PAN AFRICA INSURANCE HOLDINGS LIMITED

PAN AFRICA INSURANCE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS 2002

contents

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We not only understand life, we have a sense for life.
With policies that suit your own special requirements,
a history of steady investment returns
and a service philosophy designed
to satisfy your needs,
we definitely make a
difference.

five year group review

Profit and loss accounts (Shs Millions)	2002	2001	2000	1999	1998
Investment Income	70	30	59	78	92
Pre-tax (loss)/profit	(6)	(158)	(54)	56	126
(Loss)/profits attributable to shareholders	(15)	(152)	(65)	30	73
Proposed Dividends	-	-	-	12	22

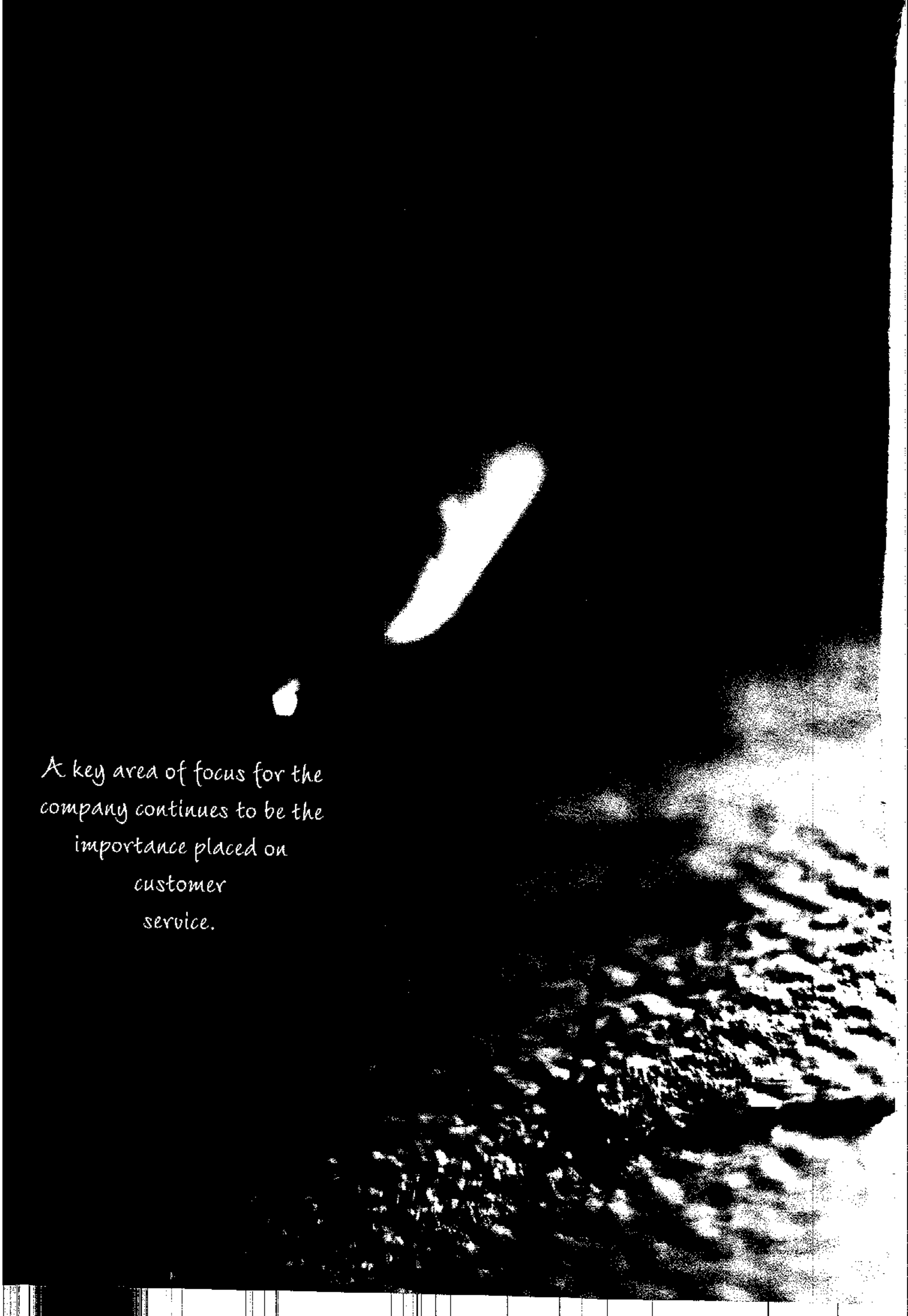
Long term insurance business					
Gross premium income	600	473	245	228	184
Net premium income	402	421	243	218	176
Investment income	153	79	112	104	59
Policy-holder benefits paid	201	155	116	96	62
Management expenses	158	132	114	125	101
Life fund	1,184	1,012	866	834	771

General insurance business					
Gross premium income	454	593	563	536	524
Net earned premium	292	294	329	349	313
Claims incurred	175	195	206	256	165
Claims paid	139	176	223	198	161
Management expenses	117	134	110	110	84
Underwriting loss	(47)	(106)	(113)	(28)	0

Balance sheet					
Shareholder's funds (restated)	490	589	1,279	936	683
Share capital	240	240	240	120	65
Total assets (restated)	2,754	2,672	3,581	2,755	2,346

Key ratios					
Basic (loss) /earnings per share (KShs.)	(0.33)	(3.17)	(1.46)	1.17	5.30
Dividend per share	-	-	-	0.50	1.75
Dividend cover (times)	-	-	-	2.30	3.10
Market capitalization at year end	336.00	629.00	528.00	648.00	325.00

Company share prices at the NSE					
High (KShs.)	13	14	27	55	55
Low (KShs.)	7	10	11	25	23
Share price at year end (KShs.)	7	13	11	27	25


A key area of focus for the
company continues to be the
importance placed on
customer
service.

board of directors

JPN Simba
LLB
(Chairman)
Appointed to the board on 7/12/2001
Appointed Chairman on 11/03/2002
Partner, Simba and Simba Advocates

AD Greenwood,
CA(SA),ACA (Aus)
Executive Director - Pan Africa Life Assurance Limited
Appointed to the board on 7/12/2000
Director - Reliance Insurance Company (Tanzania) Limited
Alternate Director- East Africa Reinsurance Company Limited

JA Burbidge,
FCA,CA(SA),FCPA (Bots)
Appointed to board on 28/4/2000
Executive Director- International Operations, African Life Assurance Company Limited
Director of a number of African Life Group Companies

JN Gitoho,
B. Arch, MAAK(A)
Registered Architect
Appointed to the board on 7/12/2001
Director - Triad Architects

WA Jack,
FCII, FIISA
Appointed to the board on 28/4/2000
Director - African Life Assurance Company Limited

BC Patel
Appointed to the board on 6/7/2001
Managing Director -
Transworld Safaris Kenya Limited

JM Kituri,
BA
Appointed to the board on 1/7/1994
Area Manager - Eastern Africa Region, Intertek Testing Services Caleb Brett

A Van Heerden,
BAcc.(Hons), CA (SA)
Appointed to the board on 30/8/2001
Executive Director Finance - African Life Assurance Company Limited
Director of a number of African Life Group Companies

DN Lacey,
BCom (Hons), MBL,FCII, FIISA
Ag. Chief Executive Pan Africa General Insurance Limited (until 28th February 2003)
(alternate director)
Appointed on 29/9/2000
Deputy General Manager - International Operations, African Life Assurance Company Limited
Director - Reliance Insurance Company (Tanzania) Limited
Director - East Africa Reinsurance Company Limited

report of the directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2002 which disclose the state of affairs of the Group and Company.

INCORPORATION

The Company is incorporated in Kenya under the Companies Act and is domiciled in Kenya.

The name of the company has been changed from Pan Africa Insurance Company Limited to Pan Africa Insurance Holdings Limited with effect from 1st January 2002.

PRINCIPAL ACTIVITIES

The group underwrites all the classes of general and long term insurance business as defined by the Insurance Act (CAP 487), with the exception of aviation, bond investment and industrial life assurance.

RESULTS AND DIVIDEND

The net loss for the year of Shs.15,614,000 (2001: Shs. 152,295,000) has been added to retained earnings. The directors do not recommend the payment of a dividend.

EVENTS AFTER THE BALANCE SHEET DATE

Early in the year, the Company commenced negotiations to consolidate its General Insurance Business with that of Apollo Insurance Limited. The board gave its approval for this process on 18th February 2003, subject to obtaining shareholder approval and the approval of the various regulatory authorities. The process is expected to be concluded in the second half of the year.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The group's risk management policies include the use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place which help manage liquidity, and seek to maximize return within an acceptable level of risk.

DIRECTORS

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

JPN Simba - Chairman
AD Greenwood - Executive Director
DN Lacey - Acting Chief Executive (alternate director)
JA Burbidge
JN Gitoho
WA Jack
JM Kituri
BC Patel
A Van Heerden

In accordance with the Company's Articles of Association, Messrs BC Patel and JM Kituri retire by rotation and, being eligible, offer themselves for re-election.

AUDITORS

The Company's auditors, PricewaterhouseCoopers, continue in office in accordance with Section 159(2) of the Companies Act.

AD Greenwood
Executive Director
14th April 2003

chairman's report

JPN Simba
Chairman

ECONOMIC ENVIRONMENT

The Kenyan economy has experienced several years of poor performance, and the trend was similar last year. The poor performance was a direct result of low investor confidence, lack of support from the country's development partners, apprehension caused by impending elections and the consequent transition of power to a new government. Poor infrastructure and the high cost and inadequate supply of electricity also played a big part in the poor economic performance.

As a result of these factors, the economy registered a marginal growth rate of 0.7% compared to 1.2% registered in 2001. The minimal growth is attributable to a number of factors, among them the continued decline in interest rates, which after peaking at 11% in December 2001 slid to 8% by December 2002, as well as improved earnings from the tourism sector. The Kenyan shilling also proved resilient against major international currencies and, coupled with a fairly low rate of inflation and good rains, helped to ensure that the prices of basic commodities remained steady. The purchasing power of most people, however, remained low as a result of the factors outlined earlier, and these positive aspects of the economy had little significant positive effect on the country's overall economic performance.

