C 00101	39,999,900	2.11
9	National Social Security Fund	33,333,300	1.76
10	Standard Chartered Nominees A/C 9389	30,553,100	1.62

British-American believes in principles of sustainable development through community driven initiatives. The organization also supports various institutions and partners who have the same goal of developing the communities it operates in. We are always keen on basing our decisions on social consequences of our activities and not only on profits, dividends or other financial factors. Further, we recognize the importance of approaching corporate social investment in a coordinated and committed manner.

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 program is comprised of:

- 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 the following CSR initiatives in 2011:

1. INITIATIVES SUPPORTED

i. Nairobi Greenline Project

The Nairobi GreenLine project has made steps forward to grow 300,000 trees to protect the Nairobi National Park from pollution, encroachment and human/wildlife conflict. Part of the tree seedlings are planted in a forest context and part as a living fence. The forest is a continuous strip, 50m wide, from Carnivore Restaurant down to Athi River (Cheetah Gate).

An electrical fence has to be constructed to protect the young seedlings from being browsed by game as this would destroy them. A borehole was drilled, fitted with a pump, electricity supply and storage tanks to supply water to the nursery and to young seedlings planted during the dry season. These investment in infrastructure is expected to have an impact on better park functioning as KWS can integrate them in its future management (East Gate camp site etc). The Greenline intends to stretch out to other towns in the country, with the Nakuru Greenline and the Meru (Nyambene) Greenline being the immediate next tasks.

British-American partnered with the Greenline project to help this dream come true and become a friend of the National Park by offering Silver sponsorship worth Ksh 250,000. Staff members are gearing up for a tree planting exercise in 2012 that will hopefully cover not only Nairobi but also the Nakuru Greenline and the Meru Greenline.

ii. The Lollipop Project-Safer Roads For Nairobi's Children

The lollipop project is basically a road safety campaign that seeks corporate financing to improve children's welfare on the roads and beyond through establishing safety traffic signs like zebra crossings, warning signs, speed bumps etc, paying for the crossing guard's salary, insurance, training and uniforms, ongoing school road safety campaigns like the annual schools road safety creative writing competition where children are awarded with text book tokens, school sponsorship to our road safety events like the traffic park, UN World Day or Remembrance for Road Crash Victims and also administrative materials like printing paper, staplers, communication tools etc.

British-American took up the Individual Package for 1 school (St. Georges Primary School). There was a simple 'crossing day' to kick-start the sponsorship. British-American staff members were able to see first-hand the importance of the crossing guard and the impact he would have on the safety of the school children.

iii. Standard Chartered Marathon

The Standard Chartered Nairobi Marathon is a charity fundraising event that raises money for 'Seeing is Believing' - a Standard Chartered Bank initiative for eradicating avoidable blindness in children under the age of nine years. In 2010 the marathon managed to raise Kshs. 16 million and in 2011 the target was to raise Kshs. 20 million. The event took place on Sunday October 30 2011. British-American supported this noble cause by sponsoring a team of 20 staff members to participate.

This marathon helps to raise funds needed to assist children with preventable blindness get the surgery required to restore their sight and have them live full, productive and happy lives.

i. Mater Heart Run

The Mater Heart Run is a charity fundraising event hosted every year by The Mater Hospital to raise funds for heart operations for children from underprivileged backgrounds. Last year, the initiative raised Kshs 25.7 million, up from Kshs 18.9 million raised in 2010. This assisted needy children as follows;

- 123 children had heart operations at The Mater Hospital
- 87 children underwent Intervention and diagnostic catheterization

In 2011, the target was to raise Kshs. 30 million to cater for 230 children, already identified and on the waiting list. The Mater Heart Run took place on Saturday, 14 May 2011 and British-American sponsored a team of 10 staff members to participate.

ii. Bloodlink Blood Drive

The organization's staff members from head office, Nairobi branches and in the Nakuru branch were involved in a blood donation exercise organized by the Blood Link Foundation that 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 e.g. tenants, clients, neighbouring firms and even passersby. This year was especially notable since the donation was done as a response to an emergency call to assist victims of the Sinai fire tragedy.

2. CONCLUSION

The organization participated in CSR activities that were not only part of the pillars of the corporate statement i.e. education and the environment but also those that were required as a response to society's needs at sensitive and sometimes tragic moments.

We aim to keep our focus in regards to the outlined CSR policy but also to have the capacity and foresight to support that which will give us utmost goodwill with our various stakeholders especially now that we're operating on a new platform as a listed company.

The directors submit their report together with the audited financial statements for the year ended 31 December 2011 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

Loss of Kshs 1,957,305,000 (2010: Profit of Kshs 2,713,784,000) has been added to the retained earnings.

The directors recommend the payment of a dividend of Kshs 284 million (2010: Kshs 200 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 4.

DIRECTORS

The directors who held office during the year and to the date of this report were:

J. Nicholas Ashford-Hodges	-	Chairman
Benson I. Wairegi		
Jimnah M. Mbaru		
Peter K. Munga		
Saleem R. Beebeejaun		
James N. Mwangi		
Bocar E. Dia		Appointed on 25 May, 2011
Joseph N. Muli		Appointed on 25 May, 2011
Agnes N. Odhiambo		Appointed on 21 March, 2012
E. M. Swadeck Taher		Alternate to Saleem R. Beebeejaun - Appointed on 21 March, 2012

AUDITOR

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

Nancy K. Kiruki
SECRETARY

21 March 2012

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 Company and its subsidiaries keep proper accounting records that disclose, with reasonable accuracy, the financial position of the Company and its subsidiaries. They are also responsible for safeguarding the assets of the Company and its subsidiaries.

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 Company and its subsidiaries and of its profit or loss 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

21 March 2012

I have conducted an actuarial valuation of the life assurance business of British-American Insurance Company (Kenya) Limited as at 31 December 2011.

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 2011.

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

21 March 2012

Report on the consolidated 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 48 to 101. These financial statements comprise the consolidated statement of financial position at 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, together with the consolidated statement of financial position of the Company standing alone as at 31 December 2011 and the statement of changes in equity of the company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 of the Company at 31 December 2011 and of the loss 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:

- 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;
- in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- the Company's statement of financial position, income statement and statement of comprehensive income are in agreement with the books of account.

pwc

Certified Public Accountants, Nairobi
21 March 2012

Consolidated income statement

	Notes	Year ended 31 December 2011 Shs'000	2010 Shs'000
Gross earned premiums	6	**5,607,621**	**4,333,428**
Less: reinsurance premium ceded		(670,914)	(674,672)
Net earned premiums		**4,936,707**	**3,658,756**
Fund management fees		238,315	195,852
Net earned premiums and management fee		**5,175,022**	**3,854,608**
Investment (loss) /income	7	(2,093,198)	4,684,635
Commissions earned		237,900	209,514
Other income	8	62,960	220,439
Net income		**3,382,684**	**8,969,196**
Claims and policy holder benefits payable		2,380,224	4,084,670
Less: amount recoverable from reinsurers		(146,897)	(266,562)
Net claims and policyholder benefits payable	9	**2,233,327**	**3,818,108**
Operating and other expenses	10	1,760,544	1,316,822
Commissions payable		1,192,335	960,677
Total expenses		**2,952,879**	**2,277,499**
Results of operating activities		**(1,803,522)**	**2,873,589**
Share of profit of the associate	19	79,436	-
(Loss) /profit before tax		**(1,724,086)**	**2,873,589**
Income tax expense	12	(233,219)	(159,805)
(Loss) /profit for the year (of which loss of Shs 1,239,471,000 (2010: Profit of Shs 2,306,910,000) has been dealt with in the accounts of the company)		**(1,957,305)**	**2,713,784**
Earnings per share for profit attributable to the equity holders of the Company			
- basic and diluted (Kshs per share)	15	(1.09)	1.81

Consolidated statement of comprehensive income

	Notes	Year ended 31 December 2011 Shs'000	2010 Shs'000
(Loss) /profit for the year		**(1,957,305)**	**2,713,784**
Other comprehensive income items net of tax:			
Gains on revaluation of land and buildings	17	24,915	13,533
(Losses) /gains on revaluation of available-for-sale financial assets	21(ii)	(2,245,832)	2,755,565
Currency translation losses		(8,159)	-
Total other comprehensive (loss) / income		**(2,229,076)**	**2,769,098**
Total comprehensive (loss) / income for the year		**(4,186,381)**	**5,482,882**

