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Financial Statements

DIRECTORS, SENIOR MANAGEMENT & PROFESSIONAL ADVISERS

DIRECTORS

J A Magomere	*Chairman*
Rev. P N Kagane	*Vice Chairman*
N C Kuria	*Managing Director*
H G Hunyu	
P N Kipkirui	
C O Ashira	
G O Owuor	
M O Wambia	
J N Njoroge	
J M Mutuku	
J P Nyagah	
S G Kaimenyi	
E O Joseph	
R M Githaiga	

COMPANY SECRETARY

Mary A Wanga
P O Box 59485 - 00100
Nairobi

REGISTERED OFFICE

CIC Plaza
Upper Hill, Mara Road
P O Box 59485 - 00200
Nairobi

SENIOR MANAGEMENT

N C Kuria	*Chief Executive Officer*
K Kimani	*General Manager – General Business*
P Mwaura	*General Manager – Finance and Investments*
D Ronoh	*General Manager - Life Business*
J Tomno	*General Manager - Marketing*
H Njerenga	*Assistant General Manager - Town Office*
R Nyakenogo	*Assistant General Manager - Co-ops & Branches*
M Kinyua	*Assistant General Manager - General Business*
J Kionga	*Assistant General Manger - Life & Pensions*
A Wambugu	*Human Resources Manager*
M Wanga (Ms)	*Company Secretary/Chief Legal Officer*
M Luvai	*Chief Internal Auditor*

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P O Box 40092 - 00100
Nairobi

PRINCIPAL BANKERS

The Co-operative Bank of Kenya Limited
P O Box 67881 - 00100
Nairobi

CitiBank NA
Upper Hill Road
P O Box 30711 - 00100
Nairobi

CONSULTING ACTUARIES

The Actuarial Services Company Limited
Victoria Towers
Upper Hill
P O Box 10472 - 00100
Nairobi

ADVOCATES

Oraro & Company Advocates
ACK Garden House, 3rd Floor, Wing C
1st Ngong Avenue
P O Box 51236 - 00200
Nairobi

SHARES REGISTRARS

Co-operative Bank of Kenya Limited
Co-operative Bank House
P O Box 48231 - 00100
Nairobi

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN of the 33rd Annual General Meeting of CIC Insurance Group Limited to be held on Saturday the 14th day of May 2011 at 10.00 Am at Nairobi Safari Club, Lillian Towers, along University Way, at the Mawingo room, Nairobi to transact the following business:

ORDINARY BUSINESS:

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

2. The Secretary to read the Notice convening the Meeting.

3. To confirm the Minutes of the 32ND Annual General Meeting held on the 7th day of May 2010 and the Extraordinary General Meeting held on 17th September 2010.

4. To receive the Chairman's Report.

5. To receive, consider and, if thought fit, to adopt the Directors and the Auditors Reports and Audited Accounts for the year ended 31st December 2010.

6. To declare a dividend. The Directors recommended a dividend of Kshs 3.14 per share payable in full to all shareholders.

7. To elect the following Directors:
   a) Mr. Japheth Anavila Magomere,a director retiring by rotation who being eligible offers himself for re-election in accordance with Article 125 of the Memorandum and Articles of Association.
   b) Mr. Jonah Makau Mutuku, a director retiring by rotation who being eligible offers himself for re-election in accordance with Article 125 of the Memorandum and Articles of Association.
   c) Mr. Michael Ondinya Wambia , a director retiring by rotation who being eligible offers himself for re-election in accordance with Article 125 of the Memorandum and Articles of Association.
   d To appoint a Director from Embu Farmers Co-operative Society to fill a vacancy in CIC Insurance Group Board, following retirement of Mr. Joseph Philip Nyagah, in accordance with Article 124(a) of the Memorandum and Articles of Association of the Company.
   e) To confirm the appointment of Mr. Peter Kipkirui Nyigei, as the Director representing Rift Valley based Societies.

8. To note continuance in office of Deloitte & Touche as auditors in accordance with Section 159 (2) of the Companies Act and to authorize the Board to fix their remuneration for the ensuing year.

9. To approve appointment of two additional Directors in accordance with Article 90 of the Memorandum and Articles of Association and as approved by the Board.

SPECIAL BUSINESS

10. To consider and, if thought fit, pass the following resolutions as Special Resolutions:

SPECIAL RESOLUTIONS

a) THAT the nominal share capital of the company be and is hereby increased from Kenya Shillings One Billion Two Hundred Million (kshs. 1,200,000,000/=) divided into Sixty Million ordinary shares (60,000,000) of Kenya Shillings Twenty (Kshs. 20.00) each to Kenya Shillings **Three Billion (Kshs. 3,000,000,000.00)** by the creation of Ninety Million ordinary shares of Kenya Shillings Twenty (20.00) ranking parri passu to existing shares in every respect.

NOTICE OF MEETING continued

b) THAT the Board be and is hereby authorized to issue and allot 5.5Million of the newly created shares to the shareholders who did not receive full allotment of the shares applied for in the rights issue and private placement held on 15th November 2010 to 6th December 2010 and who did not apply for a refund for the shares not allotted to them."

c) THAT subject to making applications for and obtaining all necessary consents, approvals, authorizations and permissions including but not limited to those of the Insurance Regulatory Authority, the Capital Markets Authority and the Nairobi Stock Exchange, the issued shares of the Company be listed on the Main Investment Market Segment of the Nairobi Stock Exchange. The Board of Directors is hereby mandated to take all actions, make all applications and obtain all consents, approvals, authorizations and permissions required for this purpose.

d) THAT to enable the Company raise additional Capital for its business, such shares of the Company, as the directors shall determine be offered to the public in a public offer of shares at such premium above per value as the Directors shall determine and that the said shares once issued be listed on the Nairobi Stock Exchange subject to all necessary regulatory approvals, consents authorizations and permissions including from the Capital Markets Authority and the Insurance Regulatory Authority subject always, to ensuring that the shareholding of CIC Insurance Group Limited by Co-operative Insurance Society does not fall below 60% of the issued share capital of the Company in order to safeguard the co-operative control and identity of the Company.

e) THAT, for purposes of marketability and affordability of the share when offered to the public in the Initial Public Offer to raise additional capital, the share of the Company be split into a Kshs.1/= par value share and clause 5 of the Company's Articles be accordingly amended to read as hereunder: -
"The authorized capital of the Company is Kenya Shillings three billion (Kshs. 3,000,000,000/-) divided into 3,000,000,000 shares of Kenya Shillings one (Kshs. 1/-) each with power for the Company to increase or reduce such capital and to divide any shares in the capital of the Company for the time being into several classes and to attach thereto respectively any preferential, deferred, qualified or other rights, privileges, restrictions or conditions."

f) THAT the Board and Management of the Company does make all necessary filings, registrations and appointments and take all necessary actions and make all necessary applications and prepare all necessary documentations and returns consequent upon and to effect these resolutions, including and not limited to the appointment of advisors in the listing transaction

11. To transact any other business which may legally be transacted at an Annual General Meeting

Note: A member entitled to attend and vote is entitled to appoint a proxy to attend and vote on his/her behalf and such a proxy need not be a member of the company. To be valid, proxy forms must be deposited at the registered office of the company not less than 48 hours before the appointed time of the meeting.

The Group Annual report and financial statements for 2010 will be available in our website (www.cic.co.ke) after 15th April 2011.

Delegates are requested to note the following:
On the day of the meeting, Delegates are requested to register at the Nairobi Safari Club, Lillian Towers, Along University Way, Mawingo Room, at 9.30 am in order to complete all formalities before the meeting.

By Order of the Board

MARY NOEL A. WANGA
COMPANY SECRETARY/CHIEF LEGAL OFFICER

Nairobi, Kenya
4th April 2011

BOARD MEMBERSHIP PROFILE

JAPHETH ANAVILA MAGOMERE, OGW - Chairman of the Board

Japheth Anavila Magomere, aged 60, is the Chairman of the Board. He Joined the Board in 1988 and is the Director representing Nairobi Province Private Sector Based Societies. He has been the Chairman of Board since 2004. Mr. Magomere is also a Board Member of Bunyangu High School, Gamalenga Secondary School and several other schools. He has been a Delegate to Co-operative Bank since 1986 and is a Member of the Institute of Directors of Kenya. He also serves as the Vice Chairman of Co-operative Alliance of Kenya, formerly Kenya National Federation of Co-operatives (KNFC). He was honoured with the Order of the Grand Warrior of Kenya (OGW) in 2009 by the President. He is also a board member of the International Co-operative Alliance (ICA), Africa.

REV. PETERSON NJUE KAGANE - Vice Chairman

Rev. Peterson Njue Kagane, aged 52, joined the Board in 2007. He holds a BDiv, and a Dip, Theology. He is the Director Representing Eastern Province Based Societies. He is the Vicar General and the Provost of St. Paul's Cathedral and the ACK Diocese of Embu. Rev. Kagane is the Chairman of St. Agnes Girls Secondary School and the Scouts Centre Embu. He is a Member of the Institute of Directors of Kenya.

PETER KIPKIRUI NYIGEI

Peter Kipkirui Nyigei aged 59, joined the Board in 2009. He is the Director Representing Rift Valley Province Based Societies and is a director of Kipsigis Teachers Sacco. Mr. Kipkirui is a retired teacher and educationist Principal grade II. He has equally served as a programme officer, Bomet, Diocese. He is a Member of the Institute of Directors of Kenya.

GORDON ONDIEK OWUOR

Gordon Ondiek Owuor, aged 55, joined the Board in 2006. He is the Director Representing Nyanza Based Societies. Mr. Owuor is the Chairman Chemelil SACCO, a member of the Nyanza Provincial Co-operative Development Team and an Associate Member of the Institute of Directors of Kenya. Mr. Owuor previously worked with the East African Fresh Water Fisheries Research Organization and currently works at Chemelil Sugar Company. He holds an Executive Diploma in Financial Management.

BOARD MEMBERSHIP PROFILE

CORNELIUS ODHIAMBO ASHIRA

Cornelius Odhiambo Ashira, aged 46, joined the Board in 2006. He is the Director Representing Nairobi Province Parastatal Based Societies and the Chairman of Kumbu Kumbu SACCO. He is the Delegate of KUSCCO.

JOSHUA NJOGU NJOROGE

Joshua Njogu Njoroge, aged 64, is trained in Executive International and Domestic Banking. He is a retired senior Central Bank official and a Director Representing K'Unity Finance. He has been a Board Member since 2006 and is the Chairman Limuru Dairy FCS Limited. Mr. Njoroge is the Chairman Limuru Milk Processors Limited, the Chairman of K'Unity Finance Limited and the Diocesan Treasurer ACK Diocese of Mt. Kenya South. Mr. Njoroge is also a Delegate in the Co-operative Bank and a Member of the Institute of Directors of Kenya.

JOSEPH PHILIP NYAGAH

Joseph Philip Nyagah, aged 70, joined the Board in 2007. He holds B.Com, CPS(K), a Diploma in Personnel Management & Industrial Relations, and a Diploma in Agriculture. Mr. Nyagah is a retired Diplomat and a Director Representing Embu Farmers SACCO. He is a Board Member since May 2007 and the Chairman of Embu Farmers SACCO and Nembure Farmers Co-operative Society. Mr. Nyagah is also a delegate in the Co-operative Bank. He is an Associate Member of the Institute of Directors of Kenya.

JONAH MAKAU MUTUKU

Jonah Makau Mutuku, aged 64, joined the Board in 2008. He is the Director representing Coast and North Eastern Province Based Societies and has been the Chairman of Mombasa teachers SACCO since 1980. He is a retired teacher and also serves as the Vicars Warden ACK Miritini Church. Mr. Mutuku is also a delegate in the Co-operative Bank.

BOARD MEMBERSHIP PROFILE

MICHAEL ONDINYA WAMBIA

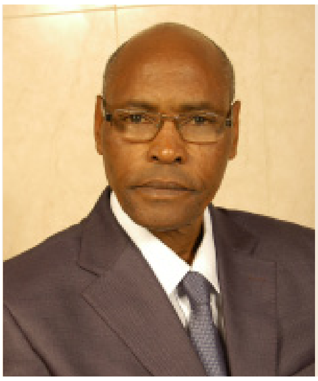
Michael Ondinya Wambia, aged 43, joined the Board in 2008. He is the Director representing Western province Based Societies and is the Treasurer of Busia and Teso Teachers SACCO. He is a teacher by profession.

EDWIN OTIENO JOSEPH

Edwin Otieno Joseph, aged 53, joined the Board in 2008. He is a retired Assistant Director Administration at the Starehe Boys Centre. He is the Chairman of Elimu SACCO. He previously served in the armed forces. Mr. Otieno Joseph holds a Certificate and Diploma in Philosophy from the University of Nairobi. He is currently in his final year of his Degree Program at the same University. Mr. Otieno Joseph is also a delegate in the Co-operative Bank and a Member of the Institute of Directors of Kenya.

STELLA GATIRITHU KAIMENYI, HSC

Stella Gatirithu Kaimenyi, aged 57, joined the Board in 2010, as an alternate director. She represents the Ministry of Co-operative Development and Marketing, Office of the Permanent Secretary, in the Co-operative Insurance Board. Mrs. Kaimenyi holds a BSC. in Agriculture from the University of Nairobi and MSC. in Management and Organizational Development. She is currently the senior deputy Commissioner for Co-operative Development and head of Governance and Ethics department at the Ministry's Headquarters. She has worked in various senior positions at the Ministry and has over 27 years of experience.



HARRISON GITHAE HUNYU

Harrison Githae Hunyu, aged 64, joined the Board in 2010. He is currently, the Chairman of Mutheka FCS Limited and Interim director of Kenya Co-operative Coffee Exporters Limited. He has worked as a parliamentary reporter (Hansard), District Officer, District Commissioner, and Under Secretary in various central Government Ministries retiring as a Deputy Secretary in 2001. He is aged 63 years.He is a graduate of Nairobi University, BA. (HONS) and holds an Advanced public administration in post graduate studies and parliamentary training. He has equally attended various local and international courses in administration.

BOARD MEMBERSHIP PROFILE

MRS. ROSEMARY MAJALA GITHAIGA

Rosemary Majala Githaiga, aged 48, joined the Board in 2010. She is the Group Company Secretary and General Manager of The Co-operative Bank of Kenya Limited. She is a graduate of Nairobi University, LLB (Hons) 1986, Post –Graduate Diploma in Legal Studies- Kenya School of Law, and a Member of Chartered Public Secretary, Associate Member of Chartered Institute of Arbitrators. Prior to joining the bank in 1996, Mrs. Githaiga worked as a legal assistant at Hamilton Harrison & Mathews Advocates. She is a Member of the Institute of Directors of Kenya.

NELSON CHEGE KURIA, OGW

Mr. Kuria is 57 years old. He obtained a Bachelor of Arts degree in Economics from the University of Nairobi in 1979. Since then he has undergone extensive training in strategic management. Mr. Kuria has a total of 31 years working experience most of which have been in the insurance industry. He joined the insurance industry through the then Kenya national Assurance Company in 1982 where he worked for 12 years up to December 1993. He worked briefly for a private insurance company and as a Consultant and Investors agent after which he joined CIC in 1998. He became Managing Director and CEO of CIC in July 2001. He is a member of the board the immediate past Chairman of Association of Kenya Insurers (AKI). Mr. Kuria represents AKI in the boards of Federation of Kenya Employers and Kenya Reinsurance Corporation. He is a Member of the Institute of Directors of Kenya and is a member of other Boards and Committees as follows;

- Member- Finance & development committee of College of Insurance
- Trustee- Higher Education Loans Board Retirement Benefits Scheme
- Board Member- Hope FM Radio
- Board Member- International Co-operative & Mutual Insurance Federation (ICMIF) - UK
- Chairman- Board of Governors- Nyandarua High School
- State Honors- Order of the Grand Warrior of Kenya (OGW) in 2005.

MS. MARY NOEL A. WANGA

Ms.Wanga, aged 43, an Advocate of the High Court of Kenya, joined the company in November 2008. She is the Company Secretary/Chief Legal Officer of CIC Insurance Group Limited. Prior to joining the company, she worked as a senior associate at Archer and Wilcock Law firm and Kenya Industrial Estates as the Company Secretary. She holds an LL.B (Hons) and BSL degree, Post –Graduate Diploma in Kenyan Law and is currently undertaking diploma in insurance (AIIK) She is also a Certified Public Secretary CPS(K). She is a Member of The Law Society of Kenya, Institute of Certified Secretaries of Kenya (ICPSK), Kituo Cha Sheria, Fida, the Institute of Directors of Kenya, amongst others.

MANAGEMENT TEAM

STANDING FROM THE LEFT:

Mary Wanga (Company Secretary/Chief Legal Officer), Muyesu Luvai (Chief Internal Auditor)
Kenneth Kimani (General Manager General Business), David Ronoh (General Manger Life & Medical Division)
Henry Njerenga (Assistant General Manager CIC Town Office), Jack Kionga (Assistant General Manager Life Division)
Albert Wambugu (Human Resource Manager), Jonah Tomno (General Manager Marketing)

SEATED FROM LEFT:

Milka Kinyua (Assistant General Manager General Division)
Richard Nyakenogo (Assistant General Manager Co-operative Business and Branches)
Nelson Kuria (Group Managing Director/ CEO), Peter Mwaura (General Manager Finance & Investment)

REPORT OF THE CHAIRMAN

Gross premium income increased by 58% from Kshs. 2.9 billion to Kshs. 4,5 billion. Net earned premium increased by 40% from Kshs. 2.8 billion to Kshs. 3.5 billion.

