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Pan Africa Insurance Holdings Limited

Annual Report 2003

2007-11-10

2007-11-10



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Pan Africa Insurance Holdings Limited Annual report and accounts 2003

1. Pan Africa Insurance (2020 - 2021) - Kenya - Pan Africa Insurance
2. Insurance Law - Kenya - Pan Africa Insurance

Five year group review

	2003	2002	2001	2000	1999
	shs.'m	shs.'m	shs.'m	shs.'m	shs.'m
Profit and loss account					
Investment income	108	70	30	59	78
Pre-tax (loss)/profits	(68)	(6)	(158)	(54)	56
(Loss)/profits attributable to shareholders	(23)	(15)	(152)	(65)	30
Proposed dividends	-	-	-	-	12

Long-term insurance business

Gross premium income	793	576	473	245	228
Net premium income	701	378	421	243	218
Investment income	229	153	79	112	104
Policy-holder benefits paid	243	201	155	116	96
Management expenses	155	158	132	114	125
Life fund	1,510	1,184	1,012	866	834

General insurance business

Gross premium income	484	454	593	563	536
Net earned premium	279	292	294	329	349
Claims incurred	201	175	195	206	256
Claims paid	185	139	176	223	198
Management expenses	152	117	134	110	110
Underwriting loss	(199)	(47)	(106)	(113)	(28)

Balance sheet

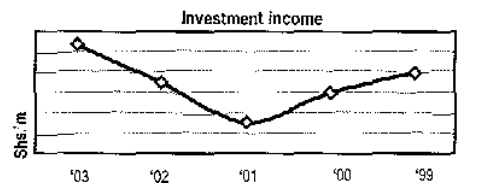
Shareholders' funds	604	671	880	1,550	1,207
Life funds	1,510	1,184	1,012	866	834
Share capital	240	240	240	240	120
Total assets	2,700	2,959	2,978	3,886	3,061

Key ratios

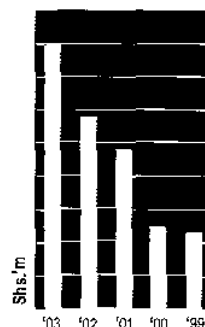
Basic (loss)/earnings per share (Shs)	(0.49)	(0.33)	(3.17)	(1.46)	1.17
Dividend per share (Shs)	-	-	-	-	1
Dividend cover (times)	-	-	-	-	2
Market capitalisation at year end	1,128	336	629	528	648

Company share prices at the NSE

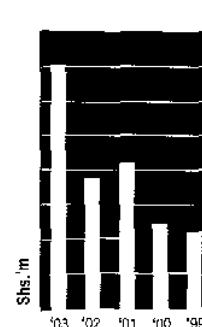
High (Shs)	25.25	13	14	27	55
Low (Shs)	7.00	7	10	11	25
Share price at year end (Shs)	23.50	7	13	11	27



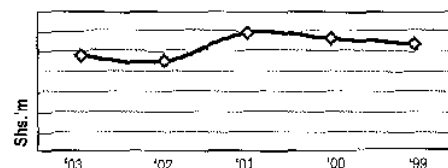
Gross premium - long-term business



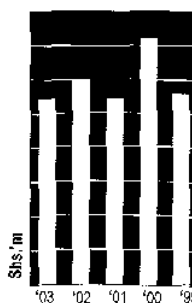
Net premium income - long-term business



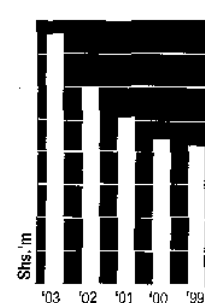
Gross premium - general insurance business



Total assets

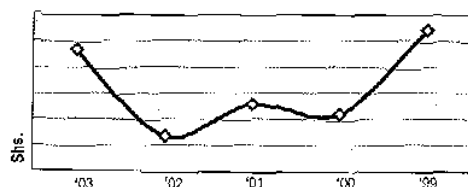


Life funds

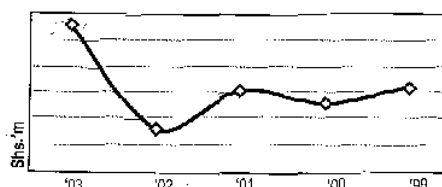


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Closing share price



Market capitalisation



Beyond stability

“The primary asset of any organisation active in the financial services industry is its manpower and the continued development of its people is the key to the organisations’ success”

Andrew Greenwood.





Board of directors



Standing (left to right)

A Van Heerden

BAcc(Hons), CA(SA), AMP(Oxford)

- > Appointed to the board in August 2001
- > Executive Director - Finance, African Life Assurance Limited
- > Director of a number of African Life Group Companies

BC Patel

- > Appointed to the board in July 2001
- > Managing Director - Transworld Safaris Kenya Limited
- > Director of a number of subsidiary and associated companies within the Pan Africa Insurance Holdings Group

DN Lacey(alternate)

BCom (Hons), MBL, FCII, FIISA

- > Appointed to the board in September 2000
- > Deputy General Manager - International, Africa Life Assurance Limited
- > Director of a number of African Life Group Companies
- > Director of a number of subsidiary and associated companies within the Pan Africa Insurance Holdings Group

JN Gitoho

B.Arch, MAAK(A)

- > Appointed to the board in December 2001
- > Registered Architect
- > Director - Triad Architects
- > Director of a number of subsidiary and associated companies within the Pan Africa Insurance Holdings Group

Sitting (left to right)

JA Burbidge

FCA, CA (SA), FCPA (Bots)

- > Appointed to the board in April 2000
- > Executive Director - International, African Life Assurance Company Limited
- > Director of a number of African Life Group Companies

AD Greenwood

CA (SA), CA (Aus)

- > Appointed to the board in December 2000
- > Chief Executive - Pan Africa Life Assurance Limited
- > Chairman - AKI Life Insurance Council
- > Deputy Chairman - AKI and member of AKI Board

JPN Simba

LLB, Advocate

- > Appointed to the board in December 2001
- > Appointed Chairman in March 2002
- > Chairman - APA Insurance Limited
- > Partner, Simba & Simba Advocates
- > Director of a number of subsidiary and associated companies within the Pan Africa Insurance Holdings Group

JP Rowse

BCom, MBA (U.C.T)

- > Appointed to the board in August 2003
- > Chief Executive - African Life Assurance Limited
- > Member of the board of directors of the Life Offices Association - South Africa
- > Director of a number of African Life Group Companies

JM Kituri

BA

- > Appointed to the board in July 1994
- > Area Manager - Eastern Africa Region, Intertek Testing Services, Caleb Brett
- > Director of a number of subsidiary and associated companies within the Pan Africa Insurance Holdings Group

Beyond expectations

Celebrating our success
Out of the 50 agents qualifying for the Akl Agents of
the Year Award, 28 qualifiers were from Pan Africa Life.





Report of the directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2003 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.

Principal activities

Up to 31 December 2003 the Group was involved in the underwriting of all 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 insurance.

Effective 1 January 2004 the principal activity of the Group will be to underwrite all classes of long-term insurance business as defined by the above Act.

The Group has associated interests in an investment company as well as a general insurer.

Results and dividends

The net loss for the year of Kshs 23,440,000 (2002: loss of Kshs15,614,000) has been added to retained earnings. The directors do not recommend the payment of a dividend.