Consolidated statement of financial position

	Notes	As at 31 December 2011 Shs'000	2010 Shs'000
CAPITAL EMPLOYED			
Share capital	16	189,145	150,000
Share premium		3,164,455	-
Other reserves	13	3,531,204	6,127,936
Retained earnings		1,388,926	4,092,044
Proposed dividends	14	283,718	200,000
Shareholders' funds		**8,557,448**	**10,569,980**
REPRESENTED BY:			
Assets			
Property and equipment	17	653,360	581,420
Intangible assets	18	114,830	91,878
Investment in associate	19	1,360,608	-
Investment property	20	1,405,294	1,173,571
Available for sale quoted investments	21(ii)	3,409,402	5,979,690
Financial assets at fair value through profit or loss:			
• quoted ordinary shares	21(i)	4,281,483	7,535,861
• unquoted ordinary shares	22	50,490	50,490
• government securities	28(i)	216,334	361,360
Unit trusts	29	4,378,902	4,265,612
Government securities held to maturity	28(ii)	4,374,453	2,109,214
Corporate bond held to maturity		283,329	305,717
Mortgage loans	23	678,897	576,464
Loans to policy holders	24	247,304	303,418
Receivables arising out of reinsurance arrangements		-	10,081
Receivables arising out of direct insurance arrangements		287,756	161,277
Reinsurers' share of insurance liabilities	25	584,552	463,893
Receivables from related parties	46	9,106	2,696
Deferred acquisition costs	26	97,049	73,461
Deferred income tax	40	3,982	11,789
Other receivables	27	312,798	388,547
Deposits with financial institutions	43	2,463,976	500,102
Cash and bank balances	43	425,339	415,376
Total assets		**25,639,244**	**25,361,917**
Liabilities			
Insurance contract liabilities	31	7,370,421	6,346,198
Amount payable under deposit administration contracts	37	4,039,062	3,268,977
Liabilities under investment contracts	36	3,173,191	3,183,016
Unearned premium	39	982,778	715,745
Creditors arising from reinsurance arrangements		119,755	60,011
Retirement benefit liability	48	50,076	25,715
Bank loan	38	784,577	749,318
Other payables	41	546,610	418,408
Overdraft	43	1,154	1,360
Current income tax payable		14,172	23,189
Total liabilities		**17,081,796**	**14,791,937**
Net assets		**8,557,448**	**10,569,980**

The financial statements on pages 48 to 101 were approved for issue by the board of directors on 21 March 2012 and signed on its behalf by:

Chairman

Director

Company statement of financial position

	Notes	As at 31 December 2011 Shs'000	2010 Shs'000
CAPITAL EMPLOYED			
Share capital	16	189,145	150,000
Share premium		3,164,455	-
Other reserves	13	(144,290)	-
Retained earnings		1,807,346	3,330,535
Proposed dividend	14	283,718	200,000
Shareholders' funds		**5,300,374**	**3,680,535**
REPRESENTED BY:			
Assets			
Property and equipment	17	5,625	3,989
Intangible assets	18	3,388	197
Investment in subsidiary companies	47	760,000	760,000
Financial assets at fair value through profit or loss			
– Quoted ordinary shares	21(i)	2,685,559	4,380,171
– Unit trusts	29	512,458	-
Receivables from related parties	46(i)	4,671	25,303
Available for sale quoted investments	21(ii)	1,069,710	
Other receivables	27	76,386	4,500
Deposit with financial institutions		1,159,389	8,490
Cash and bank balances		4,806	10,407
Total assets		**6,281,992**	**5,193,057**
Liabilities			
Bank loan	38	784,577	749,318
Amounts due to related parties	46 (i)	167,390	751,465
Other payables	41	29,651	11,739
Total liabilities		**981,618**	**1,512,522**
Net assets		**5,300,374**	**3,680,535**

Consolidated statement of changes in equity

	Notes	Attributable to equity holders of the Company				
		Share capital Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
Year ended 31 December 2010						
At start of year		150,000	3,207,206	1,729,892	120,000	5,207,098
Comprehensive income						
Profit for the year		-	-	2,713,784	-	2,713,784
Other comprehensive income:						
Gains on revaluation of land and buildings	17	-	13,533	-	-	13,533
Fair value losses on available-for-sale financial assets		-	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	14	-	-	(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**

Consolidated statement of changes in equity *(Continued)*

	Notes	Attributable to equity holders of the Company					
		Share capital Shs'000	Share Premium Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
Year ended 31 December 2011							
At start of year		150,000	-	6,127,936	4,092,044	200,000	10,569,980
Comprehensive (loss)							
Loss for the year		-	-	-	(1,957,305)	-	(1,957,305)
Other comprehensive income/ (loss)							
Gains on revaluation of land and buildings	17	-	-	24,915	-	-	24,915
Currency translation losses		-	-	(8,159)	-	-	(8,159)
Fair value losses on available-for-sale financial assets		-	-	(2,245,832)	-	-	(2,245,832)
Total other comprehensive loss		**-**		**(2,229,076)**	**-**	**-**	**(2,229,076)**
Total comprehensive loss for the year		**-**		**(2,229,076)**	**(1,957,305)**	**-**	**(4,186,381)**
Transfer to other reserves		-	-	462,096	(462,096)	-	-
Transactions with owners							
Proceeds from shares issued	16	39,145	3,164,455		-	-	3,203,600-
Purchase of Treasury shares	13	-	-	(829,752)	-	-	(829,752)
Dividends:							
- Final for 2010 paid		-	-	-	-	(200,000)	(200,000)
- Proposed final for 2011	14	-	-	-	(283,718)	283,718	-
Total transactions with owners		**39,145**	**3,164,455**	**(829,752)**	**(283,718)**	**83,718**	**2,173,848**
At end of year		**189,145**	**3,164,455**	**3,531,204**	**1,388,926**	**283,718**	**8,557,448**

Company statement of changes in equity

	Notes	Share capital Shs'000	Share premium Shs'000	Other reserve Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
Year ended 31 December 2010							
At start of year		150,000	-	-	1,223,625	120,000	1,493,625
Comprehensive income							
Profit for the year		-	-	-	2,306,910	-	2,306,910
Total comprehensive income for the year		**-**	**-**	**-**	**2,306,910**	**-**	**2,306,910**
Transactions with owners							
Dividends:							
- Final for 2009 paid		-	-	-	-	(120,000)	(120,000)
- Proposed final for 2010	14				(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**
Year ended 31 December 2011							
At start of year		150,000	-	-	3,330,535	200,000	3,680,535
Comprehensive loss							
Loss for the year		-	-	-	(1,239,471)	-	(1,239,471)
Other comprehensive loss		-	-	(144,290)	-	-	(144,290)
Total comprehensive loss for the year		**-**	**-**	**(144,290)**	**(1,239,471)**	**-**	**(1,383,761)**
Transactions with owners							
Proceeds from shares issued		39,145	3,164,455	-	-	-	3,203,600
Dividends:							
- Final for 2010 paid		-	-	-	-	(200,000)	(200,000)
- Proposed final for 2011	14	-	-	-	(283,718)	283,718	-
Total transactions with owners owners		**39,145**	**3,164,455**	**-**	**(283,718)**	**83,718**	**3,003,600**
At end of year		**189,145**	**3,164,455**	**(144,290)**	**1,807,346**	**283,718**	**5,300,374**

Consolidated statement of cash flows

	Notes	Year ended 31 December 2011 Shs'000	2010 Shs'000
Operating activities			
Cash generated from operations	44	2,442,627	1,698,851
Income tax paid		(217,312)	(100,096)
Net cash generated from operating activities		**2,225,315**	**1,598,755**
Investing activities			
Purchase of property and equipment	17	(110,573)	(97,467)
Purchase of intangible assets	18	(41,543)	(34,420)
Purchase of investment property	20	(16,870)	(279,229)
Sale of investment property	20	717	270,717
Investment in associate	19	(516,795)	-
Net investment in government securities at fair value through profit or loss		92,981	162,200
Net investment in government securities held to maturity		(2,265,239)	(587,271)
Investment in unit trusts	29	(1,102,466)	(1,441,964)
Maturity /(purchase) of corporate bond		22,388	(17,869)
Purchase of quoted shares at fair value through profit or loss	21(i)	(32,235)	(348,712)
Proceeds from disposal of quoted shares- at fair value through income statement	21(i)	251,627	405,764
Purchase of available for sale quoted shares	21(ii)	-	(414,372)
Proceeds from disposal of available for sale quoted shares	21(ii)	324,456	472,352
Purchase of unquoted shares	22	-	(50,490)
Purchase of treasury shares	16	(829,752)	-
Mortgage loans advanced	23	(243,737)	(29,784)
Mortgage loans repayments	23	141,304	113,197
Policy loans advanced	24	(202,259)	(164,909)
Policy loans repayments	24	258,373	219,280
Dividend received		416,044	251,395
Rent and interest received		334,439	813,272
Net cash used in investing activities		**(3,519,140)**	**(758,310)**
Cash flows from financing activities			
Loan received	38	29,000	-
Loan repayment	38	(87,535)	(94,855)
Proceeds from sale of the company's shares via Initial Public Offer		3,526,403	-
Dividends paid	14	(200,000)	(180,000)
Net cash generated from /(used in) financing activities		**3,267,868**	**(274,855)**
Net increase in cash and cash equivalents		**1,974,043**	**565,590**
At start of year		914,118	348,528
Increase		1,974,043	565,590
At end of year	43	**2,888,161**	**914,118**

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 five entities: British-American Investments Company (Kenya) Limited (BAICL), which is the holding company; British-American Insurance Company (Kenya) Limited, British-American Asset Managers Limited, Britam Insurance Company (Uganda) Limited and Britam Insurance Company Limited in South Sudan. The Group's insurance business includes the underwriting of all classes of life and non-life insurance risks as defined by the Kenyan and Ugandan Insurance Act, with the exception in Kenya 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.

b. Changes in accounting policy and disclosures

i. *New and amended standards adopted by the Group*

The following new standards and amendments to standards are mandatory for the first time for the financial period beginning 1 January 2011.

Standard	Title
IAS 1	Presentation of financial statements
IAS 24	Related party disclosures
IFRS 7	Financial instruments: Disclosures

- The amendment to IAS 1, 'Presentation of financial statements' is part of the 2010 Annual Improvements and clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The application of this amendment has no significant impact as the Group and Company was already disclosing the analysis of other comprehensive income on its statement of changes in equity.

- The amendment to IAS 24, 'Related party disclosures' 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. The amended definition means that some entities will be required to make additional disclosures, for example, an entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity. Related party disclosures have increased following adoption of this amendment.