REVIEW OF THE ECONOMY

The Kenyan economy recovered significantly from the effects of the global financial crisis witnessed two years ago to register an impressive growth estimated at 5.5%. The quick recovery was mainly driven by good climatic conditions that boosted food production for local consumption and export, revamped construction industry and a vibrant tourism sector. All sectors of the economy were on a recovery path albeit at different levels. The more than average rainfall recorded early in the year helped stabilize the cost of hydro power, thus reducing cost of production. The electronic communication sector recorded significant growth arising from advanced technology that accelerated flow of money through electronic money transfer. The passing of the new constitution further catalyzed the economic recovery.

However, inflation started rising towards the end of the year and the Shilling started loosing ground against all the major currencies. This situation has continued to persist into the first quarter of 2011. The political turbulence in the North African countries and Middle East are responsible for the high fuel prices last witnessed during the economic melt down 2years ago. The rise in inflation and depreciation of the shilling has been further fuelled by the uncertainty from the negative political atmosphere that has gripped the country since the end of 2010.

COMPANY RESULTS

Company performance in 2010 as highlighted below was very impressive. Both lines of business registered more than the projected growth in terms of volume and overall profitability.

GENERAL BUSINESS

Gross premium income increased by 79% from kshs. 1.6 billion to kshs. 2.9 billion. Net earned premium increased by 54% from kshs. 1.3 billion to kshs. 2.0 billion.

The claims expenses increased by 45% from Kshs. 807.8 million in 2009 to Kshs. 1.1 billion in 2010. Investment and other income increased by 63% from kshs. 152.3 million to kshs. 248.8 million. Commission and operating expenses increased by 45% from Kshs. 807.8 million to Kshs. 1.1 billion. Profit before tax increased by 164% from Kshs. 131.7 million to Kshs. 348.1 million. All classes of business had positive contribution to the profitability save for motor private, medical and micro insurance.

LONG-TERM BUSINESS

Gross premium income increased by 31% from Kshs. 1.2 billion in 2009 to Kshs. 1.6 billion in 2010. Net earned premium increased by 32% from Kshs. 1.1 billion to Kshs. 1.5 billion. Investment and other income increased by 35% from kshs. 106.9 million to kshs. 144 million.

Claims expenses increased by 23% from kshs. 680.6 million to Kshs. 840.2 million. Operating and commission expenses increased by 32% from kshs. 423.2 million to kshs. 560.8 million. Surplus for the year before tax increased by 76% from kshs. 145.9 million to kshs. 257.2 million. The life fund increased by 37% from Kshs. 1 billion to Kshs. 1.4 billion. As a result of the positive results registered in longterm business, the Actuary recommends a transfer of Kshs. 40 million from the statutory fund to retained earnings to boost the funds available to the shareholders.

OVERALL GROWTH

Growth in premium income for both classes of insurance business grew by 58% from Kshs.2.9 billion in 2009 to Kshs. 4.6 billion in 2010 with Net earned premium increasing by 40% from Kshs. 2.8 billion to Kshs. 3.5 billion. Profit before tax increased by 117% from Kshs. 277.7 million to Kshs. 605.3 million. This increase in profitability is attributable to growth in business volume, better underwriting results in both lines of business and an improvement in investment return. Total assets grew by 88% from Kshs. 3.5 billion to Kshs. 6.6 billion

REPORT OF THE CHAIRMAN continued

in the period under review, a further testimony of increase in the company's financial strength.

DIVERSIFICATION OF INVESTMENT PORTFOLIO

During the year under review, the company undertook measures to diversify its investment portfolio by purchasing largest stake in Takaful Insurance Company of Africa (TIA), construction of CIC Plaza Phase II and purchase of 200 acres of land for real estate development.

Investment in Takaful is expected to enable the company to reach the Muslim community with sharia compliant products which are currently not available in East and Central Africa region. Construction of CIC Plaza Phase II will create more space for rental income as well as providing additional space for company expansion. Purchase of 200 acres of land is the first step towards entry into the very lucrative business of real estate development which is longterm and more rewarding in terms returns on investment.

SHARE CAPITAL

The share capital increased significantly from Kshs.427.9 million in 2009 to Kshs. 611.4 million in 2010 representing a of 35% excess surplus capital adequacy requirement of Kshs. 450 million. The Rights Issue and private placement offered towards the end of the year was oversubscribed by 15%. As at January 2011, the issued share capital had reached the authorized capital of kshs. 1.2 billion. The oversubscribed capital will be allotted to the willing subscribers upon approval by the Annual General Meeting.

The strategic partnership between Co-operative Bank and CIC came in hardy as we were able to raise the required minimum capital within a relatively short time. The alliance is expected to boost performance of the two organizations as they utilize the diverse skills and competences available in exploiting business opportunities in financial services.

In order to meet the envisaged expansion programme, the board recommends that the authorized share capital be raised to kshs. 3 billion. The increased share capital will facilitate entry into selected countries within East and Central Africa. Focus is currently on Malawi, Rwanda, Tanzania and expansion to the new Southern Sudan Republic.

The Board also intends to have the shares of the company listed within the second quarter of 2012. The approval for listing will be sought from the relevant authorities at the appropriate time. In this regard, the Board appeals to the co-operative movement to raise their shareholding in order to avoid dilution of their shareholding upon listing.

DIVIDEND & RESERVES

As a result of the improved Company performance, the Directors recommend payment of an 8% dividend to the registered shareholders as at 31st. December 2010.

FUTURE OUTLOOK

The year 2011 being our third year of the 3rd strategic plan which covers the period 2009 to 2013, the management and the board have remained focused on improving trading results and ensuring that we retain our position of a leading and respected insurance underwriter within the Kenyan market. Continuous innovation and improvement in service to our esteemed customers will remain a key issue in evaluating company performance and growth in business.

The split between life and general business as separate entities is expected to be completed before the end of 2011. Application for the split is going through the various stages of the approval of the regulatory authorities. The board has set up the necessary structures to steer the two entities once the approval is granted.

Although 2010 was a highly successful year for the Company, we expect 2011 to continue with the same momentum in terms of growth in spite of the rising political temperature as we draw near to the general election next year. As the new constitution continues to be implemented, the country will experience more sustainable political stability that is conducive for economic growth and prosperity.

Lastly, may I take this opportunity to thank our customers, supporting intermediaries, staff and my colleagues in the board for making it possible for our beloved company to register such an impressive performance.

Japheth A. Magomere
CHAIRMAN

REPORT OF THE MANAGING DIRECTOR

There was very high growth in the volume of business particularly in general business where we registered a 79% with a resultant very impressive growth in profitability by 117%.

INTRODUCTION

The Company performance for 2010 was quite impressive both in terms of growth in the volume of business and profitability.

The Insurance Regulatory Authority (IRA) intervention in streamlining the insurance industry by enforcing premium collection through cash and carry and some level of discipline through underwriting guidelines is starting to bear fruits despite some resistance. The industry was particularly grateful for the implementation of premium rate guidelines that were set to tame the runaway losses in motor insurance business that was perennially eroding the underwriting profits from other lines of business. We expect the motor class of business to start registering significant reduction in losses once the benefits of increased premium rates are fully realized.

The expected consolidation through mergers and acquisitions in the insurance industry did not take place even after the minimum share capital was raised kshs. to 150 million and kshs. 300 million for life and general business respectively. A few players opted for capitalization of the reserves instead of injection of additional capital. The insurance industry therefore remains crowded with more than 44 insurance companies in a relatively small market with modest growth low penetration ratio of 2.84%.

In the political, as the 2012 general elections date draws near, we have seen a resurgence of heightened political bickering which is not conducive to economic growth. Towards the end of the year, inflationary pressures arising from high oil prices started creeping in and this is likely to hurt business prospects in 2011.

OPERATING ENVIRONMENT

Compared to 2009, the Company registered unprecedented growth in both volume of business and profitability. There was very high growth in the volume of business particularly in general business where we registered a 79% with a resultant very impressive growth in profitability by 117%. Life business grew by 31% with profits increasing by 76% over 2009.

Performance of the motor private class of business continued to erode the underwriting results for general insurance business in spite of the upward adjustment in premium rates early in the year. It is expected that the impact of the new rates will be felt fully in 2011 after the premiums are fully earned. Management will continue to enhance control measures to tame the run away claims associated with motor insurance business.
Midterm Strategic Review & Longterm posturing

During the year under review, the management team (all staff from middle level management) took a four day retreat to review the current strategic plan. After reviewing the company performance in the preceding two and a half years, it became apparent that it was necessary to review the current strategic plan that runs up to 31st December 2013 due to fundamental changes in the environment. It was established that the company will be able to achieve the business volume of kshs. 7 billion (which was the figure projected by end of 2013) within the first three years of the current strategic plan and therefore the management had to review the projected business volume upwards to kshs.10 billion by end of 2013.

In line with the Government's Vision 2030, the management initiated a long range plan to cover the same period. The theme of the long range plan is: CREATING A PROSPEROUS FUTURE TOGETHER
To achieve this goal, it was agreed that the demerger process be accelerated to be completed by the end of 2011. All business activities would be reconfigured to ensure that the company attains position number three, in terms of market share, within the current strategic plan and aim to attain position number one within the next strategic plan starting 2014.

REPORT OF THE MANAGING DIRECTOR continued

To achieve the longterm posturing, the company will invest in modern information and communication technology to drive the business. As the company grows in bounds, the existing staff will be equipped with the necessary skills and at the same time recruitment of competent staff with appropriate values and relevant education background will be given a priority. The management will on regular basis recruit management trainees with competences in areas of insurance, actuarial and finance to ensure continuity and retention of relevant skills.

INNOVATIONS

In line with our core value of innovation and dynamism, the company has continued to roll out additional products for the ever growing number of our customers particularly in the Micro sector. In order to remain competitive, we have also embraced modern information technology as a way of creating alternative distribution as the market continues to be more competitive with new players joining the already crowded insurance industry.

Products developed and rolled out in 2010 include the following:

- Livestock insurance
- Weather based agricultural insurance product
- Jamii salama for micro sector (life business)
- Biashara salama for micro sector(general business)
- Jikinge insurance for micro sector(general business)

As a tool to drive business for the present and foreseeable future, the management has identified information technology as key driver in enhancing alternative distribution channels. Among the latest innovation is a web based transfer platform that was developed to facilitate money transfer from the Diaspora. CIC took the lead in distributing insurance products in the Diaspora where we have created excitement for the Kenyans who wish to invest back home.

A payment platform using the local mobile money transfer, M-Bima was unveiled towards the end of the year. The platform is currently being used to drive the Micro business and is expected to be replicated in the other lines of business.

CIC ASSET MANAGEMENT

The much awaited license to sell Unit Trust products was granted early 2011 and the company will unveil the products early second quarter once all systems have been put in place.

In readiness to enter the equity market, we are at an advanced stage in acquiring 200 acres of land within Kiambu County. This investment is expected to be the entry point into real estate development in order to diversify investment portfolio.

A diversified investment portfolio is expected to cushion the company against the adversities of poor performance in any one sector of the economy.

FUTURE OUTLOOK

The year 2011 has started on a rather high note and appears quite promising with many opportunities for business success despite the challenges in the political environment.

The year has started well and we have been able to meet our projections for the first quarter. Management and staff are going through continuous training in order to sharpen their skills in facing the competitive environment. We shall continue to re-engineer our business processes in order to meet the ever increasing demand for quality service.

The partnership established between The Co-operative Bank and CIC is expected to create enormous business opportunities for the two institutions. For a start, we are working on a project to entrench Bancassurance with the Bank. Once operationalized, Bancassurance will enable the bank to distribute insurance products, through all its 89 branches country wide. CIC has equally applied for agency banking to facilitate faster transaction for our mutual customers. This is a real supermarket model way of doing business.

Management will endeavour to continuously come up with innovative ways of doing business in order to grow market share and the share holders' wealth. With the increased share capital, the company is geared towards more expansion locally and in the region. The envisaged listing of the company shares next year will provide a perfect opportunity of enhancing the goodwill which CIC enjoys as a "company of the people."

Finally, we shall continue to enhance our relationships with the Co-operative societies, intermediaries and all the other partners who have played a significant role in making 2010 a truly successful year.

Nelson C Kuria, OGW
MANAGING DIRECTOR

CORPORATE GOVERNANCE

At the Extraordinary General meeting held last year on 17th September 2010, the shareholders unanimously passed the resolution to change the Company's name from "The Co-operative Insurance Company of Kenya Limited" to "CIC Insurance Group Limited". CIC Insurance Group Limited is committed to good corporate governance practice. The Board of Directors is responsible for the long-term strategic direction for profitable growth of the Insurance whilst being accountable to the shareholders for legal compliance and maintenance of highest corporate governance standards and business ethics. The Board formulates policies and strategies that enhance transparency and accountability and aimed at conforming to set guidelines on Corporate Governance practices provided by the Capital Markets Authority and The Insurance Regulatory Authority. The Company operates also under wide regulatory and legal, Control and Supervisory Framework. The Directors attach great importance to the need to conduct business and operations of the company with integrity and in accordance with generally accepted corporate practice and endorse the internationally developed principles of good governance. Directors strive to keep up to date with latest developments in corporate governance best practice. All the Directors have undergone the 5-Day training course for Directors, organized by Centre for Corporate Governance.

BOARD OF DIRECTORS

The current Board consists of thirteen directors, the number having increased from 12 to 13, eleven of whom are non-executive Directors, including the Chairman, one independent director representing the Permanent Secretary, Ministry of Co-operative Development and Marketing. Also brought on board is the new director appointed to represent the interests of The Co-operative Bank of Kenya Limited, a major strategic investor in the company with a shareholding of 21.88 %. The Board composition draws a good mix of skills, experience and competencies in various fields. The non-executive directors are appointed by the shareholders on a three-year term and are bound by the Company's code of conduct.

The Directors maintain effective control over strategic, financial, operational, policy and compliance issues. Accurate, appropriate and timely information is provided to the Board to enable it fulfill this role. The Chairman is responsible for managing the Board and providing leadership to the company, while the Managing Director is responsible to the Board for running the business in accordance with instructions given by the Board and implementing Board's decisions. The Board nonetheless retains responsibility for establishing and maintaining the company's overall internal control of financial, operational, and compliance issues so that its objectives for increased growth in profitability and shareholder value are realized.

The Company maintains a policy of open communication between the Board and management ensuring the Board is fully informed about all major matters concerning the company and the industry. The Board and management interact on a regular basis allowing the directors to contribute their knowledge particularly relating to the company's target market into the company's activities.

Board Meetings

The Board meets regularly and at least four times a year to, amongst other things, agree on the company's objectives and strategies to realize the objectives, review performance against agreed targets, consider and approve the annual and interim financial statements. The Board in achieving its mandate is guided by the Board Manual which sets out all matters reserved to it and in this regard all directors have access to the company secretary.

Board Committees

For effective running of the affairs of the Company, the Board has delegated part of its responsibilities to the three standing committees listed below, that meet regularly under the terms of reference set out by the Board.

The Committees operate under clearly defined mandates which spell out their responsibilities, scope of authority and procedures for reporting to the Board.

The Committees have access to the Company information and are authorized to get independent professional advice of matters within their scope.

CORPORATE GOVERNANCE continued

During the period under review, the Committees met as per their respective mandates and through their respective chairmen, submitted their reports to the Board.

Audit and Risk Committee

Mr. Joshuah N. Njoroge -Chairman
Mr. Gordon O. Owuor
Mr. Jonah M. Mutuku
Mr. Joseph P. Nyagah.
Mr. Peter K. Nyigei

The scope of this committee includes risk management, as well as compliance with the regulatory requirements. The main responsibilities of the committee include review and recommend to the Board, the company's financial information in particular quarterly and annual financial statements, as well as filing of Regulatory requirements by Insurance Regulatory Authority, Capital Markets Authority etc, compliance with accounting standards, liaison with the external auditors, remuneration of external auditors and maintaining oversight on internal control systems. The Committee is guided in its functions by a comprehensive Audit Committee Charter and Internal Audit Department Charter. These are designed to provide a comprehensive framework for the audit function within the company.

Finance and Investment Committee

Mr. Rev Peterson N. Kagane – Chairman
Mr. Harrison H Githae
Mr. Cornelius O. Ashira
Mr. Michael O.Wambia.

The Committee's responsibilities include receiving and considering the Company's annual budget, reviewing the purchasing and tender regulations, disposal of major items and considering recommendations on capital expenditure. It also reviews proposals involving capital developments, financing and investment proposals.

Executive Committee

Mr. Japheth A Magomere – Chairman
Rev. Peterson N Kagane- Vice Chairman
Mr. Gordon O. Owuor
Mr. Edwin Otieno Joseph
Mr. Joshuah N. Njoroge
Mrs. Stella G Kaimenyi

The Committee's responsibilities include recruitment of all senior positions, monitoring and appraisal of the performance of the senior management and reviewing all human resource policies.

Attendance at Meetings

Table 1 below is a summary of the attendance record of the directors at the full and the board committee meetings. A record of attendance is kept with the Company Secretary. The record of attendance at meetings is also noted in the minutes of the meetings. The number of meetings held by the Board during the year included meetings held specifically to address the issues of company's reorganization and demerger of the two main lines of business, namely Life Assurance Business and General Insurance Business, including the Rights Issue/Private Placement of the company's shares that was conducted in the last quarter of the year.