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 minimise potential adverse effects on its financial performance.

The Group's risk management policies include the use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and 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 were:

JPN Simba – Chairman

AD Greenwood

JA Burbidge

JN Gitohi

WA Jack (retired on 29 August 2003)

JP Rowse (appointed on 29 August 2003)

JM Kituri

BC Patel

A Van Heerden

DN Lacey – (alternate)

In accordance with the Company's Articles of Association, Messrs JN Gitohi and A Van Heerden retire by rotation and, being eligible, offer themselves for re-election.

Auditors

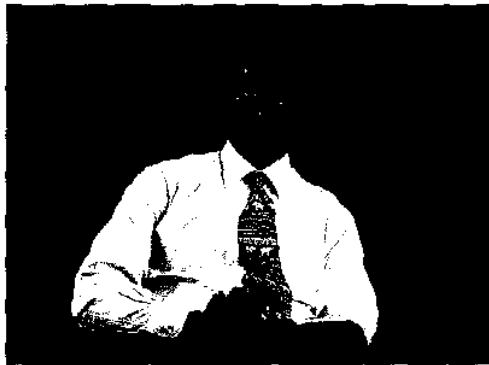
The Company's auditors, PricewaterhouseCoopers, continue in office in accordance with Section 159(2) of the Companies Act.

AD Greenwood
Executive Director

13 May 2004



Report of the chairman



JPN Simba
Chairman

Economic Environment

Kenya's economy continued to perform sluggishly in 2003. The expected economic take-off did not materialise in spite of positive sentiments among donors and development partners following the 2002 General Elections. Although donor aid was pledged, a combination of factors, including American and British travel advisories to their citizens to avoid any travel to Kenya, the slow pace of privatisation, dilapidated infrastructure as well as internecine wrangles within the ruling coalition, continued to impede the country's economic performance. A few growth areas however tempered the gloom, especially the stock market which recorded impressive growth throughout the year. Treasury bills rates fell to their lowest levels in Kenya's history to about 1% and this has continued well into the first quarter of the new year. The Kenyan shilling remained fairly stable in 2003, but the rate of inflation began to climb to 5% by the end of the year, leading to a slight increase in the prices of basic commodities.

Economic growth improved slightly to 1.4% from 1.1% registered in 2002, but this was way below the high expectations at the beginning of the year. The majority of the population continued to suffer from lack of purchasing power, although signs are that some of the measures instituted by the government are slowly beginning to bear fruit, as evidenced by the good performance of the stock market.

Insecurity continued to be an area of concern as it continued to hamper efforts to market the country to potential investors, as well as a tourist destination of choice for the selective tourist markets. Reports of insecurity especially along the coastal tourist circuit, combined with the lingering effects of the Iraqi War and

terrorist activity, led to a near collapse of tourism in the year despite the government's and private sector's efforts to market the country. There are, however, indications that these marketing efforts are also beginning to have a positive effect as tourism has begun to pick up in 2004. Continuing changes in the country's security machinery have been received positively, but a lot more needs to be done to improve the country's overall security.

Continuing challenges in 2004

Following years of economic decline, the Government faces the twin challenges of not only delivering on the enormous pre-election pledges of economic growth and prosperity, but also finding the resources to accomplish those pledges, and at the same time attempt to reduce the budget deficit from about 10% currently to about 6% of the Gross Domestic Product by 2007. Indications are that the donor community is willing to provide the funding for reconstruction, and the government has come up with a blueprint for the country's economic recovery, *Economic recovery strategy for wealth and employment creation*. The need to match expenditure to expected income will however determine how much the government can deliver on the measures outlined in the blueprint.

One of the biggest macroeconomic challenges the government faces is to reduce the level of poverty from the prevailing level of 56.8% to about 51% by 2007. Towards this end, the government has identified several sectors for particular attention, including the provision of free primary education, provision of adequate health services including measures to curb the spread of HIV/AIDS, employment creation, reconstruction of telecommunications infrastructure, as well as creating an impetus for agricultural and industrial growth.

Primary education has been addressed and continues to be one of the better efforts, albeit an expensive one, of the new government, while plans are at an advanced stage to convert the current National Hospital Insurance Fund (NHIF) into a National Social Health Insurance Fund (NSHIF) to provide full medical care to all citizens at minimal cost. This scheme, which is expected to be implemented in the second half of 2004, is expected to replace the current much maligned and corruption-riddled health care system.

In the same vein, the government has targeted the HIV/AIDS pandemic for special attention as it impacts negatively on all sectors of the country's economy, and



Report of the chairman (continued)

the President personally chairs a cabinet HIV/AIDS sub-committee established in 2003. Although substantial funding has been received from bilateral and multilateral donors for the fight against the scourge, the challenge will be the establishment of an envisaged special healthcare programme for people living with HIV/AIDS.

The dilapidated telecommunications sector, which accounts for about 10% of the country's GDP and employed over 183,000 people in 2002, is a prime facilitator of most other sectors of the economy. It is therefore imperative that it receives increased government funding not only for reconstruction and modernisation but also for expansion, and that private investment in all areas of the sector is encouraged.

Unfortunately, the last year has not witnessed any meaningful efforts to woo private investors to the sector and it is doubtful how much of the already stretched government funds can be channelled into the sector. Similarly, the question of inadequate housing, as well as upgrading of slums in urban centres, must receive more government funding as should the development of a framework to facilitate substantial private investment in the sector.

Initial enthusiasm by government to lower the cost of energy to consumers, especially the manufacturing sector, has not been translated into reality and the costs remain prohibitive to most consumers. While supply has been fairly steady due mainly to better rains, high energy costs remain one of the biggest hindrances to private investment in the manufacturing sector.

Agriculture, the mainstay of the country's economy, has fared a bit better as the government tries to combat corruption, improve management, restructure various organisations in the sector, provide credit as well as enhance marketing of agricultural produce. The efforts by Government to revive institutions such as KCC, KMC and AFC among others have been very well received. This has come at a time when some institutions within the sector have been hampered in almost all areas by huge and unserviceable loans inherited from the previous administration and the government has had to write off some loans, while at the same time assisting in paying farmers on time for their produce. Combined with a return to peace in most of the agriculture rich Rift Valley, there are indications that agriculture could finally begin to deliver on the rich potential that the country possesses in the sector in the coming year.

It is, however, the political arena that is causing the biggest disquiet to potential investors. The escalating tensions in the ruling coalition, mistrust among leading politicians as well as political machinations arising from the constitution-making process, especially in the early part of this year, have led to many potential investors putting on hold, or simply cancelling, any investments they may have planned. Similarly, the stock market lost more than 10% in a short period on the backdrop of the sustained political tensions. It will take the deliberate efforts of politicians across the political divide to calm down market jitters and reassure investors.

Effectively, the current year will continue to be a difficult one for the government and private sector alike, although there are signs that a few can look forward with hope for an improved performance.

The Insurance Industry

While fierce competition continued to characterise business in the insurance industry, greater concern has been raised by proposed legislation relating to restrictions on insurance companies to determine whether or not to provide insurance cover to HIV/AIDS carriers. While Pan Africa Life has developed products that do not require prospective policyholders to undergo medical tests, the effect of the proposed bill would hurt the Company's Group Life business where such medical tests are necessary to determine the level of exposure and determine the rating to be used. It is therefore imperative that a review of the Bill is made as indications are that it is causing jitters within the industry.

