

**FIRST ASSURANCE COMPANY
LIMITED**

REPORTS AND FINANCIAL STATEMENTS

31 DECEMBER 2010

FIRST ASSURANCE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

CONTENTS	PAGE
Corporate information	2 - 3
Report of the directors	4
Statement of directors' responsibilities	5
Report of the consulting actuary	6
Independent auditors' report	7 - 8
Consolidated statement of comprehensive income	9 - 10
Consolidated statement of financial position	11
Company statement of financial position	12
Consolidated statement of changes in equity	13
Company statement of changes in equity	14
Consolidated statement of cash flows	15
Notes to the financial statements	16 - 63
Company statement of comprehensive income	Appendix 1
Consolidated general business revenue account	Appendix 2
Company general business revenue account	Appendix 3

FIRST ASSURANCE COMPANY LIMITED

CORPORATE INFORMATION

DIRECTORS	M H Da Gama Rose S M Githiga I A Timamy A H Butt A S Ndope A Walmsley	- Chairman - Managing
COMPANY SECRETARY	I A Timamy Kituo House Dedan Kimathi Avenue Opposite law courts P O Box 87288 - 80100 Mombasa	
REGISTERED OFFICE	First Assurance House Clyde Gardens Off Gitanga Road Lavington P O Box 30064 - 00100 Nairobi	
SENIOR MANAGEMENT	S M Githiga Maryanne W Mugo Moses N Gatundu Winnie W Nganga Paul J Okina Dennis O Adem Patrick M Luka Nelson Chege John M Ndegwa Janerose Gitonga Clement Kodhek Ruth Awinja	- Managing Director - General Manager - Finance Manager - Underwriting Manager - Reinsurance Manager - Information Technology Manager - Branch Manager Mombasa - Marketing Manager - Life Manager - Claims Manager - Branch Manager Kisumu - Deputy Medical Manager
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P O Box 40092 - 00100 Nairobi	
PRINCIPAL LEGAL ADVISORS	Shapley Barret & Co Advocates Prudential Assurance Building Wabera Street P O Box 40286 - 00100 GPO Nairobi Timamy & Co Advocates Kituo House Dedan Kimathi Avenue Opposite law courts P O Box 87288 Mombasa	

FIRST ASSURANCE COMPANY LIMITED

CORPORATE INFORMATION (Continued)

PRINCIPAL BANKERS

Commercial Bank Of Africa Limited
Wabera Street Branch
P O Box 30437 - 00100
Nairobi

Commercial Bank Of Africa Limited
P O Box 90681 - 80100
Mombasa

Equatorial Commercial Bank Limited
P O Box 52467 - 00200
Nairobi

Standard Chartered Bank Kenya Limited
Yaya Centre Branch
P O Box 76165 - 00508
Nairobi

Standard Chartered Bank Kenya Limited
Kenyatta Avenue Branch
P O Box 30001 - 00100
Nairobi

CONSULTING ACTUARIES

QED Actuaries and consultants (Pty) Limited
The Place, 1 Sandton Drive,
Sandhurst, Sandton,
Gauteng, 2196
South Africa

P O Box 413313
Craighall
2024
South Africa

FIRST ASSURANCE COMPANY LIMITED

REPORT OF THE 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 company underwrites all classes of non-life and group life insurance risks as defined by the Kenyan Insurance Act.

RESULTS	General business Shs'000	Life business Shs'000	Total Shs'000
Profit before taxation	220,479	20,148	240,627
Taxation charge	(32,887)	-	(32,887)
	<hr/>	<hr/>	<hr/>
Profit for the year	187,592	20,148	207,740
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Equity holders of the parent	191,622	20,148	211,770
Non-controlling interest	(4,030)	-	(4,030)
	<hr/>	<hr/>	<hr/>
	187,592	20,148	207,740
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

DIVIDENDS

No interim dividend (2009; Shs 15,000,000) was paid during the year. The directors recommend a final dividend of Shs 30,000,000 (2009: Shs15,000,000).

DIRECTORS

The current members of the board are shown on page 2.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with Section 159(2) of the Companies Act.

BY ORDER OF THE BOARD

SECRETARY

2011

Nairobi

FIRST ASSURANCE COMPANY LIMITED

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 and fair presentation of these financial statements 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.

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.

Director

Director

2011

FIRST ASSURANCE COMPANY LIMITED

REPORT OF THE CONSULTING ACTUARY

I have conducted an actuarial valuation of the life assurance business of First Assurance Company Limited as at 31 December 2010.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act. Those principles require prudent provision for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

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

In my opinion, the life assurance 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 life assurance business at 31 December 2010.

Name of Actuary

.....

Signed

.....

.....2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FIRST ASSURANCE COMPANY LIMITED

Report on the financial statements

We have audited the accompanying financial statements of First Assurance Company Limited and its subsidiary, set out on pages 9 to 63 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 TO THE MEMBERS OF
FIRST ASSURANCE COMPANY LIMITED (Continued)**

Report on Other Legal Requirements

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

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion, proper books of account have been kept by the 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.

Certified Public Accountants (Kenya)

2011

Nairobi

FIRST ASSURANCE COMPANY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	General insurance business Shs'000	Life assurance business Shs'000	Total 2010 Shs'000	General insurance business Shs'000	Life assurance business Shs'000	Total 2009 Shs'000
Gross written premiums		2,154,540	78,863	2,233,403	1,647,090	98,761	1,745,851
Gross earned premiums	5	1,907,826	78,863	1,986,689	1,520,624	98,761	1,619,385
Less: reinsurance premiums ceded		(552,864)	(71,976)	(624,840)	(481,622)	(88,644)	(570,266)
Net earned premiums		1,354,962	6,887	1,361,849	1,039,002	10,117	1,049,119
Commissions earned		167,777	10,796	178,573	170,271	13,297	183,568
Investment income	6	80,188	12,046	92,234	91,215	7,616	98,831
Other income	7	-	-	-	36	-	36
Foreign exchange gains/(losses)		1,996	-	1,996	(876)	-	(876)
Net fair value gains/(losses) on financial assets at fair value through profit or loss	8	48,221	6,034	54,255	(8,195)	(487)	(8,682)
Fair value gains on investment property	17	45,505	-	45,505	31,863	-	31,863
Total income		1,698,649	35,763	1,734,412	1,323,316	30,543	1,353,859
Gross claims incurred	9	1,216,585	57,031	1,273,616	908,732	55,857	964,589
Less recoverable from reinsurers		(258,653)	(51,845)	(310,498)	(183,924)	(49,238)	(233,162)
Net claims incurred	9	957,932	5,186	963,118	724,808	6,619	731,427
Commissions payable		265,423	5,288	270,711	213,299	8,070	221,369
Operating and other expenses	10	254,815	5,141	259,956	224,439	5,174	229,613
Total expenses		1,478,170	15,615	1,493,785	1,162,546	19,863	1,182,409
Profit before taxation		220,479	20,148	240,627	160,770	10,680	171,450
Taxation (charge)/credit	12	(32,887)	-	(32,887)	(50,471)	28	(50,443)
Profit for the year	13	187,592	20,148	207,740	110,299	10,708	121,007
Other comprehensive income:							
Surplus on revaluation of freehold land (Deficit)/surplus on revaluation of leasehold buildings	14	20,000	-	20,000	20,000	-	20,000
Tax relating to components of other comprehensive income	38	863	-	863	(750)	-	(750)
Exchange difference on translation of foreign operation	37	-	-	37	-	-	-
Other comprehensive income for the year net of tax		18,024	-	18,024	21,750	-	21,750
Total comprehensive income for the year		205,616	20,148	225,764	132,049	10,708	142,757

FIRST ASSURANCE COMPANY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

	Notes	General insurance business Shs'000	Life assurance business Shs'000	Total 2010 Shs'000	General insurance business Shs'000	Life assurance business Shs'000	Total 2009 Shs'000
Profit attributable to:							
Equity holders of the parent		191,622	20,148	211,770	110,299	10,708	121,007
Non-controlling interest	35	(4,030)	-	(4,030)	-	-	-
		187,592	20,148	207,740	110,299	10,708	121,007
Total comprehensive income attributable to:							
Equity holders of the parent		209,628	20,148	229,776	110,299	10,708	121,007
Non-controlling interest		(4,012)	-	(4,012)	-	-	-
		205,616	20,148	225,764	110,299	10,708	121,007

FIRST ASSURANCE COMPANY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010

	Notes	General insurance business Shs'000	Life assurance business Shs'000	Total 2010 Shs'000	General insurance business Shs'000	Life assurance business Shs'000	Total 2009 Shs'000
ASSETS							
Property and equipment	14	149,430	112	149,542	121,845	69	121,914
Prepaid operating lease rentals	15	2,417	-	2,417	2,417	-	2,417
Intangible assets	16	13,560	962	14,522	1,931	1,594	3,525
Investment property	17	365,000	-	365,000	565,210	-	565,210
Deferred taxation	38	3,227	-	3,227	-	-	-
Retirement benefit asset	18	31,646	-	31,646	33,937	-	33,937
Equity investments at fair value through profit or loss	20(a)	149,867	20,040	169,907	114,849	10,440	125,289
Equity investments available for sale	20(b)	3,457	-	3,457	-	-	-
Deferred acquisition costs	21	153,100	-	153,100	102,710	-	102,710
Kenya Motor Insurance Pool	22	22,997	-	22,997	29,641	-	29,641
Receivables arising out of reinsurance arrangements		97,479	-	97,479	74,240	-	74,240
Receivables arising out of direct insurance arrangements		266,729	18,348	285,077	203,136	2,725	205,861
Reinsurers' share of insurance liabilities	23	477,336	91,887	569,223	413,142	91,609	504,751
Other receivables	24	297,899	9	297,908	21,810	599	22,409
Taxation recoverable	12(c)	10,489	-	10,489	5,187	-	5,187
Corporate bonds held to maturity	26	48,549	-	48,549	48,549	-	48,549
Government securities held to maturity	27	227,853	75,835	303,688	169,585	39,665	209,250
Deposits with financial institutions	28	667,997	99,781	767,778	564,375	51,827	616,202
Cash and bank balances		46,429	6,199	52,628	18,099	20,281	38,380
Total assets		3,035,461	313,173	3,348,634	2,490,663	218,809	2,709,472
EQUITY							
Share capital	30	300,000	150,000	450,000	300,000	60,000	360,000
Revaluation surplus	31	73,806	-	73,806	55,947	-	55,947
Statutory reserve	32	-	25,309	25,309	-	5,161	5,161
Retained earnings	33	261,601	-	261,601	129,851	-	129,851
Translation reserve		19	-	19	-	-	-
Total equity		635,426	175,309	810,735	485,798	65,161	550,959
Non-controlling interest	35	18,431	-	18,431	-	-	-
Total equity		653,857	175,309	829,166	485,798	65,161	550,959
LIABILITIES							
Insurance contract liabilities	36	977,872	101,269	1,079,141	796,824	103,258	900,082
Unearned premium provision	37	1,053,478	-	1,053,478	776,790	-	776,790
Deferred taxation	38	9,532	-	9,532	10,914	-	10,914
Payables arising from reinsurance arrangements		167,515	32,310	199,825	171,715	44,314	216,029
Other payables	39	173,207	4,285	177,492	248,622	6,076	254,698
Total liabilities		2,381,604	137,864	2,519,468	2,004,865	153,648	2,158,513
Total equity and liabilities		3,035,461	313,173	3,348,634	2,490,663	218,809	2,709,472