- The amendments to IFRS 7, 'Financial Instruments - Disclosures' are part of the 2010 Annual Improvements and emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment has also removed the requirement to disclose the following;
    - Maximum exposure to credit risk if the carrying amount best represents the maximum exposure to credit risk;
    - Fair value of collaterals; and
    - Renegotiated assets that would otherwise be past due but not impaired.
    - The application of the above amendment has simplified financial risk disclosures made by the Group and Company.

- Other amendments and interpretations to standards became mandatory for the year beginning 1 January 2011 but had no significant effect 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

Numerous new standards, amendments and interpretations to existing standards have been issued but are not yet effective. Below is the list of new standards that are likely to be relevant to the Group and Company.

Standard	Title	Applicable for financial years beginning on/after
IAS 1	Presentation of financial statements	1 July 2012
IAS 19	Employee benefits	1 January 2013
IFRS 9	Financial instruments	1 January 2013
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013

- IAS 1, Presentation of financial statements
  The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. Entities will be required to separate items presented in other comprehensive income (OCI) into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

  The title used by IAS 1 for the statement of comprehensive income has changed to 'statement of profit or loss and other comprehensive income', though IAS 1 still permits entities to use other titles.

- IAS 19, Employee benefits
  The impact on the Group and Company will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur, to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/(asset). The Group and Company has yet to assess the full impact of the amendments.

- IFRS 9, 'Financial instruments'
  IFRS 9, was issued in November 2009 and October 2010 and replaces those parts of IAS 39 relating to the classification and measurement of financial instruments.

  IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch. The Group and Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 10, 'Consolidated financial statements'
  This is a new standard that replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. Standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess.

  The revised definition of control focuses on the need to have both power and variable returns before control is present. The Group will need to consider the new guidance.

- IFRS 12, 'Disclosure of Interests in other entities'
  IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including interests in subsidiaries, associates, joint arrangements, special purpose entities and other off balance sheet vehicles. The Group is yet to assess IFRS 12s full impact.

- IFRS 13, 'Fair value measurement'
  IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across all IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group is yet to assess IFRS 13s full impact.

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

c. Consolidation

i. *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, British-American Asset Managers Limited and Britam Insurance Company (Uganda) Limited made up to 31 December 2011.

ii. *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting. Under the equity method, the investments are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss as appropriate.
The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income, with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising from investments in associates are recognised profit or loss.

d. 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.

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.

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.

c) **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.

d) **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.

e) **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(l)

f) **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(l).

g) **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.

h) **Functional currency and translation of foreign currencies**

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the Functional Currency'). The consolidated financial statements are presented in 'Kenyan Shillings (Shs) rounded to the nearest throusand, which is the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income' or 'other expenses'.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

e. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Management Committee.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

f. 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 7) 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.

g. 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.

h. 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.

i. Intangible assets

i) Computer software

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.

ii) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

j. 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.

k. Financial instruments

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 8,927,209,000 at the financial reporting date (2010: Shs 12,213,323,000). The Company's assets in this Category at the end of the year were Shs 3,198,017,000 (2010: Shs 4,380,171,000)

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 4,184,389,000 at the reporting date (2010: Shs 2,406,478,000). The Company's assets in this category at the end of the year were Shs 1,240,446,000 (2010: Shs 38,293,000)

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 4,657,782,000 at the financial reporting date (2010: Shs 2,414,931,000). The Company had not assets in this category (2010: 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 3,409,402,000 at the reporting date (2010: Shs 5,979,690,000). The Company assets in this category were Shs 1,069,710,000.

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.

l. 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.

m. 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.

n. 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.

o. 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.

p. 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.

q. Current and deferred income tax

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.

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. However, if the deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from 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 or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the 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 and associates, 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 taxes 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.

r. 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.

s. 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.

t. 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.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the Company's equity holders, net of any directly attributable incremental transaction costs and the related income tax effects.

3 Critical accounting estimates and judgements

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

- actuarial liabilities (see note 33 for the carrying amounts of these liabilities and assumptions respectively)
- classification of financial assets. As disclosed in note 2(k)
- whether land and building meet criteria to be classified as investment property as disclosed in note 2(h)

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.

4 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 2011					
		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	3,384,867	1,599,234	-	4,984,101
	Net	3,383,204	1,599,234	-	4,982,438
Fire	Gross	8,543,679	20,931,118	89,224,070	118,698,867
	Net	8,535,400	10,034,955	5,190,699	23,761,054
Personal accident	Gross	464,322	3,046,420	9,606,003	13,116,745
	Net	367,910	960,013	3,704,756	5,032,679
Other	Gross	7,825,961	75,648,110	20,420,217	103,894,288
	Net	6,016,755	40,610,477	6,767,403	53,394,635
Long term business					
Ordinary life	Gross	17,903,057	85,000	-	17,988,057
	Net	16,842,559	4,000	-	16,846,559
Group life	Gross	139,109,778	30,253,420	-	169,363,198
	Net	106,477,783	3,050,032	-	109,527,815
Total	**Gross**	**177,231,664**	**131,563,302**	**119,250,290**	**428,045,256**
	Net	**141,623,611**	**56,258,711**	**15,662,858**	**213,545,180**

A 10% change in the Group's claims experience would result in a Shs 130,114,000 change in the Company's profit for the year (2010 : Shs 82,317,500).

Year ended 31 December 2010					
		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	2,731,647	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**

(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.

GROUP	External credit rating/credit quality grouping	Maximum exposure to credit risk before collateral held 2011 Shs'000	2010 Shs'000
Government securities held for trading	B+	216,334	361,360
Government securities held to maturity	B+	4,374,453	2,109,214
Corporate bond	Group 2	283,329	305,717
Unit trusts	Group 2	4,378,902	4,265,612
Mortgage loans	Group 2	678,897	576,464
Loans to policy holders	Group 2	247,304	303,418
Receivables arising out of reinsurance arrangements	Group 2	-	10,081
Receivables out of direct insurance arrangements	Group 2	287,756	161,277
Reinsurers' share of insurance contract liabilities	Group 2	584,552	463,893
Receivables from related parties	Group 2	9,106	2,696
Other receivables	Group 2	312,798	388,547
Deposits with financial institutions	Group 2	2,463,976	500,102
Bank balances	Group 2	425,339	415,376
Total		**14,262,746**	**9,863,757**

COMPANY	External credit rating/credit quality grouping		
Unit trusts	Group 2	512,458	-
Receivables from related parties	Group 2	4,671	25,303
Other receivables	Group 2	76,386	4,500
Deposits with financial institutions	Group 2	1,159,389	8,490
Bank balances	Group 2	4,806	10,407
Total		**1,757,710**	**48,700**

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2011 and 2010, 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, 32% of the total maximum exposure is derived from government securities (2010: 26%). In the opinion of the directors there is no other significant concentration of the credit risk at year end.

Mortgage loans of Shs 678,897,000 (2010: Shs 576,464,000) 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 247,304,000 (2010: Shs 303,418,000) are secured by the surrender value of the policies. The fair values of collateral held for mortgages amounted to Shs 2,032,941,500 (2010: Shs 1,832,665,500) while the surrender values of the policies with loans amounted to Shs 872,960,000 (2010: Shs 1,072,655,000).

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
- 98% (2010: 95%) of the mortgages portfolio are neither past due nor impaired
- 100% (2010:100%) of the mortgages portfolio are backed by collateral
- 76% (2010: 53%) 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:

	2011 Shs'000	2010 Shs'000
Receivables from direct insurance arrangements		
Counterparties without external credit rating		
- Group 2	287,756	161,277
Total	**287,756**	**161,277**
Receivables from reinsurance arrangements		
Counterparties without external credit rating	-	10,081
- Group 2		
Total	**-**	**10,081**

Financial assets that are past due or impaired

GROUP

Mortgage loans are summarised as follows:

	2011 Shs '000	2010 Shs '000
Neither past due nor impaired	665,089	550,058
Past due but not impaired	13,808	26,406
Impaired	25,073	25,073
Gross	**703,970**	**601,537**
Less: provision for impairment	(25,073)	(25,073)
Net	**678,897**	**576,464**
Movement in the provision account		
At 1 January	25,073	25,073
Increase	-	-
As 31 December	**25,073**	**25,073**

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:

	2011 Shs 000	2010 Shs 000
Past due up to 30 days	2,215	4,878
Past due 31 – 60 days	1,990	4,691
Past due 61 – 180 days	9,603	16,837
Total	**13,808**	**26,406**

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 2011 were secured by collateral of Shs 32,000,000 (2010: Shs 31,500,000).

As at 31 December 2011, there is no repossessed collateral and no renegotiated loans.