The recent announcement by the Government to retrench a sizeable part of its workforce is likely to impact negatively on long term business. On a positive note, however, we welcome moves by the government to increase the salaries of a large number of civil servants, including the police, teachers and university lecturers, which means that there will be a lot more disposable income to be invested in long term savings including life assurance policies. The downside of this is that with the prevailing low interest rates, banks and micro-finance institutions are cashing in on this liquidity to provide cheap loans and are in direct competition for disposable incomes.

Likewise, the rapid growth of the mobile phone industry is also eating into these disposable incomes. Until the economy demonstrates greater resilience and maintains steady growth, the insurance industry as a whole will continue to operate in a difficult environment.



Report of the chairman (continued)

Growth will largely continue to depend on the policies instituted by the government, as well as the industry's ability to adapt to changing circumstances and to develop products which are suitable for these circumstances.

Restructuring of the Company

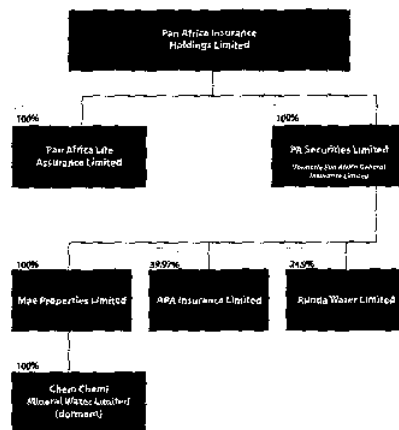
The process of restructuring the Company into two separate business units was completed in 2002. The process, which started with a resolution by shareholders on 8th December 2000 followed by the approval of the Commissioner of Insurance on 20th December 2002, has seen the transfer of the general insurance business and long term insurance business of the Company to two wholly-owned subsidiaries, namely Pan Africa General Insurance Limited and Pan Africa Life Assurance Limited effective 1 January 2002. Shortly thereafter, Pan Africa Insurance Company changed its name to Pan Africa Insurance Holdings Limited.

Consolidation

Following the separation of the business into two entities, during 2003 Pan Africa General Insurance Ltd (now trading as PA Securities Limited), merged its general insurance business with that of Apollo Insurance Company Limited to form APA Insurance Limited. With a 39.97% shareholding in the new venture, the Pan Africa Insurance Group will continue to be an active participant in the general insurance business in the country and will appoint three non-executive members to the Board of Directors of APA Insurance Limited. Apollo Insurance, which holds the rest of the shares in the new venture, will appoint one non-executive director and three executive directors.

The assets and liabilities not transferred to APA Insurance Limited, will be managed by PA Securities Limited.

Having concluded the restructure and consolidation exercise, the Group structure now looks as follows:



Going forward

With the continued impressive growth of Pan Africa Life Assurance Limited, for which a detailed operational review is contained elsewhere in this report, and the conclusion of the general insurance business merger with that of Apollo Insurance Company Limited to create APA Insurance Company Limited, the board is confident that a solid foundation on which to grow each component of the Group's business is in place.

Appreciation

Finally, let me take this opportunity to thank my colleagues on the Board for remaining sharply focused on our goals, management for their hard work and commitment to our course, the Office of the Commissioner of Insurance for continuing to level the playing fields in the industry notwithstanding challenges at many levels, and to our clients, the brokers and our agents for believing in us to deliver on our promise.

JPN Simba
Chairman
13 May 2004



Taarifa ya mwenyekiti



JPN Simba
Mwenyekiti

Hali ya uchumi

Hali ya uchumi wa Kenya ulikuwa mdogo sana katika mwaka wa 2003. Matarajio ya uchumi bora hayakupatikana licha ya kuwepo kwa matumaini miongoni mwa wafadhili na washirika wengine katika maendeleo baada ya uchaguzi mkuu wa 2002. Ijapokuwa ahadi ya misaada ya kifedha iliafikia, matukio mengine, yakiwa na Marekani na Uingereza kuwashauri wananchi wao kutosafiri Kenya, kuchelewa kwa serikali kubinafsisha usimamizi wa mashirika, kuharibika kwa muundo msingi pamoja na kugombana kunakoendelea kwa wanasiasa wa chama kinachotawala, yote hayo yalichangia kuzorotesha uchumi. Licha ya matukio haya ya kusononesha, kulidhirika ukuaji mdogo, hasa katika soko la hisa kulipatikana viwango vya kuridhisha kipindi cha mwaka wote. Thamani ya hawala za serikali iliporomoka na kufikia viwango vya chini zaidi katika historia ya Kenya kufikia takriban 1% na kuendelea kwenda chini hadi kuingia robo ya kwanza ya mwaka mpya. Thamani ya shilingi ya Kenya iliendelea kuimarika katika mwaka wa 2003, lakini viwango vya gharama ya maisha viliendelea kupanda na kufikia takriban 5% mwishoni mwa mwaka uliomalizika, hii ilisababisha kuongezeka bei kwa bidhaa muhimu.

Ukuaji wa uchumi iliimarika kidogo hadi takriban 1.4% kutoka 1.1% ilivyoonesha mwaka wa 2002, lakini kiwango kilikuwa kidogo sana na hakikufikia matarajio makubwa yaliyokuwa mwanzo wa mwaka. Wengi wa watu waliendelea kutaabika kutokana na kupungua kwa uwezo wa kujimudu kimaisha, ingawa kuna ishara kuwa mipango iliyozishwa na serikali kidogo inaanza kuleta unafuu, natija nzuri ya soko la hisa ni ushahidi wa haya.

Kunaendelea kuwa na wasiwasi mkubwa juu ya hali mbaya ya usalama na hii inadidimiza juhudi za kuipendekeza nchi yetu kwa waekezaji, sehemu muhimu ya kuwavutia watalii. Ripoti za kutokuwako usalama hasa kule pwani kunakotambelewa sana na watalii, ikiambatana na kuzuka kwa vita vya Iraq na tisho la kuongezeka kwa ugaidi, mamabo haya yalipeleka biashara ya utalii karibu kuvunjika licha ya juhudi za serikali pamoja na za mashirika ya kibinafsi kuipendekeza nchi yetu. Kuna ishara kuwa juhudi hizo za kuzuza na kuipendekeza nchi zinaanza kuleta matokeo mazuri, kwa vile sekta ya utalii imeanza kupata nafuu katika mwaka 2004. Vile vile mabadiliko yanayoendelea nchini kuimarisha usalama yamepokelewa vizuri, lakini kunahitajika juhudi zaidi kuimarisha usalama wa nchi kwa jumla.

Changamoto katika mwaka wa 2004

Kutokana na kuzorota kwa uchumi kwa miaka mingi, serikali ina changamoto mara mbili ya kutimiza ahadi ilizotoa wakati wa uchaguzi ya kustawisha uchumi na kuleta utajiri, na vilevile kutafuta rasilimali zitakazogharamia ahadi hizo, pili jitihada za kupunguza hasara ya makadirio kutoka takriban 10% ilivyo sasa hadi takriban 6% ya jumla ya pato la kitaifa ifikiapo 2007. Ishara zinaonyesha jumuiya ya wafadhili wako tayari kutupatia misaada ya kifedha ya kujijenga upya, na tayari serikali imeanzisha mipango makini ya kufufua uchumi wa nchi, mikakati ya kufufua njia za mapato ndiyo itaweza kubainisha uwezo wa serikali wa kutimiza mipango hiyo.