The financial statements on pages 9 to 63 were approved and authorised for issue by the Board of Directors on 2011 and signed on its behalf by:

Director

Director

Principal Officer

FIRST ASSURANCE COMPANY LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010

	Notes	General insurance business Shs'000	Life assurance business Shs'000	Total 2010 Shs'000	General insurance business Shs'000	Life assurance business Shs'000	Total 2009 Shs'000
ASSETS							
Property and equipment	14	143,376	112	143,488	121,845	69	121,914
Prepaid operating lease rentals	15	2,417	-	2,417	2,417	-	2,417
Intangible assets	16	6,678	962	7,640	1,931	1,594	3,525
Investment property	17	365,000	-	365,000	565,210	-	565,210
Retirement benefit asset	18	31,646	-	31,646	33,937	-	33,937
Investment in subsidiary	19	31,571	-	31,571	-	-	-
Equity investments at fair value through profit or loss	20(a)	149,867	20,040	169,907	114,849	10,440	125,289
Deferred acquisition costs	21	149,315	-	149,315	102,710	-	102,710
Kenya Motor Insurance Pool	22	22,997	-	22,997	29,641	-	29,641
Receivables arising out of reinsurance arrangements		90,333	-	90,333	74,240	-	74,240
Receivables arising out of direct insurance arrangements		255,333	18,348	273,681	203,136	2,725	205,861
Reinsurers' share of insurance liabilities	23	446,829	91,887	538,716	413,142	91,609	504,751
Other receivables	24	295,530	9	295,539	21,810	599	22,409
Due from related parties	25	8,806	-	8,806	-	-	-
Taxation recoverable	12(c)	10,444	-	10,444	5,187	-	5,187
Corporate bonds held to maturity	26	48,549	-	48,549	48,549	-	48,549
Government securities held to maturity	27	195,725	75,835	271,560	169,585	39,665	209,250
Deposits with financial institutions	28	660,224	99,781	760,005	564,375	51,827	616,202
Cash and bank balances		24,214	6,199	30,413	18,099	20,281	38,380
Total assets		<u>2,938,854</u>	<u>313,173</u>	<u>3,252,027</u>	<u>2,490,663</u>	<u>218,809</u>	<u>2,709,472</u>
EQUITY							
Share capital	30	300,000	150,000	450,000	300,000	60,000	360,000
Revaluation surplus	31	73,806	-	73,806	55,947	-	55,947
Statutory reserve	32	-	25,309	25,309	-	5,161	5,161
Retained earnings	33	266,055	-	266,055	129,851	-	129,851
Total equity		<u>639,861</u>	<u>175,309</u>	<u>815,170</u>	<u>485,798</u>	<u>65,161</u>	<u>550,959</u>
LIABILITIES							
Insurance contract liabilities	36	966,963	101,269	1,068,232	796,824	103,258	900,082
Unearned premium provision	37	1,008,298	-	1,008,298	776,790	-	776,790
Deferred taxation	38	9,532	-	9,532	10,914	-	10,914
Payables arising from reinsurance arrangements		143,598	32,210	175,908	171,715	44,314	216,029
Other payables	39	170,602	4,285	174,887	248,622	6,076	254,698
Total liabilities		<u>2,298,993</u>	<u>137,864</u>	<u>2,436,857</u>	<u>2,004,865</u>	<u>153,648</u>	<u>2,158,513</u>
Total equity and liabilities		<u>2,938,854</u>	<u>313,173</u>	<u>3,252,027</u>	<u>2,490,663</u>	<u>218,809</u>	<u>2,709,472</u>

The financial statements on pages 9 to 63 were approved and authorised for issue by the Board of Directors on 2011 and signed on its behalf by:

Director

Director

Principal Officer

FIRST ASSURANCE COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital Shs'000	Revaluation surplus Shs'000	Statutory reserve Shs'000	Retained earnings Shs'000	Translation reserve Shs'000	Attributable to equity holders of the parent Shs'000	Non- controlling interest Shs'000	Total Shs'000
At 1 January 2009	300,000	34,197	(5,547)	102,052	-	430,702	-	430,702
Issue of shares (Note 30)	60,000	-	-	(60,000)	-	(60,000)	-	-
Dividends								
- 2008 final dividend declared	-	-	-	(7,500)	-	(7,500)	-	(7,500)
- 2009 interim dividend declared	-	-	-	(15,000)	-	(15,000)	-	(15,000)
Profit for the year	-	-	10,708	110,299	-	121,007	-	121,007
Other comprehensive income	-	21,750	-	-	-	21,750	-	21,750
Total comprehensive income for the year	-	21,750	10,708	110,299	-	142,757	-	142,757
At 31 December 2009	360,000	55,947	5,161	129,851	-	550,959	-	550,959
At 1 January 2010	360,000	55,947	5,161	129,851	-	550,959	-	550,959
Issue of shares (Note 30)	90,000	-	-	(45,000)	-	(45,000)	-	45,000
Issue of shares to non-controlling interest (Note 35)	-	-	-	-	-	-	22,443	22,443
Dividends								
- 2009 final dividend declared	-	-	-	(15,000)	-	(15,000)	-	(15,000)
Transfer of excess depreciation	-	(183)	-	183	-	-	-	-
Deferred tax on transfer of excess depreciation	-	55	-	(55)	-	-	-	-
Profit for the year	-	-	20,148	191,622	-	211,770	(4,030)	207,740
Other comprehensive income	-	17,987	-	-	19	17,987	18	18,024
Total comprehensive income for the year	-	17,987	20,148	191,622	19	229,757	(4,012)	225,764
At 31 December 2010	450,000	73,806	25,309	261,601	19	810,735	18,431	829,166

FIRST ASSURANCE COMPANY LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital Shs'000	Revaluation surplus Shs'000	Statutory reserve Shs'000	Retained earnings Shs'000	Total Shs'000
At 1 January 2009	300,000	34,197	(5,547)	102,052	430,702
Issue of shares (Note 30)	60,000	-	-	(60,000)	-
Dividends					
- 2008 final dividend declared	-	-	-	(7,500)	(7,500)
- 2009 interim dividend declared	-	-	-	(15,000)	(15,000)
Profit for the year	-	-	10,708	110,299	121,007
Other comprehensive income	-	21,750	-	-	21,750
Total comprehensive income for the year	-	21,750	10,708	110,299	142,757
At 31 December 2009	360,000	55,947	5,161	129,851	550,959
At 1 January 2010	360,000	55,947	5,161	129,851	550,959
Issue of shares (Note 30)	90,000	-	-	(45,000)	45,000
Dividends					
- 2009 final dividend declared	-	-	-	(15,000)	(15,000)
Transfer of excess depreciation	-	(183)	-	183	-
Deferred tax on transfer of excess depreciation	-	55	-	(55)	-
Profit for the year	-	-	20,148	196,076	216,224
Other comprehensive income	-	17,987	-	-	17,987
Total comprehensive income for the year	-	17,987	20,148	196,076	234,211
At 31 December 2010	450,000	73,806	25,309	266,055	815,170

FIRST ASSURANCE COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 Shs'000	2009 Shs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (used in)/generated from operations	40(a)	(60,084)	415,953
Taxation paid	12(c)	(41,949)	(79,019)
		<hr/>	<hr/>
Net cash (used in)/generated from operating activities		(102,033)	336,934
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	14	(25,665)	(1,728)
Purchase of intangible assets	16	(7,109)	-
Purchase of investment property	17	(120,285)	(278,347)
Purchase of quoted equity investments	20(a)	(43,593)	(2,453)
Purchase of unquoted equity investments	20(b)	(3,457)	-
Purchase of corporate bonds	26	-	(48,549)
Purchase of government securities	27	(160,967)	-
Disposals/maturities of government securities	27	66,529	4,609
Receipt from /(payment to) Kenya Motor Insurance Pool		6,644	(338)
Proceeds from disposal of property and equipment		-	36
Proceeds from sale of investment property		366,000	-
Proceeds from disposal of equity investments		53,229	7,496
Dividends received		4,433	5,483
Interest received		79,655	76,831
		<hr/>	<hr/>
Net cash generated from/(used in) investing activities		215,414	(236,960)
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares	30	45,000	-
Dividends paid	34	(15,000)	(22,500)
Issue of shares to non-controlling interest	35	22,443	-
		<hr/>	<hr/>
Net cash generated from/(used in) financing activities		52,443	(22,500)
		<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS		165,824	77,474
CASH AND CASH EQUIVALENTS AT 1 JANUARY		654,582	577,108
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	40(b)	820,406	654,582
		<hr/> <hr/>	<hr/> <hr/>

FIRST ASSURANCE COMPANY LIMITED

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)

(a) Relevant new and revised IFRS affecting presentation and disclosures in the current year (and /or prior years)

The following new and revised IFRSs have been applied in the current period and have affected the amounts reported in these financial statements.

- 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)

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 group'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 group has not previously issued instruments of this nature.

(b) Relevant new and revised IFRSs and interpretations in issue but not yet effective

Amendments and revised standards

- 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).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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

(b) *Relevant new and revised IFRSs and interpretations in issue but not yet effective (Continued)*

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. The group will apply this amendment prospectively. The directors, however, anticipate no material impact to the group's financial statements.

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 group will apply this amendment prospectively. The directors, however, anticipate no material impact to the group's financial statements.

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.

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.

1 ACCOUNTING POLICIES (Continued)

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

(b) Relevant new and revised IFRSs and interpretations in issue but not yet effective (Continued)

Impact of the relevant new and revised IFRSs in issue but not yet effective (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. In the current year, in accounting for the acquisition of First Assurance Tanzania Limited, the group has elected to measure the non-controlling interests at fair value at the date of acquisition. 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').

1 ACCOUNTING POLICIES (Continued)

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

(b) Relevant new and revised IFRSs and interpretations in issue but not yet effective (Continued)

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

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.

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.

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.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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

(c) Early adoption of standards

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

Basis of accounting

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain property and equipment, and the carrying value of investment property, available-for-sale investments at fair value and impaired assets at their recoverable amounts.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Investment in subsidiary company

The investment in subsidiary company is stated at cost less accumulated impairment losses where applicable.

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.

Total comprehensive income of subsidiaries is attributed to the owners of the company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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 First Assurance Tanzania Limited, details of which are disclosed in note 15, made up to 31 December.

The results of the dormant subsidiary company, First Assurance Properties Limited, have not been consolidated as in the directors' opinion, the consolidation of this subsidiary would be of no real value to the members in view of the immateriality of the amounts involved given that the investment is fully impaired.