Movements in the provision account :	2011 Shs '000	2010 Shs '000
At 1 January	9,215	2,507
Increase	-	7,046
Write-offs	(2,447)	(338)
At 31 December	**6,768**	**9,215**

Receivables from direct insurance arrangements Counterparties without external credit rating		
- Group 2	287,756	161,277
Total	**287,756**	**161,277**

Receivables from reinsurance arrangements Counterparties without external credit rating		
- Group 2	-	10,081
Total	**-**	**10,081**

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:

	2011 Shs '000	2010 Shs '000
Past due 1 – 60 days	210,992	91,373
Past due 61 – 90 days	67,582	17,319
Past due 91 - 180 days	9,182	52,585
Total	**287,756**	**161,277**

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 2011	0 – 4 Months	5-12 Months	1-5 years	Over 5 Years	Total
Liabilities					
Insurance contract liabilities	872,876	577,996	2,666,711	3,252,838	7,370,421
Amounts payable under deposit administration contracts	246,157	418,345	2,841	3,371,719	4,039,062
Liabilities under investment contracts	-	-	281,176	2,892,015	3,173,191
Creditors arising out of reinsurance Arrangements	119,755	-	-	-	119,755
Retirement benefit liability	-	50,076	-	-	50,076
Bank loan	-	-	784,577	-	784,577
Other payable	279,956	227,278	39,376	-	546,610
Overdraft	1,154	-	-	-	1,154
Total financial liabilities (at contractual/ expected maturity dates)	**1,519,898**	**1,273,695**	**3,774,681**	**9,516,572**	**16,084,846**
Available for sale quoted investments	2,399,694	-	1,009,708	-	3,409,402
Investments at fair value through P&L	-	-	-	-	-
- quoted investments	2,113,373	-	2,168,110	-	4,281,483
- unquoted investments	50,490	-	-	-	50,490
- government securities	11,234	49,057	111,947	44,096	216,334
- unit trusts	237,405	562,808	861,765	2,716,924	4,378,902
Government securities held to maturity	20,886	104,992	749,743	3,498,832	4,374,453
Corporate bond	-	50,816	164,421	68,092	283,329
Mortgage loans	17,558	12,527	107,974	540,838	678,897
Loans to policyholders	12,605	38,047	196,267	385	247,304
Receivables arising out of direct insurance arrangements	-	287,756	-	-	287,756
Reinsurers' share of insurance liabilities	23,829	68,406	193,152	299,165	584,552
Loans and receivables from related parties	9,106	-	-	-	9,106
Deferred acquisition costs	-	97,049	-	-	97,049
Other receivables	28,029	144,890	139,879	-	312,798
Deposits with financial institutions	2,463,976	-	-	-	2,463,976
Cash and bank balances	425,339	-	-	-	425,339
Total financial assets (at contractual/ expected maturity dates)	**7,813,524**	**1,416,348**	**5,702,966**	**7,168,332**	**22,101,170**

GROUP

At 31 December 2010	0 – 4 months	5-12 months	1-5 Years	Over 5 Years	Total
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	-	-	749,318	-	749,318
Other payables	194,351	103,964	120,093	-	418,408
Overdraft	1,360	-	-	-	1,360
Total financial liabilities (at contractual/ expected maturity dates)	**1,161,346**	**1,895,165**	**5,950,846**	**5,019,931**	**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 (at contractual/ expected maturity dates)	**10,746,098**	**519,605**	**6,638,359**	**5,525,756**	**23,429,798**

COMPANY

At 31 December 2011	0 – 4 months	5-12 Months	1-5 years	Total
Company Liabilities				
Bank loan	-	-	784,577	784,577
Due to related parties	-	-	167,390	167,390
Other payables	-	29,651	-	29,651
Total financial liabilities (contractual/ expected maturity dates)	**-**	**29,651**	**951,967**	**981,618**

At 31 December 2010	0 – 4 months	5-12 Months	1-5 years	Total
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 (contractual/ expected maturity dates)	**-**	**130,901**	**1,381,621**	**1,512,522**

(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 2011, if the Nairobi Securities Exchange (NSE) Index had changed by 15% (2010: 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 719,807,158 (2010: Shs 1,130,378,752) higher/lower, and the equity would have been Shs 511,410,236 (2010: Shs 896,953,206) higher/lower. The Company's post tax profit for the year would have been Shs 402,833,957 (2010: Shs 657,026,000) higher/lower, and the Company's equity would have been Shs 160,456,447 (2010: Shs 657,026,000) higher/lower

The concentration on equities in general and on specific counters is closely monitored. As at 31 December 2011, the group held shares in Equity Bank Limited amounting to Shs 6,460,184,000 (2010: Shs 10,949,056,811) or 25% (2010: 43%) 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 2011, 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 625,953 (2010: Shs 621,126) higher\lower. The Company did not have a material exposure to interest rate risk in 2010 and 2011.

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 have sufficient capital to enable the Group subsidiaries comply with the capital requirements set by the Insurance Act and the Capital Markets Act.

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 2010 and 2011.

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

	2011		2010	
	Regulatory requirement Shs'000	Maintained by the Company Shs'000	Regulatory requirement Shs'000	Maintained by the Company Shs '000
Capital at 31 December	450,000	480,000	450,000	480,000
Solvency margin	909,346	1,977,747	793,029	1,757,100

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:

	2011		2010	
	Regulatory requirement Shs'000	Maintained by the Company Shs'000	Regulatory requirement Shs'000	Maintained by the Company Shs '000
Capital at 31 December	10,000	90,302	10,000	60,660
Working capital at 31 December	42,244	71,603	39,690	73,371

(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 2011 and 2010:

GROUP 2011	Level 1 Shs'000	Level 2 Shs'000	Level 3	Total Shs'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities	4,281,483	-	50,490	4,331,973
- Government securities	-	216,334	-	216,334
- Unit trust	-	4,378,902	-	4,378,902
Available-for-sale equity investments	3,409,402	-	-	3,409,402
Government securities held to maturity	-	4,374,453	-	4,374,453
Corporate bonds	-	283,329		283,329
Total assets	**7,690,885**	**9,257,467**	**50,490**	**16,994,393**

GROUP 2010	Level 1 Shs'000	Level 2 Shs'000	Level 3	Total Shs'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities	7,535,861	-	50,490	7,586,351
- Government securities	-	361,360	-	361,360
- Unit trust	-	4,265,612	-	4,265,612
Available-for-sale equity investments	5,979,690	-	-	5,979,690
Total assets	**13,515,551**	**4,626,972**	**50,490**	**18,193,013**

COMPANY	Level 1 2011 Shs'000	Level 1 2010 Shs'000
Assets		
Financial assets at fair value through profit or loss		
• Quoted Equity securities	2,685,559	4,380,171
• Unit trusts	512,458	-
Available-for-sale equity investments	1,069,710	-
Total assets	**4,267,727**	**4,380,171**

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 2011 (2010: Shs 50,490,000).

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 2011 is estimated at Shs 3,952,794,000 (2010: Shs 2,244,003,235) compared to their carrying value of Shs 4,374,453,000 (2010: Shs 2,101,833,000) while that of mortgage loans and policy loans are Shs 678,897,000 (2010: Shs 576,464,000) and Shs 247,304,000 (2010: Shs 303,418,000) 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.

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.

5 Segmental Information

Management has determined the operating segments based on the reports reviewed by the Executive Council that are used to make strategic decisions. All operating segments used by management meet the definition of a reportable segment under IFRS 8.

The Group is organized on a product basis into four operating segments. These segments distribute their products through various forms of brokers, agencies and direct marketing programmes. Management identifies its reportable operating segments by product line consistent with the reports used by the strategic steering committee. These segments and their respective operations are as follows:

a) **Long term insurance business:** Protection of the Group's customers against the risk of premature death, disability, critical illness and other accidents. All contracts in this segment offer fixed and guaranteed benefits over the contractual term. Revenue from this segment is derived primarily from insurance premium, investment income, net realized gains on financial assets and net fair value gains on financial assets at fair value through profit or loss.

   Life Insurance offers an extensive range of products that serve the wide array of insurance needs of its customers including: unit linked products, education plans, whole life plans and other conventional products. It also provides group life and critical illness products, disability products, individual pension plans, umbrella pension plans and corporate pension plans.

b) **Short term insurance business:** The protection of customers' assets (particularly their properties, both for personal and commercial business.) All contracts in this segment are over a short contractual term. Revenue in this segment is derived primarily from insurance premiums, investment income, net realized gains on financial assets, and net fair value gains on financial assets at fair value through profit or loss.

c) **Asset Management:** The Asset Management products include: discretionary/segregated portfolio management services, wealth management services as well as Unit Trust Funds.

   Since inception, Asset Management Company has grown to become the market leader in unit trusts in Kenya, and was ranked 1st in unit trust market share as at 31 December, 2010.

d) **Corporate and Other:** Includes corporate operations, after allocations to operating segments. Corporate operations consist primarily of (1) corporate-level income and expenses; (2) returns from investments not allocated to any operating segments, including debt-financed investment portfolios.