Challenges for the New Government

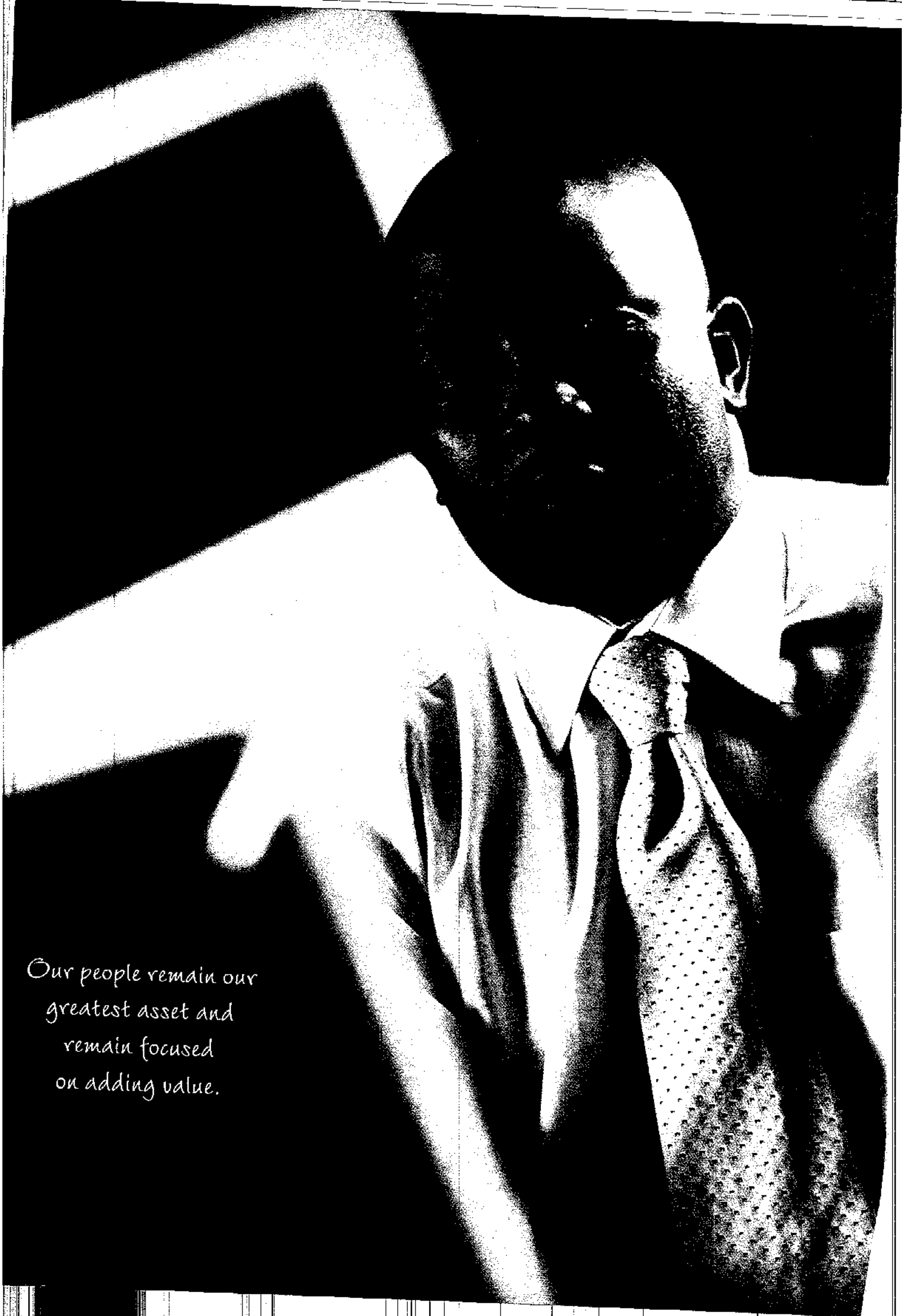
The new government was elected on a platform of drastic change in the management of the country's affairs with the aim of improving the lives of Kenyans, 56% of whom live below the poverty line. Much of the promised change will entail heavy expenditure by a government that is already reeling from a budget deficit amounting to nearly US $ 1 billion or close to 10% of the country's Gross Domestic Product (GDP). The net effect of implementing the expensive but necessary promised changes will be that the current year will be a very difficult one for the government and private sector alike.

Free primary education has already been effected and, while the government has been universally praised for it, the cost, which was not originally provided for in this year's budget, will raise the government's expenditure on the sector to nearly 50% of its recurrent budget. The government's commitment and prompt action has been widely acclaimed. This has enabled the government to get assistance from both bilateral and multilateral donors.

Social intervention programmes will also be needed in the health and housing sectors. In health, the AIDS pandemic, the seasonal malaria outbreaks and high child mortality rates are expected to receive a substantial share of the government's budgetary allocations. The issue of AIDS is already receiving attention at the highest level, with the President taking a leading role in seeking ways to counter its spread, while malaria and high child mortality rates are being addressed at ministerial level. The thorny issue of adequate housing is mainly being addressed through external investors and the ministry concerned has pledged to provide 150,000 new units per year. In addition, plans are well advanced to upgrade slums in urban centres.

The country's dilapidated infrastructure is however expected to take the largest share of government's development expenditure. Roads, railways and telecommunications are in urgent need of repair or total reconstruction. There is a lot of enthusiasm at the concerned ministries to address this challenge. While the astronomical cost of upgrading the infrastructure is likely to delay implementation, better management and maintenance of the facilities in place should be emphasized in future in order to avoid the current situation where neglect is now leading to colossal funds being spent.

The energy sector is also in urgent need of review. For a number of years now, Kenyans have not had adequate or affordable


Our people remain our
greatest asset and
remain focused
on adding value.

notice of the annual general meeting

Notice is hereby given that the 58th annual general meeting of the Company will be held on 19th June 2003 at The Stanley Hotel, at 3.00 p.m. to transact the following business:

ORDINARY BUSINESS:

1. To confirm the minutes of the 57th Annual General Meeting held on 28th June 2002.
2. To receive the audited financial statements for the year ended 31st December 2002 and the reports of the Chairman, the Directors, the Auditors and the Consulting Actuaries.
3. To elect Directors
   In accordance with the Company's Articles of Association, Messers BC Patel and JM Kituri retire by rotation and being eligible, offer themselves for re election.
4. *To approve the remuneration of the Directors.*
5. To re-appoint the auditors, PricewaterhouseCoopers, and authorise the Directors to fix their remuneration.
6. To consider and, if thought fit, to pass the following special *resolution:*

"To authorise the remuneration committee of the board of directors of the company to, and subject to the approval of the Capital Markets Authority, establish any scheme for encouraging or facilitating the holding of shares or debentures in the company by or for the benefit of its employees, agents or former employees, or those of its subsidiaries or holding company or other subsidiaries of its holding company or for the benefit of such other persons as may from time to time be permitted by law or any scheme for sharing profits with its employees or those of its subsidiaries and/ or associated companies and (so far as the same may be permitted by law) to allow the company to lend money to its employees (other than its non-executive directors) with a view to enabling them to acquire shares in the company, its subsidiaries and or its associated companies.

The aggregate limit on the number of ordinary shares of the company that the remuneration committee of the board of directors of the company are generally and unconditionally authorised to issue under the employee incentive schemes shall not exceed 5% of the authorised share capital of the company from time to time."

7. To transact any other business with the permission of the Chair.

VOTING AND PROXY:
A shareholder entitled to attend and vote may appoint a proxy who need not be a member of the Company to attend and vote on his or her behalf.

By Order of the Board
G Kioi
Secretary
7th May 2003

Registered office
Pan Africa House
Kenyatta Avenue
PO Box 10493 - 00100
Nairobi.

corporate governance

Corporate governance is the process by which companies are directed and controlled. Directors of the Board are responsible for the governance of the company whilst the shareholders' role is to appoint the directors and the auditors. The concept of corporate governance has grown in recent years, as reflected in the King Reports in South Africa, the Cadbury Report in the United Kingdom and the Corporate Governance Guidelines 2002 issued by the Capital Markets Authority in Kenya. The objective of these reports is to promote the highest standards of corporate governance by setting out a series of recommendations and principles to which all companies should aspire.

The directors recognize the need to conduct the business of the group with integrity and in accordance with generally accepted corporate practices, and endorse the internationally developed principles of corporate governance. Attention will continue to be given to the implementation of corporate governance principles relevant to the group's operations.

DIRECTORS

The composition of the Board of Directors is set out on page 5 and the Board sub-committees are set out below. The Board is chaired by an independent non-executive director and included two executive directors during the year. Board members have extensive business and financial services experience, which is brought to bear in the overall governance of the group.

The Board meets no less frequently than on a quarterly basis to monitor performance against budget and business plans as well as to formulate and implement overall group strategy. The Board's functions are assisted through the operation of the sub-committees, the chairpersons of whom report to the Board.

AUDIT COMMITTEE

The Audit Committee, chaired by a non-executive director, meets once a quarter and is responsible for reviewing financial information as well as monitoring the effectiveness of management information and internal control systems. The senior finance personnel of the company and its subsidiaries attend all meetings. The committee also considers all significant findings of the Group internal and external auditors and the Group's actuary, who are invited to attend the meetings.

INVESTMENT COMMITTEE

The Investment Committee, chaired by a non-executive director, meets once a quarter and is responsible for planning investment strategy and monitoring the performance of the group's investments.

REMUNERATION COMMITTEE

The Remuneration Committee, chaired by a non-executive director, meets at least twice annually. The committee is responsible for ensuring that the directors and senior executives of the group are fairly rewarded for their services and that overall salary reviews for staff are consistent with those of the market, and of the operational performance of the companies within the group.

AUDIT

A Van Heerden (Chairman), JA Burbidge, AD Greenwood, DN Lacey, JPN Simba, JW Murengi*, M Kabiru*, G Kioi*

INVESTMENT

RC Patel (Chairman), JA Burbidge, AD Greenwood, DN Lacey, JPN Simba, JIO Olubayi, G Kioi*

corporate governance (continued)

REMUNERATION

JN Gitoho (Chairman), JA Burbidge, A Van Heerden, JM Kituri, AD Greenwood*, J Muiruri*

*Members of management in attendance at the meetings.

RESPONSIBILITIES

These financial statements have been prepared in accordance with internationally accepted accounting practice, based on appropriate accounting policies which, except where stated, have been consistently applied and which are supported by reasonable judgements and estimates. Management ensures that adequate internal financial control systems are developed to provide reasonable certainty in respect of:

- the completeness and accuracy of accounting records;
- the integrity and reliability of the group annual financial statements; and
- the safeguarding of the assets of the group.

The Board is responsible for the group financial statements and integrity, objectivity and reliability thereof. The directors believe that the financial statements fairly present the financial position of the group as at the end of the financial year and the results of the operations and cash flow information for the year then ended. The Board has no reason to believe that the businesses within the Group will not be going concerns into the foreseeable future.

The external auditors are responsible for independently examining and expressing an opinion on the reasonableness of the financial statements based on their audit. The auditors' report is set out on page 17.

JPN Simba
Chairman
14th April 2003

AD Greenwood
Executive Director
14th April 2003

report of the consulting actuary

Certificate of solvency in respect of life and pension policies of Pan Africa Life Assurance Limited

I have conducted a statutory actuarial valuation of the long-term business of Pan Africa Life Assurance Limited as at 31st December 2002.

This valuation has been conducted in accordance with generally accepted actuarial principles and in compliance with the requirements of the Insurance Act. These principles require prudent provision for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies. In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion, the long-term business of Pan Africa Life Assurance Limited was financially sound and the actuarial value of the liabilities in respect of all classes of life insurance and pension fund business did not exceed the amount of the Statutory Insurance Funds as at 31st December 2002.

JIO Olubayi
Fellow of the Institute of Actuaries
14th April 2003

corporate governance (continued)

REMUNERATION

JN Gitoho (Chairman), JA Burbidge, A Van Heerden, JM Kituri, AD Greenwood*, J Muiruri*

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JIO Olubayi
Fellow of the Institute of Actuaries
14th April 2003

corporate governance (continued)

REMUNERATION

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JPN Simba
Chairman
14th April 2003

AD Greenwood
Executive Director
14th April 2003

statement of directors' responsibilities

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

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 the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of its loss. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of the 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 subsidiaries will not remain a going concern for at least the twelve months from the date of this statement.