Moja ya changamoto zaidi ya kiuchumi inayokabili serikali ni kupunguza umaskini ambao sasa uko katika kiwango cha takriban 56.8% hadi 51% ifikapo 2007. Katika juhudi za kufikia haya, serikali imeachagua sekta mbali mbali muhimu na kuzipa uzito, hii ikiwa ni pamoja na ile ya utoaji bure elimu ya msingi, huduma maridhawa za matibabu na nia muafaka za kuzuiya kuenea kwa ugonjwa wa ukimwi, nafasi zaidi za kazi, kuundwa upya kwa muundo msingi wa sekta ya mawasiliano, na vile vile kustawisha sekta ya kilimo na viwanda.

Ijapokuwa elimu ya msingi ni gharama kubwa kwako, serikali mpya imeipa sekta hii kipaumbele na bado inaendelea na juhudi zaidi, pamoja na hayo mipango karibu kukamilika ya kugeuza NHIF (Hazina ya kitaifa ya bima ya hospitali) kuwa NSHIF (Hazina ya kitaifa ya bima ya jamii ya matibabu), huduma hii itakuwa ya wanachi wote, kwa matibabu yote na kwa gharama ya chini. Mpango huu unaotazamiwa kutekelezwa ifikapo



Taarifa ya mwenyekiti (inaendelea)

katikati ya 2004, unatarajiwa kuchukua nafasi ya huu ulioko sasa ambao umejawa na ufisadi na wa kuwahudumia wachache.

Sekta mbovu ya mawasiliano ambayo inachangia 10% ya pato la kitaifa na kuajiri zaidi ya watu 183,000 katika 2002, ni mhusika mkuu mno wa nyanja zingine za uchumi. Hivyo basi sekta hii ni ya kuangaliwa kwa makini zaidi na serikali kwa kupewa fedha za kutosha siyo kwa minajili ya kujijenga na kujibuni upya tu bali pia kuweza kujipanua, kuona kwamba uekezaji wa watu binafsi katika sekta zote unatiliwa mkazo.

La kusikitisha ni kuwa katika mwaka uliyopita hakukuwa na jitihada za maana za kuwavutia wawekezaji wa kibinafsi katika sekta hii na kuna shaka kuu juu ya uwezo wa serikali kuigharamia hii sekta. Hali kadhalika, swala la uchache wa nyumba za kuishi, na vilevile kuinua hali ya makazi ya vibanda katika miji, serikali sharti itoe fedha zaidi kuigharamia haya yote pamoja na kudumisha njia zitakazoleta uekezaji wa mashirika ya kibinafsi kwenye hii sekta.

Uchanganifu wa serikali uliokuwa pale mwanzo wa kupenda kupunguza gharama ya kawi kwa watumiaji, hasa katika sekta ya uzalishaji, bado haijaleta natija yoyote na kwa wengi wa watumiaji gharama bado ikojuu. Ijapokuwa usambazaji umekuwa imara kutokana zaidi na kuweko kwa mvua ya kutosha, gharama ya juu ya kawi imekuwa ni pingamizi kubwa kwa wawekezaji wa kibinafsi katika sekta ya uzalishaji.

Kilimo, uti wa mgongo wa uchumi wa nchi, umeimarika kutokana na juhudi za serikali za kupambana na ufisadi, kuboresha usimamizi, kupanga upya mashirika tofauti katika sekta hii, utoaji wa mikopo pamoja na njia bora za mauzo ya mazao ya kilimo. Juhudi za serikali za kufufua idara za kilimo, kama vile KCC, KMC na AFC miongoni mwa zingine, kumepokelewa vizuri sana. Hii inakuja wakati nyingine kati ya idara hizo katika sehemu zikiwa zimeathiriwa vibaya na ulimbikizaji wa madeni makubwa yasiyolipika yaliyorithiwa kutoka kwa uongozi uliopita na serikali kuwajibika kuyafuta mengi ya madeni hayo, na wakati huo huo kuwasaidia wakulima kwa kuwalipa mazao yao mapema. Ikiambatana na hali tulivu iliyoko katika maeneo mengi ya ukulima kwa wingi ya Rift Valley, kuna ishara kuwa sasa sekta hii inaelekea kufikia mafanikio na uwezo mkubwa wa nchi yetu kujitosheleza katika kilimo mwaka unaokuja.

Kwa hali yoyote ile, pata shika ilioko katika uwanja wa kisiasa ndiyo jambo la wasiwasi mno kwa wanaotaka

kuweka rasilimali. Tofauti zinazoendelea katika muungano wa chama tawala, kutoaminiana kati ya wanasiasa pamoja na harakati za kisiasa zinazotokana na mfumo wa ugeuzaji katiba, hasa pale mwanzoni mwa mwaka, kumepokeleka wawekezaji wengi wenye nia kungoja au hata kufutulia mbali, mipango yoyote waliokuwa nayo ya kuweka rasilimali. Vivyohivyo, soko la hisa lilipoteza zaidi ya 10% katika kipindi cha muda mfupi wa migogoro hiyo ya kisiasa inayoendelea kila kukicha. Linalohitajika ni juhudi za wanasiasa wa vyama vyote kuelewana hilo litaondoa wasiwasi na kuwatuliza waweka rasilimali katika biashara.

Inavyotarajiwa ni kuwa mwaka huu utaendelea kuwa mgumu kwa serikali na sekta ya watu binafsi vilevile, japokuwa kuna dalili zinazoonyesha wachache wanaweza kukabili siku na matarajio ya kufanya vyema.

Hali ya biashara ya Bima

Pamoja na kuweko kwa mashindano makali katika biashara ya bima, hali ya kuhangaisha mno imetokana na pendekezo la kupitisha sheria bungeni ya kuweka masharti mashirika ya bima kuweka au kutoweke bima waliyo na vrusi vya ukimwi. Pamoja na kuwa kampuni ya Pan Africa Life imebuni huduma ambazo hazizurutishi anayetaka kuchukua bima kufanyiwa uchunguzi wa kitabibu, sheria hizi zinazopendekezwa zitaathiri vibaya huduma tunayotoa ya bima ya maisha kwa mashirika (Group Life Business), ambayo uchunguzi wa kitabibu unahitajika kujua kiwango cha ugonjwa huo na kukisia kiwango cha kulipwa. Hivyo basi ni muhimu sana kuangalia tena sheria hizo kwa vile ni wazi kuwa zimeleta wasiwasi katika biashara ya bima.