The segment information provided to the executive council for the reportable segments for the year ended 31 December 2011 is as follows:

Year ended 31 December 2011	Long term insurance business Shs'000	Short term insurance business Shs'000	Asset Management Shs'000	Corporate and other Shs'000	Total Shs'000
Gross insurance premium revenue	3,479,471	2,128,150	-	-	5,607,621
Insurance premium ceded to reinsurers	(222,020)	(448,894)	-	-	(670,914)
Net insurance premium revenue	3,257,451	1,679,256	-	-	4,936,707
Fee income	-	-	238,315	-	238,315
Allocated investment return	447,673	87,801	3,713	(924,952)	(385,765)
Other operating income	145,095	155,723	42	-	300,860
Net Income	**3,850,219**	**1,922,780**	**242,070**	**(924,952)**	**5,090,117**
Inter-segment revenue	(1,146,330)	(61,103)	-	(500,000)	(1,707,433)
Revenue from external customers	2,703,889	1,861,677	242,070	(1,424,952)	3,382,684
Insurance benefits and claims	2,237,478	908,435	-	-	3,145,913
Insurance claims recovered from reinsurers	(47,496)	(99,400)	-	-	(146,896)
Net insurance benefits and claims	2,189,982	809,035	-	-	2,999,017
Investment contract benefits	(765,690)	-	-	-	(765,690)
Acquisition expenses	873,585	306,455	12,295		1,192,335
Expenses	1,017,981	331,770	174,660	236,133	1,760,544
Net expenses	**3,315,858**	**1,447,260**	**186,955**	**236,133**	**5,186,206**
Reportable segment profit	**(611,969)**	**414,417**	**55,115**	**(1,661,085)**	**(1,803,522)**
Share of (loss)/profit of associates	70,698	8,738	-	-	79,436
Profit before tax	**(541,271)**	**423,155**	**55,115**	**(1,661,085)**	**(1,724,086)**
Depreciation and amortization	51,964	18,538	8,488	1,444	80,434
Interest revenue	412,385	71,935	506	134,225	619,051
Interest expense	-	-		92,904	92,904
Income tax expense	52,500	159,895	14,289	6,535	233,219
Total assets	**16,731,354**	**3,282,427**	**132,317**	**5,493,146**	**25,639,244**
Total assets include:					
Investments in associates	1,211,301	149,307	-	-	1,360,608
Additions to non-current assets	4,249,130	616,425	10,587	1,725,226	6,601,368
Total liabilities	**14,049,473**	**2,214,223**	**27,798**	**790,302**	**17,081,796**

The segment information provided to the executive council for the reportable segments for the year ended 31 December 2010 is as follows:

Year ended 31 December 2010	Long term insurance business Shs'000	short term insurance business Shs'000	Asset Management Shs'000	Corporate and other Shs'000	Total Shs'000
Gross insurance premium revenue	2,674,360	1,659,068	-	-	4,333,428
Insurance premium ceded to reinsurers	(261,791)	(412,881)	-	-	(674,672)
Net insurance premium revenue	2,412,569	1,246,187	-	-	3,658,756
Fee income	-	-	195,852		195,852
Allocated investment return	2,134,817	541,629	3,900	2,543,461	5,223,807
Other operating income	293,789	136,146	18	-	429,953
Net Income segment income	**4,841,175**	**1,923,962**	**199,770**	**2,543,461**	**9,508,368**
Inter-segment revenue	(89,172)	-		(450,000)	(539,172)
Revenue from external customers	4,752,003	1,932,962	199,770	2,093,461	8,969,196
Insurance benefits and claims	2,723,557	967,296	-	-	3,690,853
Insurance claims recovered from reinsurers	(99,590)	(166,972)	-	-	(266,562)
Net insurance benefits and claims	2,623,967	800,324	-	-	3,424,291
Investment contract benefits	393,817	-	-	-	393,817
Acquisition expenses	717,325	231,930	11,422		960,677
Opereating expenses	786,752	188,615	164,090	177,365	1,316,822
Net expenses	**4,521,861**	**1,220,869**	**175,512**	**177,365**	**6,095,607**
Reportable segment profit	**230,142**	**703,093**	**24,258**	**1,916,096**	**2,873,589**
Share of (loss)/profit of associates	-	-	-	-	-
Profit before tax	**230,142**	**703,093**	**24,258**	**1,916,096**	**2,873,589**
Depreciation and amortization	49,059	11,351	7,760	1,256	69,426
Interest revenue	357,547	47,877	806	1,563	407,793
Interest expense	-	-		95,472	95,472
Income tax expense	52,500	93,142	10,873	3,290	159,805
Total assets	**17,792,910**	**3,037,916**	**123,336**	**4,407,754**	**25,361,916**
Total assets include:					
Additions to non-current assets	2,877,257	236,306	5,749	461	3,119,773
Total liabilities	**12,375,466**	**1,630,434**	**24,985**	**761,052**	**14,791,937**

The revenue from external parties reported to the Executive Council is measured in a manner consistent with that in the income statement. No inter-segment transactions occurred during 2011 and 2010.

The Executive Council assesses the performance of the operating segments based on the profit before tax as detailed above.

The amounts provided to the Executive Council with respect to total assets and total liabilities are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

The entity is domiciled in Kenya. The results of its revenue from external customers are as follows:

	2011 Shs'000	2010 Shs'000
Kenya	5,821,748	4,529,280
Uganda	24,188	-
Total	**5,845,936**	**4,529,280**

Revenues are allocated based on the country in which the insurance contracts are issued.
Management considers its external customers to be the individual policyholders and investors; as such the Group is not reliant on any individual customer.

The total of all assets are allocated as follows:

	2011 Shs'000	2010 Shs'000
Kenya	25,489,945	25,168,308
Uganda	149,299	193,609
Total	**25,639,244**	**25,361,917**

The total of non-current assets, other than financial instruments, deferred tax assets, post-employment benefits and risks arising under insurance contracts are allocated as follows:

	2011 Shs'000	2010 Shs'000
Kenya	2,133,871	1,821,832
Uganda	39,612	25,036
Total	**2,173,483**	**1,846,868**

6 Gross earned premium

The gross earned premium of the Group can be analysed between the main classes of business as shown below:

	GROUP	
	2011 Shs'000	2010 Shs'000
Long term insurance business:		
Ordinary life	2,563,333	2,065,695
Group life	916,139	608,665
Total Long term business	**3, 479,472**	**2, 674,360**
Short term insurance business:		
Motor	821,253	603,100
Fire	165,181	120,034
Marine	144,862	110,097
Personal accident and medical	744,270	622,748
Other	252,583	203,089
Total short term business	**2,128,149**	**1,659,068**
Grand Total	**5,607,621**	**4,333,428**

7 Investment income

Interest from government securities	288,609	252,143
Bank deposit interest	224,612	26,414
Other interest receivable	105,831	129,236
Rental income from investment properties	38,499	54,876
Fair value (losses)/ gain on investment properties (Note 20)	215,570	72,274
Dividends receivable from equity investments	416,086	254,684
Realised (loss) /gains on government securities at fair value through profit or loss	(4,309)	(495)
Realised (losses) /gain on quoted investments at fair value through profit or loss	(55,160)	247,778
Realised gains on sale of Investment property	7,521	86,040
Fair value (losses) /gain on financial assets at fair value through profit or loss	(3,330,457)	3,561,685
Total	**(2,093,198)**	**4,684,635**

	GROUP	
	2011	2010
	Shs'000	Shs'000

8 Other income

Fee income		
- arising on long term insurance contracts	24,394	178,143
- arising on short term insurance contract	4,116	8,679
- arising on deposit administration	11,998	8,429
- Other miscellaneous	22,452	25,188
Total	**62,960**	**220,439**

9 Net claims and policyholder benefits payable

Long term business		
Insurance contracts with fixed and guaranteed terms		
- death, maturity and surrender benefits	955,213	1,344,732
- bonuses	447,681	480,887
- interest on deposit administration contract and fair value (loss) /gains on investment contracts	(765,690)	393,817
- increase in policyholder liabilities	834,035	897,937
Less: reinsures' share	(47,497)	(99,590)
Total long term	**1,423,742**	**3,017,783**
Short term business		
Claims payable by principal class of business:		
- Motor	408,970	483,866
- Fire	75,471	72,265
- Personal accident and medical	348,537	60,035
- Marine	14,656	19,929
- Other	61,351	331,202
Less : reinsures' share	(99,400)	(166,972)
Total short term	**809,585**	**800,325**
Total long term and short term	**2,233,327**	**3,818,108**

10 Operating and other expenses

Staff costs (Note 11)	610,787	533,036
Auditor's remuneration	7,633	4,547
Depreciation on leasehold improvements and equipment (Note 17)	61,843	47,530
Amortisation of intangible assets (Note 18)	18,591	21,896
Provision for impairments on receivables	14,047	7,046
Repairs and maintenance expenditure	7,135	21,164
Other	1,040,508	681,603
Total	**1,760,544**	**1,316,822**

11 Staff costs

Staff costs include the following:		
Salaries and wages	501,355	447,611
Retirement benefits costs		
- defined contribution scheme	53,549	66,356
- defined benefit scheme (Note 48)	52,904	18,393
- Social security benefits costs	2,979	676
Total	**610,787**	**533,036**

The number of persons employed by the Group at the year-end was 314 (2010: 277).

12 Income tax expense

	2011 Shs'000	2010 Shs'000
Income tax expense	**233,219**	**159,805**

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:

	2011 Shs'000	2010 Shs'000
Results of operating activities	(1,803,522)	2,873,589
Tax calculated at a tax rate of 30%	(541,057)	862,077
Add / (Less):		
Tax effect of (income/ (loss) not subject to tax	670,150	(726,428)
Overprovision of deferred tax for prior year	(447)	(3,928)
Tax effect of expenses not deductible for tax purposes	104,573	28,084
Tax charge	**233,219**	**159,805**

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

	2011			2010		
	Before tax Shs'000	Tax (charge) credit Shs'000	After tax Shs'000	Before tax Shs'000	Tax (charge) credit Shs'000	After tax Shs'000
Currency translation losses	(8,159)	-	(8,159)	-	-	-
Fair value gains/(losses):						
– Building	24,915	-	24,915	13,533	-	13,533
– Available-for-sale financial assets	(2,245,832)	-	(2,245,832)	2,755,565	-	2,755,565
Other comprehensive income	**(2,229,076)**	**-**	**(2,229,076)**	**2,769,098**	**-**	**2,769,098**
Current tax	-	-	-	-	-	-
Deferred tax	-	-	-	-	-	-

13 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.