Insurance Contracts

The group issues insurance contracts which are classified in to two main categories

i) Long term insurance business

Under this classification, the group offers group life contracts.

ii) Short term insurance business

This refers to insurance business other than long term business. The classes of general insurance business offered by the group are Engineering, Fire Domestic, Fire Industrial, Liability, Marine, Motor Private, Motor Commercial, Personal accident, Theft, Workmen's compensation and Employer's Liability, Medical Insurance and Miscellaneous.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Income recognition

Premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations/lapses 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 1/24th method on written premiums less reinsurance commissions and other acquisition costs.

Premiums on long term insurance contracts are recognised as revenue/income when they are received from the policyholders/contract holder. Premiums are shown before deduction of commission.

Interest income is recognised on a time proportion basis that takes into account the effective 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.

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.

Results of the company's share of the two Kenya Motor Insurance Pools are accounted for in profit or loss in accordance with the Pool's accounting year which runs from October of the previous year to September of the current year. As a result, the Pool's results for the 4th quarter of the group's accounting year are accounted for in the subsequent year.

Commissions payable and deferred policy acquisition costs

A proportion of commissions payable is deferred and amortised over the period in which the related premiums are earned. Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the year end. The deferred policy acquisition costs are subsequently amortised over the life of the contracts. All other costs are recognised as expenses when incurred.

Claims incurred

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the end of each 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 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 minimal percentage set by the Commissioner of Insurance. Outstanding claims are not discounted.

Non life insurance contract liabilities

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the end of each reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims and therefore the ultimate cost of this category of claims cannot be known with certainty at the end of each reporting period. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract at which time it is recognised as premium income.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Reinsurance

The group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as income in the same manner as they would be if the reinsurance were considered direct business. Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated statement of comprehensive income and statement of financial position as appropriate.

Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the group will receive from the reinsurer. The impairment loss is recognised in profit or loss.

Ceded reinsurance arrangements do not relieve the group from its obligations to policyholders. The group also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recognised in profit or loss.

Kenya Motor Insurance Pool

This represents the group's share of the surplus of the pool.

Foreign currencies

In preparing the financial statements of individual entities in the group, transactions in foreign currencies during the year are recorded 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 at rates ruling at that date. The resulting differences are dealt with in profit or loss in the year in which they arise.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Kenya shillings, which is the functional currency of the company and the presentation currency for the consolidated financial statements.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated to Kenya shillings using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in other comprehensive income and accumulated in equity under the groups' currency translation reserve. Such differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Property and equipment

All property and equipment are initially recorded at cost. Buildings are subsequently carried at their revalued amounts based on valuations by external independent valuers, less accumulated depreciation. All other property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Any revaluation increase arising on the revaluation of such buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation

Freehold land is not depreciated. Depreciation is calculated on other property and equipment on the straight line basis to write down the cost of each asset, or the revalued amount to its residual value over its estimated useful life, using the following annual rates:

Motor vehicles	20%
Computer equipment	30%
Furniture, fittings and equipment	20%
Buildings	2.0%

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

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 surplus relating to that asset are transferred to retained earnings.

Investment properties

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined annually by external independent valuers. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Investment properties are not subject to depreciation. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise, net of deferred tax.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets represents computer software. These are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives, not exceeding a period of three years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial instruments

A financial asset or liability is recognised when the group becomes party to the contractual provisions of the instrument.

Financial assets

Classification

The group classifies its financial assets 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. The classification adopted for a particular financial asset depends on the purpose for which the asset was acquired. Management determines the classification of its financial asset at initial recognition and re-evaluates this at every reporting date.

i) Financial assets at fair value through profit or loss ("FVTPL")

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 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. Investments in shares of other enterprises that give the group a residual interest in the assets of that enterprise after deducting all of its liabilities are classified as equity instruments. Investments in equity instruments quoted on the Nairobi Stock Exchange or other equity markets are stated at market values ruling as at the year-end and are classified as held for trading. Their fair value is calculated by reference to the stock exchange quoted bid prices at the close of business on the end of each reporting period. Gains or losses on revaluation of equity instruments are dealt with in profit or loss.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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. Fixed deposits and commercial paper are classified as originated loans. These are carried at amortised cost (i.e. cost plus accrued income), using the effective yield method.

iii) Held-to-maturity financial assets

Securities issued by the Government of Kenya are classified as held to maturity. Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs, other than for an insignificant amount of held-to-maturity financial asset, the entire category would be reclassified as available-for-sale.

iv) Available-for-sale financial assets

This classification represents financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held-to-maturity.

The fair value gains/(losses) of amortised costs investments and originated loans are credited/(debited) to profit or loss.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Recognition of financial assets

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

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 investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of “financial assets at fair value through profit or loss” are dealt with in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

Financial liabilities

Financial liabilities are classified as other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The group derecognises financial liabilities when, and only when, the group’s obligations are discharged, cancelled or they expire.

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.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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 to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the term of the lease.

The group as lessor

Rental income from operating leases is recognised on the straight-line basis over the term of the relevant lease.

The group as lessee

Rentals payable under operating leases are charged to income on the straight-line basis over the term of the relevant lease.

Taxation

Income tax expense represents the sum of the current tax payable 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 unused tax credits can be utilised.

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.

Contingency reserve

According to the Tanzania Insurance Act, a contingency reserve is required to be maintained. This reserve shall not be less than three percent of the net premium written or twenty percent of the net profit for the year whichever is the greater. The reserve shall accumulate until it reaches the minimum paid up capital or fifty percent of the net premiums, whichever is the greater.

Currency translation reserve

For consolidation purposes, the statement of financial position of the subsidiary, First Assurance Tanzania Limited, is translated into Kenya Shillings at year end rate of exchange, while the statement of comprehensive income is translated into Kenya Shillings at the average rate of exchange for the year. The resulting translation differences are taken to other comprehensive income and accumulated in equity under the group's currency translation reserve.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Revaluation surplus

The revaluation surplus represents the surplus on the revaluation of buildings and freehold land (included within property and equipment), net of deferred tax.

Any revaluation increase arising on the revaluation of such land and buildings is credited to other comprehensive income and accumulated in the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Movements in the revaluation reserve are shown in the statement of changes in equity.

Impairment of assets

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 and the impairment loss is recognised in profit or 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.

Retirement benefit obligations

The group operates a defined benefit pension scheme for its employees. The scheme is administered independently by Pacific Insurance Brokers Limited and is funded by contributions from both company and employees at rates that are determined triennially by certified actuaries. Currently, the employer contributes 5% while the employee contributes 5% of the employee's basic pay to the scheme. The scheme's funds are managed by Genesis Kenya Investment Management Limited.

The scheme is subjected to valuations by independent actuaries once every three years to fulfil the requirements under the scheme rules and the requirements of the Income Tax (Retirement Benefits) Rules 1994 and the Retirement Benefits Act 1997. The actuarial valuation method adopted entails the comparison of the value of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members.

The group also contributes to the statutory defined contribution pension schemes, the National Social Security Fund (NSSF) in Kenya and Tanzania. Contributions to these schemes are determined by local statute and are currently limited to Sh 200 per employee per month in Kenya and 10% of the gross pay of each employee per month in Tanzania.

The group's obligations to retirement benefits schemes are charged to profit or loss as they fall due.

Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared.

Comparatives

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

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

In the process of applying the entity'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 entity'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 company'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.

Held -to-maturity financial assets

The group follows the guidance of IAS 39 on 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 assets. The assets would therefore be measured at fair value not amortised cost.

Impairment losses

At each statement of financial position date, 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.

Receivables

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

Property, plant and equipment

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The group's activities expose it to a variety of financial and insurance risks. 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 group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. It manages these positions with an Asset Liability Management (ALM) framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The group produces regular reports at portfolio and asset and liability class level that are circulated to the group's key management personnel. The principal technique of the group's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. The group's ALM is also integrated with the management of the financial risks associated with the group's other financial assets and liabilities not directly associated with insurance and investment liabilities (in particular, borrowings and investments in foreign operations). The investment committee of the board is responsible for managing the investments of the group. It meets regularly and reports quarterly to the board. The group does not use hedge accounting.

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.

(i) 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.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(i) Insurance risk

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.

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 contracts liabilities. Each value is shown with only the indicated variable being changed while 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	
	Kshs'000	% change	Kshs'000	% change
Main Basis	5,337	-	6,212	-
Expenses plus 10%	5,534	4%	6,359	2%
Mortality and other claims experience plus 10%	5,955	12%	6,885	11%
Interest rate less 1%	5,337	0%	6,212	0%
Expense inflation plus 1%	5,337	0%	6,212	0%
Withdrawals plus 10%	5,337	0%	6,212	0%
	=====	=====	=====	=====

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

Insurance contracts

The group engages in short term and long term insurance contracts and funds the insurance liabilities with a portfolio of investments in equity and debt securities exposed to market risk. An analysis of the group's financial assets and its insurance liabilities is presented below;

	GROUP		COMPANY	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Financial assets				
Debt securities: - held to maturity:				
- Government bonds and treasury bills	303,688	209,250	271,560	209,250
- Corporate bonds	48,549	48,549	48,549	48,549
Equity securities - at fair value through profit or loss:				
- Listed securities	169,907	125,289	169,907	125,289
- Unlisted securities	3,457	-	-	-
Loans receivable	20,858	16,366	20,496	16,366
Receivables arising from direct insurance arrangements	285,077	205,861	273,681	205,861
Receivables arising from reinsurance arrangements	97,479	74,240	90,333	74,240
Cash and cash equivalents	820,406	654,582	790,418	654,582
	<hr/>	<hr/>	<hr/>	<hr/>
Total	1,749,421	1,334,137	1,664,944	1,334,137
	<hr/>	<hr/>	<hr/>	<hr/>
Short – term insurance liabilities				
Insurance contracts- short term	1,079,812	900,082	1,069,117	900,082
Payables arising from reinsurance arrangements	199,825	216,029	175,908	216,029
Less assets arising from reinsurance contracts (held-short term)	(281,245)	(241,512)	(276,992)	(241,512)
	<hr/>	<hr/>	<hr/>	<hr/>
Total	998,392	874,599	968,033	874,599
	<hr/>	<hr/>	<hr/>	<hr/>

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 end of each reporting period (both incurred claims and future claims arising from the unexpired risks at the end of each reporting period). 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	2.0 years	5.0 years
Financial assets (excluding equity securities)	3.0 years	3.0 years
	<hr/>	<hr/>

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (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 2010:

GROUP	Carrying	No	Contractual cash flows (undiscounted)				
	Amount 31.12.2010 Shs'000	stated maturity Shs'000	0-1 yr Shs'000	1-2 yrs Shs'000	2-3 yrs Shs'000	3-4 yrs Shs'000	> 5 yrs Shs'000
Financial assets							
Debt securities -held to maturity:							
- Government bonds and treasury bills-fixed rate	303,688	-	47,324	15,072	40,590	4,133	196,569
Corporate bonds	48,549	-	-	-	-	-	48,549
-Listed securities - fixed rate							
Equity securities - at fair value through profit or loss:							
-Listed securities	169,907	169,907	-	-	-	-	-
-unlisted securities	3,457	3,457	-	-	-	-	-
Loans receivable	20,858	-	6,589	8,782	3,092	1,754	641
Receivables from insurance contracts	285,077	-	285,077				
Receivables from reinsurance contracts	97,479	-	97,479				
Cash and cash equivalent	820,406	-	820,406	-	-	-	-
Total	1,749,421	173,364	1,256,875	23,854	43,682	5,887	245,759
Short term insurance liabilities:							
Insurance contracts-short term	1,079,812	-	751,577	193,831	85,109	31,602	17,694
Payables arising from reinsurance arrangements	199,825	-	199,825	-	-	-	-
Less assets arising from reinsurance contracts	(281,245)	-	(208,413)	(42,519)	(26,698)	(3,250)	(366)
Total	998,392	-	742,989	151,312	58,411	28,352	17,328
Difference in contractual cash flows	751,029	173,364	513,886	(127,458)	(14,729)	(22,465)	228,431

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

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

COMPANY	Carrying	No stated maturity	Contractual cash flows (undiscounted)				
	Amount 31.12.2010 Shs'000		0-1 yr Shs'000	1-2 yrs Shs'000	2-3 yrs Shs'000	3-4 yrs Shs'000	> 5 yrs Shs'000
Financial assets							
Debt securities -held to maturity:							
-Government bonds and treasury bills-fixed rate	271,560	-	15,196	15,072	40,590	4,133	196,569
-corporate bonds	48,549	-	-	-	-	-	48,549
Equity securities - at fair value through profit or loss:							
-Listed securities	169,907	169,907	-	-	-	-	-
Loans receivable	20,496	-	6,227	8,782	3,092	1,754	641
Receivables from insurance contracts	273,681	-	273,681				
Receivables from reinsurance contracts	90,333	-	90,333				
Cash and cash equivalent	790,418	-	790,418	-	-	-	-
Total	1,664,944	169,907	1,175,855	23,854	43,682	5,887	245,759
Short term insurance liabilities:							
Insurance contracts-short term	1,069,117	-	746,229	188,483	85,109	31,602	17,694
Payables arising from reinsurance arrangements	175,908	-	175,908	-	-	-	-
Less assets arising from reinsurance contracts	(276,992)	-	(206,286)	(40,392)	(26,698)	(3,250)	(366)
Total	968,033	-	715,851	148,091	58,411	28,352	17,328
Difference in contractual cash flows	696,911	169,907	460,004	(124,237)	(14,729)	(22,465)	228,431

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (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:

GROUP AND COMPANY	Carrying	No	Contractual cash flows (undiscounted)				
	Amount	stated	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	> 5 yrs
	31.12.2009	maturity	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
	Shs'000	Shs'000					
Financial assets							
Debt securities:							
Held to maturity:							
-Government bonds and treasury bills-fixed rate	209,250	-	72,144	14,991	15,032	39,383	67,700
Corporate Bonds	48,549	-					48,549
-Listed securities-fixed rate		-					
Equity securities:							
At fair value through profit or loss:							
-Listed securities	125,289	125,289	-	-	-	-	-
Loans receivable	16,366	-	6,719	4,009	2,385	1,924	1,329
Receivables from insurance contracts	205,861	-	205,861	-	-	-	-
Receivables from reinsurance contracts	74,240	-	74,240	-	-	-	-
Cash and cash equivalent	654,442	-	654,442	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	1,333,997	125,289	1,013,406	19,000	17,417	41,307	117,578
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Short term insurance liabilities:							
Insurance contracts-short term	900,082	-	626,084	157,108	67,462	32,252	17,176
Payables arising from reinsurance arrangements	216,029	-	216,029	-	-	-	-
Less assets arising from reinsurance contracts	(241,512)	-	(187,603)	(30,878)	(17,203)	(5,106)	(722)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	874,599	-	654,510	126,230	50,259	27,146	16,454
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Difference in contractual cash flows	459,398	125,289	358,896	(107,230)	(32,842)	14,161	101,124
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(ii) 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.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risks, equity price risk and foreign exchange currency risk. The sensitivity analyses below are based on a change in one assumption while holding all other assumptions constant:

(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.

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 5 percentage 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.

A 5% increase/decrease in interest yields would result in additional profit/loss for the period of Sh 2,489,022 (2009: Sh 2,492,569).

(ii) Equity price risk

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

The group is exposed to equity securities price risk as a result of its holdings in equity investments which are listed and traded on the Nairobi and Dar-es-Salaam Stock Exchanges and which are classified as held for trading. Exposure to equity price risk in aggregate is monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes.

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 regularly. At these meetings, the investment committee meets to discuss investment return and concentration of the equity investments.

Listed equity securities represent 4.6% (2009:6.6 %) of total assets. 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 6,264,435 (2009: Sh 6,950,700).

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(a) Market risk (Continued)

(iii) Foreign exchange currency risk

Foreign exchange currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The group's financial assets are primarily denominated in the same currencies as its insurance contract liabilities, which mitigate the foreign currency exchange rate risk. The currency risk is also effectively managed by ensuring that the transactions between the group and other parties are designated in the functional currencies of the individual group companies.

(b) 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.

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

	GROUP		COMPANY	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Financial assets				
Debt securities - held to maturity:				
- Government bonds and treasury bills	303,688	209,250	271,560	209,250
- Corporate bonds	48,549	48,549	48,549	48,549
Equity securities:				
- Listed securities	169,907	125,289	169,907	125,289
- unquoted shares available for sale	3,457	-	-	-
Loans receivable	20,858	16,366	20,496	16,366
Reinsurers share of insurance liabilities	569,223	504,751	538,716	504,751
Receivables arising from direct insurance arrangements	285,077	205,861	273,681	205,861
Receivables arising from reinsurance arrangements	97,479	74,240	90,333	74,240
Cash and cash equivalents (including fixed deposits)	820,406	654,442	790,418	654,442
Total	2,318,644	1,838,748	2,203,660	1,838,748

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(b) Credit risk (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.

Classification of credit risk bearing assets

The table below represents the maximum credit risk exposure to the group as at 31 December 2010 and 2009, on receivables from reinsurance arrangements after taking into account credit enhancements attached.

	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
31 December 2010				
Receivables from reinsurance contracts				
Neither past due nor impaired	11,180	-	11,180	11%
Past due but not impaired	86,299	-	86,299	89%
Impaired	19,725	(19,725)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	117,204	(19,725)	97,479	100%
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
31 December 2009				
Receivables from reinsurance contracts				
Neither past due nor impaired	5,579	-	5,579	8%
Past due but not impaired	68,661	-	68,661	92%
Impaired	18,389	(18,389)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	92,629	(18,389)	74,240	100%
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Movements on the provision for impairment of receivable arising from reinsurance arrangements are as follows:

	2010 Shs'000	2009 Shs'000
As 1 January	18,389	12,119
Provision for the year	1,336	6,270
	<hr/>	<hr/>
A 31 December	19,725	18,389
	<hr/> <hr/>	<hr/> <hr/>

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

Classification of credit risk bearing assets

The table below represents the maximum credit risk exposure to the group as at 31 December 2010 and 2009, on amounts due from direct reinsurance arrangements after taking into account credit enhancements attached.

	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
31 December 2010				
Receivables from direct insurance				
Neither past due nor impaired	168,224	-	168,224	59%
Past due but not impaired	116,853	-	116,853	41%
Impaired	67,805	(67,805)	-	-
	<u>352,882</u>	<u>(67,805)</u>	<u>285,077</u>	<u>100%</u>
31 December 2009				
Receivables from direct insurance				
Neither past due nor impaired	139,078	-	139,078	68%
Past due but not impaired	66,783	-	66,783	32%
Impaired	58,416	(58,416)	-	-
	<u>264,277</u>	<u>(58,416)</u>	<u>205,861</u>	<u>100%</u>

Movements on the provision for impairment of receivable arising from direct insurance are as follows

	2010 Shs'000	2009 Shs'000
As 1 January	58,416	53,805
Provision for the year	9,389	4,611
	<u>67,805</u>	<u>58,416</u>
At 31 December	<u>67,805</u>	<u>58,416</u>

The provision for impairment can be further analysed as follows:

	2010 Shs'000	2009 Shs'000
Brokers	40,686	33,735
Agents	10,786	10,846
Direct clients	16,333	13,835
	<u>67,805</u>	<u>58,416</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(b) Credit risk (Continued)

The debtors 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 relates to balances over 120 days old and continues to be paid. The management is actively following this debt. In addition, the group also has balances owing to 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 management is 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.

(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.

(d) 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.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(d) Fair value hierarchy (Continued)

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

GROUP AND COMPANY	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2010				
Fair value through profit or loss				
- Equity instruments	169,907	-	-	169,907
	=====	=====	=====	=====
31 December 2009				
Fair value through profit or loss				
- Equity instruments	125,289	-	-	125,289
	=====	=====	=====	=====

4 CAPITAL RISK MANAGEMENT

The group maintains an efficient capital structure which consists of shareholders' funds comprising share capital, revaluation surplus and retained earnings as disclosed in the statement of changes in equity on pages 13 and 14, consistent with the group's risk profile and the regulatory and market requirements of its business. The group did not have any borrowings for the two years ended 31 December 2010 and 31 December 2009.

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.

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 operations of the group are also subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

The group has met all of these requirements throughout the financial year.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 CAPITAL RISK MANAGEMENT (Continued)

The Kenyan and Tanzania Insurance Acts require each insurance company to hold the minimum level of paid up capital as follows:

	Kenya Ksh'000	Tanzania Ksh'000
Composite insurance companies	450,000	N/A
General insurance companies	300,000	58,600
Long-term insurance companies	150,000	58,600
	=====	=====

Both companies are in compliance with the capital requirements as at 31 December 2010.

5 GROSS EARNED PREMIUMS

The group is organised into two main divisions, general insurance and life assurance. Life assurance business relates to the underwriting of risks relating to death of an insured person, and includes contracts subject to the payment of premiums for a term dependent on the termination or continuance of the life of an insured person. General insurance business relates to all other categories of short term insurance business written by the company, analysed into several sub-classes of business based on the nature of the assumed risks.

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

	2010 Shs'000	2009 Shs'000
General insurance business		
Motor	955,461	717,484
Fire	250,862	215,732
Personal accident	88,751	78,645
Theft	86,487	74,528
Workmen's compensation	156,158	122,940
Marine	73,680	65,609
Medical	77,077	56,450
Other	219,350	189,236
	-----	-----
	1,907,826	1,520,624
	-----	-----
Group life business		
Superannuation	78,863	98,761
	-----	-----
	1,986,689	1,619,385
	=====	=====

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2010 Shs'000	2009 Shs'000
6	INVESTMENT INCOME	
	General insurance business-	
	Interest from government securities	21,767
	Interest on deposits with financial institutions	20,074
	Rental income from investment properties	38,904
	Dividends receivable from equity investments	8,146
	Interest on corporate bonds	4,011
	Loan interest receivable	5,076
	1,468	1,023
	1,468	1,437
	80,188	91,215
	Group life business	
	Interest from government securities	6,310
	Interest on deposits with financial institutions	3,282
	Dividends receivable from equity investments	5,314
	422	3,927
	422	407
	12,046	7,616
	92,234	98,831
	=====	=====
	Investment income earned on financial assets, analysed by category of asset is as follows:	
	Held to maturity investments	33,969
	Loans and receivables	24,379
	Fair value through profit or loss investments	45,686
	4,433	5,483
	84,088	82,314
	8,146	16,517
	92,234	98,831
	=====	=====
	Investment income relating to financial assets classified as at fair value through profit or loss is included in note 8.	
7	OTHER INCOME	
	Gains on disposal of property and equipment	-
	-	36
	=====	=====
8	FAIR VALUE GAINS/(LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	
	Fair value gains/(losses) on equity investments (Note 20(a))	54,225
	54,225	(8,682)
	=====	=====

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 6 above and impairment losses recognised in respect of premium receivable (see note 10).