CORPORATE GOVERNANCE continued

Table 1: Summary of Meetings Attended By Directors for the Year Ended 31st December 2010

Directors	Board Meeting		Executive Committee		Finance and Investment Committee		Audit Committee	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Japheth Magomere (Chairman)	8	8	7	7	5	5	5	5
Rev. Peterson N Kagane (Vice-Chairman)	8	7	7	7	5	5		
Peter Nderitu Munuhe (d)	8	3	7	3	5	1		
Edwin J Otieno	8	8	7	7				
Peter k Nyigei (c)	8	8			5	5		
Cornelius Ashira	8	8		5	5			
Gordon Owuor	8	8	7	4		5	5	
Joshuah Njoroge	8	8	7	7		5	5	
Joseph P. Nyagah)	8	7			5	5		
Michael O Wambia	8	8		5	5			
Jonah M Mutuku	8	8			5	5		
Mrs Stella G Kaimenyi	8	7	7	4				
Harrison H Githae ©	8	5		5	3			

Notes: (a) Number of meetings convened during year when the director was a member
(b) Number of Meetings attended by the Director during the year
(c) Joined Board on 7th May 2010
(d) Retired from Board on 7 May 2010

Internal Controls

The Board has collective responsibility for the Company's system of internal controls and for reviewing its effectiveness. The company has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems of obtaining authority for major transactions and ensuring compliance with laws and regulations that have significant financial implications.

The system of internal controls in place has defined operational procedures and financial controls to ensure that assets are safeguarded and that the company remains structured to ensure appropriate segregation of duties. In reviewing the effectiveness of the systems of internal controls and risk management, the Board takes into account the results of all the work carried out to audit and review the activities of the Company. A comprehensive management accounting system is in place providing financial and operational performance measurement indicators.

Weekly meetings are held by the Executive Management to give briefs on significant developments and to make major decisions collectively. Monthly management meetings are held by the Management to monitor performance and to agree on measures for improvement.

Business Ethics

The company is committed to adherence to the highest standards of integrity, behavior and ethics in dealing with all its stakeholders. A formal code of ethics has been implemented to guide management, employees and stakeholders on acceptable behavior in conducting business.

Communication with Shareholders

The company is committed to ensuring that shareholders are provided with full and timely information about its performance. This is usually done through distribution of the company's annual reports and release of notices in the press of the annual results. Company delegates are briefed at the regional level regularly.

CORPORATE GOVERNANCE continued

Table 2: Top Ten Class A Shareholders as at 31.12.2010

NAME OF SHAREHOLDERS	TOTAL SHAREHOLDING	%
The Co-operative Bank of Kenya Ltd	5,436,508	21.88
Harambee Co-operative Savings and Credit Society Ltd	1,468,095	5.91
K'Unity Finance Co-operative Union Ltd.	1,454,324	5.85
Embu Farmers Co-operative Society Ltd	1,441,848	7.51
Co-operative Bank Savings and Credit Society Ltd	1,112,036	4.48
Kipsigis Teachers Savings and Credit Society Ltd	658,695	2.65
Ndege Chai Co-operative Savings and Credit Society Ltd.	557,636	2.24
Bandari Co-operative Savings and Credit Society Ltd	540,160	2.17
Banki Kuu Co-operative Savings and Credit Society Ltd.	498,406	2.01
Afya Co-operative Savings and Credit Society Ltd.	433,134	1.74
	13,502,954	54.35

Table 3: Top Ten Class B shareholders as at 31.12.10

NAME	TOTAL SHAREHOLDING	%
Emmanuel Kipkemoi Birech	141,708	2.49
Peter Mutarura Mwaura	69,667	1.23
Nelson Chege Kuria	64,925	1.14
David Kipruto Ronoh	59,520	1.05
Robert Mutua Makaa	57,190	1.01
Jacob Mathew Oludhe Ondik	50,000	0.88
Jonah K Tomno	44,767	0.79
Caroline Muhonja Mugadi	44,500	0.78
Timothy Karungu Karanja	44,022	0.74
James Ngugi Muchiri	41,346	0.73
	615,645	10.84

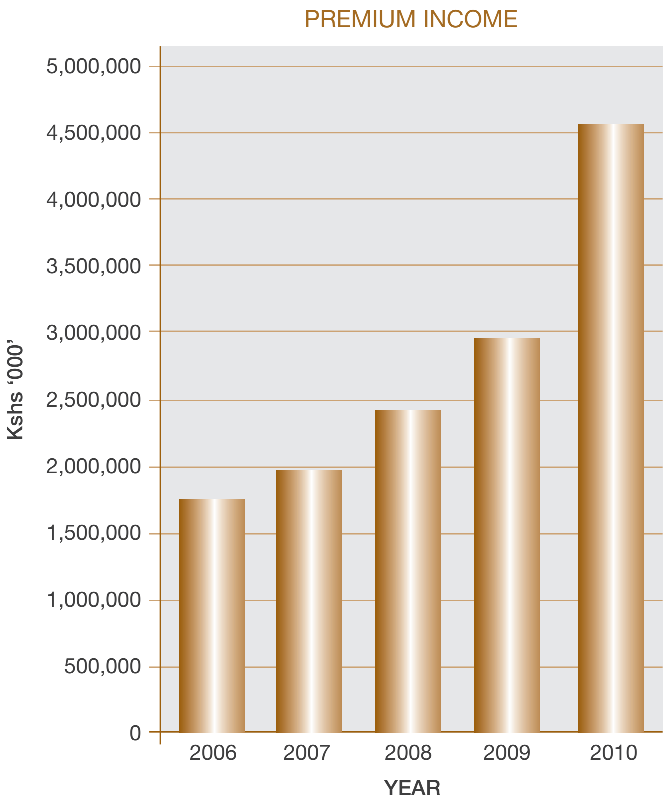
Corporate Social Responsibility (CSR)

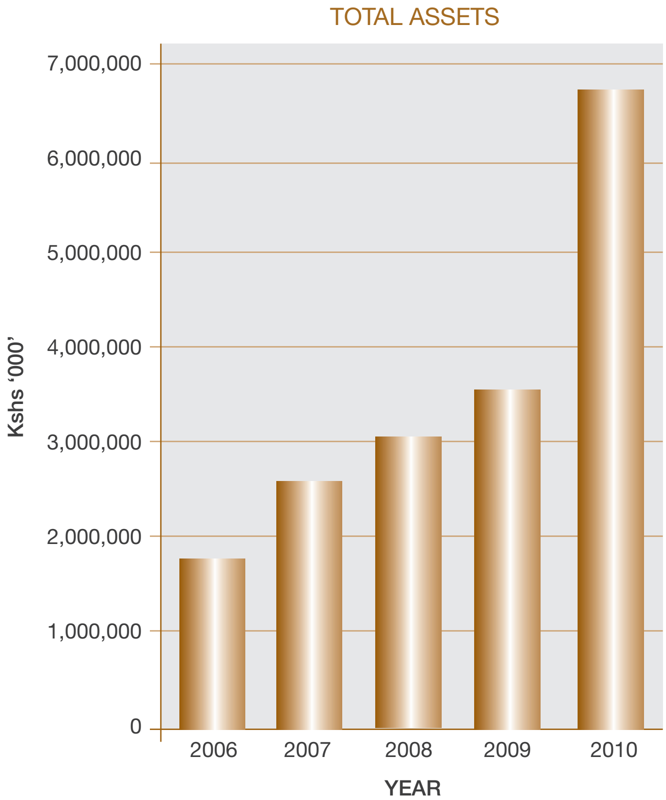
In recognition of the importance of Corporate Social Responsibility (CSR), the Board approved the formation of CIC Foundation, which shall be tasked with the responsibility of overseeing its activities. CIC Insurance Group shall fund the Foundation. The Company is committed to the principle of responsible corporate citizenship and makes CSR an integral part of its annual business plans. Every year the company supports activities across the country, with the involvement of all staffs. For instance, this year the company intends to focus more on Youth Leadership and Education on Co-operative awareness.

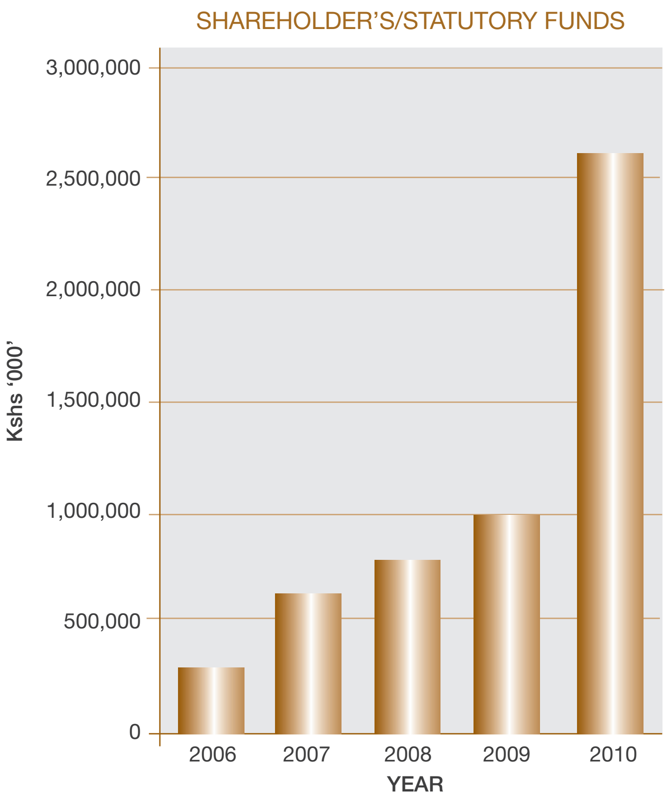
CIC Insurance Group MD, Mr. Nelson Kuria escorts a pupil of Jogoo Road primary school during the launch of a partnership Road safety program between CIC Insurance and the Lollipop project. The community based initiative purpose was to ensure that Jogoo road Primary school pupils navigate the busy Jogoo Road safely.

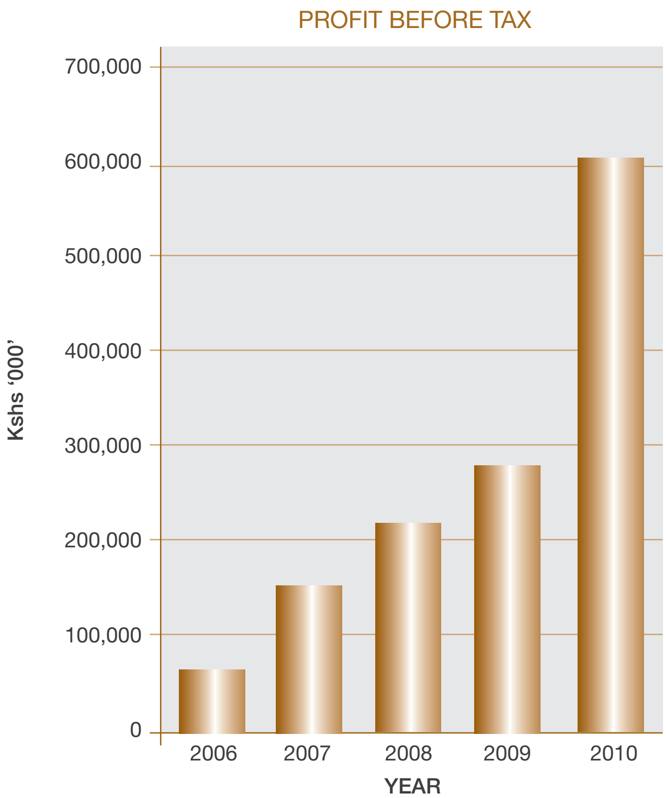
CIC Insurance Group MD, Mr. Nelson Kuria presents a cheque to a Jogoo Road Primary school staff to mark the launch of the Road safety initiative. The donation went towards fixing steel grills for some of the classrooms within the school.

FIVE YEAR COMPANY REVIEW









REPORT OF DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the company and its subsidiary is the transaction of general and life insurance business and fund management. The group also invests in securities, properties, mortgages and loans.

CHANGE OF NAME

During the year, the company changed its name from The Co-operative Insurance Company of Kenya Limited to CIC Insurance Group Limited. The change of name was approved by the shareholders at the Special General Meeting held on 17 September 2010.

RESULTS

	General Business Sh'000	Life business Sh'000	Total Sh'000
Profit before taxation	278,174	327,200	605,324
Taxation charge	(94,893)	(23,944)	(118,837)
Profit for the year	183,231	303,256	486,487

DIVIDENDS

The directors recommend the payment of a first and final dividend of Sh 95,913,574 (2009: Sh 34,238,000) which amounts to Sh 3.14 (2009: Sh 1.60) per share.

DIRECTORS

The current directors are as shown on page 2.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with Section 159(2) of the Companies Act (Cap 486) and subject to approval by the Commissioner of Insurance under Section 56(4) of the Insurance Act.

By order of the board

MARY NOEL A WANGA
COMPANY SECRETARY/CHIEF LEGAL OFFICER

7 March 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of the operating results of the group for that year. It also requires the directors to ensure that the parent company and its subsidiary keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and the company. They are also responsible for safeguarding the assets of the group.

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of the company and of the group's operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company and its subsidiary will not remain going concerns for at least the next twelve months from the date of this statement.

J A MAGOMERE
Chairman

J N NJOROGE
Director

7 March 2011

REPORT OF THE CONSULTING ACTUARY

I have conducted an actuarial valuation of the long term insurance business of CIC Insurance Group Limited (Formerly Co-operative Insurance Company of Kenya Limited) as at 31 December 2010.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenya Insurance Act.

These principles require prudent provision for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

In completing the actuarial valuation, I have relied upon the audited financial statements of the company.

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

ABED MUREITHI
Fellow of the Institute of Actuaries

7 March 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CIC INSURANCE GROUP LIMITED

(Formerly The Co-operative Insurance Company of Kenya Limited)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of CIC Insurance Group Limited (Formerly The Co-Operative Insurance Company of Kenya Limited) and its subsidiary, set out on pages 24 to 76 which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated and company statements of changes in equity and consolidated statement of cash flows 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 of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we considered the internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

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

INDEPENDENT AUDITORS' REPORT (Continued)

Report on other legal requirements

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

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

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

(iii) the company's statement of financial position (balance sheet) and statement of comprehensive income (profit and loss account) are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)

7 March 2011

Nairobi

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2010 Sh'000	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2009 Sh'000
Gross written premiums		2,961,208	1,595,094	4,556,302	1,652,979	1,221,620	2,874,599
Gross earned premiums	3	2,312,972	1,595,094	3,908,066	1,538,565	1,221,620	2,760,185
Less:							
Reinsurance premiums ceded		(277,431)	(80,869)	(358,300)	(219,271)	(78,673)	(297,944)
Net earned premiums		2,035,541	1,514,225	3,459,766	1,319,294	1,142,947	2,462,241
Commissions earned		64,044	-	64,044	57,926	-	57,926
Investment income	4	121,046	114,315	235,361	90,879	88,223	179,102
Other gains and losses	5	63,756	29,694	93,450	3,551	18,711	22,262
		248,846	144,009	392,855	152,356	106,934	259,290
Total income		2,284,387	1,658,234	3,942,621	1,471,650	1,249,881	2,721,531
Claims and policyholders' benefits payable	6	(1,167,000)	(840,214)	(2,007,214)	(807,851)	(680,616)	(1,488,467)
Commissions payable		(248,875)	(53,213)	(302,088)	(153,518)	(61,128)	(214,646)
Operating and other expenses	7	(520,388)	(507,607)	(1,027,995)	(378,528)	(362,164)	(740,692)
		(1,936,263)	(1,347,179)	(3,337,297)	(1,339,897)	(1,103,908)	(2,443,805)
Profit before taxation		348,124	257,200	605,324	131,753	145,973	277,726
Transfer from general business		(70,000)	70,000	-	-	-	-
Total profit before taxation		278,174	327,200	605,324	131,753	145,973	277,726
Taxation charge	9	(94,893)	(23,944)	(118,837)	(31,944)	(9,696)	(41,640)
Profit for the year	10	183,281	303,256	486,487	99,809	136,277	236,086
OTHER COMPREHENSIVE INCOME							
Surplus on revaluation of buildings	33	-	2,774	2,774	-	3,646	3,646
Fair value gain on available for sale investments	16	22,823	-	22,823	-	-	-
Reversal of deferred tax on revaluation	20	-	-	-	-	5,899	5,899
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		22,823	2,774	25,597	-	9,545	9,545
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		206,054	306,030	512,084	99,809	145,822	245,631