GROUP	Fair value reserve Shs '000	Revaluation reserve Shs '000	Translation shs'000	Treasury shares shs'000	General Shs '000	Total Shs'000
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 21(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**
Balance at 1 January 2011	5,685,429	77,432	-	-	365,075	6,127,936
Revaluation gain on building	-	24,915	-	-	-	24,915
Revaluation losses on available for sale quoted investments(Note 21(ii))	(2,245,832)	-		-	-	(2,245,832)
Transfer from retained earnings	-	-	-		462,096	462,096
Treasury shares (Note 16)	-	-	-	(829,752)	-	(829,752)
Currency translation losses		-	(8,159)	-		(8,159)
Balance at 31 December 2011	**3,439,597**	**102,347**	**(8,159)**	**(829,752)**	**827,171**	**3,531,204**

Other reserves include fair value reserves arising from revaluation of assets carried as available for sale.

14 Dividends per share

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 to be held on 20 April 2012, a final dividend in respect of the year ended 31 December 2011 of Shs 0.15 per share (2010: Shs 0.13) amounting to a total of Shs 283,717,778 is to be proposed. (2010: Shs 200,000,000).

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

15 Earnings per share

Basic earnings per share have been calculated by dividing the net profit/ (loss) for the year by the weighted averagenumber of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares (Note 16)

There were no potentially dilutive shares as at 31 December 2011 or 31 December 2010.

	2011	2010
(Loss) /profit attributed to equity holders (Shs' thousands)	(1,957,305)	2,713,784
Weighted number of ordinary shares in issue (Thousands)	1,799,050	1,500,000
Basic and diluted earnings per share (Shs)	(1.09)	1.81

There were no potentially dilutive shares as at 31 December 2011 or 31 December 2010.

16 Share capital

Group and Company	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000	Total Shs'000
Balance at 1 January 2010	30,000	150,000	-	150,000
Issue of shares –employee share scheme	-	-	-	-
Balance at 1 January 2011	30,000	150,000	-	150,000
Share split	1,500,000	-		-
Issue of shares	391,452	39,145	3,164,455	3,203,600
Balance at 31 December 2011	**1,891,452**	**189,145**	**3,164,455**	**3,353,600**

Ordinary Shares

The total number of authorised shares is 2,150 million with par value of Shs 10 cents per share (2010: 30 million with par value of Shs 5). The number of shares issued is 1,891 million with par value of Shs 10 cents per share (2010: 30 million with par value of Shs 5). All shares issued carry equal voting rights.

Treasury shares

Treasury shares comprise shares acquired in the market by the life fund to fund policyholder liabilities.

The Company acquired 92,401,600 of its own ordinary shares through purchases on the Nairobi Securities Exchange on 20 September 2011. The total amount paid to acquire the shares, net of income tax, was Shs 829,752,251 and has been deducted from other reserves. The shares are held as treasury shares. All shares issued by the Company were fully paid.

17 Property and equipment

GROUP	Lands & Buildings	Leasehold Improvements	Motor vehicles	Furniture, fittings and equipment	Computer Equipment	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2011						
Cost or valuation						
At start of year	373,833	173,844	16,856	210,521	105,889	880,943
Additions	-	9,316	16,947	66,646	17,664	110,573
Disposals	-	-	(3,850)	(6,976)	(7,209)	(18,035)
Valuation	24,915	-	-	-	-	24,915
At end of year	**398,748**	**183,160**	**29,953**	**270,191**	**116,344**	**998,396**
Depreciation						
At start of year	-	127,562	11,126	102,058	58,777	299,523
Charge for the year	-	12,127	3,759	31,292	14,665	61,843
Disposal	-	-	(3,654)	(6,420)	(6,256)	(16,330)
At end of year	**-**	**139,689**	**11,231**	**126,930**	**67,186**	**345,036**
Net book amount						
At 1 January 2011	373,833	46,282	5,730	108,463	47,112	581,420
At 31 December 2011	**398,748**	**43,471**	**18,722**	**143,261**	**49,158**	**653,360**
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**

COMPANY	Leasehold improvements Shs'000	Motor vehicles Shs'000	Furniture, fittings and equipment Shs'000	Computer Equipment Shs'000	Total Shs'000
Year ended 31 December 2011					
Cost or valuation					
At start of year	-	5,179	720	617	6,516
Additions	1,401	-	1,372	308	3,081
At end of year	**1,401**	**5,179**	**2,092**	**925**	**9,597**
Depreciation					
At start of year	-	2,244	160	123	2,527
Charge for the year	65	1,036	193	151	1,445
At end of year	**65**	**3,280**	**353**	**274**	**3,972**
Net book amount					
At 1 January 2011	**-**	**2,935**	**560**	**494**	**3,989**
At 31 December 2011	**1,336**	**1,899**	**1,739**	**651**	**5,625**
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**

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 135,520,000 (2010: Shs 138,427,000) had it been carried out under the cost model.

All property and equipment is classified as non current assets.

18 Intangible assets

	GROUP		COMPANY	
	2011	2010	2011	2010
Computer and software costs	Shs'000	Shs'000	Shs'000	Shs'000
At the start of year	91,878	78,098	197	197
Additions	41,543	34,420	3,191	-
Amortisation	(18,591)	(20,640)	-	-
At end of year	**114,830**	**91,878**	**3,388**	**197**
Cost	266,077	224,534	3,388	197
Accumulated amortisation	(151,247)	(132,656)	-	-
Net book amount	**114,830**	**91,878**	**3,388**	**197**

Intangible assets are classified as non current assets.

19 Investment in associate

As at 31 December 2010, the Group had a shareholding of 12.55% of Housing Finance Company of Kenya Limited (Housing Finance). On 30 June 2011, the Company acquired an additional 8.33% of the share capital of Housing Finance for Shs 516,795,469 converting it into an associate with a shareholding of 20.88%.

	2011 Shs'000	2010 Shs'000
Transfer from quoted investments at fair value through income statement (Note 21(ii))	764,641	-
Additions during the year	516,795	-
Gain on valuation based on net asset value less transaction costs	13,966	-
Share of profits	79,436	-
Dividends received	(14,230)	-
At end of year	**1,360,608**	

Investor's share of associate's value of identifiable net assets	914,059	-
Goodwill on acquisition	381,343	-
Share of profits	79,436	-
Dividend received	(14,230)	-
At end of year	**1,360,608**	**-**

20 Investment property

	2011 Shs'000	2010 Shs'000
At start of year	1,173,571	1,092,785
Additions	16,870	279,229
Disposal	(717)	(270,717)
Fair value gains	215,570	72,274
At end of year	**1,405,294**	**1,173,571**

The valuation exercise was carried out by Gimco Limited, registered professional valuers, on 31 December 2011. Investment property is valued on an open market basis. Investments in property is classified as non current assets.

21 Quoted equity investments

i) **At fair value through profit or loss**

	GROUP		COMPANY	
	2011 Shs '000	2010 Shs '000	2011 Shs '000	2010 Shs '000
At start of year	7,535,861	4,608,842	4,380,171	2,354,048
Transfer to investment in Associate (Note 19)	(764,641)	-	-	-
Additions	32,235	348,712	-	-
Disposals	(251,627)	(405,764)	-	-
Fair value (losses) /gains	(2,270,345)	2,984,071	(1,694,612)	2,026,123
At end of year	**4,281,483**	**7,535,861**	**2,685,559**	**4,380,171**

ii) **Available for sale**

At start of year	5,979,690	3,282,105	-	-
Additions	-	414,372	1,214,000	-
Disposals	(324,456)	(472,352)	-	-
Fair value (losses) /gains	(2,245,832)	2,755,565	(144,290)	-
At end of year	**3,409,402**	**5,979,690**	**1,069,710**	**-**

22 Unquoted Investments

	GROUP	
	2011	2010
	Shs '000	Shs '000
At start of year	50,490	-
Additions	-	50,490
At end of year	**50,490**	**50,490**

23 Mortgage loans

At start of year	601,537	684,950
Loans advanced	243,737	29,784
Loan repayment	(141,304)	(113,197)
Total	**703,970**	**601,537**
Less: Provision for impairment losses	(25,073)	(25,073)
At end of year	**678,897**	**576,464**
Lending commitments:		
Mortgage loans approved by directors but not advanced as at 31 December	110,642	46,474
Mortgage loans to related parties are disclosed in note 46 (ii).		

24 Loans to policyholders

At start of year	303,418	357,789
Loans advanced	202,259	164,909
Surrenders	(60,486)	(29,810)
Loan repayments	(197,887)	(189,470)
At end of year	**247,304**	**303,418**

25 Reinsurers' share of insurance liabilities

Reinsurers' share of:		
- notified claims outstanding – long term	63,783	56,816
- notified claims outstanding – short term (Note 34)	344,287	259,572
- unearned premium (Note 39)	114,945	105,055
- claims incurred but not reported (Note 34)	61,537	42,450
At end of year	**584,552**	**463,893**

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.

26 Deferred acquisition costs

At start of year	73,461	52,941
Net increase	23,588	20,520
At end of year	**97,049**	**73,461**

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.

27 Other receivables

	GROUP		COMPANY	
	2011	2010	2011	2010
	Shs'000	Shs'000	Shs'000	Shs'000
Staff and agents loans	113,449	103,877	-	-
Dues from managed funds	12,645	2,539	-	-
Prepayments	86,662	5,528	4,500	-
Other receivables	100,042	276,603	71,886	4,500
Total	**312,798**	**388,547**	**76,386**	**4,500**

All prepayments are classified as current. The ageing analysis of other receivables is presented in note 4(c).