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 CLAIMS AND POLICYHOLDER BENEFITS PAYABLE

(i) Short term business	2010		2009	
	Shs'000		Shs'000	
	Gross	Net	Gross	Net
Claims payable by principal class of business:				
Motor	697,442	686,208	529,985	515,535
Fire	102,691	25,715	29,424	17,539
Workmen's compensation	93,512	93,609	58,287	58,278
Marine	52,266	26,966	65,106	30,017
Engineering	91,323	20,248	17,499	5,080
Other	179,351	105,186	208,431	98,359
	<hr/>	<hr/>	<hr/>	<hr/>
	1,216,585	957,932	908,732	724,808
	<hr/>	<hr/>	<hr/>	<hr/>
(ii) Group life business				
Insurance contracts with fixed and guaranteed terms:				
Death, maturity and surrender benefits	57,031	5,186	55,857	6,619
	<hr/>	<hr/>	<hr/>	<hr/>
Total claims	1,273,616	963,118	964,589	731,427
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

10 OPERATING AND OTHER EXPENSES	2010	2009
	Shs'000	Shs'000
Staff costs (Note 11)	115,583	98,401
Auditors' remuneration	2,520	1,300
Depreciation – Property and equipment (Note 14)	8,082	5,612
Amortisation (Note 16)	3,135	3,372
Impairment charge for doubtful receivables:		
- premium debtors	6,406	4,611
- amounts due from reinsurers	1,337	6,269
Repairs, maintenance and vehicle expenses	4,400	3,381
Premium levy, reinsurance levy and policyholders compensation fund	26,319	23,727
Marketing, telephone, and rental expenses	9,337	11,827
Travelling	9,102	3,953
Advertising	11,855	7,592
Stationery	8,976	10,745
Medical administration expenses	5,035	19,835
Others	47,869	28,988
	<hr/>	<hr/>
	259,956	229,613
	<hr/> <hr/>	<hr/> <hr/>

11 STAFF COSTS	2010	2009
Salaries and wages	109,237	91,004
Social security benefit costs	284	177
Staff medical costs	3,771	5,241
Retirement benefit charge (Note 18)	2,291	1,979
	<hr/>	<hr/>
	115,583	98,401
	<hr/> <hr/>	<hr/> <hr/>

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2010 Shs'000	2009 Shs'000
12 TAXATION		
(a) Taxation charge:		
Current year charge	36,647	42,813
Prior year over provision	-	(180)
	<u>36,647</u>	<u>42,633</u>
Deferred tax (credit)/charge (Note 38):		
- Current year credit	(3,760)	(2,372)
- Prior year under provision	-	10,182
	<u>(3,760)</u>	<u>7,810</u>
	<u>32,887</u>	<u>50,443</u>
	=====	=====

(b) The group's income tax charge is computed in accordance with income tax rules applicable to a composite Kenyan insurance business and general insurance business in Tanzania. A reconciliation of taxation expense to expected tax based on accounting profit is shown below:

Accounting profit before taxation – general business	220,479	160,770
Accounting profit before taxation – long term business	20,148	10,680
	<u>240,627</u>	<u>171,450</u>
	=====	=====
Tax at the applicable rate of 30%	72,188	51,435
Tax effect of income not subject to tax	(41,371)	(14,289)
Tax effect of expenses not deductible for tax	2,070	3,295
Prior year current tax over provision	-	(180)
Prior year deferred tax under provision	-	10,182
	<u>32,887</u>	<u>50,443</u>
	=====	=====

(c) Taxation (recoverable)/payable	GROUP		COMPANY	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
At 1 January	(5,187)	31,199	(5,187)	31,199
Current tax charge for the year (Note 12 (a))	36,647	42,633	36,647	42,633
Paid in the year	(41,949)	(79,019)	(41,904)	(79,019)
	<u>(10,489)</u>	<u>(5,187)</u>	<u>(10,444)</u>	<u>(5,187)</u>
	=====	=====	=====	=====

13 PROFIT FOR THE YEAR

Profit for the year of Sh 216,224,000 (2009 –Sh 121,007,000) has been dealt with in the books of the company, First Assurance Company Limited.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 PROPERTY AND EQUIPMENT – GROUP

	Buildings and freehold land Shs'000	Motor vehicles Shs'000	Computers Shs'000	Furniture, fittings & equipment Shs'000	Total Shs'000
Cost/valuation					
At 1 January 2009	89,500	8,942	18,523	22,933	139,898
Additions	-	-	1,069	659	1,728
Disposals	-	-	(5,822)	-	(5,822)
Revaluation	22,500	-	-	-	22,500
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	112,000	8,942	13,770	23,592	158,304
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Comprising:					
Cost	46,182	8,942	13,770	23,592	92,486
Valuation - 2009	65,818	-	-	-	65,818
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	112,000	8,942	13,770	23,592	158,304
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2010	112,000	8,942	13,770	23,592	158,304
Additions	3,976	1,692	7,546	5,397	18,612
Revaluation	16,024	-	-	-	16,024
Exchange difference on translation	-	(8)	(6)	(15)	(29)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2010	132,000	10,626	21,310	28,975	192,911
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Comprising:					
Cost	50,158	10,626	21,310	28,975	111,069
Valuation - 2010	81,842	-	-	-	81,842
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	132,000	10,626	21,310	28,975	192,911
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At 1 January 2009	-	3,200	15,963	17,437	36,600
Charge for the year	-	1,763	1,642	2,207	5,612
Eliminated on disposal	-	-	(5,822)	-	(5,822)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	-	4,963	11,783	19,644	36,390
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2010	-	4,963	11,783	19,644	36,390
Charge for the year	1,100	1,694	2,711	2,577	8,082
Witten back on revaluation	(1,100)	-	-	-	(1,100)
Exchange difference on translation	-	-	-	(3)	(3)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2010	-	6,657	14,494	22,218	43,369
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 December 2010	132,000	3,969	6,816	6,757	149,542
	=====	=====	=====	=====	=====
At 31 December 2009	112,000	3,979	1,987	3,948	121,914
	=====	=====	=====	=====	=====

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 PROPERTY AND EQUIPMENT - COMPANY

	Buildings and freehold land Shs'000	Motor vehicles Shs'000	Computers Shs'000	Furniture, fittings & equipment Shs'000	Total Shs'000
Cost/valuation					
At 1 January 2009	89,500	8,942	18,523	22,933	139,898
Additions	-	-	1,069	659	1,728
Disposals	-	-	(5,822)	-	(5,822)
Revaluation	22,500	-	-	-	22,500
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	112,000	8,942	13,770	23,592	158,304
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Comprising:					
Cost	46,182	8,942	13,770	23,592	92,486
Valuation - 2009	65,818	-	-	-	65,818
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	112,000	8,942	13,770	23,592	158,304
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2010	112,000	8,942	13,770	23,592	158,304
Additions	3,976	-	6,113	1,665	11,754
Revaluation	16,024	-	-	-	16,024
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2010	132,000	8,942	19,883	25,256	186,082
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Comprising:					
Cost	50,158	8,942	19,883	25,226	102,240
Valuation - 2010	81,842	-	-	-	81,842
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	132,000	8,942	19,883	25,256	186,082
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At 1 January 2009	-	3,200	15,963	17,437	52,295
Charge for the year	-	1,763	1,642	2,207	8,984
Eliminated on disposal	-	-	(5,822)	-	(5,822)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	-	4,963	11,783	19,644	36,390
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2010	-	4,963	11,783	19,644	36,390
Charge for the year	1,100	1,580	2,599	2,025	7,304
Written back on revaluation	(1,100)	-	-	-	(1,100)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2010	-	6,543	14,382	21,669	42,594
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 December 2010	132,000	2,399	5,501	3,588	143,488
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	112,000	3,979	1,987	3,948	121,914
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	GROUP		COMPANY	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
16 INTANGIBLE ASSETS				
Cost				
At 1 January	22,592	22,592	22,592	22,592
Additions	14,162	-	7,053	-
Translation adjustment	(30)	-	-	-
	—	—	—	—
At 31 December	36,724	22,592	29,645	22,592
	—	—	—	—
Amortisation				
At 1 January	19,067	15,695	19,067	15,695
Additions	3,135	3,372	2,938	3,372
Translation adjustment	-	-	-	-
	—	—	—	—
At 31 December	22,202	19,067	22,005	19,067
	—	—	—	—
Net book value				
At 31 December	14,522	3,525	7,640	3,525
	=====	=====	=====	=====
	==			

Intangible assets relate to computer software used by the group.

	GROUP		COMPANY	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
17 INVESTMENT PROPERTY AT FAIR VALUE THROUGH PROFIT OR LOSS				
At 1 January	565,210	255,000	565,210	255,000
Additions	120,285	278,347	120,285	278,347
Fair value gains	45,505	31,863	45,505	31,863
Disposals	(366,000)	-	(366,000)	-
	—	—	—	—
At 31 December	365,000	565,210	365,000	565,210
	=====	=====	=====	=====

Investment property is carried at valuation and was last revalued on 31 December 2010, by Legend Valuers Limited, independent valuers, on basis of the market value for existing use. The next valuation is due to be carried out on 31 December 2011.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 RETIREMENT BENEFIT ASSET

	GROUP		COMPANY	
	2010	2009	2010	2009
	Shs'000	Shs'000	Shs'000	Shs'000
Present value of funded obligations	(98,307)	(84,940)	(98,307)	(84,940)
Fair value of scheme assets	140,373	108,346	140,373	108,346
	-----	-----	-----	-----
Present value of over funded obligation	42,066	23,406	42,066	23,406
Unrecognised gain/(loss)	(10,420)	10,531	(10,420)	10,531
	-----	-----	-----	-----
Asset recognised in the statement of financial position	31,646	33,937	31,646	33,937
	=====	=====	=====	=====

The amounts recognised in profit or loss are as follows:

Current service cost	4,988	4,246	4,988	4,246
Interest cost	7,866	6,330	7,866	6,330
Expected return on scheme assets	(9,746)	(8,802)	(9,746)	(8,802)
Prior year under provision	(817)	205	(817)	205
	-----	-----	-----	-----
Net debit for the year included to staff costs (Note 11)	2,291	1,979	2,291	1,979
	=====	=====	=====	=====

Movement in the asset recognised in the statement of financial position:

At 1 January	33,937	35,916	33,937	35,916
Charge to profit or loss as above	(2,291)	(1,979)	(2,291)	(1,979)
	-----	-----	-----	-----
At 31 December	31,646	33,937	31,646	33,937
	=====	=====	=====	=====

The scheme is subjected to valuations by independent actuaries once every three years to fulfill the requirements under the scheme rules and the requirements of the Income Tax (Retirement Benefits) Rules 1994 and the Retirement Benefits Act 1997.