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2010 Sh'000	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2009 Sh'000
ASSETS							
Property and equipment	11	52,625	190,131	242,756	38,768	175,736	214,504
Intangible assets	12	9,560	26,371	35,931	8,481	20,336	28,817
Investment property	13	642,199	249,050	891,249	-	239,050	239,050
Investment in associate	14	100,000	-	100,000	-	-	-
Available - for- sale investments	16	24,764	-	24,764	1,941	-	1,941
Loans receivable - Mortgage loans	17	88,662	91,338	180,000	24,492	154,931	179,423
- Other loans	18	78,398	98,159	176,557	46,983	94,315	141,298
Taxation recoverable	9(c)	-	-	-	52	-	52
Equity investments	19(a)	110,097	73,826	183,923	26,508	43,332	69,840
Deferred taxation	20	5,492	-	5,492	3,625	-	3,625
Deposits and commercial paper	21	109,001	69,100	178,101	30,000	49,100	79,100
Receivables arising out of reinsurance arrangements	22	139,587	4,853	144,440	247,362	31,370	278,732
Receivables arising out of direct insurance arrangements	22	578,408	91,655	670,063	229,782	42,208	271,990
Deferred acquisition costs	23	119,761	-	119,761	38,044	-	38,044
Other receivables	24(a)	176,537	54,474	231,011	112,231	46,136	158,457
Government securities held to maturity	25	594,814	565,350	1,160,164	525,381	434,656	960,037
Short term investments	26	-	96,820	96,820	-	52,264	52,264
Deposits with financial institutions	27(a)	1,234,832	640,769	1,875,601	401,573	267,062	668,635
Cash and bank balances		120,996	129,920	250,916	80,387	24,299	104,686
Total assets		4,185,733	2,381,816	6,567,549	1,815,700	1,674,795	3,490,495
EQUITY							
Share capital	30(a)	375,194	236,219	611,413	285,630	142,350	427,980
Share premium	31	37,516	13,225	50,741	26,321	1,491	27,812
Funds awaiting allotment of shares	30(b)	928,224	4,235	932,459	-	-	-
Statutory reserve	32	-	542,541	542,541	-	277,109	277,109
Revaluation surplus	33	-	35,621	35,621	-	35,023	35,023
Fair value reserve	34(a)	22,823	-	22,823	-	-	-
Retained earnings	34(b)	413,549	-	413,549	222,184	-	222,184
Total equity		1,777,306	834,841	2,609,147	534,135	455,973	990,108
LIABILITIES							
Insurance contracts liabilities	36	619,988	243,299	863,287	584,201	235,998	820,199
Unearned premiums reserve	38	1,245,822	-	1,245,822	597,587	-	597,587
Actuarial value of policyholder liabilities	39	-	880,664	880,664	-	760,948	760,948
Payables arising from reinsurance arrangements and insurance bodies		2,474	18,668	21,142	17,502	10,438	27,940
Other payables	40(a)	501,000	383,400	884,400	82,275	206,985	289,260
Taxation payable	9(c)	39,143	23,944	63,087	-	4,133	4,133
Bank overdraft		-	-	-	-	320	320
Total liabilities		2,408,427	1,549,975	3,958,402	1,281,565	1,218,822	2,500,387
Total equity and liabilities		4,185,733	2,381,816	6,567,549	1,815,700	1,674,795	3,490,495

The financial statements on pages 24 to 74 were approved by the board of directors on 7 March 2011 and signed on its behalf by:

J A Magomere (Chairman) N C Kuria (Principal Officer) J N Njoroge (Director)

Company Statement of Financial Position

As at 31 December 2010

	Notes	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2010 Sh'000	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2009 Sh'000
ASSETS							
Property and equipment	11	52,625	190,131	242,756	38,768	175,736	214,504
Intangible assets	12	9,560	26,371	35,931	8,481	20,336	28,817
Investment property	13	642,199	249,050	891,249	-	239,050	239,050
Investment in associate	14	100,000	-	100,000	-	-	-
Investment in subsidiary	15	11,000	-	11,000	11,000	-	11,000
Available - for- sale investments	16	24,764	-	24,764	1,941	-	1,941
Loans receivable - Mortgage loans	17	88,662	91,338	180,000	24,492	154,931	179,423
- Other loans	18	78,398	98,159	176,557	46,983	94,315	141,298
Equity investments	19(b)	108,668	73,826	182,494	24,969	43,332	68,301
Deferred taxation	20	5,492	-	5,492	3,625	-	3,625
Deposits and commercial paper	21	109,001	69,100	178,101	30,000	49,100	79,100
Receivables arising out of reinsurance arrangements	22	139,587	4,853	144,440	247,362	31,370	278,732
Receivables arising out of direct insurance arrangements	22	578,408	91,655	670,063	229,782	42,208	271,990
Due from related party	35	320	-	320	50	-	50
Deferred acquisition costs	23	119,761	-	119,761	38,044	-	38,044
Other receivables	24(b)	176,286	54,474	230,760	112,069	46,136	158,205
Government securities held to maturity	25	594,814	565,350	1,160,164	525,381	434,656	960,037
Short term investments	26	-	96,820	96,820	-	52,264	52,264
Deposits with financial institutions	27(b)	1,224,082	640,769	1,864,851	391,570	267,062	658,632
Cash and bank balances		120,465	129,920	250,385	80,170	24,299	104,469
Total assets		4,184,092	2,381,816	6,565,908	1,814,687	1,674,795	3,489,482
EQUITY							
Share capital	30(a)	375,194	236,219	611,413	285,630	142,350	427,980
Share premium	31	37,516	13,225	50,741	26,321	1,491	27,812
Funds awaiting allotment of shares	30(b)	928,224	4,235	932,459	-	-	-
Statutory reserve	32	-	542,541	542,541	-	277,109	277,109
Revaluation surplus	33	-	35,621	35,621	-	35,023	35,023
Fair value reserve	34(a)	22,823	-	22,823	-	-	-
Retained earnings	34(b)	412,118	-	412,118	221,326	-	221,326
Total equity		1,775,875	831,841	2,607,716	533,277	455,973	989,250
LIABILITIES							
Insurance contracts liabilities	36	619,988	243,299	863,287	584,201	235,998	820,199
Unearned premiums reserve	38	1,245,822	-	1,245,822	597,587	-	597,587
Actuarial value of policyholder liabilities	39	-	880,664	880,664	-	760,948	760,948
Payables arising from reinsurance arrangements and insurance bodies		2,474	18,668	21,142	17,502	10,438	27,940
Other payables	40(b)	500,810	383,400	884,210	82,120	206,985	289,105
Taxation Payable	9(c)	39,123	23,944	63,067	-	4,133	4,133
Bank Overdraft		-	-	-	-	320	320
Total liabilities		2,408,217	1,549,975	3,958,192	1,281,410	1,218,822	2,500,232
Total equity and liabilities		4,185,733	2,381,816	6,567,549	1,814,687	1,674,795	3,489,482

The financial statements on pages 24 to 74 were approved by the board of directors on 7 March 2011 and signed on its behalf by:

J A Magomere (Chairman) N C Kuria (Principal Officer) J N Njoroge (Director)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital Sh'000	Share premium Sh'000	Funds awaiting allotment of shares Sh'000	Statutory reserve Sh'000	Revaluation surplus Sh'000	Fair value reserve Sh'000	Retained earnings Sh'000	Total Sh'000
At 1 January 2009	413,785	26,119	-	160,832	25,478	-	131,327	757,541
Profit for the year	-	-	-	136,277	-	-	99,809	236,086
Other comprehensive income for the year	-	-	-	-	9,545	-	-	9,545
Total comprehensive income for the year	-	-	-	136,277	9,545	-	99,809	245,631
Shares issued (note 29)	14,195	1,693	-	-	-	-	-	15,888
Transfer from statutory reserves (note 38)	-	-	-	(20,000)	-	-	20,000	-
Dividends paid	-	-	-	-	-	-	(28,952)	(28,952)
	14,195	1,693	-	(20,000)	-	-	(8,952)	(13,064)
At 31 December 2009	427,980	27,812	-	277,109	35,023	-	222,184	990,108
At 1 January 2010	427,980	27,812	-	277,109	35,023	-	222,184	990,108
Profit for the year	-	-	-	303,256	-	-	183,231	509,310
Other comprehensive income for the year	-	-	-	-	2,774	22,823	-	25,597
Total comprehensive income for the year	-	-	-	303,256	2,774	22,823	183,231	512,084
Shares issued (note 29)	183,433	22,929	-	-	-	-	-	206,362
Funds awaiting allotment of shares	-	-	932,459	-	-	-	-	932,459
Transfer from statutory reserves (note 38)	-	-	-	(40,000)	-	-	40,000	-
Transfer of excess depreciation	-	-	-	2,176	(2,176)	-	-	-
Dividends paid	-	-	-	-	-	-	(31,866)	(31,866)
	183,433	22,929	932,459	(37,824)	(2,176)	-	8,134	1,106,955
At 31 December 2010	611,413	50,741	932,459	542,541	35,621	22,823	413,549	2,609,147

Company Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital Sh'000	Share premium Sh'000	Funds awaiting allotment of shares Sh'000	Statutory reserve Sh'000	Revaluation surplus Sh'000	Fair value reserve Sh'000	Retained earnings Sh'000	Total Sh'000
At 1 January 2009	413,785	26,119	-	160,832	25,478	-	131,319	757,533
Profit for the year	-	-	-	136,277	-	-	98,959	235,236
Other comprehensive income for the year	-	-	-	-	9,545	-	-	9,545
Total comprehensive income for the year	-	-	-	136,277	9,545	-	98,959	244,781
Shares issued (note 29)	14,195	1,693	-	-	-	-	-	15,888
Transfer from statutory reserves (note 38)	-	-	-	(20, 000)	-	-	20,000	-
Dividends paid	-	-	-	-	-	-	(28,952)	(28,952)
	14,195	1,693	-	(20,000)	-	-	(8,952)	(13,064)
At 31 December 2009	427,980	27,812	-	277,109	35,023	-	221,326	989,250
At 1 January 2010	427,980	27,812	-	277,109	35,023	-	221,326	989,250
Profit for the year	-	-	-	303,256	-	-	182,658	485,914
Other comprehensive income for the year	-	-	-	-	2,774	22,823	-	25,597
Total comprehensive income for the year	-	-	-	303,256	2,774	22,823	182,658	511,511
Shares issued (note 29)	183,433	22,929	-	-	-	-	-	206,362
Funds awaiting allotment of shares	-	-	932,459	-	-	-	-	932,459
Transfer from statutory reserve (note 38)	-	-	-	(40,000)	-	-	40,000	-
Transfer of excess depreciation	-	-	-	2,176	(2,176)	-	-	-
Dividends paid	-	-	-	-	-	-	(31,866)	(31,866)
	183,433	22,929	932,459	(37,824)	(2,176)	-	8,134	1,106,955
At 31 December 2010	611,413	50,741	932,459	542,541	35,621	22,823	412,118	2,607,716

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 Sh'000	2009 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	43(a)	893,418	414,009
Taxation paid	9(c)	(61,698)	(83,579)
Net cash generated from operating activities		831,720	330,430
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	11	(73,352)	(49,610)
Purchase of intangible assets	12	(19,092)	(11,762)
Purchase of investment property	13	(182,199)	-
Investment in associate	14	(100,000)	-
Purchase of available for sale investments	16	-	(673)
Mortgage loans advanced	17	(33,288)	(85,418)
Mortgage loans repaid	17	32,711	25,879
Purchase of quoted shares	19	(72,714)	(10,017)
Purchase of government securities	25	(238,127)	(178,000)
Proceeds on maturity of government securities	25	38,000	93,521
Purchase of short term investments	26	(44,556)	-
Staff and policy loans advanced		(35,259)	(78,864)
Purchase of fixed deposits in non financial institutions		(99,001)	(25,889)
Proceeds from disposal of equipment		6,357	2,139
Interest received		235,361	179,002
Fixed deposits with financial institutions		(705,390)	(36,067)
Net cash used in investing activities		(1,290,549)	(175,659)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		206,362	15,888
Dividends paid		(31,866)	(28,952)
Funds awaiting allotment of shares		932,459	-
Net cash generated from/(used in) financing activities		1,106,955	(13,064)
INCREASE IN CASH AND CASH EQUIVALENTS		648,126	141,707
CASH AND CASH EQUIVALENTS AT 1 JANUARY		693,715	552,008
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	43(b)	1,341,841	693,715

Notes to the Financial Statements

For the year ended 31 December 2010

1 ACCOUNTING POLICIES

Statement of compliance with International Financial Reporting Standards (IFRS)

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(i) New standards and interpretations and amendments to published standards effective for the year ended 31 December 2010

Amendments and revised standards

- IFRS 1, First-time adoption of International Financial Reporting Standards – revised and restructured (effective for annual periods beginning on or after 1 July 2009).
- IFRS 1, First-time adoption of International Financial Reporting Standards – amendments relating to oil and gas assets and determining whether an arrangement contains a lease (effective for annual periods beginning on or after 1 January 2010).
- IFRS 2, Share-based payment – amendments relating to company cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010).
- IFRS 3 (Revised 2008), Business Combinations – comprehensive revision on applying the acquisition method (effective for annual periods beginning on or after 1 July 2009).
- Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2009)
- Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)
- IAS 27, Consolidated and Separate Financial Statements; IAS 28, Investments in Associates; and IAS 31, Interests in Joint Ventures – consequential amendments arising from amendments to IFRS 3 (effective for annual periods beginning on or after 1 July 2009).
- IAS 39, Financial Instruments: Recognition and Measurement – amendments for eligible hedged items (effective for annual periods beginning on or after 1 July 2009).
- Various improvements resulting from May 2008, April 2009 and May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 July 2009 and 1 January 2010).

New interpretations

- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).
- IFRIC 18, Transfers of Assets from Customers (effective for transfers received on or after 1 July 2009).

Impact of the relevant new and revised standards and interpretations in issue

Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)

The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The company will apply this amendment prospectively. The directors, however, anticipate no material impact to the company's financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2009)

The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent.

This amendment has had no effect on the amounts reported because the company has not previously issued instruments of this nature.

Notes to the Financial Statements continued

For the year ended 31 December 2010

1 ACCOUNTING POLICIES (Continued)

(ii) *New and amended interpretations in issue but not yet effective in the year ended 31 December 2010*

Amendments and revised standards

- IFRS 1, First-time Adoption of International Financial Reporting Standards – limited exemption from comparative IFRS 7 disclosures for first-time adopters (effective for annual periods beginning on or after 1 July 2010).
- IFRS 1, First-time Adoption of International Financial Reporting Standards – replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'; and additional exemption for entities ceasing to suffer from severe hyperinflation (effective for annual periods beginning on or after 1 July 2011).
- IFRS 7, Financial Instruments: Disclosures – amendments enhancing disclosures about transfers of financial assets (effective for annual periods beginning on or after 1 January 2011).
- IFRS 9, Financial Instruments – Classification and Measurement (effective for annual periods beginning on or after 1 January 2013).
- IAS 12, Income Taxes – limited scope amendment (recovery of underlying assets) (effective for annual periods beginning on or after 1 January 2012).
- IAS 24, Related Party Disclosures – revised definition of related parties (effective for annual periods beginning on or after 1 January 2011).
- Various improvements resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 July 2010 and 1 January 2011.
- IAS 32, Financial Instruments: Presentation – amendments relating to classification of rights issues (effective for annual periods beginning on or after 1 February 2010).

New interpretation

- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010).

(iii) *Impact of the relevant new and revised IFRSs in issue but not yet effective*

Amendments to IFRS 7 Financial Instruments: Disclosures (as part of Improvements to IFRSs issued in 2010)

The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

IAS 28 (revised in 2008) *Investments in Associates*

The principle adopted under IAS 27(2008) (see above) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to IAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

Notes to the Financial Statements continued

For the year ended 31 December 2010

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2010 and future annual periods (Continued)

IFRS 3 (revised in 2008) Business Combinations

IFRS 3(2008) has been applied in the current year prospectively to business combinations for which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its adoption has affected the accounting for business combinations in the current year.

The impact of the application of IFRS 3(2008) is as follows.

- IFRS 3(2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. Consequently, the goodwill recognised in respect of that acquisition reflects the impact of the difference between the fair value of the non-controlling interests and their share of the recognised amount of the identifiable net assets of the acquiree.

- IFRS 3(2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- IFRS 3(2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

- IFRS 3(2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

  As part of *Improvements to IFRSs* issued in 2010, IFRS 3(2008) was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition (see above) is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards.

  In addition, as part of *Improvements to IFRSs* issued in 2010, IFRS 3(2008) was amended to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date ('market-based measure').

Notes to the Financial Statements continued

For the year ended 31 December 2010

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2010 and future annual periods (Continued)

IAS 27 (revised in 2008) Consolidated and Separate Financial Statements

The application of IAS 27(2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27(2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes in accounting policies have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

Improvements to IFRSs issued in 2009 and 2010

The application of improvements to IFRSs issued in 2009 and 2010 has not had any material effect on amounts reported in the financial statements.

IFRS 9, Financial Instruments

IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: *Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt instruments and equity instruments are measured at their fair values at the end of subsequent accounting periods.

Notes to the Financial Statements continued

For the year ended 31 December 2010

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2010 and future annual periods (Continued)

IFRS 9, Financial Instruments (Continued)

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 9, that will be adopted in the group's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IAS 24, *Related Party Disclosures* (as revised in 2009)

This modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the group because the group is not a government-related entity. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to IAS 32 titled Classification of Rights Issues

These amendments address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the group has not entered into any arrangements that would fall within the scope of the amendments. However, if the group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments

This provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the company has not entered into transactions of this nature. However, if the company does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

Notes to the Financial Statements continued

For the year ended 31 December 2010

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2010 and future annual periods (Continued)

Amendments to IAS 1; Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The amendment is effective for annual periods beginning on or after 1 January 2011. The group will apply this amendment prospectively. The directors, however, anticipate no material impact to the group's financial statements.

(iv) Early adoption of standards

The company did not early-adopt any new or amended standards in 2010.

Basis of preparation

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain property, the carrying value of investment property and financial instruments at fair value, impaired assets at the recoverable amounts and actuarially determined liabilities at their present value.