JPN Simba
Chairman
14th April 2003

AD Greenwood
Director
14th April 2003

report of the auditors to the members of Pan Africa Insurance Holdings Limited

We have audited the financial statements set out on pages 19 to 51 which are in agreement with the books of account.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements as set out on page 16. Our responsibility is to express an independent opinion on the financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements.

We have obtained the information and explanations that to the best of our knowledge and belief were necessary to provide a reasonable basis for our opinion.

Opinion

In our opinion proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the group and company at 31 December 2002 and of the losses and cash flows of the group for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act.

PRICEWATERHOUSECOOPERS

Certified Public Accountants

Nairobi

14th April 2003

report of the consulting actuary

report of the consulting actuary

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J O Olubayi

JIO Olubayi
Fellow of the Institute of Actuaries
14th April 2003

consolidated profit and loss account

	Notes	2002 Shs.'000	2001 Shs.'000
INCOME			
Investment income	6(a)	70,394	30,718
TOTAL INCOME		**70,394**	**30,718**
OUTGO			
Loss transferred from General insurance business revenue accounts (page 21)		(47,615)	(106,850)
Exceptional items	8	(32,724)	(18,878)
Non-insurance subsidiaries' operating profits/(losses)		2,425	(64,396)
TOTAL OUTGO		**(77,914)**	**(190,124)**
Operating loss	3	(7,520)	(159,406)
Share of associate's results	18	1,068	1,303
Loss before tax		(6,452)	(158,103)
Tax (charge)/credit	9(a)	(9,162)	5,808
Loss attributable to the shareholders		**(15,614)**	**(152,295)**
		Shs.	**Shs.**
Basic loss per share	**10**	**(0.33)**	**(3.17)**
		Shs.	**Shs.**
Dividends:			
Proposed		-	-

long term insurance business revenue accounts - (group)

	Notes	Individual Life Shs.'000	Group Life Shs.'000	Pension funds Shs.'000	General fund Shs.'000	Total 2002 Shs.'000	Total 2001 Shs.'000 (Restated)
INCOME							
Gross premium income	5	355,219	221,401	24,269	-	600,889	473,161
Net premium income	5	354,878	23,572	24,269	-	402,719	421,132
Investment income	6(b)	128,533	9,333	11,693	3,702	153,261	79,622
Total income		**483,411**	**32,905**	**35,962**	**3,702**	**555,980**	**500,754**
Commissions		84,760	(27,579)	-	-	57,181	62,282
Selling expenses		48,109	429	-	-	48,538	43,453
Expenses of Management		141,901	16,382	-	-	158,283	132,038
Loss on revaluation of fixed assests	11	2,430	-	-	70	2,500	-
Premium tax		5,202	3,107	-	-	8,309	6,999
Total expenses		**282,402**	**(7,661)**	**-**	**70**	**274,811**	**244,772**
Excess of income over expenses		201,009	40,566	35,962	3,632	281,169	255,982
Policyholders' benefits	7	(147,284)	(34,277)	(23,599)	-	(205,160)	(155,649)
Claim reserves release to the life fund		4,018	-	-	-	4,018	23,827
Income from normal operations		57,743	6,289	12,363	3,632	80,027	124,160
Tax charge	9(b)	-	-	-	-	-	-
Income from normal operations after tax		57,743	6,289	12,363	3,632	80,027	124,160
Exceptional items							
Provision for PAYE and WHT arrears	8	(8,811)	-	-	-	(8,811)	
Retrenchment costs		-	-	-	-	-	(4,594)
Investment property impairment charge	13	-	-	-	-	-	(169,811)
		(8,811)	-		-	**(8,811)**	**(174,405)**
Increase/(decrease) in funds during the year	**3**	**48,932**	**6,289**	**12,363**	**3,632**	**71,216**	**(50,245)**
Life funds at 1 January							
- as previously reported		**900,805**	**90,114**	**96,502**	**25,946**	**1,113,367**	**866,612**
- reclasification of leasehold land	**12**	**(100,943)**	**-**	-	**-**	**(100,943)**	**(100,943)**
- as restated		**799,862**	**90,114**	**96,502**	**25,946**	**1,012,424**	**765,669**
Transfer from shareholders' funds	29 (a)	100,943	-	-	-	100,943	297,000
Intra-funds transfer	29 (a)	(45,321)	(6,108)	-	51,429	-	-
Life funds at 31 December	**29**	**904,416**	**90,295**	**108,865**	**81,007**	**1,184,583**	**1,012,424**

general insurance business revenue accounts (group)

	Motor Pool Shs.'000	Aviation Shs.'000	C.A.R. & Engineering Shs.'000	Fire Domestic Shs.'000	Fire Industrial Shs.'000	Liability Insurance Shs.'000	Marine & Transit Shs.'000	Motor Private Shs.'000	Motor Commercial Shs.'000	Medical Insurance Shs.'000	Personal Accidet Shs.'000	Theft Insurance Shs.'000	Workmen's Compensation Shs.'000	Misc. Accident Shs.'000	Total 2002 Shs.'000	Total 2001 Shs.'000
Net Written Premium	-	**6,663**	**2,764**	**7,271**	**33,929**	**2,580**	**2,004**	**64,607**	**117,468**	**(3,159)**	**23,139**	**18,623**	**14,496**	**1,796**	**292,181**	**310,260**
Unearned premium b/f	-	1,486	573	3,537	10,811	752	1,278	24,180	42,353	8,419	4,150	4,574	5,880	752	108,745	92,704
Unearned premium c/f	-	(2,518)	(748)	(3,716)	(14,235)	(803)	(513)	(23,886)	(43,834)	(2,653)	(3,684)	(5,606)	(6,215)	(444)	(108,855)	(108,745)
Net Earned Premium	-	**5,631**	**2,589**	**7,092**	**30,505**	**2,529**	**2,769**	**64,901**	**115,987**	**2,607**	**23,605**	**17,591**	**14,161**	**2,104**	**292,071**	**294,219**
Claims Paid	505	605	879	1,488	6,688	(389)	6,685	45,264	41,026	17,127	1,376	7,777	8,434	1,569	139,037	176,723
Claims expenses	22	113	22	71	821	70	445	2,230	4,296	979	533	506	395	1,658	12,184	9,909
Claims outstanding c/f	6,379	1,391	1,006	3,536	8,188	7,369	6,762	87,660	173,888	2,339	17,753	20,954	33,009	875	381,107	356,544
Claims outstanding b/f	(8,875)	-	(738)	(1,904)	(7,851)	(8,270)	(12,781)	(74,278)	(162,560)	(10,927)	(12,705)	(13,804)	(30,609)	(1,242)	(358,544)	(347,674)
Claims Incurred	**(1,969)**	**2,109**	**1,169**	**3,192**	**7,846**	**(1,220)**	**1,111**	**60,876**	**56,650**	**9,518**	**6,957**	**15,433**	**11,232**	**2,860**	**175,764**	**195,502**
Commission	-	(2,795)	68	1,316	1,311	540	130	8,142	10,986	(20,346)	3,611	1,454	3,025	(21)	5,419	26,953
Movement in Deferred acquisition costs		(78)	(33)	156	(669)	(6)	173	360	299	1,153	225	(65)	3	40	1,568	(2,755)
Expenses	-	11,464	2,314	2,687	23,065	808	3,049	17,860	37,479	(2,615)	8,266	8,684	4,040	628	117,729	134,167
Premium tax & levies	-	752	97	173	1,336	39	200	1,172	2,459	(172)	540	554	261	39	7,452	8,823
Total Commission and Expenses	-	**9,343**	**2,446**	**4,335**	**25,043**	**1,381**	**3,552**	**25,534**	**51,222**	**(21,982)**	**12,642**	**10,637**	**7,329**	**686**	**132,168**	**167,248**
Technical (loss) / profit	**1,969**	**(5,821)**	**(1,026)**	**(435)**	**(2,384)**	**2,368**	**(1,894)**	**(21,509)**	**8,115**	**15,071**	**4,006**	**(8,479)**	**(4,400)**	**(1,442)**	**(15,861)**	**(68,531)**
Provision for doubtful debts															**(31,754)**	**(38,319)**
Underwriting loss															**(47,615)**	**(106,850)**

consolidated balance sheet

	Notes	Long term Insurance Business Shs.'000	General Insurance Business Shs.'000	Shareholders' funds Shs.'000	Total 2002 Shs.'000	Total 2001 (Restated) Shs.'000
CAPITAL EMPLOYED						
Share capital	25	-	-	240,000	240,000	240,000
Share premium	26	-	-	364,431	364,431	364,431
Revaluation reserves	27	-	-	44,535	44,535	(1,756)
Retained earnings	28	-	-	238,726	238,726	283,824
Assigned capital	19	527,261	360,431	(887,692)	-	
Transfer to Life funds	29 (a)	(397,943)	-	-	(397,943)	(297,000)
Shareholders' funds		**129,318**	**360,431**	**-**	**489,749**	**589,499**
Statutory funds	29(a)	1,103,576	-	-	1,103,576	986,478
General fund	29 (c)	81,007	-	-	81,007	25,946
Total life funds		**1,184,583**	**-**	**-**	**1,184,583**	**1,012,424**
Total capital, reserves and long term funds		**1,313,901**	**360,431**	**-**	**1,674,332**	**1,601,923**
REPRESENTED BY:						
INVESTMENTS						
Government Securities	14	561,200	50,663	-	611,863	470,900
Investment properties	13	274,750	339,000	-	613,750	606,189
Investment in associated company	18	-	28,704	-	28,704	25,143
Quoted shares	15	48,576	1,831	-	50,407	53,759
Unquoted shares	16	-	90,107	-	90,107	70,870
Mortgage loans	20	55,784	98,804	-	154,588	144,794
Policy loans	21	75,342	-	-	75,342	78,835
Bank balances, deposits and cash	23	160,597	67,118	-	227,715	306,663
Commercial Paper		85,100	-	-	85,100	41,700
		1,261,349	**676,227**	**-**	**1,937,576**	**1,798,853**
NON-CURRENT ASSETS						
Property and equipment	11	134,920	83,332		218,252	236,222
Prepaid operating lease rentals	12	3,464	7,246	-	10,710	15,226
Other non-current assets (plot debtors)		-	3,670	-	3,670	-
		138,384	**94,248**	**-**	**232,632**	**251,448**

consolidated balance sheet (continued)