Tangazo la hivi majuzi la serikali kuwa itapunguza wafanyikazi wake wengi vile vile litaathiri biashara kwa kipindi kirefu kinachokuja. Hata hivyo kuna mambo mazuri na tunayafurahia kwa mfano serikali kuongeza mishahara ya wengi wa wengi wa wafanyikazi wake, kama vile polisi, waalimu na wahadhiri wa vyuo vikuu, hii ina maana watakuwa na uwezo wa kuweka akiba ya kudumu ikiwa ni pamoja na bima ya maisha. La kuvunja moyo kwetu ni viwango vya chini vya riba vinavyotowazwa na benki na mashirika mengine ya kutoa mikopo ili kuwavutia wachukue mikopo na hii ina maana sote tunashindania mapato haya ya ziada. Kadhalika, kukua kwa haraka kwa biashara ya simu za mikono kunapunguza mapato haya ya ziada. Hadi pale uchumi



Taarifa ya mwenyekiti (inaendelea)

utapoonyesha ulimarikaji wa kudumu, biashara ya bima itaendelea kuweko katika hali ngumu. Ukuaji utategemea zaidi mipango itakayofuatwa na serikali, pamoja na uwezo wa mashirika katika biashara hii kujirekebisha kulingana hali iliyoko na kuanzisha huduma ambazo zinaenda sambamba na hali ilivyo.

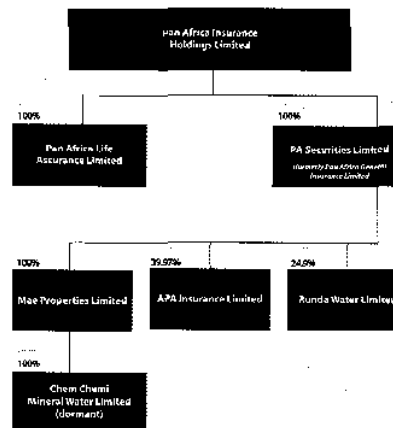
Kujipanga upya kwa shirika

Mpango wa shirika kujipanga upya na kuwa biashara mbili tofauti ulikamilika katika mwaka wa 2002. Mpango wenyewe uliyoanzishwa kupitia azimio la wenyehisa mnamo tarehe 8 Disemba 2000 na hatimaye kupitishwa na Msimamizi wa mashirika ya bima mnamo tarehe 20 Disemba 2002, ulipekea kuhamishwa kwa biashara ya bima za kawaida na ile bima za muda mrefu kwenda kwa mbili tanzu, ikiwa ni Pan Africa General Insurance Limited na Pan Africa Life Assurance Limited kuanzia kutekelezwa tarehe 1 Januari 2002. Hatimaye baada ya muda mfupi, Pan Africa Insurance Company ilibadilisha jina lake na kuitwa Pan Africa Insurance Holdings Limited.

Kuongana

Kutokana na kugawanywa kwa kampuni kuwa mashirika mawili kamili, Pan Africa General Insurance Limited ilileta pamoja shughuli zake za bima ya kawaida na zile za Apollo Insurance Company Limited na kuunda APA Insurance Limited. Ikishikilia hisa 39.97% katika kampuni hii mpya, kundi la Pan African Insurance litaendelea kujihusisha pakubwa katika biashara ya bima hapa nchini na itachagua wanachama watatu katika bodi ya wakurugenzi. Apollo Insurance, inayoshikilia hisa zilizobakia katika shirika jipya, itachagua mwanachama mmoja asiye na mamlaka na wengine watatu wenye mamlaka kuwa wakurugenzi. Rasilimali na dhima ambazo hazikuhamishwa kwenda kwa kampuni hii mpya, APA Insurance Limited, zitasimamiwa na kampuni tanzu, PA Securities Ltd.

Baada ya kumaliza kuelezea juu ya shughuli ya kujipanga upya na kuongana kwa kampuni, muundo wa usimamizi wa kundi ni kama inavyoonyeshwa:



Kuendelea mbele

Kulingana na ukuaji unaopendeza wa Pan Africa Life Insurance Limited, ambapo shughuli zake zimeelezwa kwa kireefu mahala pengine katika taarifa hii, kukamilika kwa muungano wa shughuli zetu za bima ya kawaida ya Apollo Insurance Company Limited hii kubuni kampuni mpya ya APA Insurance Company Limited, bodi ina uhakika kuwa kutakuwa na msingi imara ambapo kila kipengele cha biashara ya kundi kitasitawi mahala pake.

Shukrani

Mwisho, nachukua fursa kuwashukuru wenzangu katika halmashauri kwa kuwa imara katika juhudi za kufikia malengo yetu, wasimamizi wa kampuni kwa kazi ngumu na kujitolea kwao, Msimamizi Mkuu wa Mashirika ya Bima kwa kuhakikisha kuna usawa katika biashara ya bima licha ya kuweko kwa hali ngumu katika viwango vyote na kwa wateja wetu, mawakala na maajenti kwa kuwa na imani nasi kuwa tutatimiza tunayohadi.

JPN Simba
Mwenyekiti
13 Mei 2004



Operational review

Long-term insurance business



Andrew Greenwood
Chief Executive
Pan Africa Life Assurance Limited

Results

Pan Africa Life Assurance Limited achieved tremendous growth in 2003. Individual Life and Corporate Business (group life and employee benefits) gross premiums grew by 45% and 25% respectively. Net premium income, after providing for reinsurance, increased by 85% over the prior year.

In 2003 the company sold more life policies than any other insurer in the country. 22,000 new individual life policies were issued, an increase of 214% over 2002, with average premiums up 9% on last year. The tremendous success of our individual life sales initiatives stem from the continued popularity of our unit-linked product - the Wealth Provider - which, together with benefit improvements added to our Family Finance Plan, remain our flagship individual life insurance products.

We have also experienced excellent growth in our Corporate Business lines. While retaining all our major Corporate Business schemes, the introduction of a new group credit life product, that has proved to be extremely popular in the market, has largely driven the growth. Quality service delivery to our intermediaries and direct clients, including benefit settlement turnaround times of the highest standard in the industry, will ensure the continued growth of this line in the future.

The low interest rate regime resulted in a major investment swing to the equity markets and the year has seen enormous activity at the Nairobi Stock Exchange. The Company has benefited from this demand with fair value gains on its NSE-listed share portfolio being a major contributor to the 49% increase in investment income over 2002.

Separate investment portfolios have been established for each of our key business lines and product offerings to ensure that they match

the profiles of the respective life and pension fund liabilities. Outsourcing of the day-to-day management of these portfolios to a leading Kenyan asset management organisation, initiated in 2002, continued to reap benefits during 2003, particularly enhancing our ability to review and adjust our respective portfolio mixes in the light of the investment condition changes referred to above.

While commission costs have risen significantly, other costs, including other selling and management expenses, have remained relatively flat compared with 2002. The growth in commission costs is in line with the growth in business volumes. Other selling costs reflect only inflationary increases while management expenses have decreased marginally over the prior year. The growth in income by Kshs 402 million (72%) versus the growth in expenses of Kshs 111 million (40%) reflects the success of management's continued initiatives to drive down costs in relation to the growth in income.

Gross policyholder benefits have increased to Kshs 350 million, a 13% increase on 2002. Net claims paid, after reinsurance recoveries, amount to Kshs 244 million. The increase in number of benefits paid arises primarily as a result of the business growth and the consequent increase in number of claims paid. The level of claims is well within the pricing assumptions developed by the actuary.

Life funds at 31/12/2003 stand at Kshs 1.5 billion, a 28% increase over the prior year. The embedded value of the life portfolio has increased by 39% from the 2002 restated value, with more than 90% of the total embedded value emerging from the individual life

*We have
experienced
excellent
growth in our
Corporate
Business.*



Pan Africa Insurance Holdings Limited
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Long-term insurance business (continued)

book of business. The company intends to continue its aggressive expansion programme into 2004. With this continued growth and the resultant new business strain, the board of directors has not recommended a transfer of surplus to the shareholders funds for the year.