Subsidiary undertakings

Subsidiary undertakings, which are those companies in which the parent company, directly or indirectly, has an interest in more than one half of the voting rights or otherwise has power to exercise control over the operations are consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the group and consolidation ceases from the date of disposal. All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; losses are also eliminated unless the cost cannot be recovered.

The group financial statements reflect the result of the consolidation of the financial statements of the company and its subsidiary CIC Asset Management Limited, details of which are disclosed in note 15, made up to 31 December.

Investment in associates

An associate is an entity over which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the group's share of the profit or loss and other comprehensive income of the associate. When the group's share of losses of an associate exceeds the group's interest in that associate (which includes any long-term interests that, in substance, form part of the group's net investment in the associate), the group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Notes to the Financial Statements continued

For the year ended 31 December 2010

1 ACCOUNTING POLICIES (Continued)

Income recognition

Premium income is recognised on the assumption of risks, and includes estimates of premium 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 which relate to the unexpired terms of policies in force at the end of each reporting period, and are calculated using the 1/24ths method on net written premiums. For marine business, unearned premiums at the end of each reporting period are calculated on the 6th basis of written premiums in the last quarter of the year.

Commissions receivable are recognised as income in the period in which they are earned. To achieve this, a proportion of reinsurance commissions receivable is deferred and recognised as income over the term of the policy.

Investment income is recognised on a time proportion basis that takes into account the effective interest yield on the asset. Dividends receivable are recognised as income in the period in which the right to receive payment is established. Rental income is recognised as income in the period in which it is earned.

Deferred acquisition costs

Deferred acquisition costs represents the proportion of commission expense in the periods up to the accounting date which relates to the unexpired terms of policies in force at the end of the reporting period, and are calculated on the 1/24th method on net commissions.

Claims incurred

Claims incurred comprise claims paid and related expenses 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 end of the reporting period, 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 additional provisions for claims incurred but not reported ("IBNR") at the end of each reporting period based on the group's experience but subject to the minimum percentages set by the Commissioner of Insurance. Claims liability on long term contracts is determined through actuarial valuation which is done annually.

Reinsurance contracts held

Contracts entered into by the group with reinsurers 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.

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 reinsurers (classified within loans and receivables), as well as longer term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers 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 profit or loss for the year.

Notes to the Financial Statements continued

For the year ended 31 December 2010

1 ACCOUNTING POLICIES (Continued)

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 profit or loss.

Taxation

Income tax expense represents the sum of the current taxation and the deferred taxation.

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred taxation.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised.

Property and equipment

Property and equipment is stated at cost or revaluation less accumulated depreciation and any impairment losses.

Increases in the carrying amount of land and buildings arising on revaluation are dealt with through other comprehensive income and accumulated under a separate heading of revaluation surplus in the statement of changes in equity. Decreases that offset previous increases of the same asset are dealt with through other comprehensive income and reversed from revaluation surplus in the statement of changes in equity; all other decreases are charged to profit or loss for the year. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit or loss for the year) and depreciation based on the asset's original cost is transferred from the revaluation surplus directly to retained earnings.

Depreciation is calculated on the reducing balance basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

Buildings	40 years
Computer equipment	4 years
Motor vehicles	4 years
Furniture, fittings and equipment	8 years

Property and equipment are reviewed for impairment whenever there are any indications of impairment identified.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The impairment loss is recognised in profit or loss for the year.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

Notes to the Financial Statements continued

For the year ended 31 December 2010

1 ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are treated as long-term investments and carried at fair value, representing market value determined annually, based on valuations by external independent valuers. Investment properties are not subject to depreciation. Changes in their carrying amount between each end of the reporting period are processed, net of deferred tax, through profit or loss for the year.

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

Financial instruments

A financial asset or liability is recognised when the group becomes party to the contractual provisions of the instrument. The group classifies its financial instruments into the following categories: Financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. Management determines the appropriate classification of its investments at initial recognition and re-evaluates this at the end of each reporting period.

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 into this category at inception if acquired principally for the purpose of selling it in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the group intends to sell in the short term or those that it has designated as at fair value through profit or loss or available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

Held-to-maturity financial assets
Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables that the group's management has the positive intention and ability to hold to maturity.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Purchases and sales of investments 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, in the case of all financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the group has also transferred substantially all risks and rewards of ownership.

Notes to the Financial Statements continued

For the year ended 31 December 2010

1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Available-for-sale financial assets (Continued)
Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the year in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in other comprehensive income and accumulated under the heading of revaluation surplus in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in profit or loss for the year as net realised gains/losses on financial assets.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis.

Unquoted investments are classified as available-for-sale investments. They are shown at fair value unless their value cannot be reliably measured in which case when they are carried at cost less provision for impairment.

Impairment of financial assets

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset (or group of financial assets) is impaired. Impairment losses are recognised if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and that those events have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The impairment loss so recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Cash and cash equivalents

For the purposes of the statement of cash flows, 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. Bank overdrafts are included within borrowings in current liabilities in the statement of financial position.

Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the end of each reporting period which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

Employee entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the end of the reporting period is recognised as an expense accrual.

Notes to the Financial Statements continued

For the year ended 31 December 2010

1 ACCOUNTING POLICIES (Continued)

Retirement benefit obligations

The group operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered funds, which are funded from contributions from both the group and employees.

The group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute and are currently limited to Sh 200 per employee per month.

The group's contributions to the defined contribution scheme and NSSF are charged to profit or loss as they fall due.

Dividends

Dividends on ordinary shares are charged directly to equity in the period in which they are paid. Dividend distributions to the company's shareholders are recognised as a liability in the financial statements in the year in which the dividends are approved by the shareholders.

Accounting for leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to one of the companies in the group as a lessee. All other leases are classified as operating leases.

Payments made under operating leases are charged to income on the straight-line basis over the period of the lease.

Rental income from operating leases is charged to profit or loss for the year on the straight-line basis over the term of the relevant lease.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

Notes to the Financial Statements continued

For the year ended 31 December 2010

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

In the process of applying the group's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key areas of judgment in applying the group's accounting policies are dealt with below:

The ultimate liability arising from claims made under insurance contracts

The main assumption underlying techniques applied in the estimation of this liability is that a group's past claims experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

A margin for adverse deviation may also be included in the liability valuation. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include additional provisions for claims incurred but not reported ("IBNR") at the end of the reporting period based on the group's experience but subject to the minimum percentages set by the Commissioner of Insurance.

Held -to-maturity financial assets

The group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the group evaluates its intention and ability to hold such assets to maturity. If the group fails to keep these financial assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The assets would therefore be measured at fair value not amortised cost.

Impairment losses

At the end of each reporting period, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Property and equipment

Critical estimates are made by the group's management, in determining depreciation rates for property and equipment.

Receivables

Critical estimates are made by the directors in determining the recoverable amount of receivables.

Notes to the Financial Statements continued

For the year ended 31 December 2010

3 SEGMENT INFORMATION

The group had adopted IFRS 8 *Operating Segments.* Under IFRS 8 the group's reportable segments are long term business and short term business Long term insurance business comprises the underwriting of risks relating to death of an insured person, and includes contracts subject to the payment of premiums for a long term dependent on the termination of continuance of the life of an insured person. General insurance relates to all other categories of insurance business written by the group and is analysed into several sub-classes of business based on the nature of the assumed risks. The group's main geographical segment of business is in kenya.

The segment information provided to the Board of Directors for the reported segments is as below:

Figures presented below represent the gross earned premium analysed between the main classes of business;

	2010 Sh'000	2009 Sh'000
General insurance business		
Motor	1,417,632	862,404
Fire	211,705	129,538
Personal accident	124,575	126,214
Others	559,060	420,409
	2,312,972	1,538,565
Long term insurance business		
Ordinary life	188,592	102,565
Group life	1,406,502	1,119,055
	1,595,094	1,221,620
Total gross earned premium	3,908,066	2,760,185

4 INVESTMENT INCOME

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
Interest from government securities held to maturity	68,900	65,201	134,101	76,393
Bank deposit interest	43,679	35,525	79,204	69,587
Interest on staff loan receivables	8,467	1,853	10,320	18,725
Other interest income	-	-	-	41
Rental income from investment property	-	11,736	11,736	14,356
	121,046	114,315	235,361	179,102

Notes to the Financial Statements continued

For the year ended 31 December 2010

4 INVESTMENT INCOME (Continued)

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
Investment revenue earned on financial assets, analysed by category of asset is as follows:				
Held to maturity investments	112,579	100,726	213,305	145,980
Loans and receivables	8,467	1,853	10,320	18,766
	121,046	102,579	223,625	164,746
Investment income earned on non-financial assets	-	11,736	11,736	14,356
Total investment income	121,046	114,315	235,361	179,102

Revenue relating to financial assets classified as at fair value through profit or loss is included in other gains and losses in note 5.

5 OTHER GAINS AND LOSSES

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
Fair value gains on investment property (note 13)	40,000	10,000	50,000	13,000
Fair value gain on quoted equity investments at fair value through profit or loss (note 19)	24,505	16,864	41,369	(3,943)
Net gains arising on government securities held to maturity	-	4,604	4,604	4,856
Loss on disposal of property and equipment	(6,778)	(2,847)	(9,625)	(1,094)
Miscellaneous income	6,029	1,073	7,102	9,443
	63,756	29,694	93,450	22,262

No other gains or losses have been recognised in respect of loans and receivables or held to maturity investments, other than as disclosed in this note and note 4 above and impairment losses recognised in respect of premium receivable (see note 7).

Notes to the Financial Statements continued

For the year ended 31 December 2010

6 CLAIMS AND POLICYHOLDERS BENEFITS PAYABLE

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
Claims and policyholders benefits payable:				
- Gross	1,287,811	744,945	2,032,756	1,523,841
- Reinsurers' share	(120,811)	(24,447)	(145,258)	(209,215)
Actuarial adjustment of policy holders liability	-	119,716	119,716	173,841
	1,167,000	840,214	2,007,214	1,488,467

7 OPERATING AND OTHER EXPENSES

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
The following items have been charged in arriving at profit before tax:				
Staff costs (note 8)	130,961	116,648	247,609	241,366
Auditors' remuneration	1,346	1,346	2,692	2,110
Directors' fees	11,428	2,420	13,848	6,624
Directors' emoluments	18,270	18,270	36,540	22,453
Depreciation (note 11)	10,433	21,459	31,892	22,438
Amortisation (note 12)	3,187	8,791	11,978	9,605
Impairment charge for doubtful premium receivables	24,398	-	24,398	29,627
Premium tax	24,668	1,069	25,737	29,248
Other	295,697	337,604	633,301	377,221
	520,388	507,607	1,027,995	740,692

8 STAFF COSTS

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
Staff costs include the following:				
- Salaries	115,563	104,072	219,635	218,789
- Pension costs	11,657	10,078	21,735	17,866
- leave pay	3,741	2,498	6,239	4,711
	130,961	116,648	247,609	241,366

Notes to the Financial Statements continued

For the year ended 31 December 2010

9 TAXATION

a) Taxation charge

	2010 Sh'000	2009 Sh'000
Current tax at 30%	120,715	52,288
Prior year current tax (over)/under provision	(11)	1,749
	120,704	54,037
Deferred tax credit (note20)	(1,867)	(71)
Prior year deferred tax overprovision	-	(12,326)
	(1,867)	(12,397)
	118,837	41,640

b) Reconciliation of taxation expense to expected tax based on accounting profit

	2010 Sh'000	2009 Sh'000
Profit before taxation	605,324	277,726
Tax calculated at a tax rate of 30%	181,597	83,318
Tax effect of expenses not deductible for tax	10,834	4,008
Tax effect of income not subject to tax	(73,583)	(35,109)
Prior year current tax under provision	(11)	1,749
Prior year deferred tax provision	-	(12,326)
Taxation charge for the year	118,837	41,640

c) Taxation payable

	GROUP		COMPANY	
	2010 Sh'000	2009 Sh'000	2010 Sh'000	2009 Sh'000
At 1 January	(4,081)	(33,623)	(4,133)	(33,623)
Current tax charge for the year	(120,704)	(54,037)	(120,428)	(53,896)
Paid during the year	61,698	83,579	61,495	83,386
At 31 December	(63,087)	(4,081)	(63,066)	(4,133)
Comprising:				
Taxation recoverable	-	52	-	-
Taxation payable	(63,087)	(4,133)	(63,066)	(4,133)
At 31 December	(63,087)	(4,081)	(63,066)	(4,133)

10 PROFIT FOR THE YEAR

Profit for the year of Sh 485,914,000 (2009 –Sh 235,236,000) has been dealt with in the separate financial statements of the company, CIC Insurance Group Limited (formerly The Co-operative Insurance Group Limited).

Notes to the Financial Statements continued

For the year ended 31 December 2010

11 PROPERTY AND EQUIPMENT – GROUP AND COMPANY

	Buildings Sh'000	Motor vehicles Sh'000	Computers Sh'000	Furniture fittings & equipment Sh'000	Total Sh'000
COST OR VALUATION					
At 1 January 2009	103,950	23,476	65,877	105,561	298,864
Additions	3,354	17,942	10,981	17,333	49,610
Disposals	-	(10,582)	(147)	-	(10,729)
Revaluation	3,646	-	-	-	3,646
At 31 December 2009	110,950	30,836	76,711	122,894	341,391
At 1 January 2010	110,950	30,836	76,711	122,894	341,391
Additions	-	15,835	26,086	31,431	73,352
Disposals	-	(14,107)	(33,802)	(22,900)	(70,809)
At 31 December 2010	110,950	32,564	68,995	131,425	343,934
COMPRISING:					
Cost	-	32,564	68,995	131,425	232,984
Valuation- 2010	110,950	-	-	-	110,950
	110,950	32,564	68,995	131,425	343,934
DEPRECIATION					
At 1 January 2009	-	15,368	46,173	50,404	111,945
Charge for the year	-	5,741	7,629	9,068	22,438
Eliminated on disposals	-	(7,496)	-	-	(7,496)
At 31 December 2009	-	13,613	53,802	59,472	126,887
At 1 January 2010	-	13,613	53,802	59,472	126,887
Charge for the year	2,774	6,674	11,331	11,113	31,892
Reversal of accumulated depreciation on revaluaion	(2,774)	-	-	-	(2,774)
Eliminated on disposals	-	(7,743)	(30,130)	(16,954)	(54,827)
At 31 December 2010	-	12,544	35,003	53,631	101,178
NET BOOK VALUE					
At 31 December 2010	110,950	20,020	33,992	77,794	242,756
At 31 December 2009	110,950	17,223	22,901	63,430	214,504
NET BOOK VALUE- COST BASIS					
At 31 December 2010	79,474	20,020	33,992	77,792	242,754
At 31 December 2009	79,474	17,223	22,901	63,430	183,028

The building was revalued at 31 December 2010 by Lloyd Masika Limited, registered valuers, on the basis of the market value for existing use. The resultant revaluation surplus is dealt with through other comprehensive income and accumulated in revaluation surplus as a separate component of equity.

Notes to the Financial Statements continued

For the year ended 31 December 2010

12 INTANGIBLE ASSETS – GROUP AND COMPANY

	General business Sh'000	Life business Sh'000	Total Sh'000
COST			
At 1 January 2009	33,388	43,146	76,534
Additions	6,446	5,316	11,762
At 31 December 2009	39,834	48,462	88,296
At 1 January 2010	39,834	48,462	88,296
Additions	4,266	14,826	19,092
At 31 December 2010	44,100	63,288	107,388
AMORTISATION			
At 1 January 2009	28,526	21,348	49,874
Amortisation	2,827	6,778	9,605
At 31 December 2009	31,353	28,126	59,479
At 1 January 2010	31,353	28,126	59,479
Amortisation	3,187	8,791	11,978
At 31 December 2010	34,540	36,917	71,457
NET BOOK VALUE			
As at 31 December 2010	9,560	26,371	35,931
As at 31 December 2009	8,481	20,336	28,817

Notes to the Financial Statements continued

For the year ended 31 December 2010

13 INVESTMENT PROPERTY – GROUP AND COMPANY

	CIC plaza Sh'000	Kamiti Land Sh'000	Work in progress Sh'000	2010 Sh'000	2009 Sh'000
At 1 January	239,050	-	-	239,050	226,050
Additions	-	560,000	42,199	602,199	-
Fair value gain (note 5)	10,000	40,000	-	50,000	13,000
At 31 December	249,050	600,000	42,199	891,249	239,050

	2010 Sh'000	2009 Sh'000
At 1 January	239,050	226,050
Additions:		
Cash paid	182,199	-
Amount payable (note 40)	420,000	-
Fair value gains (note 5)	50,000	13,000
At 31 December	891,249	239,050

The investment property was revalued on 31 December 2010 by Lloyd Masika Limited, registered valuers, on the basis of the market value existing use. The transfer of title to the company from the vendor for Kamiti Land property, is yet to be finalised.

14 INVESTMENT IN ASSOCIATE – GROUP AND COMPANY

	2010 Sh'000	2009 Sh'000
Takaful Insurance Limited (Unquoted) - 20% interest:		
At cost	100,000	-

The investment is valued at cost as the company obtained an operating licence in January 2011 hence no share of profits for the year.

15 INVESTMENT IN SUBSIDIARY - COMPANY

	2010 Sh'000	2009 Sh'000
CIC Asset Management Limited:		
550,000 (2009 - 550,000) ordinary shares of Sh 20 each at cost	11,000	11,000

Company	Percentage Holding	Country of Incorporation	Principal activity
CIC Asset Management Limited	100%	Kenya	Funds and assets management as regulated by the Capital Markets Authority.