	Notes	Long term Insurance Business Shs.'000	General Insurance Business Shs.'000	Shareholders' funds Shs.'000	Total 2002 Shs.'000	Total 2001 (Restated) Shs.'000
CURRENT ASSETS						
Outstanding premiums		132,761	131,986	-	264,747	258,755
Due from reinsurers		2,441	153,604	-	156,045	134,822
Other receivables	24	55,440	56,192	-	111,632	169,356
Land & development	22	-	37,545	-	37,545	38,242
Tax recoverable		-	14,598	-	14,598	20,860
		190,642	393,925	-	584,567	622,035
Total assets		**1,590,375**	**1,164,400**	**-**	**2,754,775**	**2,672,336**
LIABILITIES						
Technical provisions						
Unearned premiums		-	108,855	-	108,855	108,744
Outstanding claims		73,216	381,106	-	454,322	427,409
		73,216	489,961	-	563,177	536,153
Non-current liabilities						
Deferred tax liability	30	-	85,672	-	85,672	96,062
Other liabilities						
Due to reinsurers		59,561	68,840	-	128,401	96,856
Other payables	31	116,569	129,250	-	245,819	217,394
Current tax		-	15,017	-	15,017	29,753
Borrowings	32	27,128	-	-	27,128	75,275
Unclaimed dividends		-	15,229	-	15,229	18,920
		203,258	228,336	-	431,594	438,198
Total liabilities		**276,474**	**803,969**	**-**	**1,080,443**	**1,070,413**
		1,313,901	**360,431**	**-**	**1,674,332**	**1,601,923**

The financial statements on pages 19 to 51 were approved for issue by the board of directors on 14th April 2003 and are signed on its behalf by:

JPN Simba
Chairman
14th April 2003

AD Greenwood
Director
14th April 2003

company balance sheet

	Note	Total 2002 Shs.'000	Total 2001 (Restated) Shs.'000
CAPITAL EMPLOYED			
Share capital	25	240,000	240,000
Share premium	26	364,431	364,431
Revaluation reserves	27(b)	-	(32,889)
Retained earnings		671,795	363,565
Transfer to Life funds	29	(397,943)	(297,000)
Shareholders' funds		**878,283**	**638,107**
Statutory funds	**29**	**-**	**986,478**
General fund	**29**	**-**	**25,946**
Total life funds		**-**	**1,012,424**
Total capital, reserves and long term funds		**878,283**	**1,650,531**
REPRESENTED BY:			
INVESTMENTS IN SUBSIDIARIES			
Pan Africa Life Assurance Limited	17	230,261	-
Pan Africa General Insurance Limited	17	679,009	-
		909,270	**-**
OTHER INVESTMENTS			
Government Securities		-	470,900
Investment properties	13	-	583,189
Investment in associated company		-	25,143
Quoted shares		-	53,759
Unquoted shares	16	-	164,303
Mortgage loans		-	144,794
Policy loans		-	78,835
Bank balances, deposits and cash	23	-	300,018
Commercial Paper		-	41,700
		-	1,862,641

company balance sheet (continued)

	Note	Total 2002 Shs.'000	Total 2001 (Restated) Shs.'000
NON-CURRENT ASSETS			
Property and equipment	11	-	158,329
Prepaid operating lease rentals	12	-	15,226
		-	173,555
CURRENT ASSETS			
Outstanding premiums		-	258,755
Due from reinsurers		-	134,822
Other receivables		-	165,435
Tax recoverable		13,680	16,129
		13,680	575,141
Total assets		**922,950**	**2,611,337**
LIABILITIES			
Technical provisions			
Unearned premiums		-	108,744
Outstanding claims		-	427,409
		-	536,153
Non-current liabilities			
Deferred tax liability	30	-	61,932
Other liabilities			
Due to reinsurers		-	96,856
Other payables		29,438	171,665
Borrowings		-	75,275
Unclaimed dividends		15,229	18,925
Sub total		**44,667**	**362,721**
Total liabilities		**44,667**	**960,806**
		878,283	**1,650,531**

The financial statements on pages 19 to 51 were approved for issue by the board of directors on 14th April 2003 and are signed on its behalf by

JPN Simba
Chairman
14th April 2003

AD Greenwood
Director
14th April 2003

consolidated statement of changes in equity

consolidated statement of changes in equity

	Notes	Share capital Shs.'000	Share premium Shs.'000	Revaluation reserves Shs.'000	Retained earnings Shs.'000	Total Shs.'000
Year ended 31 December 2001						
At start of year :						
As previously reported		240,000	364,431	242,291	703,734	1,550,456
- Reclassification of leasehold land	12	-	-	-	(205,120)	(205,120)
- Deferred tax on investment property gains	30	-		-	(66,043)	(66,043)
As restated		**240,000**	**364,431**	**242,291**	**432,571**	**1,279,293**
Fair value loss on quoted shares		-	-	(12,784)	-	(12,784)
Restatement of land and development to historical cost		-	-	(227,715)	-	(227,715)
Transfer of excess depreciation		-	-	(5,068)	5,068	-
Deferred tax on transfer		-	-	1,520	(1,520)	-
Net losses not recognised in income statement		**-**	**-**	**(244,047)**	**3,548**	**(240,499)**
Net loss for the year		**-**	**-**	**-**	**(152,295)**	**(152,295)**
At end of year		**240,000**	**364,431**	**(1,756)**	**283,824**	**886,499**
Year ended 31 December 2002						
At start of the year						-
- As previously reported		240,000	364,431	(1,756)	554,987	1,157,662
- Reclassification of leasehold land	12	-	-	-	(205,120)	(205,120)
- Deferred tax on investment property gains	30	-	-	-	(66,043)	(66,043)
As restated		**240,000**	**364,431**	**(1,756)**	**283,824**	**886,499**
Transfer of excess depreciation	27	-	-	(3,676)	3,676	-
Deferred tax on transfer	27	-	-	1,319	(1,319)	-
Revaluation surplus on Property and equipment	27	-	-	11,153	-	11,153
Deferred tax on revaluation	27	-	-	(2,499)	-	(2,499)
Fair value gain on unquoted investment	27	-	-	8,523	-	8,523
Fair value loss on quoted investment	27	-	-	(370)	-	(370)
Released on disposal of shares		-	-	31,839	(31,839)	-
Net gains not recognised in income statment		**-**	**-**	**46,291**	**(29,484)**	**16,807**
Net loss for the year		**-**	**-**	**-**	**(15,614)**	**(15,614)**
At end of year		**240,000**	**364,431**	**44,535**	**238,726**	**887,692**

company statement of changes in equity

	Notes	Share capital Shs.'000	Share premium Shs.'000	Revaluation reserves Shs.'000	Retained earnings Shs.'000	Total Shs.'000
Year ended 31 December 2001						
At start of year:						
As previously reported		240,000	364,431	(20,105)	728,288	1,312,614
- Reclassification of leasehold land	12	-	-	-	(205,120)	(205,120)
- Deferred tax on investment property gains	30	-	-	-	(66,043)	(66,043)
As restated		**240,000**	**364,431**	**(20,105)**	**457,125**	**1,041,451**
Fair value losses on quoted shares		-	-	(12,784)	-	(12,784
Net loss for the year		-	-	-	(93,560)	(93,560)
At end of the year		**240,000**	**364,431**	**(32,889)**	**363,565**	**935,107**
Year ended 31 December 2002						
At start of the year:						
At start of year (as restated)		240,000	364,431	(32,889)	363,565	935,107
Realised on disposal of quoted shares	27	-	-	32,889	(32,889)	-
Profit / (loss) for the year		-	-	-	341,119	341,119
At end of year		**240,000**	**364,431**	**-**	**671,795**	**1,276,226**

general insurance business consolidated cash flow statement

general insurance business consolidated cash flow statement

	Notes	Group 2002 Shs.'000	Group 2001 Shs.'000
Cash flow from operating activities			
Loss before tax		**(6,452)**	**(158,103)**
Adjustment for:			
Depreciation		17,293	25,311
Fair value losses on investment properties		4,000	31,527
Impairment charge on fixed assets		19,142	7,956
Investment income received		(73,994)	(32,021)
Operating loss before working capital changes		**(40,011)**	**(125,330)**
Increase in current assets		59,042	(6,825)
(Decrease) / increase current liabilities		(42,244)	105,851
Premiums and claims reserves		24,670	24,909
Cash generated from operations		**1,457**	**(1,395)**
Income taxes paid		(30,138)	(30,827)
Net cash used in operating activities		**(28,681)**	**(32,222)**
Cash flow from financing actitivites			
Dividends paid		(3,697)	(85)
Net cash flow from financing actitivites		**(3,697)**	**(85)**
Cash flows from investing activities			
Investment income received		73,994	33,424
Purchase of property, plant & equipment		(3,142)	(6,812)
Mortgage loans redeemed (issued)		(7,433)	(18,365)
Net sale / (purchase) of shares		(2,657)	-
Net redemptions of Government securities		13,737	1,250
Net cash from investing activities		**74,499**	**9,497**
Net increase /(decrease) from cash and cash equivalents		**42,121**	**(22,810)**
Cash and cash equivalents at start of year		**24,997**	**47,807**
Cash and cash equivalents at end of year	23	**67,118**	**24,997**

principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards. The financial statements are presented in Kenya Shillings (Shs) and prepared under the historical cost convention, as modified by the revaluation of certain property and equipment, and the carrying of investment properties and available-for-sale investments at fair value.

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.

(b) Group Accounting

(i) Subsidiary undertakings

Subsidiary undertakings, which are those entities in which the Group has an interest of 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 control is transferred to the Group and are no longer consolidated from the date that control ceases. All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(ii) Associated undertakings

Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings.

Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

(c) Underwriting results

General insurance business

The underwriting results for general business are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

(i) Premiums written relate to risks assumed during the year, and include estimates of premiums due but not yet received, less an allowance for cancellations.

(ii) 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 balance sheet date, and are calculated using the 1/365ths method.

(iii) Claims incurred comprise claims paid in the year, claims handling expenses 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 balance sheet date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported (IBNR).

(iv) Expenses and commission are allocated to the relevant revenue accounts as incurred in the management of each class of business. Commission is shown net of commission received in respect of reinsurance business ceded. The portion of commissions which relates to the unexpired terms of policies in force at the balance sheet data is deducted and treated as deferred acquisition costs.

Long term insurance business

(i) Premiums written relate to risks assumed during the year, and include estimates of premiums due but not yet received, less an allowance for estimated lapses.

The full annual premium income is recognised in respect of ordinary life recurring policy contracts on policy anniversary dates, after making provision for policy lapses and other terminations. Group life and pension contributions are recognised as income when received.

(i) Claims arising on maturity are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for on payment.

(ii) Expenses and commissions are allocated to the life fund as incurred in the management of the long term business. Commissions are shown net of commissions received in respect of reinsurance business.

(iv) The life fund is assessed annually by the group's consulting actuaries. Surpluses arising are allocated by the directors on the advice of the actuaries and in accordance with the Insurance Act and Articles of Association, to policyholders' bonuses and the profit and loss account. Any balance remaining is carried forward in the life fund.

(d) Property and equipment

All property and equipment is initially recorded at cost. Land and buildings are subsequently shown at market value, based on periodic valuations by external independent valuers, less subsequent depreciation. All other property and equipment is stated at historical cost less depreciation.

Increases in the carrying amount of land and buildings arising on revaluation are credited to the life fund for properties held by the long term business, and to the revaluation reserve for properties held by the short term business of the Group. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation is calculated 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 as follows:

Buildings	25 - 40 years
Equipment	3 - 8 years
Motor vehicles	4 years

Freehold land is not depreciated as it is deemed to have an indefinite life.

Property and equipment is 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.