Legislation

While the company has had a very successful year, impending legislation threatens the potential growth of the market. The Finance (Amendment) Bill of 2003 contained unclear clauses relating to the basis on which life insurance profits were to be taxed. Following concerted lobbying from the industry, these proposed amendments were dropped from the final bill approved by Parliament.

The HIV/AIDS Bill, which lapsed in December 2003, also caused considerable upheaval in the industry as has been mentioned in the Chairman's Report. This proposed legislation is expected to re-surface in the second half of 2004. We support the sentiments of AKI that the bill imposes unfair restrictions on the ability of insurance underwriters to select clients on a basis consistent with world markets and, although the proposals are unlikely to affect our current individual life products and underwriting protocols, there is a potential impact on other areas of the business, particularly Group Life, where premium rating is finely linked to mortality experience for each scheme.

The government has indicated its intention to set up a policyholders protection fund. The intention of the fund is to provide some relief to a policyholder in the event that a valid claim is not paid by an insolvent insurer. The scheme envisages insurers making a contribution to a pool managed by a government body out of which such benefits will be paid. While the intention of this envisaged legislation is honourable, the implications for the industry are again potentially damaging. Industry believes that this will result in well-managed, stable insurers paying the claims of policyholders of poorly managed entities. In all probability the contributions to be made to the fund will be borne by policyholders, thus increasing the cost of cover.

Government sees the industry as a major player in its drive to mobilise long-term savings in the country. This view is welcomed and supported by the industry. However, the legislative initiatives taken by the government in 2003 appear contradictory with its apparent aim to provide incentives to stimulate this

sector of the economy. Closer dialogue between the industry, through its umbrella organisation AKI, and Government is required to address these inconsistencies.

Developing staff and agents

The primary asset of any organisation active in the financial services industry is its manpower and the continued development of its people is the key to the organisation's success.

With Life insurance being a specialist industry, training and education of personnel is critical. The company has a full time National Training Manager providing both technical training as well as skills development programmes to all staff and agents. Staff are encouraged to pursue professional qualifications in their field, and these courses are sponsored by the company. The percentage of payroll allocated to training and development, at 4.1%, is well above industry averages and reflects the extent of the company's commitment to developing its people. Strong human resource and training support is received from our major shareholder and technical partner, African Life Assurance Limited, who has assisted with best practice policies and a comprehensive review of our Staff Terms and Conditions of Service together with additional skills training from the African Life International Training Manager.

*The level of
claims remain
within actuarial
pricing
assumptions*

We have continued to strongly support the initiatives of the Commissioner of Insurance and the Association of Kenya Insurers (AKI) in raising the level of competence and professionalism in the industry. During the year, 132 of our individual life agents passed the Certificate of Proficiency (COP) examinations. Agency training, coordinated by the National Training Manager, has concentrated on ensuring our agents successfully complete the COP papers, which are a pre-requisite for obtaining a life insurance sales license from the Commissioner. In addition to COP training, agents have sat comprehensive product knowledge tests. This ensures our agents have sufficient knowledge on the various aspects of the individual life products the company sells prior to being given authority by the company to market our policies to the public. Our participation in AKI initia-



Long-term insurance business (continued)

tives has led to the introduction of identity cards for all registered life agents in the industry. Introduced in 2004, this measure will ensure that only authorised agents can market the products of the insurance companies they represent. Undoubtedly this will enhance the reputation of the industry in the eyes of the public.

The quality of our sales force can be measured by the success the company again achieved in the 2003 AKI Agents of the Year Competition. 50 of the 134 agents throughout the industry that qualified for the competition were Pan Africa Life agents. 28 of our agents were in the top 50 agents that received prizes and 5 were in the top ten. The company again received the AKI Agents of the Year – Company Award in recognition of these achievements.

Customer base and bonus

As at the close of business on 31/12/2003, Pan Africa Life Assurance Limited had a total of 53,000 individual life assurance policies on its books. In addition, through group life, group credit and pension schemes,

an additional 88,500 individuals were covered by the company. Individual life with-profit policyholders will receive a simple vesting bonus of 2.5% together with an annually reviewable simple non-vesting bonus of a further 3.5%. The total bonus of 6% compares with a bonus of 5% for 2002. Members of Deposit Administration Schemes under management will receive interest on their funds at a declaration rate of 9% (2002: 9%).

Outlook

Despite the concerns of unclear legislation and government policy mentioned earlier, there is vast potential to develop the long-term insurance industry further. The company will continue to identify evolving needs in its chosen market and design products to meet those needs. The strong industry awareness programmes of the company are designed to reach a wider range of the community. This, together with continuous development of the agency force and recruitment of additional high calibre sales personnel will ensure that the growth the company has seen over the last 4 years will continue.

AD Greenwood
Chief Executive
13 May 2004

Standing (left to right)

J Ntutu, F Ogwei, L Magambo, S Chege, M Nzomo, J Wamwea, W Ngari



Sitting (left to right)

L Kiboi, J Muiruri, A Greenwood, G Kioi, G Richter





Operational review

General insurance business

The general insurance industry

The environment in which general insurance business was conducted continued to be characterised by intensified competition. The effects of premium undercutting together with the difficulties related to premium collection have again been felt by the industry. In addition, reinsurance costs continued to rise, with a number of international reinsurers either exiting our market or scaling down their operations. Although premium rates started improving during the year, in the opinion of many, the rates are still too low to sustain profitability in the long run.

Results

Against this trading background, despite a 7% growth in gross premium income to Kshs 484 million, net written premium reduced by 5% to Kshs 277 million compared with the previous year's Kshs 292 million. At the gross premium level, significant growth in premiums was recorded in the motor private and commercial line of business as well as in medical underwriting.

Total claims incurred of Kshs 201 million have increased by 14% over the prior year. Management expenses grew by 29% mainly as a result of non-recurring costs, which management do not consider exceptional, relating to the merger of the general insurance business with that of Apollo Insurance Company Limited. Uncollected premiums arising primarily from local facultative reinsurance as well as treaty reinsurers had a major impact on overall

performance as provisions of Kshs 78 million were made as possible bad debts. The resulting underwriting loss of Kshs 199 million is disappointing.

Substantial expenses of an exceptional nature were incurred in the process of restructuring the general insurance business. These expenses include the write down of certain assets not transferred to APA Insurance Limited and a write down to realisable value of specific fixed assets; terminal benefits paid to redundant staff and legal and professional fees arising from the transfer of the business to APA.

A gain has been recorded on the transfer of the general insurance business to APA Insurance Limited. The anticipated costs of warranties relating to the values of specific debtors and outstanding claims provisions have been recognised in accordance with the Sale and Transfer Agreement. These warranty costs have been offset against the gains on transfer.

A significant tax credit arises from the release of deferred tax liabilities following the transfer of certain assets to APA Insurance Limited.

Transfer of the general insurance business

The merger of the general insurance business with that of Apollo Insurance Company Limited was completed late in the year. It is envisaged that this will bring about the much needed management expertise, improved IT systems and critical mass required to bring this line of business back to profitability.