For purposed of reporting in the sponsors financial statements, a valuation was carried out by Alexander Forbes Financial Services (EA) Limited as at 31 December 2010 and revealed that the fund had a surplus of Sh 31,646,000. The actuarial valuation method adopted entails the comparison of the value of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members.

The principal actuarial assumptions used were as follows:

	%	%	%	%
Discount rate	9	9	9	9
Expected return on scheme assets	9	9	9	9
Future salary increases	7	7	7	7
	=====	=====	=====	=====

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 INVESTMENT IN SUBSIDIARIES – COMPANY

AT COST:	Beneficial ownership	Country of incorporation	2010 Sh'000	2009 Sh'000
First Assurance Tanzania Limited	52.5%	Tanzania	31,571	-
First Assurance Properties Limited	100.0%	Kenya	-	-
			31,571	-
			31,571	-

The principal activity of First Assurance Tanzania Limited is the transaction of general insurance business. First Assurance Properties Limited is dormant and fully impaired.

	GROUP		COMPANY	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
20 EQUITY INVESTMENTS				
(a) Quoted investments				
- at fair value through profit or loss:				
At 1 January	125,289	139,014	125,289	139,014
Additions	43,593	2,453	43,593	2,453
Disposals	(53,229)	(7,496)	(53,229)	(7,496)
Fair value gains/(losses)	54,254	(8,682)	54,254	(8,682)
	169,907	125,289	169,907	125,289
	169,907	125,289	169,907	125,289
(b) Unquoted investments:				
- available for sale:				
At 1 January	-	-	-	-
Additions	3,457	-	-	-
	3,457	-	-	-
	3,457	-	-	-
21 DEFERRED ACQUISITION COSTS				
At 1 January	102,710	89,977	102,710	89,977
Net increase during the year	50,390	12,733	46,605	12,733
	153,100	102,710	149,315	102,710
	153,100	102,710	149,315	102,710

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset. All other costs are recognised as expenses when incurred. The deferred policy acquisition costs are subsequently amortised over the life of the contracts.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 KENYA MOTOR INSURANCE POOL

This represents the group's share of the net assets of the pool. This investment is recoverable from the pool through a share of investment income generated by the pool's investments annually.

	GROUP		COMPANY	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
23 REINSURERS' SHARE OF INSURANCE LIABILITIES				
General Business reinsurers' share of:				
- unearned premiums (Note 37)	287,978	263,239	261,724	263,239
- notified claims outstanding (Note 36)	189,358	149,903	185,105	149,903
	<u>477,336</u>	<u>413,142</u>	<u>446,829</u>	<u>413,142</u>
Group life business reinsurers' share of:				
- notified death claims payable	39,586	39,298	39,586	39,298
- actuarial value of insurance contract liabilities	52,301	52,311	52,301	52,311
	<u>91,887</u>	<u>91,609</u>	<u>91,887</u>	<u>91,609</u>
(Note 36)				
	<u>569,223</u>	<u>504,751</u>	<u>538,716</u>	<u>504,751</u>
24 OTHER RECEIVABLES				
Staff receivables	20,858	16,366	20,496	16,366
Prepayments	11,757	3,523	10,596	3,523
Other receivables	265,293	2,520	264,447	2,520
	<u>297,908</u>	<u>22,409</u>	<u>295,539</u>	<u>22,409</u>
25 DUE FROM RELATED PARTIES				
First Assurance Tanzania Limited	-	-	8,806	-
26 CORPORATE BONDS HELD TO MATURITY				
(a) Corporate bonds maturing:				
After 5 years	48,549	48,549	48,549	48,549
(b) Movement in corporate bonds can be summarised as follows:				
At 1 January and 31 December	48,549	48,549	48,549	48,549

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	GROUP		COMPANY	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
27	GOVERNMENT SECURITIES - HELD TO MATURITY			
(a)	Treasury bills and bonds maturing:			
	Within 90 days	26,957	-	-
	After 90 days but within 1 year	20,367	67,306	15,196
	In 1-5 years	59,795	74,243	59,795
	After 5 years	196,569	67,701	196,603
		<u>303,688</u>	<u>209,250</u>	<u>271,560</u>
		=====	=====	=====
(b)	Movement in government securities can be summarised as follows:			
	At 1 January	209,250	223,772	209,250
	Additions	160,967	100,630	128,839
	Disposals- Maturities	(66,529)	(115,152)	(66,529)
		<u>303,688</u>	<u>209,250</u>	<u>271,560</u>
		=====	=====	=====

Treasury bonds amounting to Shs 148,000,000 are held under lien in favour of the Commissioner of Insurance in accordance with Section 32 of the Kenyan Insurance Act.

	GROUP		COMPANY	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
28	DEPOSITS WITH FINANCIAL INSTITUTIONS			
	Deposits maturing:			
	Within 90 days	767,778	616,202	760,005
		<u>767,778</u>	<u>616,202</u>	<u>760,005</u>
		=====	=====	=====

29 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

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

	GROUP		COMPANY	
	2010 %	2009 %	2010 %	2009 %
Government securities	9.49	11.50	9.76	11.50
Deposits with financial institutions	6.76	9.13	6.76	9.13
Corporate bonds	12.50	12.50	12.50	12.50
	<u>9.49</u>	<u>11.50</u>	<u>9.76</u>	<u>11.50</u>
	=====	=====	=====	=====

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

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 SHARE CAPITAL

	2010 Shs'000	2009 Shs'000
Authorised share capital:		
25,000,000 (2009 - 25,000,000) ordinary shares of Shs 20	500,000	500,000
Issued and fully paid:		
18,000,000 (2009 - 15,000,000) ordinary shares of Shs 20	450,000	360,000

By a resolution passed at an extraordinary general meeting held on 2 June 2010, it was resolved that the company's issued capital was be increased to Shs 450,000,000 through the capitalization of Shs 45,000,000 from retained earning where one bonus share was issued from every eight held. A further Shs 45,000,000 was raised in cash from the shareholders. As a result, a total of 4,500,000 ordinary shares with a par value of Shs 20 were issued. All issued shares are fully paid up.

	2010 Number of shares	2010 Shs'000	2009 Number of shares	2009 Shs'000
At 1 January	18,000,000	360,000	15,000,000	300,000
Issue of shares	2,250,000	45,000	-	-
Bonus issue of shares	2,250,000	45,000	3,000,000	60,000
At 31 December	22,500,000	450,000	18,000,000	360,000

31 REVALUATION SURPLUS

The revaluation reserve solely represents the surpluses on the revaluation of buildings and freehold land (included within property and equipment), net of deferred tax.

32 STATUTORY RESERVE

The statutory reserve relates to the surplus on the life assurance business which is not distributable as dividends as per the requirements of the Insurance Act.

33 RETAINED EARNINGS

The retained earnings balance represents the amount available for distribution to the shareholders of the company, except for cumulative fair value gains on the company's investment properties amounting to Shs 49,687,917 (2009: Shs 105,937,917) whose distribution is subject to restrictions imposed by legislation.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 DIVIDENDS

No interim dividend (2009 - Shs 0.67 per share amounting to Shs 15,000,000) was paid during the year. The directors recommend a final dividend of Shs 1.33 per share amounting to Shs 30,000,000 in respect of the year ended 31 December 2010 (2009 –Shs15,000,000).

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

35 NON-CONTROLLING INTEREST – GROUP

	2010 Shs'000	2009 Shs'000
At 1 January	-	-
Issue of shares	22,443	-
Share of loss for the year	(4,030)	-
Translation reserve	18	-
	<u>18,431</u>	<u>-</u>
At 31 December	18,431	-
	=====	=====
Represented by:		
Equity interest held by individual minority shareholders in First Assurance Tanzania Limited	47.5% =====	18,431 =====
		- =====

	GROUP		COMPANY	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
36 INSURANCE CONTRACT LIABILITIES				
Short term non-life insurance contracts:				
Claims reported and claims handling expenses	853,861	701,706	844,391	701,706
Claims incurred but not reported	124,011	95,118	122,572	95,118
	<u>977,872</u>	<u>796,824</u>	<u>966,963</u>	<u>796,824</u>
Total – short term	977,872	796,824	966,963	796,824
Group life insurance contracts				
- claims reported and claims handling expenses	43,631	44,735	43,631	44,735
- actuarial value of insurance contract liabilities	57,638	58,523	57,638	58,523
	<u>101,269</u>	<u>103,258</u>	<u>101,269</u>	<u>103,258</u>
Total – group life	101,269	103,258	101,269	103,258
Total gross insurance liabilities	1,079,141	900,082	1,068,232	900,082
	=====	=====	=====	=====

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 INSURANCE CONTRACT LIABILITIES (Continued)

Gross claims reported, claims handling expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2010 and 2009 are not material.

Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the end of each 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 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 minimal percentage set by the Commissioner of Insurance.

The development of insurance liabilities provides a measure of the group’s ability to estimate the ultimate value of claims.

The table below illustrates the movements in insurance liabilities and reinsurance assets for the group general insurance contracts.

General insurance business	GROUP					
	2010 Gross Shs’000	2010 Re- insurance Shs ‘000	Net Shs’000	2009 Gross Shs’000	2009 Re- insurance Shs ‘000	Net Shs’000
Notified claims	701,706	149,903	551,803	596,999	121,864	475,135
Incurred but not reported	95,118	-	95,118	82,634	-	82,634
At 1 January	796,824	149,903	646,921	679,633	121,864	557,769
Cash paid for claims settled in year	(1,034,142)	(217,836)	(816,306)	(791,541)	(155,884)	(635,657)
Increase in liabilities:						
- arising from current year claims	1,009,251	183,048	826,203	690,548	115,186	575,362
- arising from prior year claims	205,939	74,243	131,696	218,184	68,737	149,447
At 31 December	977,872	189,358	788,514	796,824	149,903	646,921
Analysed as;						
Notified claims	853,861	189,358	664,503	701,706	149,903	551,803
Incurred but not reported	124,011	-	124,011	95,118	-	95,118
At 31 December	977,872	189,358	788,514	796,824	149,903	646,921

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 INSURANCE CONTRACT LIABILITIES (Continued)

The table below illustrates the movements in insurance liabilities and reinsurance assets for the company general insurance contracts.