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

(e) Investment property

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are treated as long term investments and carried at fair value, representing market value determined annually by external independent valuers. Investment properties are not subject to depreciation. Changes in their carrying amount between balance sheet dates are processed, net of deferred tax, through the profit and loss account for assets attributable to the general business, and through the long-term revenue account for assets attributable to the long term business. On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account for investment property held by the short term business, and to the life fund for investment property held by the long term business.

(f) Other investments

All purchases and sales of investments are recognised on the trade date, which is the date the Group commits to purchase or sell the asset. The cost of purchase includes transaction costs. The group subsequently determines the appropriate classification of its investments and re-evaluates such designation on a regular basis; the classification is dependent on the purpose for which the investments are acquired.

Investments with fixed maturity that the group has the intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortised cost. Non-equity investments purchased in the primary market (i.e. directly from the issuer) are classified as originated loans, and are carried at amortised cost. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale and are carried at fair value.

Investments are classified and carried at values as follows:

(i) Quoted shares are classified as available-for-sale investments and are carried at fair value. Their fair value is calculated by reference to the stock exchange quoted bid prices at the close of business on the balance sheet date.

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

(iii) Securties issued by the Kenya Government are classified as originated loans. They are carried at amortised cost (i.e. cost plus accrued discount or interest) and any premium or discount is amortised through income, using the effective yield method.

(iv) 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.

Fair value gains/(losses) arising on investments held by the general business are credited/(debited) to the profit and loss account; gains/(losses) in respect of investments held by the long term business are dealt with in the life fund.

(g) Investment income

Investment income is stated net of investment expenses. Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset. Dividends 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.

Income arising on investments held by the long term business is taken up in the long term revenue account whilst income derived from investments held by the general business is credited to the profit and loss account.

(h) Translation of foreign currencies

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

(i) Accounting for leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to income on a straight-line basis over the period of the lease.

(j) Receivables

Outstanding premiums and amounts due from reinsurers are carried at amortised invoice amount less provision for impairment. A provision for impairment is established when there is objective evidence that the group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(k) Employee entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(l) Deferred tax

Deferred tax 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. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred tax.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(m) Retirement benefit obligations

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

The company's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate.

(n) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(o) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year and in particular, the comparatives have been adjusted to take into account the requirements of International Accounting Standards (IAS) no 17 and 12 which respectively deal with the reclassification of leasehold land and the recognition of deferred tax on investment property fair value gains.

notes forming part of the financial statements

1 Restructuring of the Company

The restructuring of the company approved at an Extra-ordinary General Meeting of the company held on 8 December 2000 was completed in 2002. Through the Office of the Commissioner of Insurance, the Minister of Finance granted the approval to the restructuring with an effective date of 1st January 2002.

The name of the company has been changed from Pan Africa Insurance Company Limited to Pan Africa Insurance Holdlings Limited with effect from 1st January 2002.

Two wholly owned subsidiary companies, Pan Africa Life Assurance Limited and Pan Africa General Insurance Limited were incorporated to take over the Long term and General insurance business formerly conducted by Pan Africa Insurance Holdings Limited. Substantially all of the assets and liabilities of the company were transferred to the subsidiaries with effect from 1st January 2002, based on the shareholders' funds for the respective businesses at 31 December 2001, but before recording the adjustments in respect of the reclassification of leasehold land (note 12).

2 Segment information: Business segments

The core activity of the group is carrying out general and long term insurance business in Kenya. Certain of the group companies conduct other types of business and the Groups' activities could therefore be organised into three main business segments namely; insurance business, sale of plots and distribution of water and estate management.

The information on long-term insurance business is disclosed in the long-term insurance business revenue account which is part of the primary financial statements.The following segment information is given in respect of the other business segments of the group:

	General Insurance business Shs'000	Sale of plots Shs'000	Distribution of water and estate management Shs'000	Total Shs'000
Year ended 31 December 2002:				
Premium / Turnover	292,181	4,206	6,802	303,189
Segment operating (loss)/profit	(6,790)	3,422	(4,152)	(7,520)
Share of associate's profits	1,068	-	-	1,068
Loss before tax	(5,722)	3,422	(4,152)	(6,452)
Tax	(15,964)	7,400	(598)	(9,162)
Net Loss	(21,686)	10,822	(4,750)	(15,614)
Segment assets	1,075,743	68,640	20,017	1,164,400
Segment liabilities	757,707	31,028	15,234	803,969
Capital expenditure	2,782	-	-	2,782
Depreciation	13,397	3,532	364	17,293
Year ended 31 December 2001:				
Premium / Turnover	310,260	29,823	30,764	370,847
Segment operating loss	(95,010)	(53,735)	(10,661)	(159,406)
Share of associate's profits	1,303	-	-	1,303
Loss before tax	(93,707)	(53,735)	(10,661)	(158,103)
Tax	147	4,042	1,619	5,808
Net Loss	(93,560)	(49,693)	(9,042)	(152,295)
Segment assets	1,259,303	98,108	81,977	1,439,388
Segment liabilities	690,365	83,783	16,980	791,128
Capital expenditure	10,091	114	839	11,044
Depreciation	13,935	3,081	8,295	25,311

3 Operating loss and changes in the life funds

The following items have been charged in arriving at operating loss and increase in Life funds:

	Long-term insurance business Shs'000	General insurance business Shs'000	Total 2002 Shs'000	Total 2001 Shs'000
(a) Group				
Depreciation (Note 11)	14,085	17,293	31,378	41,248
Impairment provision on fixed assets (Note 11)		19,142	19,142	7,956
Auditors' remuneration	1,715	2,286	4,001	4,904
Staff costs (Note 4)	94,893	70,872	165,765	175,226
Amortisation of prepaid operating leases (Note 12)	4,382	134	4,516	4,211
Company				
Depreciation	-	-	-	29,873
Auditors' remuneration	-	-	-	4,384
Staff costs	-	-	-	166,525

4 Staff costs

	Group 2002 Shs'000	Group 2001 Shs'000	Company 2002 Shs'000	Company 2001 Shs'000
The following items are included within staff costs:				
Salaries and wages	155,203	165,826	-	72,216
Social security costs	543	343	-	89
Pension costs-defined contribution plan	10,018	9,057	-	8,766

	Number	Number	Number	Number
The number of persons employed at year end was:				
Full time staff	153	180	-	172
Part time staff	1	66	-	4

5 Long term insurance business premium income

	Individual Life Shs'000	Group Life Shs'000	Deposit Administration Shs'000	Total 2002 Shs'000	Total 2001 Shs'000
Gross premium income	355,219	221,401	24,269	600,889	473,161
Reassurance premium ceded	(341)	(197,829)	-	(198,170)	(52,029)
Net premium Income	354,878	23,572	24,269	402,719	421,132

6 Investment Income (Group)

(a) General insurance business	Total 2002 Shs'000	Total 2001 Shs'000
Interest received	17,937	27,063
Property rentals	52,450	32,466
Dividends received	3,607	2,716
Loss on disposal of quoted shares	(1,100)	-
Fair value loss on investment properties	(2,500)	(31,527)
Total	**70,394**	**30,718**

(b) Long term insurance business	Individual Life Shs'000	Super Annuation Shs'000	General Fund Shs'000	Total 2002 Shs'000	Total 2001 Shs'000
Interest received	41,505	19,710	1,195	62,410	86,230
Property rentals	51,033	2,455	1,470	54,958	57,546
Dividends received	3,544	-	102	3,646	4,444
Other income	2,851	-	82	2,933	120
(Loss)/surplus on disposal of fixed assets	(222)	-	(6)	(228)	195
Foreign exchange loss	(1,078)	-	(31)	(1,109)	-
Fair value gain on quoted shares (note 15)	15,194	-	438	15,632	16
Gross investment income	**112,827**	**22,165**	**3,250**	**138,242**	**148,551**
Expenses					
Fund management fees	(2,831)	(524)	(82)	(3,437)	-
Custodial fees	(720)	(353)	(21)	(1,094)	-
Property expenses	(25,271)	(262)	(728)	(26,261)	(48,364)
Total investment expenses	**(28,822)**	**(1,139)**	**(831)**	**(30,792)**	**(48,364)**
Investment income before revaluation of investment properties	**84,005**	**21,026**	**2,419**	**107,450**	**100,187**
Fair value gain on investment properties	44,528	-	1,283	45,811	(20,565)
Total investment income	**128,533**	**21,026**	**3,702**	**153,261**	**79,622**

Of the Shs. 21,026,000 shown under Superannuation business, Shs.11,693,000 and Shs. 9,333,000 relates to investment income generated by Pension funds and Group Life respectively as shown on the long term insurance business revenue accounts.

7 Policyholder benefits (Group)	Individual Life Shs'000	Group Life Shs'000	Pension Funds Shs'000	Total 2002 Shs'000	Total 2001 Shs'000
Gross death and disability claims	20,975	138,717	-	159,692	81,089
Less: Amounts recovered from reassurers	-	(106,195)	-	(106,195)	(59,926)
Net death and disability claims	20,975	32,522	-	53,497	21,163
Maturities & pension claims	58,210	1,137	23,599	82,946	65,384
Surrenders and bonuses	17,378	339	-	17,717	22,766
Annuities	50,721	279	-	51,000	46,336
Net policyholder benefits paid	**147,284**	**34,277**	**23,599**	**205,160**	**155,649**

8 Exceptional items

	Long-term insurance business Shs'000	General Insurance business Shs'000	Total 2002 Shs'000	Total 2001 Shs'000
Provision for PAYE and Withholding tax	8,811	19,786	28,597	-
Staff retrenchment costs	-	-	-	21,322
Restructuring expenses	-	12,938	12,938	2,150
Investment property impairment charge	-	-	-	169,811
	8,811	32,724	41,535	193,283

During the year, the Kenya Revenue Authority conducted a compliance audit covering the 1998 to 2001 years of income. A final assessment was issued in early 2003 relating to PAYE and Withholding tax arrears. Although the Company has lodged a formal objection with the Commissioner of Income Tax, a provision of Shs 28.6million has been made to cover any tax liability arising therefrom.

The staff retrenchment costs in 2001 arose out of the closure of the in-house property department and the outsourcing of the management of the property portfolio to Knight Frank, a professional property management firm, as well as a reorganisation of staff in the general business division.

Restructuring expenses for 2001 were incurred on fees for professional advice for the planned separation of the two lines of business to independent companies. Restructuring expenses in 2002 relate to the proposed consolidation of the General Insurance Business with that of Apollo Insurance Company Limited.

The investment property impairment charge in 2001 is discussed under note 13.

Exceptional items relating to the Long term insurance business have been charged to the individual life revenue account while those relating to General insurance business have been charged to the profit and loss account.