Notes to the Financial Statements continued

For the year ended 31 December 2010

16 AVAILABLE -FOR - SALE INVESTMENTS – GROUP AND COMPANY

	2010 Sh'000	2009 Sh'000
Unquoted shares:		
Class 'B' Shares held in The Co-operative Bank of Kenya Limited	24,091	1,268
Shares held in Allnations, Inc. – at cost	673	673
	24,764	1,941

The movement in the available for sale investments account is as follows:

	2010 Sh'000	2009 Sh'000
At 1 January	1,941	1,268
Fair value gains	22,823	-
Additions	-	673
At 31 December	24,764	1,941

The shares in The Co-operative Bank of Kenya Limited were acquired before the initial public offer (IPO) in 2009. Though The Co-operative Bank of Kenya Limited shares are currently listed in the Nairobi Stock Exchange, there was an agreement for the shares held by corporation's pre IPO not to be traded for the first 5 years. These shares have been revalued in the current year at the market rates.

17 LOANS RECEIVABLE - GROUP AND COMPANY

	2010 Sh'000	2009 Sh'000
Mortgage loans:		
At 1 January	179,423	119,884
Loans advanced	33,288	85,418
Loan repayments	(32,711)	(25,879)
At 31 December	180,000	179,423

Maturity profile of mortgage loans:

	2010 Sh'000	2009 Sh'000
Within 1 year	-	34
In 1-5 years	8,742	7,782
In over 5 years	171,258	171,607
	180,000	179,423

18 LOANS RECEIVABLE - GROUP AND COMPANY

	2010 Sh'000	2009 Sh'000
Other loans:		
Staff loans	159,478	102,798
Policy loans	17,079	38,500
	176,557	141,298

Notes to the Financial Statements continued

For the year ended 31 December 2010

19 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) GROUP

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
Quoted investments:				
At 1 January	26,508	43,332	69,840	63,766
Additions	59,084	13,630	72,714	10,017
Fair value gain (note 5)	24,505	16,864	41,369	(3,943)
At 31 December	110,097	73,826	183,923	69,840

(b) COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
At 1 January	24,969	43,332	68,301	62,117
Additions	59,084	9,696	68,780	10,017
Fair value gain (note 5)	24,615	20,798	45,413	(3,833)
At 31 December	108,668	73,826	182,494	68,301

20 DEFERRED TAXATION – GROUP AND COMPANY

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30 % (2009: 30%). The deferred tax asset is attributable to the following items:

	2010 Sh'000	2009 Sh'000
Accelerated capital allowances on motor vehicles and equipment	(3,886)	(2,310)
Leave pay provision	(1,606)	(1,315)
Net deferred tax asset	(5,492)	(3,625)

The movement in the deferred tax account is as follows:

	2010 Sh'000	2009 Sh'000
At 1 January	(3,625)	14,671
Profit or loss (charge - note 9(a)	(1,867)	(71)
Credited to other comprehensive income	-	(5,899)
Prior year overprovision	-	(12,326)
At 31 December	(5,492)	(3,625)

Notes to the Financial Statements continued

For the year ended 31 December 2010

21 DEPOSITS AND COMMERCIAL PAPER – HELD TO MATURITY GROUP AND COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
OTHER DEPOSITS				
Embu Farmers Co-operative Society Limited	-	20,000	20,000	20,000
K'Unity Finance Limited	20,000	-	20,000	20,000
CIC SACCO	37,008	-	37,008	-
COMMERCIAL PAPER:				
Crown Berger Kenya Limited	10,497	-	10,497	-
Nakumatt Holdings Limited	20,997	-	20,997	-
Car and General (Kenya) Limited	10,499	-	10,499	-
Kenya Electricity Generating Company Limited	10,000	29,100	39,100	39,100
TPS Serena Limited	-	20,000	20,000	-
Total deposits	109,001	69,100	178,101	79,100
Maturing within three months	20,996	-	20,996	-
Maturing after 3 months	88,005	69,100	157,105	79,100
Total deposits	109,001	69,100	178,101	79,100

22 DIRECT INSURANCE AND REINSURERS RECEIVABLES

Receivables arising out of direct insurance arrangements relate to premiums earned but not received as a result of risks underwritten but whose premium has not been received as at year end. Receivables arising out of reinsurance arrangements relate to reinsurers portion of claims incurred which had not been recovered from reinsurers as at year end.

23 DEFERRED ACQUISITION COSTS – GROUP AND COMPANY

	2010 Gross Shs	2010 Retrocession Shs	2010 Net Shs	2009 Gross Shs	2009 Retrocession Shs	2009 Net Shs
At 1 January	44,530	6,486	38,044	24,830	-	24,830
Increase in the year	82,030	313	81,717	19,700	6,486	13,214
At 31 December	126,560	6,799	119,761	44,530	6,486	38,044

Notes to the Financial Statements continued

For the year ended 31 December 2010

24 OTHER RECEIVABLES

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
(a) GROUP				
Accrued interest	41,710	34,214	75,924	66,617
Staff advances	6,029	-	6,029	8,492
Salvage recoveries	27,377	-	27,377	33,979
Other receivables	61,421	20,260	81,681	29,369
Receivable arising out of transfer from long term insurance business	40,000	-	40,000	20,000
Total receivables	176,537	54,474	231,011	158,457
(b) COMPANY				
Accrued interest	41,513	34,214	75,727	66,365
Staff advances	6,029	-	6,029	8,492
Salvage recoveries	27,377	-	27,377	33,979
Other receivables	61,367	20,260	81,627	29,369
Receivable arising out of transfer from long term insurance business	40,000	-	40,000	20,000
Total receivables	176,286	54,474	230,760	158,205

25 GOVERNMENT SECURITIES HELD TO MATURITY – GROUP AND COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
At 1 January	525,381	434,656	960,037	875,558
Maturities	(1,000)	(37,000)	(38,000)	(93521)
Additions	70,433	167,694	238,127	178,000
At 31 December	594,814	565,350	1,160,164	960,037
Treasury bills and bonds maturing				
- within 90 days	20,000	-	20,000	30,000
- after 90 days	574,814	565,350	1,140,164	930,037
At 31 December	594,814	565,350	1,160,164	960,037

Treasury bonds amounting to Sh 245 million (2009: Sh 195.3 million) are held by the Central Bank of Kenya under lien to the Commissioner of Insurance in accordance with the Insurance Act.

Notes to the Financial Statements continued

For the year ended 31 December 2010

26 SHORT TERM INVESTMENTS - GROUP AND COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
Policy holder deposits	-	96,820	96,820	52,264

Short term investments relates to policy holders deposits held with Africa Alliance for Mavuno life product. This is a unit linked product whereby CIC Insurance Group Limited gets funds from investors and has engaged Africa Alliance to invest and manage the funds.

27 DEPOSITS WITH FINANCIAL INSTITUTIONS

(a) GROUP

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
The Co-operative Bank of Kenya Limited	628,309	30,000	658,309	136,320
Housing Finance Company of Kenya Limited	156,272	41,465	197,737	123,590
K-Rep Bank Limited	81,424	86,865	168,289	84,737
Investment & Mortgages Bank Limited	-	-	-	49,350
NIC Bank Limited	-	-	-	68,621
Chase Bank Limited	111,592	89,426	205,018	-
Bank of Africa Limited	-	58,992	58,992	15,748
Barclays Bank of Kenya Limited	7,600	7,600	15,200	15,200
PTA Bank	8,000	-	8,000	10,000
Consolidated Bank of Kenya Limited	88,507	64,513	153,020	31,947
Prime Bank Limited	-	48,978	48,978	20,109
Kenya Commercial Bank Limited	-	20,000	20,000	50,000
Fina Bank Limited	20,000	22,018	42,018	42,524
Development Bank of Kenya Limited	53,128	85,646	138,774	10,489
National Bank of Kenya Limited	40,000	-	40,000	10,000
ABC Bank Kenya Limited	40,000	80,039	120,039	-
Dubai Bank Limited	-	5,227	5,227	-
	1,234,832	640,769	1,875,601	668,635
Maturity analysis:				
Maturing within three months	710,102	380,823	1,090,925	589,349
Maturing after 3 months	524,730	259,946	784,676	79,286
	1,234,832	640,769	1,875,601	668,635

Notes to the Financial Statements continued

For the year ended 31 December 2010

27 DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)

(b) COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
The Co-operative Bank of Kenya Limited	628,309	30,000	658,309	136,320
Housing Finance Company of Kenya Limited	145,522	41,465	186,987	115,587
K-Rep Bank Limited	81,424	86,865	168,289	84,737
Investment & Mortgages Bank Limited	-	-	-	49,350
NIC Bank Limited	-	-	-	68,621
Bank of Africa Limited	-	58,992	58,992	15,748
Barclays Bank of Kenya Limited	7,600	7,600	15,200	15,200
PTA Bank	8,000	-	8,000	10,000
Consolidated Bank of Kenya Limited	88,507	64,513	153,020	31,947
Prime Bank Limited	-	48,978	48,978	20,109
Kenya Commercial Bank Limited	-	20,000	20,000	50,000
Fina Bank Limited	20,000	22,018	41,018	40,524
Development Bank of Kenya Limited	53,128	85,646	138,774	10,489
National Bank of Kenya Limited	40,000	-	40,000	10,000
Chase Bank Limited	111,592	89,426	205,018	-
ABC Bank Kenya Limited	40,000	80,039	120,039	-
Dubai Bank Limited	-	5,227	5,227	-
	1,224,082	640,769	1,864,851	658,632
Maturity analysis:				
Maturing within three months	701,458	380,823	1,082,281	579,346
Maturing after 3 months	522,624	259,946	782,570	79,286
	1,224,082	640,769	1,864,851	658,632

28 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

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

	2010 %	2009 %
Government securities	10.00	12.00
Mortgage loans	4.00	4.00
Policy loans	4.00	4.17
Deposits with financial institutions	6.00	9.00
Other deposits and commercial paper	9.00	6.00

29 DIVIDENDS

In respect of the current year, the directors propose a first and final dividend of Sh 95,913,574 (2009: Sh 34,238,000) which amounts to Sh 3.14 (2009: Sh 1.60) per share be paid to shareholders. This is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. Payment of dividends is subject to withholding tax at the rate of 5% or 10%, depending on the residence of the individual shareholders.

Notes to the Financial Statements continued

For the year ended 31 December 2010

30 (a) SHARE CAPITAL

	2010 Number of shares Sh'000	2010 Share capital Sh'000	2009 Number of shares Sh'000	2009 Share capital Sh'000
Authorised ordinary shares of Sh 20 each:				
At 1 January	30,000	600,000	30,000	600,000
Additions	30,000	600,000	-	-
At 31 December	60,000	1,200,000	30,000	600,000
Issued and fully paid up share capital:				
At 1 January	21,399	427,980	20,689	413,785
Additions	9,172	183,433	710	14,195
At 31 December	30,571	611,413	21,399	427,980

The movement in share capital was as a result of issue of 9,171,650 (2009:710,000 shares) of Sh 20 each which were issued and paid for during the year.

30 (b) FUNDS AWAITING ALLOTMENT OF SHARES

At 31 December 2010 the company had received Sh 928,224,000 (2009 – Nil) as subscriptions towards new shares. The shares have not been allotted pending approval of increase in authorised share capital.

31 SHARE PREMIUM

	2010 Sh'000	2009 Sh'000
Share premium	50,741	27,812

The increase in share premium relates to 9,171,650 the shares (2009:710,000 shares) through a private placement at a cost of Sh 22.50 which is Sh 2.50 above the nominal value of Sh 20.

32 STATUTORY RESERVE

(a) The statutory reserve represents the surplus on the life assurance business which is not distributable as dividends as per the requirements of the Insurance Act.

(b) Transfer from statutory reserve relates to the proportion of the surplus on the life assurance business which is distributable as dividends and therefore transferred to revenue reserve.

33 REVALUATION SURPLUS

The revaluation surplus represents the surpluses on the revaluation of buildings and is not distributable as dividends.

34 (a) FAIR VALUE RESERVE

The fair value reserve represents fair value gains arising from available for sale financial instruments and is not distributable as dividends.

34 (b) RETAINED EARNINGS

The retained earnings balance represents the amount available for dividend distribution to the shareholders of the parent company.

Notes to the Financial Statements continued

For the year ended 31 December 2010

35 RELATED PARTY BALANCES - COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000
Due from CIC Asset Management Limited	320-	320	50

36 INSURANCE CONTRACTS LIABILITIES – GROUP AND COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000
Claims reported and claims handling expenses:			
At 1 January 2009	532,946	304,943	837,889
Claims incurred in the year	807,852	547,172	1,355,024
Payments for claims and claims handling expenses	(756,597)	(616,117)	(1,372,714)
At 31 December 2009	584,201	235,998	820,199
At 1 January 2010	584,201	235,998	820,199
Claims incurred in the year	1,167,000	727,800	1,894,800
Payments for claims and claims handling expenses	(1,131,213)	(720,499)	(1,851,712)
At 31 December 2010	619,988	243,299	863,287

Movement in general business insurance liabilities is shown in note 37.

37 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS – GROUP AND COMPANY

General (short term) insurance business

	2010			2009		
	Gross Sh'000	Reinsurance Sh'000	Net Sh'000	Gross Sh'000	Reinsurance Sh'000	Net Sh'000
Notified claims	1,039,368	534,516	504,852	848,934	380,995	467,939
Incurred but not reported	79,349	-	79,349	65,007	-	65,007
Total at 1 January	1,118,717	534,516	584,201	913,941	380,995	532,946
Cash paid for claims settled in year	(1,252,024)	(120,811)	(1,131,213)	(920,149)	(163,551)	(756,598)
Increase in liabilities arising from:						
Current year claims	1,287,811	326,085	961,726	798,889	228,988	569,901
Prior year claims	247,234	41,960	205,274	326,036	88,084	237,952
Total at 31 December	1,401,738	781,750	619,988	1,118,717	534,516	584,201
Notified claims	1,421,308	946,155	475,153	1,039,368	534,516	504,852
Incurred but not reported	144,835	-	144,835	79,349	-	79,349
Total at 31 December	1,566,143	946,155	619,988	1,118,717	534,516	584,201

Notes to the Financial Statements continued

For the year ended 31 December 2010

38 PROVISIONS FOR UNEARNED PREMIUM AND UNEXPIRED RISKS – GROUP AND COMPANY.

The unearned premiums reserve represents the portion of the premium written in periods up to the accounting date which relates to the unexpired terms of policies in force at the end of each reporting period. The movement in the reserve is shown below:

	2010			2009		
	Gross Sh'000	Reinsurance Sh'000	Net Sh'000	Gross Sh'000	Reinsurance Sh'000	Net Sh'000
At 1 January	597,587	28,865	568,722	483,172	28,865	454,307
Increase in the year (net)	648,235	-	648,235	114,415	-	114,415
At 31 December	1,245,822	28,865	1,216,957	597,587	28,865	568,722

39 ACTUARIAL VALUE OF POLICYHOLDER LIABILITIES

The annual actuarial valuation of the life fund was carried out by The Actuarial Services Company Limited, Actuaries and Consultants, as at 31 December 2010 and revealed an actuarial surplus of Sh 546,066,213 (2009 – Sh 154,700,000) before declaration of the interest and bonuses to policyholders. The Actuaries recommended a transfer of Sh 40,000,000 (2009 – Sh 20,000,000) from the life fund to the revenue reserve. The value of policyholder benefits at 31 December 2010 was Sh 880,664,000 (2009 – Sh 760,948,000).

40 OTHER PAYABLES

(a) GROUP

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
Sundry payables	35,269	123,510	155,779	63,774
Advance premiums	38,767	122,482	161,249	146,639
Leave pay provision	5,354	-	5,354	4,385
Rent deposits	1,610	588	2,198	2,198
Mavuno unit linked deposits	-	96,820	96,820	52,264
Payable arising from transfer to general reserve	-	40,000	40,000	20,000
Investment property payable	420,000	-	420,000	-
	501,000	383,400	884,400	289,260

(b) COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2010 Sh'000	Total 2009 Sh'000
Sundry payables	35,079	123,510	158,589	63,619
Advance premium	38,767	122,482	161,249	146,639
Leave pay provision	5,354	-	5,354	4,385
Rent deposits	1,610	588	2,198	2,198
Mavuno unit linked deposits	-	96,820	96,820	52,264
Payable arising from transfer to general reserve	-	40,000	40,000	20,000
Investment property payable	420,000	-	420,000	-
	500,810	383,400	884,210	289,105

Notes to the Financial Statements continued

For the year ended 31 December 2010

41 CONTINGENT LIABILITIES – GROUP AND COMPANY

	2010 Sh'000	2009 Sh'000
Bank guarantees	25,411	11,576

In common practice with the insurance industry in general, the group is subjected to litigation arising in the normal course of insurance business. The directors are of the opinion that this litigation will not have a material effect on the financial position or profits of the group.