General insurance business	COMPANY					
	2010 Gross Shs'000	2010 Re- insurance Shs '000	Net Shs'000	2009 Gross Shs'000	2009 Re- insurance Shs '000	Net Shs'000
Notified claims	701,706	149,903	551,803	596,999	121,864	475,135
Incurred but not reported	95,118	-	95,118	82,634	-	82,634
At 1 January	796,824	149,903	646,921	679,633	121,864	557,769
Cash paid for claims settled in year	(1,031,574)	(217,151)	(814,423)	(791,541)	(155,884)	(635,657)
Increase in liabilities:						
- arising from current year claims	995,774	178,110	817,664	690,548	115,186	575,362
- arising from prior year claims	205,939	74,243	131,696	218,184	68,737	149,447
At 31 December	966,963	185,105	781,858	796,824	149,903	646,921
Analysed as;						
Notified claims	844,391	185,105	659,286	701,706	149,903	551,803
Incurred but not reported	122,572	-	122,572	95,118	-	95,118
At 31 December	966,963	185,105	781,858	796,824	149,903	646,921

The table below illustrates the movements in insurance liabilities and reinsurance assets for group and company group life insurance contracts.

Life assurance business	GROUP AND COMPANY					
	2010 Gross Shs'000	2010 Re- insurance Shs '000	Net Shs'000	2009 Gross Shs'000	2009 Re- insurance Shs '000	Net Shs'000
At 1 January	103,258	91,609	11,649	81,998	71,529	10,469
Cash paid for claims settled in year	(59,020)	(51,567)	(7,453)	(34,597)	(29,158)	(5,439)
Increase in liabilities:						
- arising from current year claims	57,916	51,854	6,062	69,373	60,304	9,069
- arising from actuarial valuation	(885)	(9)	(876)	(13,516)	(11,066)	(2,450)
At 31 December	101,269	91,887	9,382	103,258	91,609	11,649

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 INSURANCE CONTRACT LIABILITIES (Continued)

The table below illustrates how the group's estimate of total claims outstanding for each accident year has changed at successive year ends.

GROUP

Accident year	2006 Shs'000	2007 Shs'000	2008 Shs'000	2009 Shs'000	2010 Shs'000	Total Shs'000
Estimate of ultimate claims costs:						
At end of accident year	306,359	403,407	468,521	592,776	885,239	2,656,302
one year later	394,387	533,766	676,788	856,906	-	2,461,847
Two years later	405,822	562,959	721,104	-	-	1,689,885
three years later	403,123	595,097	-	-	-	998,220
Four years later	408,424	-	-	-	-	408,424
	-----	-----	-----	-----	-----	-----
Current estimate of cumulative claims	408,424	595,097	721,104	856,906	885,239	3,466,770
Less: cumulative payments to date	(350,056)	(502,239)	(604,484)	(689,187)	(545,628)	(2,691,594)
	-----	-----	-----	-----	-----	-----
Liability in the statement of financial position	58,368	92,858	116,620	167,719	339,611	775,176
	=====	=====	=====	=====	=====	
Liability in respect of prior years						78,685

Total claims reported and claims handling expenses						853,861
Claim incurred but not reported						124,011

Total gross claims liability included in the statement of financial position						977,872
						=====

Group life insurance contracts

The company determines its liabilities on group life on the advice of the consulting actuary and actuarial valuations carried on an annual basis. The latest actuarial valuation of the life fund was carried out as at 31 December 2010 by QED Actuaries and Consultants.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 INSURANCE CONTRACT LIABILITIES (Continued)

The table below illustrates how the company's estimate of total claims outstanding for each accident year has changed at successive year ends.

COMPANY

Accident year	2006 Shs'000	2007 Shs'000	2008 Shs'000	2009 Shs'000	2010 Shs'000	Total Shs'000
Estimate of ultimate claims costs:						
At end of accident year	306,359	403,407	468,521	592,776	873,201	2,644,264
one year later	394,387	533,766	676,788	856,906	-	2,461,847
Two years later	405,822	562,959	721,104	-	-	1,689,885
three years later	403,123	595,097	-	-	-	998,220
Four years later	408,424	-	-	-	-	408,424
	-----	-----	-----	-----	-----	-----
Current estimate of cumulative claims	408,424	595,097	721,104	856,906	873,201	3,454,732
Less: cumulative payments to date	(350,056)	(502,239)	(604,484)	(689,187)	(543,060)	(2,689,026)
	-----	-----	-----	-----	-----	-----
Liability in the statement of financial position	58,368	92,858	116,620	167,719	330,141	765,706
	=====	=====	=====	=====	=====	
Liability in respect of prior years						78,685

Total claims reported and claims handling expenses						844,391
Claim incurred but not reported						122,572

Total gross claims liability included in the statement of financial position						966,963
						=====

Group life insurance contracts

The company determines its liabilities on group life on the advice of the consulting actuary and actuarial valuations carried on an annual basis. The latest actuarial valuation of the life fund was carried out as at 31 December 2010 by QED Actuaries and Consultants.

FIRST ASSURANCE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)

37 UNEARNED PREMIUM PROVISION

The provision for unearned premiums represents the liability for short term business contracts where the group's obligations have not expired at the year end. The unexpired risk provision relates to insurance contracts for which the company expects to pay claims in excess of the related unearned premiums provision. Movements in the reserves are shown below:

GROUP	2010			2009		
	Gross Shs'000	Reinsurance Shs'000	Net Shs'000	Gross Shs'000	Reinsurance Shs'000	Net Shs'000
At 1 January	776,790	263,239	513,551	650,324	200,436	449,888
Increase in the year	276,688	24,739	251,949	126,466	62,803	63,663
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	1,053,478	287,978	765,500	776,790	263,239	513,551
	=====	=====	=====	=====	=====	=====
		(Note 22)			(Note 22)	
COMPANY						
At 1 January	776,790	263,239	513,551	650,324	200,436	449,888
Increase in the year	231,508	24,739	251,949	126,466	62,803	63,663
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	1,008,298	287,978	765,500	776,790	263,239	513,551
	=====	=====	=====	=====	=====	=====
		(Note 23)			(Note 23)	

38 DEFERRED TAXATION

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2009: 30%).

General insurance business	GROUP		COMPANY	
	2010 Shs'000	2009 Shs '000	2010 Shs'000	2009 Shs '000
The deferred tax is attributable to the following items:				
Property and equipment	(2,235)	(2,465)	(2,722)	(2,465)
Revaluation surplus	4,657	5,520	4,657	5,520
Unrealised exchange differences	(65)	(263)	367	(263)
Leave pay provisions	(2,263)	(2,059)	(2,263)	(2,059)
Retirement benefit asset	9,493	10,181	9,493	10,181
Tax losses	(3,282)	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total	6,305	10,914	9,532	10,914
	=====	=====	=====	=====
The movement on the deferred tax account is as follows:				
At 1 January	10,914	2,354	10,914	2,354
Profit or loss (credit)/charge (Note 12(a))	(3,760)	7,810	(519)	7,810
Other comprehensive income (credit)/charge	(863)	750	(863)	750
Translation difference	14	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	6,305	10,914	9,532	10,914
	=====	=====	=====	=====
Comprising:				
Deferred taxation asset	(3,227)	-	-	-
Deferred taxation liability	9,532	10,914	9,532	10,914
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	6,305	10,914	9,532	10,914
	=====	=====	=====	=====

FIRST ASSURANCE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)

39	OTHER PAYABLES	GROUP		COMPANY	
		2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
	Accrued expenses	29,705	11,395	28,102	11,395
	Other payables	147,787	242,932	146,785	242,932
	Directors' fees payable	-	371	-	371
		<u>177,492</u>	<u>254,698</u>	<u>174,887</u>	<u>254,698</u>

40 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a)	Reconciliation of profit before taxation to cash (used in)/generated from operations:	GROUP	
		2010 Shs'000	2009 Shs'000
	Profit before taxation	240,627	171,450
	Adjustments for:		
	Interest received	(79,655)	(76,831)
	Dividends receivable	(4,433)	(5,483)
	Depreciation – property and equipment (Note 14)	8,082	8,984
	Amortisation of intangible assets (Note 16)	3,135	-
	Change in fair value of investment property (Note 17)	(45,505)	(31,863)
	Profit on disposal of property and equipment	-	(36)
	Fair value (gain)/loss on investment in equity shares (Note 20(a))	(54,254)	8,682
		<u>67,997</u>	<u>74,903</u>
	Working capital and loans receivable movements;		
	Receivables arising out of direct insurance arrangements	(79,124)	(44,463)
	Receivables arising out of reinsurance arrangements	(23,181)	14,183
	Other receivables	(275,472)	2,773
	Unearned premiums provisions	276,688	126,466
	Other payables	(77,192)	144,628
	Payables arising from reinsurance arrangements	(16,399)	80,688
	Reinsurers' share of insurance liabilities	(64,604)	(110,922)
	Insurance contract liabilities	179,302	138,451
	Retirement benefit asset (Note 18)	2,291	1,979
	Deferred acquisition costs (Note 21)	(50,390)	(12,733)
		<u>(60,084)</u>	<u>415,953</u>
		<u><u>(60,084)</u></u>	<u><u>415,953</u></u>
(b)	Cash and cash equivalents		
	Cash balances	177	140
	Bank balances	52,451	38,240
		<u>52,628</u>	<u>38,380</u>
	Bank and cash balances	52,628	38,380
	Deposits with banks	767,778	616,202
		<u>820,406</u>	<u>654,582</u>
		<u><u>820,406</u></u>	<u><u>654,582</u></u>

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 COMMITMENTS

Capital commitments

Capital commitments at the end of the year for which no provision has been made in these financial statements are as follows:

	GROUP		COMPANY	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Authorised and contracted for	300,000	100,000	300,000	100,000
Authorised but not contracted for	8,631	13,135	8,631	13,135
	<u>308,631</u>	<u>113,135</u>	<u>308,631</u>	<u>113,135</u>
	=====	=====	=====	=====

Operating lease commitments

a) Company as a lessee

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

	GROUP		COMPANY	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Not later than 1 year	9,712	2,069	5,573	2,069
Later than 1 year and not later than 5 years	29,563	7,052	17,145	7,052
Later than 5 years	-	1,261	-	1,261
	<u>39,275</u>	<u>10,382</u>	<u>22,718</u>	<u>10,382</u>
	=====	=====	=====	=====

b) Company as a lessor

Rental income earned during the year was Shs 8,145,000 (2009-Shs 16,517,000). At the end of the reporting period, the company had contracted with tenants for the following future lease receivables:

	GROUP		COMPANY	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Not later than 1 year	1,440	-	1,440	-
Later than 1 year and not later than 5 years	840	-	840	-
	<u>2,280</u>	<u>-</u>	<u>2,280</u>	<u>-</u>
	=====	=====	=====	=====

42 CONTINGENT LIABILITIES

In common with the insurance industry in general, the group is subject 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.

The group is subject to solvency requirements as specified in the Insurance Act in respect of its insurance and investment contracts, and was in compliance with those regulations at 31 December 2010 and 2009.

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

43 RELATED PARTIES

In the normal course of business, insurance policies are sold to related parties at terms and conditions similar to those offered to unrelated major clients.