9 Tax

(a) General Insurance Business and non-insurance subscidiaries	2002 Shs'000	2001 Shs'000
Current tax	14,664	266
Deferred tax (Note 30)	(12,887)	(7,315)
Current year tax charge / (credit)	1,777	(7,049)
Underprovision for current tax in prior years	7,000	-
Share of tax of associate (Note 18)	385	1,241
Tax charge/(credit)	**9,162**	**(5,808)**

The tax on the group's (loss)/profit before tax differs from the theoretical amount that would arise using the basic tax rates as follows:

	2002	2001
Loss before tax	(6,452)	(158,103)
Corporation tax at 30 %	(1,936)	(47,431)
Tax effect of :		
- Expenses not deductible for tax purposes	8,449	7,948
- Income not taxable	(6,386)	-
Deferred tax asset not recognised	2,035	33,675
Underprovision for tax in prior years	7,000	-
Tax charge/(credit)	**9,162**	**(5,808)**

(b) Long term business	**2002 Shs'000**	**2001 Shs'000**
Current tax	-	-
Deferred tax	-	-
Tax (credit)/ charge	-	-

The tax on the long term business income before tax differs from the theoretical amount that would arise using the basic tax rates as follows:

	2002 Shs'000	2001 Shs'000
Increase in life funds before tax	80,027	124,160
Corporation tax at 30 %	24,008	37,248
Tax effect of :		
- Expenses not deductible for tax purposes	68,124	39,547
- Income not taxable	(128,283)	(126,340)
Deferred tax asset not recognised (note 30)	36,151	49,545
Tax (credit)/ charge	-	-

10 Loss per Share

Basic loss per share is calculated by dividing the net loss attributable to shareholders by the weighted average number of ordinary shares in issue, as follows:

	Group	
	2002 Shs.'000	**2001 Shs.'000**
Net loss attributable to shareholders	(15,614)	(152,295)
Weighted average number of ordinary shares in issue (thousands)	48,000	48,000
Loss per share (Shs)	**(0.33)**	**(3.17)**

There were no potentially dilutive shares outstanding at 31 December 2001 and 31 December 2002.

11 Property and equipment

a) Group

	Land & buildings Shs.'000	Motor vehicles Shs.'000	Furniture, fixtures fittings Shs.'000	Computer Equipment Total Shs.'000	2002 Total Shs.'000
Cost or valuation:					
At start of year - as previously reported	270,327	15,528	258,810	46,138	590,803
- reclassification of leasehold land (note 12)	(113,000)	-	-	-	(113,000)
- as restated	157,327	15,528	258,810	46,138	477,803
Additions	362	1,820	13,525	8,309	24,016
Revaluation surplus / (deficit)					
- long term business	(2,500)	-	-	-	(2,500)
- general business (note 27)	1,738	-	-	-	1,738
Write off of fully depreciated assets	-	(4,500)	(58,304)	(28,274)	(91,078)
Impairment provision (note 11c)	(7,453)	-	-	-	(7,453)
Disposals	-	-	-	(117)	(117)
At end of year	149,474	12,848	214,031	26,056	402,409
Depreciation:					
At start of year - as previously reported	17,630	10,806	183,546	33,810	245,792
- reclassification of leasehold land (note 12)	(4,211)	-	-	-	(4,211)
- as restated	13,419	10,806	183,546	33,810	241,581
Charge for the year	11,211	2,330	11,414	6,423	31,378
Released on revaluation (note 27)	(9,413)	-	-	-	(9,413)
Impairment provision (note 11c)	-	1,406	10,079	204	11,689
Write off of fully depreciated assets	-	(4,500)	(58,304)	(28,274)	(91,078)
At end of year	15,217	10,042	146,735	12,163	184,157
At 31 December 2002	**134,257**	**2,806**	**67,296**	**13,893**	**218,252**
Comprising:					
Long-term insurance business	**100,695**	**2,219**	**21,621**	**10,385**	**134,920**
General insurance business	**33,562**	**587**	**45,675**	**3,508**	**83,332**
	134,257	**2,806**	**67,296**	**13,893**	**218,252**
At 31 December 2001 (as restated)	**143,908**	**4,722**	**75,264**	**12,328**	**236,222**

11 Property and equipment

b) Company

	Land & buildings Shs.'000	Motor vehicles Shs.'000	Furniture, fixtures & fittings Shs.'000	Computer Equipment Total Shs.'000	2002 Total Shs.'000
Cost or valuation:					
At start of year (as previously reported)	223,362	11,066	189,750	45,405	469,583
Reclassification of leasehold land (note 12)	(113,000)	-	-	-	(113,000)
As restated	110,362	11,066	189,750	45,405	356,583
Transfer to Pan Africa Life Assurance Limited	(110,362)	(2,962)	(123,923)	(15,044)	(252,291)
Transfer to Pan Africa General Insurance Limited	-	(8,104)	(65,827)	(30,361)	(104,292)
At end of year	-	-	-	-	-
Depreciation:					
At start of year (as previously reported)	7,861	7,061	154,313	33,230	202,465
Reclassification of leasehold land (note 12)	(4,211)	-	-	-	(4,211)
As restated	3,650	7,061	154,313	33,230	198,254
Released on transfer to Pan Africa Life Assurance Limited	(3,650)	(1,481)	(109,814)	(6,712)	(121,657)
Released on transfer to Pan Africa General Insurance Limited	-	(5,580)	(44,499)	(26,518)	(76,597)
At end of year	-	-	-	-	-
At 31 December 2002	-	-	-	-	-
At 31 December 2001 - as restated	**106,711**	**4,005**	**35,438**	**12,175**	**158,329**

(c) The group incurred an impairment charge of Shs 19,142,000 during the year, as a result of a writedown of fixed assets in the company to their recoverable amount.

(d) No depreciation has been charged in arriving at the results for the year in respect of certain fixed assets with a gross value of Shs. 96,123,874 (2001-Shs. 121,899,523), which are in use but fully depreciated. If depreciation had been charged during the year on the gross value of the assets, it would have amounted to approximately Shs. 12,102,749 (2001-Shs. 14,811,740).

12 Prepaid operating lease rentals

During the year the International Accounting Standards Board and the Institute of Certified Public Accountants of Kenya clarified that all leasehold property should be accounted for as an operating lease and carried at amortised historical cost. Consequently, the group has reclassified leasehold land from property and equipment and investment properties, to prepaid operating lease rentals.

Previously recorded revaluation surpluses on leasehold land have been reversed during the year.

a) Group	Long-term insurance business Shs.'000	General insurance business Shs.'000	Total 2002 Shs.'000	Total 2001 Shs.'000
Cost				
At start of the year - as previously reported	-	-	-	-
- reclassified from property and equipment (note 11)	108,789	-	108,789	108,789
- reclassified from investment property (note 13)	-	212,500	212,500	212,500
- reclassified from life funds/retained earnings	(100,943)	(205,120)	(306,063)	(301,852)
As restated (at start and end of year)	7,846	7,380	15,226	19,437
Amortisation				
Charge for the year	(4,382)	(134)	(4,516)	(4,211)
	(4,382)	(134)	(4,516)	(4,211)
At end of year	**3,464**	**7,246**	**10,710**	**15,226**

b) Company	Long-term insurance business Shs.'000	General insurance business Shs.'000	Total 2002 Shs.'000	Total 2001 Shs.'000
Cost				
At start of the year - as previously reported	-	-	-	-
- reclassified from property and equipment/investment property (note11,13)	108,789	212,500	321,289	321,289
- reclassified from life fund/retained earnings	(100,943)	(205,120)	(306,063)	(306,063)
- as restated	7,846	7,380	15,226	15,226
Less: transferred to subsidiary companies	(7,846)	(7,380)	(15,226)	-
At end of year	**-**	**-**	**-**	**15,226**

13 Investment properties

a) Group

	Long-term insurance business Shs.'000	General insurance business Shs.'000	2002 Shs.'000	2001 Shs.'000
At start of year				
- as previously reported	257,689	561,000	818,689	1,216,902
- reclassification to prepaid operating leases (Note 12)	-	(212,500)	(212,500)	(212,500)
- as restated	257,689	348,500	606,189	1,004,402
Additions during the year	2,250	-	2,250	16,191
Disposals during the year	(31,000)	(5,500)	(36,500)	-
Reclassification to property & equipment	-	-	-	(215,501)
Reclassification from property & equipment	-	-	-	27,000
Investment property impairment charge	-	-	-	(169,811)
Fair value gain/(loss) (note 6)	45,811	(4,000)	41,811	(56,092)
At end of year	274,750	339,000	613,750	606,189
Reconciliation of fair value gain / (loss) on investment properties:-				
Included in investment income (Note 6)	45,811	(2,500)	43,311	(52,092)
Included in subsidiaries' net profits on the Profit & Loss account	-	(1,500)	(1,500)	(4,000)
	45,811	(4,000)	41,811	(56,092)

(b) Company

	Long-term insurance business Shs.'000	General insurance business Shs.'000	2002 Shs.'000	2001 Shs.'000
At start of year				
- as previously reported	257,689	538,000	795,689	1,216,902
- reclassification to prepaid operating leases (Note 12)	-	(212,500)	(212,500)	(212,500)
- as restated	257,689	325,500	583,189	1,004,402
Additions during the year	-	-	-	16,191
Reclassification to property and equipment (note 12(b))	-	-	-	(215,501)
Investment property impairment charge	-	-	-	(169,811)
Fair value loss (note 6)	-	-	-	(52,092)
Transfer to Pan Africa Life Assurance	(257,689)	-	(257,689)	-
Transfer to Pan Africa General Insurance	-	(325,500)	(325,500)	-
At end of year	**-**	**-**	**-**	**583,189**

The revaluation of investment properties was carried out by Lloyd Masika Limited, professional independent valuers as at 31 December 2002. The basis of valuation was open market value. The fair value gains and losses arising from the revaluation have been credited to investment income for both Long-term and general insurance business as shown under note 6.

In 2001 certain properties belonging to the long-term insurance business valued at Shs..215.5m were reclassified to property and equipment from investment properties.

Further to the valuation of investment properties by professional independent valuers in 2001, the directors made a decision to provide for the impairment of certain investment properties to match the rental yields of the properties to their carrying value. This resulted in an impairment charge of Shs..169,811,000 shown as an exceptional item.

14 Government Securities - Group	2002 Long-term insurance business Shs.'000	General insurance business Shs.'000	Total 2002 Shs.'000	2001 Total 2001 Shs.'000
Treasury bills and bonds:				
Maturing within 91 days of the date of aquisition	158,950	24,563	183,513	75,600
Maturing in 91 days - 1 year	79,250	-	79,250	154,300
Maturing within 1 and 5 years	85,000	22,100	107,100	81,000
Maturing in over 5 years	238,000	4,000	242,000	160,000
	561,200	**50,663**	**611,863**	**470,900**

15 Quoted ordinary shares - Group	Long Term insurance business Shs.'000	General insurance business Shs.'000	Total 2002 Shs.'000	Total 2001 Shs.'000
At start of year	39,523	14,236	53,759	66,526
Additions	10,260	-	10,260	-
Fair value gains/(losses)	15,632	(370)	15,262	(12,767)
Disposals	(16,839)	(12,035)	(28,874)	-
At end of year	**48,576**	**1,831**	**50,407**	**53,759**

The ordinary shares are revalued annually at the close of business on 31 December by reference to the Nairobi Stock Exchange quoted prices.The fair value gains and losses arising from the revaluation of the shares have been included in investment income in respect of long-term insurance business (Note 6(b)), and debited to the revaluation reserves in respect of general insurance business respectively (Note 27).