KM Kimani
Principal Officer
13 May 2004

Standing (left to right)

M Mumangi, A Shah (Chief Executive Officer)
D Makau, L Chege, B Ambunya, M Kabiru, M Shah
P Khimasia, J Obare, G Ndungu, A Gichuki
T Kamau N Bachia

Sitting (left to right)

KM Kimani, A Yahya, F Wokabi, H Sanghrajka



APA
INSURANCE



Notice of the annual general meeting

Notice is hereby given that the 59th Annual General Meeting of Pan Africa Insurance Holdings Limited will be held on 29 June 2004 at the Hilton Hotel, Ivory room, at 3.00 pm to transact the following business:

1. To confirm the Minutes of the 58th Annual General Meeting held on 19 June 2003.
2. To receive the audited financial statements for the year ended 31 December 2003 and the Reports of the Chairman, the Directors, the Auditors and the Consulting Actuary.
3. To elect Directors.
 - (i) In accordance with the Company's Articles of Association, Mr JP Rowse who was appointed to the board since the last AGM retires from office and being eligible offers himself for re-election.
 - (ii) In accordance with the Company's Articles of Association, Messrs JN Gitohi and A Van Heerden retire by rotation, and being eligible, offer themselves for re-election.
4. To approve the remuneration of the Directors.
5. To authorise the Directors to fix the remuneration of the auditors.
6. To transact any other business with the permission of the Chair.

Note:

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.

A detachable form of proxy is provided at the end of this report. To be valid, the duly completed and signed proxy form should be deposited or received at the Company's Registered Office not later than 48 hours before the start of the meeting.

By Order of the Board
G Kioi
Secretary
13 May 2004

Registered Office
Pan Africa House, Kenyatta Avenue
P O Box 10493, Nairobi 00100
Tel 247600
Email: insure@pan-africa.com



Ilani ya mkutano mkuu wa mwaka

Ilani inatolewa kwamba mkutano wa hamsini na tisa wa kampuni ya Pan Africa Insurance Holdings Limited utafanyika katika hoteli ya Hilton tarehe 29 Juni 2004, saa tisa kamili kujadili mambo yafuatayo:

1. Kuthibitisha kumbukumbu za mkutano wa hamsini na nane mkuu wa mwaka uliofanyika mnamo tarehe 19 Juni 2003.
2. Kupokea taarifa ya hesabu ya pesa kwa mwaka uliomalizika tarehe 31 Desemba, 2003 pamoja na taarifa ya Mwenyekiti, Wakurugenzi na Wakaguzi-hesabu.
3. Kuwachagua Wakurugenzi.
 - (i) Kuambata na Vifungu vya Kushirikishwa kwa Kampuni Bwana JP Rowse anastaafu na kwa kuwa anstahili, amejitolea kuchaguliwa tena.
 - (ii) Kuambatana na Vifungu vya Kushirikishwa kwa Kampuni, Mabwana JN Gitoho, na A Van Heerden wanastaafu kwa zamu na kwa kuwa wanastahili, wamejitolea kuchaguliwa tena.

4. Kuamua ujira wa wakurugenzi.
5. Kuwaidhinisha wakurugenzi waamue malipo ya wakaguzi-hesabu.
6. Kujadili mambo mengine yoyote yatakayotolewa kwa idhini ya Mwenyekiti.

Maelezo:

Mwenye hisa aliye na haki ya kuhudhuria mkutano na kupiga kura anaweza kuteua mwakilishi ambaye si lazima awe mwanachama wa kampuni kuhudhuria na kupiga kura kwa niaba yake.

Fomu ya kuondolewa ya mwakilishi imetolewa mwa ripoti hii kwa ajili hiyo. Ili iwe halali fomu ya mwakilishi iliyojazwa na kutiwa sahihi inapaswa kupelekwa ama kupokewa katika ofisi kuu ya kampuni iliyoandikishwa muda usiopungua masaa 48 kabla ya mwanzo wa mkutano.

Kwa Amri ya Halmashauri
G Kiof
Katibu
13 May 2004

Ofisi Kuu
Pan Africa House
S L Posta 10493, Nairobi 00100
Simu 247600
Baruameme: insure@pan-africa.com



Corporate governance

Corporate governance is the process and structure used to direct and manage business affairs of a company towards enhancing prosperity and corporate accounting with the ultimate objective of realising shareholders long-term value while taking into account the interest of other stakeholders.

The Board of Directors upholds best practice in corporate governance and has adhered to the guidelines on corporate governance practices developed by the Capital Markets Authority for public listed companies in Kenya. By supporting the guidelines the directors recognise the role of good governance in corporate performance, capital formation and maximisation of shareholders value as well as protection of investor's rights. In that regard the directors wish to report on the following matters: -

Board of directors

The Board consists of a Chairman, JPN Simba, six non-executive directors, one executive director and one non-executive alternate director. The directors' profiles are set out on page 4.

All the non-executive directors are independent of management and have extensive business and financial services experience to lead and control the company and account to its shareholders.

Retiring directors are obligated to submit themselves for re-election every year and any director appointed during the year is obligated to retire and seek re-election at the next Annual General Meeting. Fees for the non-executive directors and remuneration for the executive director are set out on page 51.

Responsibilities

The Board meets quarterly to consider key issues such as compliance with statutory and regulatory requirements, approval of the annual financial statements, formulating and guiding overall group strategy, planning resources, monitoring performance, maintaining standards of business conduct and any matter which would have a material effect on the group's financial position or reputation.

The directors have access to the company secretary for advice and can take legal advice relating to company matters at the company's expense. The board has delegated to the Executive director power for the day-to-day management of the company. To enable the board to maintain full and effective control over strategic, financial, operational and compliance issues the directors are given relevant, accurate and timely information.

Certain functions of the board are facilitated through the main committees. Further details of these committees are given below. Other ad hoc committees are set up as and when the need arises.

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 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 setting guidelines, formulating 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 director and senior executives of the Group are fairly rewarded for their



Pan Africa Insurance Holdings Limited
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Corporate governance (continued)

services and that overall salary reviews for staff are consistent with those of the market, and with the operational performance of the companies within the group.

Audit committee

A Van Heerden (Chairman), JA Burbidge, BC Patel, AD Greenwood, G Kioi*

Investment committee

BC Patel (Chairman), A Van Heerden, JA Burbidge, AD Greenwood, JPN Simba, JM Kituri, G.Kioi* and L Munjuga*

Remuneration committee

JN Gitoho (Chairman), JA Burbidge, JM Kituri, AD Greenwood, DN Lacey and J Muiruri*

* Members of management in attendance at the meetings.

Summary of meetings attended during 2003

	Board Meetings		Audit Committee		Investment Committee		Remuneration Committee	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
JPN Simba	4	4			4	4		
JA Burbidge	4	3	4	3	4	3	4	3
JN Gitoho	4	4					4	4
AD Greenwood	4	4	4	4	4	4	4	4
JP Rowse	2	2						
JM Kituri	4	4			4	4	4	4
BC Patel	4	4	4	2	4	4		
A Van Heerden	4	2	4	2	4	2		
DN Lacey (alternate)	4	4	4	4	4	4	4	4

(a) Number of meetings convened during the year when director was a member

(b) Number of meetings attended during the year

Internal control

Precise procedures and financial controls have been set up to ensure the reporting of complete and accurate accounting information.