Below is a summary of transactions with related parties during the year and amounts due to and from related parties at the year end:

	GROUP		COMPANY	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
i) Insurance business transacted with related parties				
Gross written premium:				
-Directors	398	606	398	606
-senior management	306	303	306	303
Other related parties	72,454	51,843	72,454	51,843
	-----	-----	-----	-----
At 31 December	73,158	52,752	73,158	52,752
	=====	=====	=====	=====
ii) Outstanding balances due from/(to) related parties				
Premiums receivable/(payable) from related parties - included in other payables /receivables				
-Directors	199	242	199	242
-senior management	83	172	83	172
Other related parties	22,481	(3,665)	12,378	(3,665)
	-----	-----	-----	-----
	22,763	(3,251)	12,660	(3,251)
	=====	=====	=====	=====
iii) Loans to directors of the company				
At 1 January	643	1,172	643	1,172
Loans advanced	5,128	-	5,128	-
Loan repayments received	(535)	(529)	(535)	(529)
	-----	-----	-----	-----
At 31 December	5,236	643	5,236	643
	=====	=====	=====	=====
iv) Directors' remuneration				
Directors' fees	3,736	3,629	3,736	3,629
Other remuneration	18,196	14,927	18,196	14,927
	-----	-----	-----	-----
	21,932	18,556	21,932	18,556
	=====	=====	=====	=====
v) Key management compensation (excluding directors)				
Salaries	37,680	33,008	37,680	33,008
	=====	=====	=====	=====

FIRST ASSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

44 INCORPORATION

The company is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The ultimate holding company is First Assurance Investments Limited which is incorporated in Kenya.

45 CURRENCY

The financial statements are presented in Kenya shillings thousand (Shs'000).

FIRST ASSURANCE COMPANY LIMITED

COMPANY STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	General insurance business Shs'000	Life assurance business Shs'000	Total 2010 Shs'000	General insurance business Shs'000	Life assurance business Shs'000	Total 2009 Shs'000
Gross written premiums	2,089,694	78,863	2,168,557	1,647,090	98,761	1,745,851
Gross earned premiums	1,858,187	78,863	1,937,050	1,520,624	98,761	1,619,385
Less: reinsurance premiums ceded	(515,212)	(71,976)	(587,188)	(481,622)	(88,644)	(570,266)
Net earned premiums	1,342,975	6,887	1,349,862	1,039,002	10,117	1,049,119
Commissions earned	156,738	10,796	167,534	170,271	13,297	183,568
Investment income	78,021	12,046	90,067	91,215	7,616	98,831
Other income	-	-	-	36	-	36
Foreign exchange losses	1,137	-	1,137	(876)	-	(876)
Net fair value gain/(loss) on financial assets at fair value through profit or loss	48,221	6,034	54,255	(8,195)	(487)	(8,682)
Fair value gains on investment property	45,505	-	45,505	31,863	-	31,863
Total income	1,672,597	35,763	1,708,360	1,323,316	30,543	1,353,859
Gross claims incurred	1,203,060	57,031	1,260,091	908,732	55,857	964,589
Less claims recoverable from reinsurers	(253,696)	(51,845)	(305,541)	(183,924)	(49,238)	(233,162)
Net claims incurred	949,364	5,186	954,550	724,808	6,619	731,427
Commissions payable	254,564	5,288	259,852	213,299	8,070	221,369
Operating and other expenses	236,465	5,141	241,606	224,439	5,174	229,613
Total expenses	1,440,393	15,615	1,456,008	1,162,546	19,863	1,182,409
Profit before taxation	232,204	20,148	252,352	160,770	10,680	171,450
Taxation charge	(36,128)	-	(36,128)	(50,471)	28	(50,443)
Profit for the year	196,076	20,148	216,224	110,299	10,708	121,007
Other comprehensive income:						
Surplus on revaluation of freehold land	20,000	-	20,000	20,000	-	20,000
(Deficit)/Surplus on revaluation of leasehold buildings	(2,876)	-	(2,876)	2,500	-	2,500
Tax relating to components of other comprehensive income	863	-	863	(750)	-	(750)
Other comprehensive income for the year net of tax	17,987	-	17,987	21,750	-	21,750
Total comprehensive income for the year	214,063	20,148	234,211	132,049	10,708	142,757

FIRST ASSURANCE COMPANY LIMITED

CONSOLIDATED GENERAL INSURANCE BUSINESS REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010

APPENDIX 2

Class of insurance Business	Fire		Fire		Marine	Motor		Personal Accident	Theft	Workmen's			2010	2009
	Engineering	Domestic	Industrial	Liability		Private	Commercial			Comp	Medical	Miscellaneous	Total	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Gross premium written	182,217	35,913	231,259	34,375	68,814	476,860	674,268	85,574	79,265	156,513	79,699	49,783	2,154,540	1,647,090
Change in gross UPR	(29,969)	(1,563)	(14,748)	(12,067)	4,867	(76,920)	(106,050)	3,290	(868)	(12,778)	(2,622)	2,714	(246,714)	(126,466)
Gross earned premiums	152,248	34,350	216,511	22,308	73,681	399,940	568,218	88,864	78,397	143,735	77,077	52,497	1,907,826	1,520,624
Less: reinsurance payable	(130,003)	(18,245)	(181,528)	(5,193)	(46,537)	(28)	(6,998)	(64,251)	(35,439)	(1,966)	(26,277)	(36,399)	(552,864)	(481,622)
Net earned premiums	22,245	16,105	34,982	17,115	27,143	399,911	561,220	24,613	42,958	141,769	50,800	16,098	1,354,962	1,039,002
Gross claims paid	44,183	4,841	81,598	14,384	46,489	277,890	315,119	52,603	46,471	86,021	61,203	4,690	1,035,492	791,543
Change in gross o/s claims	46,012	401	16,962	6,770	6,610	48,401	63,401	(9,381)	2,724	(1,484)	724	(47)	181,093	117,193
Less: reinsurance recoverable	(70,092)	(686)	(77,089)	82	(26,358)	(1,380)	(10,197)	(30,867)	(17,598)	1,660	(26,112)	(16)	(258,653)	(183,928)
Net claims incurred	20,103	4,556	21,471	21,236	26,741	324,911	368,323	12,355	31,597	86,197	35,815	4,627	957,932	724,808
Commissions receivable	(45,147)	(5,184)	(61,773)	(1,481)	(12,012)	(128)	(775)	(17,664)	(11,450)	(8)	-	(12,155)	(167,777)	(170,271)
Commissions payable	23,683	7,741	55,402	4,188	11,669	42,442	52,207	16,704	9,645	29,113	8,271	4,358	265,423	213,299
Management expenses	4,515	2,940	6,983	4,217	4,302	72,024	106,720	5,508	6,330	23,312	14,551	3,413	254,815	224,439
Total expenses and commissions	(16,949)	5,497	612	6,924	3,959	114,338	158,152	4,548	4,525	52,417	22,822	(4,384)	352,461	267,467
Underwriting profit/(loss)	19,091	6,052	12,900	(11,045)	(3,556)	(39,337)	34,745	7,710	6,836	3,155	(7,837)	15,855	44,569	46,727
Key ratios														
Loss ratio	90%	28%	61%	124%	99%	81%	66%	50%	74%	61%	71%	29%	71%	70%
Commissions payable ratio	13%	22%	24%	12%	17%	9%	8%	20%	12%	19%	10%	9%	12%	13%
Management Expenses ratio	2%	8%	3%	12%	6%	15%	16%	6%	8%	15%	18%	7%	12%	14%
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

Loss ratio (*net claims incurred/net earned premium*)

Commission ratio (*commissions payable/gross written premium*)

Expense ratio (*management expense /gross written premium*)

The revenue account was approved by the board of directors on

2011 and was signed on its behalf by:

Director

Director

Principal Officer

FIRST ASSURANCE COMPANY LIMITED

COMPANY GENERAL INSURANCE BUSINESS REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010

APPENDIX 3

Class of insurance Business	Fire		Fire	Liability	Marine	Motor	Motor	Personal Accident	Theft	Workmen's		Miscellaneous	2010	2009
	Engineering	Domestic	Industrial			Private	Commercial			Comp	Medical		Total	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Gross premium written	177,610	26,544	225,814	31,928	61,919	473,658	654,882	79,170	78,198	156,340	79,699	43,932	2,089,694	1,647,090
Change in gross UPR	(29,630)	(991)	(14,535)	(8,397)	5,478	(73,893)	(99,186)	5,313	(4,407)	(12,544)	(2,622)	3,907	(231,507)	(126,466)
Gross earned premiums	147,980	25,553	211,279	23,531	67,397	399,765	555,696	84,483	73,791	143,796	77,077	47,839	1,858,187	1,520,624
Less: reinsurance payable	(126,025)	(9,467)	(176,557)	(4,651)	(40,660)	685	(2,680)	(61,054)	(34,706)	(1,931)	(26,277)	(31,889)	(515,212)	(481,622)
Net earned premiums	21,955	16,086	34,722	18,880	26,737	400,450	553,016	23,429	39,085	141,865	50,800	15,950	1,342,975	1,039,002
Gross claims paid	44,183	4,841	81,594	14,384	46,489	277,675	313,118	52,603	46,122	86,021	61,203	4,690	1,032,923	791,543
Change in gross o/s claims	45,510	364	15,389	6,672	4,980	47,092	57,944	(9,515)	2,582	(1,491)	724	(114)	170,137	117,193
Less: reinsurance recoverable	(69,671)	(686)	(75,867)	82	(24,954)	(1,147)	(8,866)	(30,867)	(17,252)	1,660	(26,112)	(16)	(253,696)	(183,928)
Net claims incurred	20,022	4,519	21,116	21,138	26,515	323,620	362,196	12,221	31,452	86,190	35,815	4,560	949,364	724,808
Commissions receivable	(43,935)	(2,016)	(60,071)	(1,347)	(10,499)	-	-	(16,663)	(11,235)	-	-	(10,972)	(156,738)	(170,271)
Commissions payable	22,818	5,556	53,753	3,823	10,585	42,115	50,152	15,768	4,924	29,092	8,271	7,707	254,564	213,299
Management expenses	4,090	2,541	6,663	2,931	3,615	70,345	96,553	3,344	6,105	23,219	14,551	2,508	236,465	224,439
Total expenses and commissions	(17,027)	6,081	345	5,407	3,701	112,460	146,705	2,449	(206)	52,311	22,822	(757)	334,291	267,467
Underwriting profit/(loss)	18,960	5,486	13,261	(7,665)	(3,479)	(35,630)	44,115	8,759	7,839	3,364	(7,837)	12,147	59,320	46,727
Key ratios														
Loss ratio	91%	28%	61%	112%	99%	81%	65%	52%	80%	61%	71%	29%	71%	70%
Commissions payable ratio	13%	20%	24%	12%	17%	9%	8%	20%	12%	19%	10%	7%	12%	13%
Management Expenses ratio	2%	10%	3%	9%	6%	15%	15%	4%	8%	15%	18%	6%	11%	14%
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

Loss ratio (*net claims incurred/net earned premium*)

Commission ratio (*commissions payable/gross written premium*)

Expense ratio (*management expense /gross written premium*)

The revenue account was approved by the board of directors on

2011 and was signed on its behalf by:

Director

Director

Principal Officer