16 Unquoted ordinary shares

(a) Group	Total 2002 Shs.'000	Total 2001 Shs.'000
At start of year:	70,870	70,870
Additional shares in the shares of East Africa Reinsurance Company Limited	13,053	-
Disposal of shares in East Africa Reinsurance Company Limited	(2,339)	-
Fair value gain (note 27)	8,523	-
At end of year	**90,107**	**70,870**
(b) Company		
At start of year	164,303	164,303
Transfer to Pan Africa General Insurance Limited	(164,303)	-
At end of year	**-**	**164,303**
Comprising :		
Investments in non-insurance subsidiary companies	-	93,433
Other unquoted investments	-	70,870
	-	**164,303**

17 Investment in subsidiary companies (Company)

Pan Africa Life Assurance Limited and Pan Africa General Insurance Limited are both wholly owned subsidiaries of Pan Africa Insurance Holdings Limited. As described in note 1, the two subsidiaries carry out the long term and general insurance business, respectively, previously carried out by Pan Africa Insurance Company Limited.

Pan Africa General Insurance Limited has the following subsidiary companies (all incorporated in Kenya):

Name of subsidiary	Shareholding	Principal activity
Mae Properties Limited	100%	Development and sale of plots of land
Runda Water Limited*	100%	Water distribution and estate management
Chem Chemi Limited*	100%	Dormant

*(*sub-subsidiaries of Pan Africa General Insurance Limited, being wholly-owned subsidiaries of Mae Properties Limited)*

In a board meeting held on 7th December 2002, the Board of Directors approved the sale of 74.9% of Pan Africa General Insurance Limited's interest in Runda Water Limited, and the sale of 100% of the Company's interest in Chem Chemi Mineral Water Limited. Both transactions are expected to be concluded in the course of 2003.

18 Investment in associated undertakings - Group

The associated company, Reliance Insurance Company Tanzania Limited, in which the Company has a 34% interest through Pan Africa General Insurance Limited is incorporated in Tanzania and conducts general insurance business.

	2002 Shs.'000	2001 Shs.'000
At start of year	25,143	25,081
Acquisition of additional interest	2,878	-
Share of results before tax	1,738	4,136
Adjustment for prior year audited profits	(670)	(2,833)
	1,068	1,303
Share of tax	(385)	(1,241)
At end of year	**28,704**	**25,143**

The net share of the results of the associated company, is based on audited accounts for the year ended 31st December 2002. The previous years' share was based on the unaudited management accounts, and an adjustment has been made in the current year following receipt of the prior year audited financial statements.

19 Assigned capital

In line with the objectives of the rights issue exercise concluded in 2000, it was the intention of the board to use the proceeds primarily to fund growth in the individual life business. The assignment of capital of Shs.527,261,000 to the Long term insurance business in 2001 included the net proceeds of the issue together with intra-business balances existing as at 1st January 2001. The assignment was based on the net assets of the two business sectors as at 1st January 2001.

The movement in the capital assigned to the General Insurance Business is as follows:

	2002 Shs.'000	2001 Shs.'000
At start of year	630,401	1,023,195
Net decrease arising from transactions in the year	(269,970)	(392,794)
At end of year	**360,431**	**630,401**

20 Mortgage loans - Group

	Long-term insurance business Shs.'000	General insurance business Shs.'000	Total 2002 Shs.'000	Total 2001 Shs.'000
At start of year	53,423	91,371	144,794	114,633
Loans made	7,613	19,387	27,000	38,695
Loan repayments	(5,252)	(11,954)	(17,206)	(8,534)
At end of year	**55,784**	**98,804**	**154,588**	**144,794**
Amounts approved by the directors but not advanced as at 31 December	-	-	-	8,907
Maturity profile of mortgage loans				
Loans maturing :				
Within 1 year	325	273	598	1,237
In 1- 5 years	2,074	679	2,753	5,413
In over 5 years	53,385	97,852	151,237	138,144
	55,784	**98,804**	**154,588**	**144,794**
Loans at;				
Concessionary rates	55,071	65,843	120,914	133,945
Market rates	713	32,961	33,674	10,849
	55,784	**98,804**	**154,588**	**144,794**

21 Policy loans - Group

	Total 2002 Shs.'000	Total 2001 Shs.'000
At start of year	78,835	71,183
Loans made	34,225	32,992
Loan repayments	(37,718)	(25,340)
At end of year	**75,342**	**78,835**

22 Land and development - Group

	Total 2002 Shs.'000	Total 2001 Shs.'000
At start of year	38,242	253,124
Transfer from fixed assets	-	100,934
Restatement to historical cost	-	(315,806)
Cost of plots sold	(697)	(10)
At end of year	**37,545**	**38,242**

23 Bank balances, deposits and cash

	Group 2002 Shs.'000	Company 2002 Shs.'000	Group 2001 Shs.'000	Company 2001 Shs.'000
Cash at bank and in hand	73,173	-	76,138	69,493
Short term bank deposits	154,542	-	230,525	230,525
At end of year	**227,715**	**-**	**306,663**	**300,018**
Comprising;				
Long-term insurance business	160,597	-	256,432	256,432
General insurance business	67,118	-	50,231	43,586
	227,715	**-**	**306,663**	**300,018**

For the purposes of the general insurance business cash flow statement, the year-end cash and cash equivalents comprise the following:

	Group 2002 Shs.'000	Group 2001 Shs.'000'
Cash and bank balances	67,118	50,231
Bank overdraft	-	(25,234)
At end of year	**67,118**	**24,997**

24 Other receivables

(a) Group

	Long term insurance business Shs.'000	General insurance business Shs.'000	Total 2002 Shs.'000	Total 2001 Shs.'000
Rent outstanding	15,652	3,488	19,140	29,210
Accrued Interest	14,177	6,838	21,015	4,249
Plot debtors	-	24,160	24,160	33,880
Cost of investment in the College of Insurance	-	1,171	1,171	1,171
Deferred acquisition costs	-	13,355	13,355	14,923
Sundry debtors and prepayments	25,611	7,180	32,791	85,923
At end of year	**55,440**	**56,192**	**111,632**	**169,356**

(b) Company

Rent outstanding	-	-	-	29,210
Accrued Interest	-	-	-	4,249
Cost of investment at the College of Insurance	-	-	-	1,171
Due from subsidiary company	-	-	-	40,356
Deferred acquisition costs	-	-	-	14,923
Sundry debtors and prepayments	-	-	-	75,526
At end of year	**-**	**-**	**-**	**165,435**

25 Share capital

	2002 Shs.'000	2001 Shs.'000
At start and end of year	240,000	240,000

The total authorised number of ordinary shares is 100,000 with a par value of Shs. 5 par share. The total number of ordinary shares in issue are 48,000 with a par value Shs. 5 per share.

26 Share premium

	2002 Shs'000	2001 Shs'000
At start and end of year	364,431	364,431

27 Revaluation reserves

(a) Group

	2002 Shs'000	2001 Shs'000
Quoted shares	(1,418)	(32,889)
Unquoted shares	8,523	-
Plant and machinery	7,818	7,818
Land and buildings	43,916	37,619
Waterworks	18,836	18,836
Reserves arising on consolidation	(33,140)	(33,140)
	44,535	**(1,756)**

The movements in each category of reserves were as follows :

	2002	2001
i) Quoted shares		
At start of year	(32,889)	(20,105)
Released on disposal of shares	31,841	-
Fair value loss (Note 15)	(370)	(12,784)
At end of year	**(1,418)**	**(32,889)**
ii) Unquoted shares		
At start of year	-	-
Fair value gains (Note 16)	8,523	-
At end of year	**8,523**	**-**
iii) Plant and machinery		
At start and end of year	**7,818**	**7,818**
iv) Land and buildings		
At start of year	37,619	156,307
Revaluation surplus on property and equipment	11,153	-
Deferred tax on revaluation	(2,499)	-
Reclassification on transfer of assets to investment properties	-	(22,816)
Reclassification on transfer of fixed assets to land and development	-	(92,094)
Transfer of excess depreciation	(3,676)	(5,298)
Deferred tax on transfer	1,319	1,520
At end of year	**43,916**	**37,619**
v) Waterworks		
At start and end of year	**18,836**	**18,836**

(b) Company

	2002	2001
Quoted shares		
At start of year	(32,889)	(20,105)
Fair value (loss)/gain (Note 15)	-	(12,784)
Released on transfer of shares to Pan Africa General Insurance Limited	32,889	
At end of year	**-**	**(32,889)**

28 Retained earnings

Movements in retained earnings are set out in the statements of changes in equity on pages 26 and 27.

Retained earnings are comprised of Group:	Long term insurance business Shs.'000	General insurance business Shs.'000	Total 2002 Shs.'000	Total 2001 Shs.'000
Retained earnings relating to revaluation of investment properties	-	267,368	267,368	271,368
Other retained earnings (losses)	-	(28,642)	(28,642)	12,456
	-	**238,726**	**238,726**	**283,824**

Distribution of retained earnings of Pan Africa Insurance Holdings Limited and Pan Africa General Insurance Limited arising out of revaluation of investment properties is subject to restrictions imposed by the Commissioner of Insurance.

29 Life funds

(a) Statutory funds (Group)

	Individual Life Funds Shs.'000	Group Life Funds Shs.'000	Pension Funds Shs.'000	Total 2002 Shs.'000	Total 2001 Shs.'000
At start of year (as previously reported)	900,805	90,114	96,502	1,087,421	842,567
Reclassification of leasehold land	(100,943)	-	-	(100,943)	(100,943)
Transfer from shareholders' funds	100,943	-	-	100,943	297,000
Exceptional items	(8,811)	-	-	(8,811)	(174,405)
Increase during year from normal operations	57,743	6,289	12,363	76,395	122,259
Intra funds transfer	(45,321)	(6,108)	-	(51,429)	-
At end of year	**904,416**	**90,295**	**108,865**	**1,103,576**	**986,478**

b) Statutory funds (Company)

	Individual Life Funds Shs.'000	Group Life Funds Shs.'000	Pension Funds Shs.'000	Total 2002 Shs.'000	Total 2001 Shs.'000
At start of year (as previously reported)	900,805	90,114	96,502	1,087,421	842,567
Reclassification of leasehold land	(100,943)	-	-	(100,943)	(100,943)
Transfer to Pan Africa Life Assurance	(799,862)	(90,114)	(96,502)	(986,478)	297,000
Exceptional items	-	-	-	-	(174,405)
Increase during the year from normal operations	-	-	-	-	122,259
At end of year	**-**	**-**	**-**	**-**	**986,478**

The statutory funds, which comprise the individual life fund and superannuation funds, were established in 1990 by the Company in respect of its long term insurance business as required under Section 45 of the Insurance Act.

As described in Note 1, at 1st January 2001 the long term business previously written by the company was transferred to a wholly owned subsidiary of Pan Africa Insurance Holdings Limited, Pan Africa Life Assurance Limited.

The latest actuarial valuation of the life fund held by the subsidiary company was carried out by the consulting actuaries as at 31st December 2002 and revealed an actuarial surplus after allowing for interest and bonus declarations to members of deposit administration funds under management to with-profit policies respectively. The directors, after consultation with the actuaries, have transferred Shs.51,429,000 from the statutory funds to the general fund.