28 Government securities

		GROUP	
		2011	2010
		Shs'000	Shs'000
(i)	**At fair value through profit or loss**		
	Treasury bills and bonds maturing		
	- Within 1 year	60,291	94,712
	- In 1 – 5 years	111,946	211,331
	- After 5 years	44,097	55,317
Total		**216,334**	**361,360**
	Treasury bills and bonds movement		
	- At start	361,360	523,561
	- Additions	-	29,748
	- Fair value gains	(52,045)	21,852
	- Disposals and maturities	(92,981)	(213,801)
At end of year		**216,334**	**361,360**

		2011	2010
		Shs'000	Shs'000
(ii)	**Investment held to maturity**		
	At start of year	2,109,214	1,573,543
	Additions	2,289,298	756,045
	Maturities	(24,059)	(220,374)
At end of year		4,374,453	2,109,214

29 Unit trusts

	GROUP		COMPANY	
	2011	**2010**	**2011**	**2010**
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	4,265,612	2,122,003	-	-
Additions	1,102,466	1,441,964	508,145	-
Disposals	(5,503)	-	-	-
Fair value gains	(983,673)	701,645	4,313	
At end of year	**4,378,902**	**4,265,612**	**512,458**	**-**

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.

30 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	
	2011	2010
	%	%
Mortgage loans	11.860	12.04
Policy loans	14.50	14.50
Government securities	10.98	11.02
Deposits with financial institutions	24.69	2.62
Unit trusts	8.90	-
Corporate bond	10.46	10.45

Deposits with financial institutions have an average maturity of 3 months (2010: 3 months)

31 Insurance contract liabilities

	GROUP	
	2011	2010
	Shs'000	Shs'000
Long term insurance contracts		
- claims reported and claims handling expenses	384,148	367,418
- actuarial value of long term liabilities (Note 35)	5,990,061	5,155,605
Total – long term	**6,374,209**	**5,523,023**
Short term non-life insurance contracts		
- claims reported and claims handling expenses	794,050	625,673
- claims incurred but not reported (Note 32)	202,162	197,502
Total – short term (Notes 32)	**996,212**	**823,175**
Total gross insurance liabilities	**7,370,421**	**6,346,198**

Movements in insurance liabilities and reinsurance assets are shown in note 34.

32 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	2007 Shs'000	2008 Shs'000	2009 Shs'000	2010 Shs'000	2011 Shs'000	Total Shs'000
Estimate of ultimate claims costs:						
– at end of accident year	249,607	376,624	469,746	744,229	557,597	2,397,803
– one year later	297,986	453,452	589,677	287,827		1,628,942
– two years later	302,040	448,578	156,921	-		907,539
– three years later	315,286	114,976	-	-		430,262
– four years later	27,447	-	-	-		27,447
Current estimate of cumulative claims	27,447	114,976	156,921	287,827	557,597	1,144,768
Add: Incurred but not Reported	-	-	-	-	202,162	202,162
Add: Liability in respect of prior years	71,039	-	-	-	-	71,039
Less: Cumulative payments to date	62,077	50,411	56,316	110,085	142,868	421,757
Liability included in the balance Sheet	**36,409**	**64,565**	**100,605**	**177,742**	**616,891**	**996,212**

33 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 2011, the valuation showed a surplus of Shs 6,136 million (2010: Shs 3,375 million).

Valuation assumptions

The latest actuarial valuation of the long term fund was carried out as at 31 December 2011 by Aon Hewitt Actuarial, consulting actuaries, using the net premium valuation method as required by the Kenyan Insurance Act.

Significant valuation assumptions are summarised below. The assumptions did not change in 2011.

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 Group'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% (2010: 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% (2010:10%). It has been assumed that the current tax legislation and rates continue unaltered.

34 Movements in insurance liabilities and reinsurance assets

Short term insurance business	2011 Gross Shs'000	2011 Reinsurance Shs'000	2011 Net Shs'000	2010 Gross Shs'000	2010 Reinsurance Shs'000	2010 Net Shs'000
Notified claims	625,674	259,572	366,101	431,832	151,816	280,016
Incurred but not reported	197,501	42,449	155,052	118,136	14,925	103,211
Total at beginning of year	**823,175**	**302,021**	**521,151**	**549,968**	**166,741**	**383,227**
Cash paid for claims settled in year	(839,951)	(99,400)	(740,551)	(829,368)	(166,972)	(662,396)
Increase in liabilities:						
- arising from current year claims	633,226	17,539	615,687	839,387	180,188	659,199
- arising from prior year claims	379,322	185,663	193,659	263,188	122,065	141,123
Total at end of year	**995,772**	**405,824**	**589,948**	**823,175**	**302,022**	**521,153**
Notified claims	794,050	344,287	449,763	625,673	259,572	366,101
Incurred but not reported	202,162	61,537	140,625	197,502	42,450	155,052
Total at the end of year	**996,212**	**405,824**	**590,388**	**823,175**	**302,022**	**521,153**

35 Actuarial value of long term liabilities

	2011 Ordinary life Shs'000	2011 Group life Shs'000	2011 Total Shs'000	2010 Ordinary life Shs'000	2010 Group life Shs'000	2010 Total Shs'000
At beginning of year	4,614,600	541,005	5,155,605	3,965,162	292,506	4,257,668
Policyholder bonuses and interest	(575,987)	-	(575,987)	(480,887)	-	(480,887)
Surrenders and annuity payments	(471,968)	-	(471,968)	(362,706)	-	(362,706)
Increase in the period (net)	1,666,864	215,547	1,882,411	1,493,031	248,499	1,741,530
At end of year	**5,233,509**	**756,552**	**5,990,061**	**4,614,600**	**541,005**	**5,155,605**

36 Liabilities under investment contracts

	GROUP 2011 Shs'000	GROUP 2010 Shs'000
At start of the year 1 January	3,183,016	1,640,902
Net investments	1,249,229	1,250,836
Liabilities released for payments:		
Surrenders	(275,659)	(3,453)
Fair value (loss) /gain on investments	(983,395)	294,731
At 31 December	**3,173,191**	**3,183,016**

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.

37 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 8% for the year (2010: 15%).

	GROUP	
	2011	2010
	Shs'000	Shs'000
At 1 January	3,268,977	2,754,617
Pension fund deposits received	977,140	854,542
Surrender and annuities paid	(424,760)	(737,039)
Interest payable to policyholders	217,705	396,857
At 31 December	**4,039,062**	**3,268,977**

38 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	
	2011	2010
	Shs'000	Shs'000
At 1 January	749,318	747,618
Additions	29,000	-
Repayment	(87,535)	(94,855)
Interest payable	93,794	96,555
At 31 December	**784,577**	**749,318**

39 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:

	2011			2010		
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	610,690	105,055	715,745	484,670	82,703	567,373
Increase in the period (net)	257,143	9,890	267,033	126,020	22,352	148,372
At end of year	**867,833**	**114,945**	**982,778**	**610,690**	**105,055**	**715,745**

40 Deferred income tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2010: 30%). The movement on the deferred income tax account and the composition of the unrecognised deferred income tax asset is as follows:

	31.12.11 Shs'000	2011 Movement Shs'000	31.12.10 Shs'000	2010 Movement Shs'000	1.1.10 Shs'000
Property and equipment:					
- on historical cost basis	(4,362)	(12,316)	7,954	2,170	5,780
Provisions	10,876	6,216	4,660	(127)	4,787
Investment property	-	-	-	1,996	(1,996)
Tax losses carried forward:					
- British-American Insurance Company (Kenya) Limited	-	-	-	-	-
- British-American Asset Managers Limited	-	(5,619)	5,619	(10,834)	16,453
- British-American Investment Company (Kenya) Limited	205,972	(9,781)	215,753	65,443	150,310
Less: Deferred tax asset not recognised:					
- British-American Insurance Company (Kenya) Limited	397	4,710	(4,313)	(3,677)	(636)
- British-American Investment Company (Kenya) Limited	(208,901)	8,983	(217,884)	(65,847)	(152,036)
Net deferred tax asset	**3,982**	**(7,807)**	**11,789**	**(10,876)**	**22,662**

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:

	31.12.11 Shs'000	2011 Movement Shs'000	31.12.10 Shs'000	2010 Movement Shs'000	1.1.10 Shs'000
Property and equipment:	(343)	(297)	(46)	6	(52)
Provisions	3,272	1,094	2,178	399	1,779
Tax losses carried forward					
- British-American Investment Company (Kenya) Limited	205,972	(9,780)	215,752	65,443	150,309
Net deferred tax asset	**208,901**	**(8,983)**	**217,884**	**65,848**	**152,036**

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 four year period permitted by the Kenyan Income Tax Act. Deferred tax assets/liabilities are classified as non current assets/liabilities.

41 Other payables

	GROUP		COMPANY	
	2011 Shs'000	2010 Shs'000	2011 Shs'000	2010 Shs'000
Accrued expenses	202,312	164,877	27,198	11,739
Premiums paid in advance	137,468	76,222	-	-
Other liabilities	206,830	177,309	2,453	-
Total	**546,610**	**418,408**	**29,651**	**11,739**

42 Commitments

The commitments as at the financial reporting date were Shs 30,720,000 (2010:Shs 275,000,000)

43 Cash and cash equivalents

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

	GROUP	
	2011	2010
	Shs'000	Shs'000
Cash and bank balances	425,339	415,376
Deposits with financial institutions	2,463,976	500,102
Treasury bills and bonds maturing within 90 days of the date of acquisition	-	-
Bank overdraft	(1,154)	(1,360)
Total cash and cash equivalents	**2,888,161**	**914,118**

The weighted average effective interest rate on short-term bank deposits was 24.69% (2010: 2.67%).