42 CAPITAL COMMITMENTS – GROUP AND COMPANY

Capital expenditure committed at the end of the reporting period but not recognised in the financial statements is as follows:

	2010 Sh'000	2009 Sh'000
Committed but not contracted for	754,611	409,357

43 NOTES TO THE STATEMENT OF CASH FLOWS – GROUP

a) Reconciliation of profit before tax to cash generated from operations:

	2010 Sh'000	2009 Sh'000
Profit before taxation	605,324	277,726
Adjustments for:		
Depreciation (note 11)	31,892	22,438
Amortisation of intangible assets (note 12)	11,978	9,605
Surplus on revaluation on investment property (note 13)	(50,000)	(13,000)
Investment income receivable (note 4)	(235,361)	(179,102)
Gain on revaluation of quoted shares (note 19)	(41,369)	3,943
Loss on disposal of property and equipment (note 5)	9,625	1,094
Net gains on government security held to maturity (note 24)	-	(4,856)
Increase in deferred acquisition costs (note 23)	(81,717)	(13,214)
Increase in provision for unearned premium (note 37)	648,235	114,415
(Decrease)/increase in outstanding claims provision	43,088	(17,690)
Working capital changes;		
(Increase)/decrease in receivables arising out of direct insurance arrangements	(398,073)	(61,410)
Decrease in receivables arising out of reinsurance arrangements	134,292	33,107
Decrease/(increase) in sundry receivables	(72,554)	49,380
Increase/(decrease)/ in other payables	175,140*	36,881
Actuarial value of policyholders liabilities	119,716	173,840
Movement in amounts due to reinsurers and other insurance bodies (net)	(6,798)	(19,148)
Net cash generated from operations	893,418	414,009

*-Movement excludes an amount of 420 million which relates to investment property payable at year end which represents a non cash transaction.

Notes to the Financial Statements continued

For the year ended 31 December 2010

43 NOTES TO THE STATEMENT OF CASH FLOWS – GROUP (Continued)

b) Cash and cash equivalents

	2010 Sh'000	2009 Sh'000
Bank and cash balances	250,916	104,686
Bank overdraft	-	(320)
Deposits with banks maturing within 3 months-(note 27 (a)	1,090,925	589,349
	1,341,841	693,715

44 OPERATING LEASE COMMITMENTS

Company as a lessee

The future minimum lease payments under non-cancellable operating leases are as follows:

	2010 Sh'000	2009 Sh'000
Not later one year	6,919	6,388
Later than 1 year but not later than 5 years	31,668	44,981
	38,587	51,369

Company as a lessor

Net rental income earned during the year was Sh 11,736,000 (2009: Sh 14,356,000). At the end of the reporting period, the group had contracted with tenants for the following future lease receivables:

	2010 Sh'000	2009 Sh'000
Not later one year	29,377	26,260
Later than 1 year but not later than 5 years	167,828	104,953
	197,205	131,213

Leases are for a period of six years.

Notes to the Financial Statements continued

For the year ended 31 December 2010

45 RELATED PARTY TRANSACTIONS

The group has various related parties, most of whom are related by virtue of being shareholders, and partly due to common directorships. The other related parties include staff of the company.

a) Transaction with related parties during the year

The following transactions were carried out with related parties
During the year:

	2010 Sh'000	2009 Sh'000
Net earned premium	738,835	693,278
Net claims incurred	639,085	223,702
Interest earned on bank deposits	7,935	5,549

Transactions with related parties are in the ordinary course of business and on terms and conditions similar to those offered to other clients.

b) Outstanding balances with related parties

i) Term deposits and bank balances

	2010 Shs	2009 Shs
Fixed deposits	658,308	176,231
Cash balance	59,466	83,888
	717,774	260,119

ii) Insurance balances

	2010	2009
Premiums receivable from related parties	99,729	54,537

iii) Mortgage loans

	2010	2009
Mortgage loans	180,000	179,423
Mortgage receivable from related parties (note 17)	180,000	179,423

Mortgage loan balances and movements thereon are in respect of loans extended to the company's officers at terms prescribed in the company policy.

c) Loans to directors of the company

The company did not advance loans to its directors in 2010 (2009: Nil).

d) Key management personnel remuneration

The remuneration of directors and other members of key management during the year were as follows:

	2010 Sh'000	2009 Sh'000
Directors 'emoluments - fees	14,770	6,624
Others	36,541	22,453
Key management salaries and other short-term employment benefits	37,175	32,900
	88,486	61,977

Notes to the Financial Statements continued

For the year ended 31 December 2010

46 RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's activities expose it to a variety of financial risks, including insurance risk, financial risk, credit risk, and the effects of changes in property values, debt and equity market prices, foreign currency exchange rates and interest rates. The group's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place, which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

The disclosures below summarise the way the group manages key risks:

Insurance risk

The risk under any one insurance contract arises from 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.

Insurance risk in the group arises from:

(a) Fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations;
(b) Unexpected claims arising from a single source;
(c) Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten;
(d) Inadequate reinsurance protection or other risk transfer techniques; and
(e) Inadequate reserves

(a), (b) and (c) can be classified as the core insurance risk, (d) relates to reinsurance planning, while (e) is about reserving.

Core insurance risk

This risk is managed through:

- Diversification across a large portfolio of insurance contracts;
- Careful selection guided by a conservative underwriting philosophy;
- Continuous monitoring of the business performance per class and per client and corrective action taken as deemed appropriate;
- A minimum of one review of each policy at renewal to determine whether the risk remains within the acceptable criteria;
- Having a business acceptance criteria which is reviewed from time to time based on the experience and other developments; and
- Having a mechanism of identifying, quantifying and accumulating exposures to contain them within the set underwriting limits.

Notes to the Financial Statements continued

For the year ended 31 December 2010

46 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Insurance risk (Continued)

Reinsurance planning

Reinsurance purchases are reviewed annually to verify that the levels of protection being sought reflect developments in exposure and risk appetite of the group. The bases of these purchase is underpinned by the group's experience, financial modelling by and exposure of the reinsurance broker.

The reinsurance is placed with providers who meet the group's counter party security requirements.

Claims reserving

The group's reserving policy is guided by the prudence concept. Estimates are made of the estimated cost of settling a claim based on the best available information on registration of a claim, and this is updated as and when additional information is obtained and annual reviews done to ensure that the reserves are adequate. Management is regularly provided with claims settlement reports to inform on the reserving performance.

Life insurance contracts sensitivity analysis

The actuarial assumptions used as at 31 December 2010 are unlikely to change significantly to result in material variation in actuarial liabilities. Shown in the table below are the sensitivities of the value of insurance liabilities disclosed in this note to various changes in assumptions used in the estimation of insurance liabilities. Each value is shown with only the indicated variable being changed and holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

	Policyholder's Liabilities (Net of Reinsurance)			
	2010		2009	
	Shs'000	% change	Shs'000	% change
Main basis	977,485	-	760,948	-
Expenses plus 10%	1,043,026	6.71%	811,379	6.63%
Mortality and other claims experience plus 10%	977,609	0.01%	761,061	0.01%
Interest rate less 1%	982,516	0.51%	764,737	0.50%
Expense inflation plus 1%	1,010,644	3.39%	786,463	3.35%
Withdrawals plus 10%	977,365	-0.01%	760,855	-0.01%

The group has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed using the categories utilised in the group's ALM framework.

Notes to the Financial Statements continued

For the year ended 31 December 2010

46 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Short-term insurance contracts

The group engages in short term insurance contracts and funds the insurance liabilities with a portfolio of equity and debt securities exposed to market risk. During the year, the group increased the portion of financial assets invested in debt securities to mitigate the impact of the volatility of equity prices experienced in recent years. An analysis of the group's financial assets and its short term insurance liabilities is presented below;

General insurance business

	2010 Sh'000	2009 Sh'000
Financial assets		
Debt securities:		
Held to maturity:		
- Government bonds and treasury bills	594,814	525,381
Equity securities:		
At fair value through profit or loss:		
- Listed securities	110,097	26,508
- Unlisted securities	24,764	1,268
Loans and receivables from insurance and reinsurance contracts	717,995	477,144
Cash and cash equivalents	707,112	481,960
Total	2,154,782	1,512,261
Short – term insurance liabilities		
Insurance contracts- short term	622,462	583,573
Less assets arising from reinsurance contracts held-short term	(139,587)	(247,362)
Total	482,875	336,211
Long term insurance business		
Financial assets		
Debt securities:		
Held to maturity:		
- Government bonds and treasury bills	565,350	434,656
Equity securities:		
At fair value through profit or loss:		
- Listed securities	73,826	43,332
Loans and receivables from insurance and reinsurance contracts	96,508	73,578
Cash and cash equivalents	383,813	291,361
Total	1,119,497	842,927
Long– term insurance liabilities		
Insurance contracts- short term	243,299	287,820
Less assets arising from reinsurance contracts held-short term	(4,853)	(45,664)
Total	238,446	242,156

Notes to the Financial Statements continued

For the year ended 31 December 2010

46 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non interest bearing. However, due to the time value of money and the impact of interest rates on the level of bodily injury incurred by the group's policyholders (where a reduction of interest rate would normally produce a higher insurance liability), the group matches the cash flows of assets and liabilities in this portfolio by estimating their mean duration.

The mean duration of liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from the insurance contracts in force at the statement of financial position date (both incurred claims and future claims arising from the unexpired risks at the statement of financial position date). The mean durations are:

	2010	2009
Net short term insurance liabilities - life risk	0.2 years	0.2 years
Net short term insurance liabilities-property risk	2.0 years	2.0 years
Net short term insurance liabilities-casualty risk	5.0 years	5.0 years
Financial assets (excluding equity securities)	3.0 years	3.0 years

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the group's ALM framework for management of short term insurance contracts as of 31 December 2010:

General insurance business

	Carrying Amount 31.12.2010 Sh'000	No stated Maturity Sh'000	Contractual cash flows (undiscounted) 0-1 yr Sh'000	1-2 yrs Sh'000	2-3 yrs Sh'000	3-4 yrs Sh'000	> 5 yrs Sh'000
Financial assets							
Debt securities:							
Held to maturity:							
- Government bonds and treasury bills-fixed rate	594,814	-	19,935	75,464	16,134	35,281	448,000
- Listed securities-fixed rate	-	-	-	-	-	-	-
Equity securities:							
At fair value through profit or loss:							
- Listed securities	110,097	110,097	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	717,995	-	639,597	-	-	-	78,398
Cash and cash equivalent	707,112	-	707,112	-	-	-	-
Total	2,130,018	110,097	1,366,644	75,464	16,134	35,281	526,398
Short term insurance liabilities:							
Insurance contracts-short term	619,988	-	619,988	-	-	-	-
Payables arising from reinsurance arrangements	2,474	-	2,474	-	-	-	-
Less assets arising from reinsurance contracts	(139,587)	-	(139,587)	-	-	-	-
Total	482,875	-	482,875	-	-	-	-
Difference in contractua cash flows	1,647,143	110,097	883,769	75,464	16,134	35,281	526,398

Notes to the Financial Statements continued

For the year ended 31 December 2010

46 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the group's ALM framework for management of short-term insurance contracts as of 31 December 2009:

General insurance business	Carrying Amount 31.12.2009 Sh'000	No stated Maturity Sh'000	Contractual cash flows (undiscounted) 0-1 yr Sh'000	1-2 yrs Sh'000	2-3 yrs Sh'000	3-4 yrs Sh'000	> 5 yrs Sh'000
Financial assets							
Debt securities:							
Held to maturity:							
- Government bonds and treasury bills-fixed rate	525,381	-	-	993	19,873	75,655	428,860
- Listed securities-fixed rate							
Equity securities:							
At fair value through profit or loss:							
- Listed securities	26,508	26,508	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	477,144	-	477,144	-	-	-	-
Cash and cash equivalent	481,960	-	481,960				
Total	1,510,993	26,508	959,104	993	19,873	75,655	428,860
Short term insurance liabilities:							
Insurance contracts-short term	584,201	-	584,201	-	-	-	-
Payables arising from reinsurance arrangements	-	-	-	-	-	-	-
Less assets arising from reinsurance contracts	247,362	-	247,362	-	-	-	-
Total	336,839	-	336,839	-	-	-	-
Difference in contractual cash flows	1,174,154	26,508	622,265	993	19,873	75,655	428,860

Notes to the Financial Statements continued

For the year ended 31 December 2010

46 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the group's ALM framework for management of long-term insurance contracts as of 31 December 2010:

Life insurance business

	Carrying Amount 31.12.2010 Sh'000	No stated maturity Sh'000	Contractual cash flows (undiscounted) 0-1 yr Sh'000	1-2 yrs Sh'000	2-3 yrs Sh'000	3-4 yrs Sh'000	> 5 yrs Sh'000
Financial assets							
Debt securities:							
Held to maturity:							
- Government bonds and treasury bills-fixed rate	565,350	-	50,841	19,000	33,609	15,000	446,900
- Listed securities-fixed rate	-	-	-	-	-	-	-
Equity securities:							
At fair value through profit or loss:							
-Listed securities	73,826	73,826	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	96,508	-	96,508	-	-	-	-
Cash and cash equivalent	383,813	-	383,813	-	-	-	-
Total	1,119,497	73,826	531,162	19,000	33,609	15,000	446,900
Long- term insurance liabilities:							
Insurance contracts-Long term	243,299	-	243,299	-	-	-	-
Payables arising from reinsurance arrangements	18,668	-	18,668	-	-	-	-
Less assets arising from reinsurance contracts	(4,853)	-	(4,853)	-	-	-	-
Total	257,114	-	257,114	-	-	-	-
Difference in contractual cash flows	862,383	73,826	274,048	19,000	33,609	15,000	446,900

Notes to the Financial Statements continued

For the year ended 31 December 2010

46 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the group's ALM framework for management of short-term insurance contracts as of 31 December 2009:

	Carrying Amount 31.12.2009 Sh'000	No stated maturity Sh'000	Contractual cash flows (undiscounted) 0-1 yr Sh'000	1-2 yrs Sh'000	2-3 yrs Sh'000	3-4 yrs Sh'000	> 5 yrs Sh'000
Financial assets							
Debt securities:							
Held to maturity:							
- Government bonds and treasury bills-fixed rate	434,656	-	-	56,670	51,614	19,000	307,272
- Listed securities-fixed rate							
Equity securities:							
At fair value through profit or loss:							
- Listed securities	43,332	43,332	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	73,578	-	73,578	-	-	-	-
Cash and cash equivalent	291,361	-	291,361	-	-	-	-
Total	842,927	43,332	364,939	56,670	51,614	19,000	307,372
Long- term insurance liabilities:							
Insurance contracts-Long term	235,998	-	235,998	-	-	-	-
Payables arising from reinsurance arrangements	45,664	-	45,664	-	-	-	-
Less assets arising from reinsurance contracts	31,370	-	31,370	-	-	-	-
Total	313,032	-	313,032	-	-	-	-
Difference in contractual cash flows	529,895	43,332	51,907	56,670	51,614	19,000	307,372

Financial risk

The group is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

Notes to the Financial Statements continued

For the year ended 31 December 2010

46 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Financial risk (Continued)

(a) Market risk

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

The group's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 10 basis points in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the group's overall exposure to interest rate sensitivities included in the group's ALM framework and its impact in the group's profit or loss by business.

An increase/decrease of 5 % in interest yields would result in an increase/decrease of the profit for the year by Sh 11,768,000 (2009: sh 9,645,350).

(ii) Equity price risk

The group is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit or loss. Exposure to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the Nairobi Stock Exchange.

The group has a defined investment policy which sets limits on the group's exposure to equities both in aggregate terms and by industry. This policy of diversification is used to manage the group's price risk arising from its investments in equity securities.

Investment management meetings are held monthly. At these meetings, senior managers meet to discuss investment return and concentration of the equity investments.

Listed equity securities represent 97% (2009: 96%) of total equity investments. If equity market indices had increased/ decreased by 5%, with all other variables held constant, and all the group's equity investments moving according to the historical correlation with the index, the profit for the year would increase/ decrease by Sh 286,478 (2009: Sh 197,150).

(iii) Currency risk

Foreign currency exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The group primarily transacts in Kenya shilling and its assets and liabilities are denominated in the same currency. The group is therefore not exposed to currency risk.

Notes to the Financial Statements continued

For the year ended 31 December 2010

46 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk

The group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the group is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- amounts due from corporate bond issuers
- Cash and cash equivalents (including fixed deposits)

The group manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty and to geographical and industry segments. Such risks are subject to regular review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the group's liability as primary insurer. If a reinsurer fails to pay a claim, the group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on annual basis by reviewing their financial strength prior to finalisation of any contract.

In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. In certain circumstances, deposits from reinsurers are also held as collateral.

The table below indicates the carrying amounts of assets bearing credit risk

	2010 Sh'000	2009 Sh'000
General insurance business		
Financial assets		
Debt securities:		
Held to maturity:		
- Government bonds and treasury bills	594,814	525,381
Equity securities:		
At fair value through profit or loss:		
- Listed securities	110,097	26,508
Loans and receivables from insurance and reinsurance contracts	717,995	477,144
Cash and cash equivalents (including fixed deposits)	707,112	481,960
Total	2,130,018	1,510,993
Long term insurance business		
Financial assets		
Debt securities:		
Held to maturity:		
- Government bonds and treasury bills	565,350	434,656
Equity securities:		
At fair value through profit or loss:		
- Listed securities	73,826	43,332
Loans and receivables from insurance and reinsurance contracts	96,508	73,578
Cash and cash equivalents (including fixed deposits)	383,813	291,361
Total	1,119,497	842,927

Notes to the Financial Statements continued

For the year ended 31 December 2010

46 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The exposure to individual counterparties is also managed through other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the group. Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs.