The previous actuarial valuation as at 31st December 2001 indicated that although the group life and pension lines business revealed healthy actuarial surpluses, individual life business indicated an actuarial deficit arising mainly from new business strain. The deficit in the life fund was increased further by the decision of the directors to recognise an impairment charge on certain investment properties amounting Shs.169,800,000 as well as a 4% bonus declaration to with profits individual life policies. In order to finance the deficit in the year as well as the current and new business strain that was expected to be generated over the period to 30th June, 2002, the directors authorised a transfer of Shs..297,000,000 from shareholders' funds to the individual life fund. These funds form part of the rights issue proceeds of 2001 specifically raised to grow the individual life business.

During 2002 a further Shs. 100,943,000 was transferred from the shareholders funds to the life funds, following the write down of leasehold properties as described in note 12. Thus the total transfer from the shareholders funds to the individual life fund as at 31st December 2002 amounted to Shs. 397,943,000.

(c) General Fund

The general fund represents a reserve maintained within the long-term insurance business, and represents unallocated surpluses from previous actuarial valuations. Transfers from this fund to the profit and loss account and the statutory funds are made upon recommendation of the actuary. The movements in the general fund are shown on page 20.

30 Deferred tax (asset)/liability:

Deferred tax is calculated, in full, on all temporary differences using a principal tax rate of 30% The movement on the deferred tax account is as follows:

	Group 2002 Shs.'000	Group 2001 Shs.'000	Company 2002 Shs.'000	Company 2001 Shs.'000
At start of year				
- as previously reported	30,019	125,654	(4,111)	(2,723)
-deffered tax on investment property fair value gains	66,043	66,043	66,043	66,043
- as restated	96,062	191,697	61,932	63,320
Profit and loss account (Note 9)	(12,887)	(7,314)	(61,932)	(1,388)
Charged to equity	2,497	-	-	-
Released on restatement of land & buildings to historical cost	-	(88,321)	-	
At end of year	**85,672**	**96,062**	**-**	**61,932**

The deferred tax assets and liabilities, deferred tax charge/(credit) in the profit and loss account, and deferred tax charge/(credit) in equity are attributable to the following items:

(a) Group - General insurance business

	At start of year (as restated) Shs.'000	Charged (Credited) to profit and loss Shs.'000	Charged (Credited) to equity Shs.'000	At end of year Shs.'000
Deferred tax (assets) / liabilities				
Accelerated tax depreciation	8,695	(10,148)	-	(1,453)
Property revaluations	105,797	-	2,497	108,294
Deferred development costs	10,915	208	-	11,123
Tax losses	(29,535)	-	-	(29,535)
Provisions	190	(2,947)	-	(2,757)
	96,062	**(12,887)**	**2,497**	**85,672**

(b) Group - long term business

Deferred tax (assets) / liabilities	At start of year (as restated) Shs.'000	Charged/ (Credited) to profit and loss Shs.'000	Charged/ (Credited) to equity Shs.'000	At end of year Shs.'000
Accelerated tax depreciation	-	1,398	-	1,398
Property revaluations	52,257	13,742	-	65,999
Tax losses	(99,432)	(50,968)	-	(150,400)
Provisions	-	(323)		(323)
	(47,175)	(36,151)	-	(83,326)
Less: deferred tax asset not recognised	47,175	36,151	-	83,326
Per balance sheet	-	-	-	-

The net deferred tax asset has not been recognised as there may not be sufficient taxable profits in the foreseeable future to utilise the temporary differences.

(c) Company

	At start of year (as restated) Shs.'000	Charged/ (Credited) to profit and loss Shs.'000	Charged/ (Credited) to equity Shs.'000	At end of year Shs.'000
Accelerated accounting depreciation	(4,111)	4,111	-	-
Tax losses	(29,535)	-	-	(29,535)
Property revaluations	95,578	-	-	95,578
Net deferred tax liability	**61,932**	**4,111**	**-**	**66,043**

31 Other payables

a) Group	Long term insurance business Shs.'000	General insurance business Shs.'000	Total 2002 Shs.'000	Total 2001 Shs.'000
Rent deposits	7,280	11,933	19,213	10,456
PAYE and withholding tax arrears	5,810	28,874	34,684	4,867
Other creditors and accruals	103,479	88,443	191,922	202,071
	116,569	**129,250**	**245,819**	**217,394**

(b) Company

a) Group	Total 2002 Shs.'000	Total 2001 Shs.'000
Rent deposits	-	10,456
PAYE and withholding tax arrears	-	4,867
Other creditors and accruals	29,439	156,342
	29,439	**171,665**

32 Borrowings

a) Group	Long term insurance business Shs.'000	General insurance business Shs.'000	Total 2002 Shs.'000	Total 2001 Shs.'000
Premium financing	27,128	-	27,128	50,041
Bank Overdraft	-	-	-	25,234
	27,128	**-**	**27,128**	**75,275**

Premium financing liabilities relate to borrowings by insureds where the Group has entered into agreements with financiers to refund the outstanding balance of borrowings in the event of default by the borrower. The company had received full premiums during the year in respect of the policies that were the subject of the financing.

33 Fair Values and effective interest rates

In the opinion of the directors, the fair values of financial assets approximate their carrying amounts. The following table summarises weighted average effective interest rates for the principal financial assets at the year end;

	2002 %	2001 %
Deposits with financial institutions - (Shs. accounts)	7.0	9.2
Deposits with financial institutions - (US$ accounts)	1.0	1.5
Treasury Bills	9.0	12.7
Treasury Bonds	13.0	13.5
Mortgage loans - granted before 31.12.2001	6.0	6.0
Mortgage loans - granted after 31.12.2001	10.0	-
Borrowings	19.0	20.1
Policy loans	16.0	16.0
Commercial paper	9.42	13.0

34 Commitments

Capital commitments

There were no capital commitments contracted but not recorded in the financial statements at the balance sheet date.

Operating lease commitments

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

	2002 Shs.'000	2001 Shs.'000
Not later than one year	**15,877**	**10,037**

35 Contingencies

The company has instituted legal proceedings against certain former directors for breach of their fiduciary duty. It has also filed defence against a former executive director who is claiming damages for wrongful dismissal.

At 31st December 2002, the group had contingent liabilities in respect of bank guarantees amounting to Shs. 6,490,510 (Pan Africa Life Assurance Limited Shs 1,800,000 and Pan Africa General Insurance Limited Shs. 4,690,510) arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from these guarantees.

36 Related party transactions (Group)

a) Mortgage loans to former Directors and companies related to them

i) Loans at concessionary rates	At start of year Shs.'000	Advanced in 2002 Shs.'000	Repayments Shs.'000	At end of year Shs.'000
Principal amount	19,963	-	(3,040)	16,923
Interest on loans	494	2,398	(984)	1,908
	20,457	2,398	(4,024)	18,831

36 Related party transactions (Group)

(ii) Loans at market rates

	At start of year Shs.'000	Advanced in 2002 Shs.'000	Repayments Shs.'000	At end of year Shs.'000
Principal amount	25,154	-	(2,817)	22,337
Interest on loans	1,368	4,698	(3,648)	2,418
	26,522	**4,698**	**(6,465)**	**24,755**

The amounts in (i) and (ii) above relate to loans to directors who relinquished their directorships in July 2001.

b) Mortage loans to current directors at concessionary rate

	At start of year Shs.'000	Advanced in 2002 Shs.'000	Repayments Shs.'000	At end of year Shs.'000
Principal amount	3,816	-	(30)	3,786
Interest on loans	(4)	483	(283)	196
	3,812	**483**	**(313)**	**3,982**

c) Insurance-related transactions with related parties

In the ordinary course of business the group receives and cedes premium to related companies, on terms similar to those extended to third parties. The following transactions were entered into during the year:

(i) Net premiums ceded net of commission (Group)	2002 Shs.'000	2001 Shs.'000
East Africa Reinsurance Company Limited	12,608	587
Reliance Insurance Company Tanzania Limited	-	(342)
African Life Assurance Company Limited	67,819	28,199
	80,427	**28,444**
(ii) Claims recoverable		
East Africa Reinsurance Company Limited	8,846	-
African Life Assurance Company Limited	50,422	-
	59,268	-
The above transactions resulted in the following balances at the year end:		
East Africa Reinsurance Company Limited	(6,992)	(855)
Reliance Insurance Company Tanzania Limited	1,792	1,792
African Life Assurance Company Limited	(35,708)	(5,700)
	(40,908)	**(4,763)**

(d) Expenses incurred by or on behalf of related parties

In the course of the year, various items of expenditure have been paid for by the company which will be recovered from African Life Assurance Limited,the principal shareholder. Similarly, certain expenditure of the Company has been met by African Life Assurance Company Limited which will be reimbursed to them. The cumulative effect of these transactions as at 31st December 2002 is;

	At start of year Shs.'000	Transactions during the year Shs.'000	At end of year Shs.'000
Receivable from African Life Assurance Company Limited	3,627	986	4,613
Payable to African Life Assurance Company Limited	(9,327)	(7,472)	(16,799)
	(5,700)	**(6,486)**	**(12,186)**
The amount payable to African Life Assurance Limited can be further analysed as follows:			
Pan Africa Life Assurance Limited	4,095	4,131	8,226
Pan Africa General Insurance Limited	4,095	3,341	7,436
Mae Properties Limited	1,137	-	1,137
	9,327	**7,472**	**16,799**

Included in the Shs. 7,472,000 as transactions during the year, are management fees of Shs. 4,333,891.

e) Directors remuneration - Group

	2002 Shs.'000	2001 Shs.'000
Directors remuneration : fees	2,225	2,150
: for management	16,600	18,936
	18,825	**21,086**

principal shareholders

Top ten shareholders as at 30th April 2003

	Shareholder	Shares held	%
1	Hubris Holdings Limited	22,119,653	46.08
2	The Co-operative Bank Kenya Limited	3,897,745	8.12
3	Thammo Holdings Limited	3,380,652	7.04
4	BC Patel	2,535,963	5.28
5	Kanchar Kenya Limited	2,025,028	4.22
6	Nak Enterprises Limited	1,767,255	3.68
7	Kenya Reinsurance Corporation Limited	921,440	1.92
8	Stanbic Nominees (K) Limited	630,000	1.31
9	Cannon Assurance (K) Limited	462,962	0.96
10	Financial Futures Limited	430,855	0.90
		38,171,553	**79.524**
	Total Number of Shares In Issue	**48,000,000**	

Shareholder's calender

Financial year end	31st December
Announcement of results	15th April 2003
Annual report posted on or about	26th May 2003
Annual General Meeting	19th June 2003

proxy form

The Secretary,
Pan Africa Insurance Holdings Limited,
Kenyatta Avenue,
PO Box 10493, Nairobi. 00100

PROXY,

I/We ____

of ____

being a member of Pan Africa Insurance Holdings Limited and entitled to

____

votes hereby appoint ______________________________

of ____

or failing him ___________________________________

of ____

as my/our Proxy to vote for me/us on behalf at the Annual General Meeting of the Company to be held on 19th June 2003 and at any adjournement thereof.

As witness my/our hand this ____________ day of ____________ 2003.

Signature(s) of _______________________________

____

Note: In case of a corporation, the Proxy must be made *under its Common Seal.*