The effective interest rate on overdraft was 19.9% (2010: 4.3%) which was the applicable 91 day Treasury Bill rate plus a margin of 2%.

44 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2011	2010
	Shs'000	Shs'000
(Loss) / profit before tax	(1,724,086)	2,873,589
Adjustments for:		
Depreciation of leasehold improvements and equipment(Note 17)	61,843	48,784
Amortisation of intangible assets (Note 18)	18,591	20,640
Investment income	2,093,198	(4,684,634)
Share of profit of the associate	(79,436)	-
Changes in:		
Receivables arising out of direct insurance arrangements	(126,479)	35,480
Receivables arising out of reinsurance arrangements	10,081	44,009
Re-insurers' share of insurance liabilities	(120,659)	(187,937)
Increase in unearned premium reserves	267,033	148,372
Retirement benefit liability	24,361	(9,718)
Other payables	128,202	134,644
Receivables from related parties	(6,410)	30,364
Deferred acquisition costs	(23,588)	(20,520)
Other receivables	75,749	(229,055)
Increase in insurance contract liabilities	1,024,223	1,395,682
Actuarial liabilities under investment contract	(9,825)	1,542,114
Payable under deposit administration contracts	770,085	514,360
Creditors arising out of reinsurance arrangements	59,744	42,677
Cash generated from operations	**2,442,627**	**1,698,851**

45 Business combinations

As at 31 December 2010, the Company had a shareholding of 12.55% of Housing Finance Limited. On 30 June 2011, the Company acquired additional 8.33% of the share capital of Housing Finance Limited for Shs 516,795,469 converting it into an associate with a shareholding of 20.88%.

The goodwill of Shs 381,342,000 arising from the acquisition is attributable to the future economic benefits expected to arise from the associate given the growth in profitability in the recent years following increased capitalisation and the projected profitability going forward.

The following table summarises the consideration paid for the Housing Finance shares and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date, as well as the fair value at the acquisition date.

Consideration at 30 June 2011	Shs'000
Cash consideration paid	516,795
Fair value of equity interest in Housing Finance held before the business combination	778,605
Total consideration	**1,295,400**
Total identifiable net assets	914,058
Goodwill	381,342
Total	**1,295,400**

The fair value of the net identifiable assets was determined by reference to the fair value of consideration given to acquire the additional 8.33% in 2011.

The Company recognised a gain of Shs 13,967,000 as a result of measuring at fair value its 12.55% equity interest in Housing Finance held before the business combination. The gain is included in other income in the income statement for the year ended 31 December 2011.

46 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:

i. A management fee of Shs 18 million (2010: Shs 18 million) was paid to BAI Co. (Mtius) Ltd for consultancy services.
ii. 20.88% share of Housing Finance profit after tax of Shs 79,436,000 (Shs 2010: Nil)

i) Outstanding balances with related parties

Dues from related parties – Group	2011 Shs'000	2010 Shs'000
Staff saving and credit societies	-	2,538
Secured loan to a director	9,001	-
BAI Co. (Mtius) Ltd	105	158
Total	**9,106**	**2,696**

Related party transactions	2011 Shs'000	2010 Shs'000
Dues to related party – Company		
Britam Insurance Company (Uganda) Limited	657	-
British-American Insurance Company (Kenya) Limited	166,733	751,465
Total	**167,390**	**751,465**

Due from related party – Company	2011 Shs'000	2010 Shs'000
British-American Asset Managers Company Limited	4,566	16,852
BAI Co. (Mtius) Ltd	105	-
Britam Insurance Company (Uganda) LImited	-	8,451
Total	**4,671**	**25,303**

The inter-company balances attract interest at 11% (2010: 11%) and this amounted to Shs 57.5 million (2010: Shs 72 million).

The value of Equity Bank Limited shares held by the Group at the end of the year amounted to Shs 6,460,184,000 (2010: Shs 10,949,055,000).The Group has also invested Shs 4,378,902,000 (2010: Shs 4,265,612,000) in the various British-American unit trust funds.

ii) Mortgage loans to directors of the Group	2011 Shs'000	2010 Shs'000
Loans to directors and their families		
At start of year	114,038	157,854
Loans advanced during the period	102,554	1,121
Interest charge for the year	16,634	16,296
Loan repayments received	(43,013)	(61,233)
At end of year	**190,213**	**114,038**

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

iii) Transactions with related parties	2011 Shs'000	2010 Shs'000
Gross earned premium		
Equity Bank Limited	834,932	934,487
British-American Asset Managers	1,304	1,394
Housing Finance Limited	15,321	10,711
Net claims incurred - Equity Bank Limited	323,665	468,538
Interest on related party balances	57,497	55,338
Fair value (losses) /gains on Equity Bank Limited shares	(3,546,707)	5,056,707
Bank balances - Equity Bank Limited	84,438	147,957
Acquisition of additional shares in Housing Finance	516,795	-
20.88% share of Housing Finance profit after tax	79,436	-

The Group holds a 10.64% (2010: 11.05%) stake in Equity Bank Limited and 20.88% (2010: 12.55%) in Housing Finance.

iv) Directors' remuneration– Group	2011 Shs'000	2010 Shs'000
Directors' fees	6,619	3,393
Director's other remuneration	61,654	59,148
Short term benefits total	**68,273**	**62,541**
Long-term benefits	-	-
Other employees benefits	-	-
Total	**68,273**	**62,541**

47 Investment in subsidiary companies - Company

	% holding in equity shares	2011 Shs'000	2010 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	200,000
Total	**100**	**760,000**	**760,000**

Investments in subsidiary companies are classified as non current assets.

48 Retirement benefit liability

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

	2011 Shs'000	2010 Shs'000
Present value of funded obligations	215,229	279,710
Fair value of plan assets	(177,400)	(139,003)
Present value of unfunded obligations	**37,829**	**140,707**
Unrecognised actuarial gains/(losses)	12,247	(114,992)
Liability in the statement of financial position	**50,076**	**25,715**

Retirement benefit liability is classified as a non current liability.
The movement in the defined benefit obligation over the year was as follows:

	2011 Shs'000	2010 Shs'000
At start of year	279,710	188,903
Current service cost	8,784	12,935
Interest cost	37,459	17,467
Actuarial losses/gains	(106,249)	70,486
Benefits paid	(4,475)	(10,081)
At end of year	**215,229**	**279,710**

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

	2011 Shs'000	2010 Shs'000
At start of year	139,003	99,569
Expected return on scheme assets	23,273	16,897
Actuarial (losses)/gains	(17,176)	(3,620)
Employer contributions	28,542	28,111
Employee contributions	8,233	8,127
Benefits paid	(4,475)	(10,081)
At end of year	**177,400**	**139,003**

	2011		2010	
	Shs'000	%	Shs'000	%
Equity instruments	69,186	39	53,517	39
Debt instruments	78,056	44	61,344	44
Property	12,418	7	9,188	7
Other	17,740	10	14,954	10
At end of year	**177,400**	**100**	**139,003**	**100**

Expected contributions to the plan for the year ending 31 December 2012 are Shs 24,097,000 (2010: Shs 152,936,000).

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

	2011	2010
	Shs'000	Shs'000
Current service cost	8,784	12,935
Interest cost	37,459	17,467
Expected return on scheme assets	(23,273)	(16,897)
Net actuarial losses recognised in the year	38,167	13,015
Contributions received from members	(8,233)	(8,127)
Total, included in employee benefit expense	**52,904**	**18,393**

The actual return on scheme assets was Shs 6,097,000 (2010: Shs 13,277,000).

The principal actuarial assumptions used were as follows:

	2011	2010
	Shs'000	Shs'000
- discount rate	9.5%	9.5%
- expected rate of return on scheme assets	15%	15%
- future salary increases	8%	8%

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

	2011	2010	2009	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Present value of defined benefit obligation	(215,229)	(279,710)	(188,903)	(95,687)	(180,609)
Fair value of plan assets	177,400	139,003	99,569	85,437	84,984
Deficit in the plan	37,829	(140,707)	(89,334)	(10,250)	(95,625)
Experience adjustments on plan liabilities	(4,842)	(10,874)	(68,587)	70,262	93,773
Experience adjustments on plan assets	(17,176)	(804)	(2,866)	(8,672)	(1,684)

49 Contingent liabilities

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

I/WE .... of .... being a member(s) of British-American Investments Company (Kenya) Limited, hereby appoint .... of .... or failing him/her .... of .... failing whom, the Chairman of the Meeting, as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Friday, 20th April 2012 and at any adjournment thereof.

As witness my/our hand this .... day of .... 2012.

Signed ....

Notes:

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote in his stead and a proxy need not be a member of the Company.
2. In the case of a member being a limited Company this form must be completed under its Common Seal or under the hand of an officer or attorney duly authorised in writing.
3. The Proxy Form must be delivered to the office of the Company Secretary at the Company's head office situated at Britak Centre, Mara/Ragati Road, Upper Hill, Nairobi, P.O. Box 30375 – 00100, Nairobi or the Shares Registrar, Image Registrars Limited, Transnational Plaza, 8th Floor, Mama Ngina Street, Nairobi not later than 10.00 am on 18th April 2012 failing which it will be invalid. Alternatively, duly signed proxies can be scanned and emailed to *info@image.co.ke* in pdf format.

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