The amount that best represents the group's maximum exposure to credit risk as at 31 December 2010 is made up as follows:

	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000
General insurance business			
Agents	161,790	14,524	5,833
Brokers	119,758	41,588	9,814
Direct	205,828	34,920	8,750
Total	487,376	91,032	24,397
Long term insurance business	91,655	-	-

The amount that best represents the group's maximum exposure to credit risk as at 31 December 2009 is made up as follows:

	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000
General insurance business			
Agents	86,972	1,991	15,947
Brokers	59,254	23,203	6,668
Direct	43,244	15,118	11,766
Total	189,470	40,312	34,381
Long term insurance business	42,208	-	-

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The debt that is overdue is not impaired and continues to be paid. The credit control department is actively following this debt. In addition, the group also owes most of the reinsurance debtors hence any default would be offset from the payables arising from reinsurance contracts.

The debt that is impaired has been fully provided for. However, debt collectors as well as management are following up on the impaired debt.

Management makes regular reviews to assess the degree of compliance with the group's procedures on credit. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the management.

Notes to the Financial Statements continued

For the year ended 31 December 2010

46 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the group is the obligation to pay claims to policyholders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

The table below provides a contractual maturity analysis of the group's financial liabilities:

General insurance business

	31 December 2010				31 December 2009			
	6 months or on demand Sh'000	Between 6 months and 1 year Sh'000	More than 1 year Sh'000	Total Sh'000	6 months or on demand Sh'000	Between 6 months and 1 year Sh'000	More than 1 1 year Sh'000	Total Sh'000
Insurance contract liabilities	619,988	-	-	619,988	584,201	-	-	584,201
Payables arising from reinsurance arrangements	2,474	-	-	2,474	17,701	-	-	17,701
Other payables	501,000	-	-	501,000	56,213	-	-	56,213

Long term insurance business

	31 December 2010				31 December 2009			
	6 months or on demand Sh'000	Between 6 months and 1 year Sh'000	More than 1 year Sh'000	Total Sh'000	6 months or on demand Sh'000	Between 6 months and 1 year Sh'000	More than 1 1 year Sh'000	Total Sh'000
Insurance contract liabilities	243,299	-	-	243,299	235,998	-	-	235,998
Payables arising from reinsurance arrangements	18,668	-	-	18,668	10,438	-	-	10,438
Other payables	383,400	-	-	417,966	154,133	-	-	154,133

Notes to the Financial Statements continued

For the year ended 31 December 2010

46 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value hierarchy

The group specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi stock exchange.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The group considers relevant and observable market prices in its valuations where possible.

The table below shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

GROUP

31 December 2010 -	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Fair value through profit or loss				
- Equity investments	183,923	-	-	183,923
- Available for sale investments	24,091	-	-	24,091
	208,014	-	-	208,014
31 December 2009				
Fair value through profit or loss				
- Equity investments	69,840	-	-	69,840

COMPANY

31 December 2010	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Fair value through profit or loss				
- Equity investments	182,494	-	-	182,494
- Available for sale investments	24,091	-	-	24,091
	206,585	-	-	206,585
31 December 2009				
Fair value through profit or loss				
- Equity investments	68,301	-	-	68,301

Notes to the Financial Statements continued

For the year ended 31 December 2010

47 CAPITAL RISK MANAGEMENT

The group maintains an efficient capital structure from a combination of equity shareholders' funds and borrowings, consistent with the group's risk profile and the regulatory and market requirements of its business.

The group's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth;
- 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; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

An important aspect of the group's overall capital management process is the setting of target risk-adjusted rate of return which is aligned to performance objectives and ensures that the group is focused on the creation of value for shareholders.

The group has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. The group considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital. The group manages as capital all items that are eligible to be treated as capital for regulatory purposes.

The group is regulated by the Kenya Insurance Regulatory Authority and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. The group manages capital in accordance with these rules and has embedded in its ALM framework the necessary tests to ensure continuous and full compliance with such regulations. The group has complied with all externally imposed capital requirements throughout the year.

The constitution of capital managed by the group is as shown below:

	2010 Sh'000	2009 Sh'000
General insurance business		
Share capital	375,194	285,630
Share premium	37,516	26,321
Funds awaiting allotment of shares	928,224	-
Fair value reserve	22,823	-
Retained earnings	412,118	222,184
Equity	1,775,875	534,135
Total borrowings	-	-
Less: cash and cash equivalents	707,112	481,960
Net debt	-	-
Gearing	-	-

Notes to the Financial Statements continued

For the year ended 31 December 2010

47 CAPITAL RISK MANAGEMENT (Continued)

Long term insurance business

	2010 Sh'000	2009 Sh'000
Share capital	236,119	142,350
Share premium	13,225	1,491
Statutory reserve	542,541	277,109
Funds awaiting allotment	4,235	-
Revaluation surplus	35,621	35,023
Equity	831,841	455,973
Total borrowings	-	-
Less: cash and cash equivalents	383,813	291,361
Net debt	-	-
Gearing	-	-

The subsidiary CIC Asset Management Limited is regulated by the Capital Markets Authority which prescribes a minimum share capital of Sh 10 Million. The working capital shall not fall below 20% of the minimum required share capital or three times minimum monthly operating costs, whichever is higher.

The subsidiary met the minimum capital requirement as detailed below:

	2010 Sh	2009 Sh
Minimum capital requirement	10,000,000	10,000,000
Capital held at 31 December:		
Share capital	11,000,000	11,000,000
Revenue reserve	1,431,101	858,344
	12,431,101	11,858,344
Working capital:		
Net working capital	11,022,011	10,051,579
20% of the minimum share capital	2,000,000	2,000,000

The capital structure of the subsidiary consists of, issued share capital and revenue reserves. The net working capital is above 20% of the minimum share capital. The subsidiary had no external financing at 31 December 2010 and 31 December 2009.

48 INCORPORATION

The company is incorporated in Kenya under the companies Act and is domiciled in Kenya.

49 CURRENCY

The financial statements are presented in Kenya shillings thousands (Sh '000').

Company Statement of Comprehensive Income

APPENDIX I

For the year ended 31 December 2010

	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2010 Sh'000	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2009 Sh'000
Gross earned premiums	2,312,972	1,595,094	3,908,066	1,538,565	1,221,620	2,760,185
Less:						
Reinsurance premiums ceded	(277,431)	(80,869)	(358,300)	(219,271)	(78,673)	(297,944)
Net earned premiums	2,035,541	1,514,225	3,549,766	1,319,294	1,142,947	2,462,241
Commissions earned	64,044	-	64,044	57,926	-	57,926
Investment income	120,071	114,315	234,386	90,108	88,223	178,331
Other gains and losses	63,866	29,694	93,560	3,019	18,711	21,730
	247,981	144,009	391,990	151,053	106,934	257,987
Total income	2,283,522	1,658,234	3,941,756	1,470,347	1,249,881	2,720,228
Claims and policyholders benefits payable	(1,167,000)	(840,214)	(2,007,214)	(807,851)	(680,616)	(1,488,467)
Commissions payable	(248,875)	(53,213)	(302,088)	(153,518)	(61,128)	(214,646)
Operating and other expenses	(520,372)	(507,607)	(1,027,979)	(378,216)	(362,164)	(740,380)
	(1,936,247)	(1,401,034)	(3,337,281)	(1,339,585)	(1,103,908)	(2,443,493)
Profit before taxation	347,275	257,200	604,475	130,762	145,973	276,735
Transfer from general business	(70,000)	70,000	-	-	-	-
Total profit before taxation	277,275	327,200	604,475	130,762	145,973	276,735
Taxation charge	(94,617)	(23,944)	(118,561)	(31,803)	(9,696)	(41,499)
Profit for the year	182,658	303,256	485,914	98,959	136,277	235,236
OTHER COMPREHENSIVE INCOME						
Surplus on revaluation of buildings	-	2,774	2,774	-	3,646	3,646
Fair value gains on available for sale investments	22,823	-	22,823	-	-	-
Reversal of deferred tax on revaluation	-	-	-	-	5,899	5,899
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX	22,823	2,774	25,597	-	9,545	9,545
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	205,481	306,030	511,511	98,959	145,822	244,781

Long Term Business Revenue Account

APPENDIX II

For the year ended 31 December 2010

	Ordinary life Sh '000	Group life Sh '000	Total 2010 Sh '000	Total 2009 Sh '000
Gross premium written	188,593	1,406,501	1,595,094	1,221,620
Less: Reinsurance payable	-	(80,869)	(80,869)	(78,673)
Net premium income	188,593	1,325,632	1,514,225	1,142,947
Policyholders' benefits:				
Life and health claims	1,671	635,344	637,015	482,151
Maturities	78,668	-	78,668	22,713
Surrenders	4,815	-	4,815	1,911
Actuarial adjustment of policy holders liability	(31,869)	151,585	119,716	173,841
Net policyholders' benefits	53,285	786,929	840,214	680,616
Commissions paid	28,631	23,513	52,144	61,128
Expenses of management	66,747	440,860	507,607	359,776
Premium tax	1,069	-	1,069	2,388
Total expenses and commissions	96,447	464,373	560,820	423,292
Investment income	31,186	112,823	144,009	106,934
Increase in life fund before tax	70,047	187,153	257,200	145,973
Transfer from general business	70,000	-	70,000	-
Total increase in life fund before taxation	140,047	187,153	327,200	145,973
Tax charge	-	23,944	23,944	9,696
Increase in life fund after tax	140,047	163,209	233,256	136,277
Increase in life fund for the year	140,047	163,209	303,256	136,277

The revenue account was approved by the board of directors on 7 March 2011 and was signed on its behalf by:

J A Magomere (Chairman)

N C Kuria (Principal Officer)

J N Njoroge (Director)

General Business Revenue Account

For the year ended 31 December 2010

APPENDIX III

	C.A.R & Engin-eering Shs.'000	Fire Domestic Shs.'000	Fire Industrial Shs.'000	Liability Insurance Shs.'000	Marine & Transit Shs.'000	Motor Private Shs.'000	Motor Comm-ercial Shs.'000	Motor Pool Shs.'000	Medical Insurance Shs.'000	Personal Accident Shs.'000	Theft Insurance Shs.'000	Workmen's Compen-sation Shs.'000	Misc. Accident Shs.'000	Micro Solutions Shs.'000	Total 2010 Shs.'000	Total 2009 Shs.'000
Gross premium written	45,350	57,976	187,276	9,408	1,919	1,009,669	921,770	-	175,801	143,973	281,555	101,134	24,974	404	2,961,208	1,652,979
Unearned premium b/f	6,194	18,099	21,235	2,726	182	205,442	219,696	-	19,099	22,177	58,934	22,768	1,036	-	597,587	483,174
Unearned premium c/f	(9,046)	(19,468)	(53,413)	(3,857)	(268)	(488,828)	(450,116)	-	(50,010)	(41,576)	(80,556)	(43,086)	(5,599)	-	(1,245,823)	-597,588
Gross earned premium	42,497	56,607	155,098	8,277	1,833	726,284	691,349	-	144,890	124,575	259,933	80,815	20,410	404	2,312,972	1,538,565
Reinsurance premium	(24,613)	(3,676)	(84,375)	(329)	(1,153)	(31,103)	(28,395)	-	(55,298)	(23,164)	(8,103)	(3,115)	(12,801)	(1,305)	(277,431)	-219,271
Net Earned Premium	17,884	52,931	70,722	7,949	680	695,181	662,954	-	89,592	101,411	251,830	77,699	7,609	(901)	2,035,541	1,319,294
Gross claims Paid	3,407	20,123	15,017	5,241	6	584,405	302,729	-	61,783	35,535	83,228	16,576	3,163	-	1,131,213	756,598
Outstanding claims c/f	1,650	3,463	15,754	28,602	23	241,816	182,352	2,092	13,596	21,990	70,428	33,425	4,797	-	619,988	584,200
Outstanding claims b/f	(1,855)	(3,836)	(7,166)	(29,877)	(35)	(231,811)	(173,823)	(2,092)	(9,027)	(15,325)	(73,258)	(31,981)	(4,115)	-	(584,201)	-532,947
Net claims incurred	3,203	19,751	23,604	3,966	(6)	594,410	311,258	-	66,351	42,200	80,397	18,019	3,844	-	1,167,000	807,851
Commission receivable	(8,668)	(645)	(35,587)	-	(313)	-	-	-	(15,364)	(120)	(267)	-	(3,080)	-	(64,044)	-57,926
Commissions payable	9,057	7,383	25,040	1,431	418	64,796	67,070	-	4,887	20,441	33,456	13,635	1,188	74	248,875	153,518
Net commission	389	6,737	(10,547)	1,431	105	64,796	67,070	-	(10,477)	20,321	33,189	13,635	(1,892)	74	184,831	95,592
Management Expenses	6,991	8,938	28,870	1,450	296	167,991	153,867	-	35,354	22,195	43,404	15,591	3,850	62	488,859	350,894
Premium Tax	483	617	1,993	100	20	10,745	9,809	-	1,871	1,532	2,996	1,076	266	4	31,513	27,322
Total	7,474	9,554	30,863	1,550	316	178,735	163,677	-	37,225	23,727	46,400	16,667	4,116	67	520,372	378,216
Total claims expenses and commissions	11,066	36,043	43,920	6,948	415	837,941	542,005	-	93,100	86,248	159,987	48,321	6,069	141	1,872,202	1,281,659
Underwriting (loss)/profit	6,818	16,889	26,802	1,001	265	(142,760)	120,949	-	(3,508)	15,163	91,844	29,379	1,541	(1,041)	163,339	37,635

The revenue account was approved by the board of directors on 7 March 2011 and was signed on its behalf by:

J A Magomere (Chairman)

N C Kuria (Principal Officer)

J N Njoroge (Director)

Administration

SENIOR MANAGEMENT

Nelson Chege Kuria	Group Chief Executive Officer	BA Economics
Peter Mutarura Mwaura	General Manager - Finance & Investments	BSc International Business Administration,
	Diploma In Co-op Management	
David Kipruto Ronoh	General Manager - Life & Pensions Business	MSc Population Studies, BEd Statistics, Post Graudate Diploma in Actuarial Science
Kenneth Muthemba Kimani	General Manger - General Business	MBA, BSc Business Adminstration, ACII
Jonah Kiprotich Tomno	General Manager - Marketing	MBA, BCom, ACII Diploma
Henry Njerenga Njeru	Assistant General Manager - Town Office	Advanced Diploma in Business Management
Richard Nyakenogo Manyura	Assistant General Manager- Co-ops & Branches	MBA, BCom, Diploma In Co-op Management
Milka Njoki Kinyua	Assistant General Manager - General Business	MBA, BEd Arts, ACII Diploma
Jackson Kionga Kamau	Assistant General Manger- Life & Pensions	BB Administration, ACII
Albert Wambugu Njoki	Human Resources Manager	BA Management, Diploma HR Management
Mary Noel Akinyi Wanga	Company Secretary/ Chief Legal Officer	LLB, CPS (K), Diploma in Law
Muyesu Kago Luvai	Chief Internal Officer	BCom Marketing, CPA (K)

HEADS OF DEPARTMENTS

Stanley Kitur Kipkirui	Head of ICT	MBA, BCom Accounting, Post Graduate Diploma Comptuer Science
Steve G Ochieng	Claims Manager - Life Business	Diploma Co-op Management
Jones Micah Otwori	Operations Manager - Group Life Business	MBA, BA Econ, ACII Diploma
Dickson Ireri Njuki	Claims Manager - General Business	MBA, BCom, LIK Diploma
Edel Njeri Marambu	Business Development Manager - General Business	BCom, ACII Diploma
Jane Wanjiru Gitau	Business Development Manager - Group Life & Medical	BA Econ, ACII Diploma
Stanley Mutuku Mutua	Unit Trust Manager	BA Business Administration - Marketing
Meshack Miyogo Sospeter	Business Development Manager - Alternative Channels	BEd Economics & Business
Michael Mwangi Mugo	Corporate Affairs & Communications Manager	BA - Ed, Co-op Management
Florence Waithira Kimani	Head Of General Business Systems- ICT	BCom Management Science, Diploma Computer Studies
Robert Mutua Makaa	Head of Business Intelligence - ICT	Higher Diploma- Computer Studies
Ephram Lumbasio Gallo	Senior Relationship Manager - Co-operative Business	Dip - Social Development
Joram Nyachwaya Ochieng'i	Business Development Manager- Religious/Educational Organizations	BCom Insurance
Joseph Mbagu Gatiko	Chief Accountant - General Business	BEd Science, CPA(K)
Tyrus Mwangi Maina Kanja	Chief Accountant - Life	BA - International Business Administration, CPA (K)
Abnery Mathias Madara	Manager- Medical Business	BA, Diploma in Business Administration
Benjamin Muendo Mwangangi	Underwriting Manager- General Business	MBA, BCom Insurance, ACII

SALES/AREA MANAGERS

Stephen Muchire	National Sales Manager - Individual Life	MBA, BEd, Diploma in Marketing, Co-op
Alex Mahugu	Sales Manager - Microinsurance	BA. Econ
Samuel Ronoh	Area Manager - Rift Valley	BA. Econ
Peter Gitonga	Area Manager- Coast	BCom Insurance, ACII
Zachary Wambugu	Area Manager- Central	BCom Insurance
John Kirera	Area Manager- Eastern	BA, Co-op
R. Nyamombi	Area Manager- Nyanza & Western	BEd Economics, Co-op
Harreate Wanjiru Mejah	Area Manager- Kiambu & Thika	BB Administration

Corporate Information

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CONSULTING ACTUARIES
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P O box 10472 0100
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BRANCH NETWORK
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Mezzanine Floor
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Notes