Weekly senior management meetings are held to monitor and deal with operational issues.

Shareholders

The company publishes audited annual accounts which are sent out to all shareholders who are entitled to attend the Annual General Meeting. Shareholders have access to the company's share registry and we respond to any letters from them on a wide range of issues.



Corporate governance (continued)

Directors' shareholding

The shareholding by directors in their own individual capacities was as follows:

	Number of shares as at 1 Jan 2003	Purchased during 2003	Disposed in 2003	Number of shares as at 31 March 2003
BC Patel	2,535,963	3,317,262	518,135	5,335,090
AD Greenwood	78,214	-	-	78,214
JPN Simba	10,000	-	-	10,000
JM Kituri	4,416	-	-	4,416
JN Gitoho	-	4,000	-	4,000

Ethics

The directors strive to ensure that the group conducts its business with the utmost integrity towards all stakeholders and competitors.

Group going concern

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. Our auditors are also satisfied that the group is a going concern. In the case of Pan Africa Life Assurance Limited, this statement is further supported by the report of the statutory actuary as set out on page 24.

Directors' responsibilities for financial reporting

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 Group and company as at the end of the financial year and 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 company and of the loss of the Group. 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.

Independent auditors

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 23.



Corporate governance (continued)

Shareholders

Details of shareholders, based on the company's share register as at 31 March 2004 were as follows:-

a. Principal shareholders

	2003		2002	
	number of shares	%	number of Shares	%
Hubris Holdings Limited	22,119,653	46.0	22,119,653	46.0
BC Patel	5,335,090	11.1	2,535,963	5.2
Co-operative Bank of Kenya Ltd.	3,697,745	7.7	3,697,745	8.1
Thammo Holdings Limited	3,380,652	7.0	3,380,652	7.0
Kanchar Kenya Limited	2,025,028	4.2	2,025,028	4.2
Kenya Reinsurance Corporation Ltd.	921,440	1.9	921,440	1.9
Cannon Assurance (K) Ltd.	469,850	0.9	462,962	0.9
Financial Futures Ltd.	430,855	0.9	430,855	0.9
Stanbic Nominees (K) Ltd.	330,000	0.6	630,000	1.3
JR Githere	280,357	0.5	-	-
Total	38,990,670	81.2	36,404,298	79.5

b. Distribution schedule

category	number of shareholders	number of shares	%
Less than 1,000	1,607	1,020,705	2.1
1,001 - 5,000	634	1,295,686	2.7
5,001 - 10,000	113	800,232	1.6
10,001 - 50,000	118	2,373,261	4.9
50,001 - 100,000	26	1,774,705	3.7
More than 100,000	22	40,735,411	84.8
Total	2,520	48,000,000	100

c. Shareholders' profile

category	number of shareholders	number of shares	%
Local corporate	67	34,247,540	71.3
Local individual	1,372	12,218,838	25.4
East African individual	889	892,545	1.8
Foreign investor	191	640,009	1.3
East African corporate	1	1,068	0.2
Total	2,520	48,000,000	100

JPN Simba
Chairman
13 May 2004

AD Greenwood
Director
13 May 2004



Report of the independent auditors

to the members of Pan Africa Insurance Holdings Limited
for the year ended 31 December 2003

We have audited the financial statements of Pan Africa Insurance Holdings Limited for the year ended 31 December 2003, set out on pages 25 to 52.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements as set out on page 21. 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 for the purposes of our audit, and believe that our audit provides 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 Group's and Company's financial affairs at 31 December 2003 and of the loss and cash flows of the Group for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act. The Balance Sheet of the Company is in agreement with the books of account.

PRICEWATERHOUSECOOPERS 

Certified Public Accountants
Nairobi
13 May 2004



Pan Africa Insurance Holdings Limited
Annual report and accounts 2003

Report of the statutory 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 31 December 2003.

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 the Company 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 31 December 2003.

GT Waugh
Statutory Actuary
MA, FIA, FASSA, ASA
Fellow of the Institute of Actuaries

13 May 2004



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 in respect of the associated undertaking.

(c) Underwriting Results

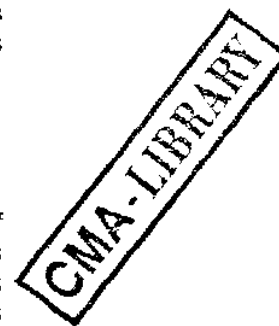
General Insurance Business

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).





Principal accounting policies (continued)

(iv) Expenses and commissions 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 date 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.

(ii) 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.

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

(iv) The life fund is assessed annually by the Company'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 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 accumulated depreciation.

Increases in the carrying amount 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 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.

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

(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.



Principal accounting policies (continued).

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) Securities issued by the Kenya Government are classified as held to maturity investments. 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.



Principal accounting policies (continued)

(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 substantially 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 pension scheme for eligible employees. The assets of the scheme are held in a separate trustee administered fund, which are funded from contributions from both the company and employees.

Employer's contributions are charged to the profit and loss account and the life revenue accounts in the period 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. In particular, comparatives have been adjusted following the early adoption of IAS 40, Investment Property (Revised 2003) as set out on note 12.

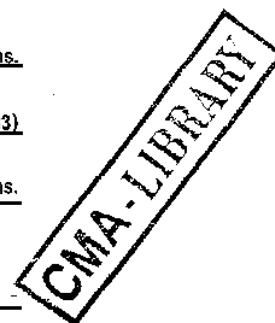


Group profit and loss account

		2003	2002
	Notes	Shs.'000	Shs.'000
Investment income	5(a)	108,236	70,394
Loss transferred from general insurance business revenue accounts		(199,710)	(47,615)
Non-insurance subsidiaries' operating profits		6,351	2,425
Operating (loss)/profit	3	(85,123)	25,204
Share of associate's results	17	(1,416)	1,068
(Loss)/profit before exceptional items		(86,539)	26,272
Exceptional items			
Restructuring costs	7	(35,394)	(12,938)
Gain on transfer of general business net of warranties	36	53,157	-
Provision for PAYE and withholding taxes	7	-	(19,786)
		17,763	(32,724)
Loss before tax		(68,776)	(6,452)
Tax (credit)/charge	8	(45,336)	9,162
Loss attributable to the shareholders of the Company		(23,440)	(15,614)

		Shs.	Shs.
Basic loss per share	9	(0.49)	(0.33)

		Shs.	Shs.
Dividends:			
Proposed			





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Long-term insurance business revenue accounts

	Notes	Individual life Shs.'000	Group life Shs.'000	Pension funds Shs.'000	General fund Shs.'000	Total 2003 Shs.'000	Total 2002 Shs.'000
Gross premium income		514,242	279,188	-	-	793,430	576,620
Reassurance premiums		(812)	(91,143)	-	-	(91,955)	(198,170)
Net premium income		513,430	188,045	-	-	701,475	378,450
Pension contributions received		-	-	27,338	-	27,338	24,269
Investment income	5(b)	187,695	12,239	12,542	16,716	229,192	153,261
Total income		701,125	200,284	39,880	16,716	958,005	555,980
Commissions (net)		162,586	2,188	-	-	164,774	57,181
Selling expenses		49,278	3,638	-	-	52,916	48,538
Expenses of management		136,865	18,980	-	-	155,845	158,283
Loss on revaluation of fixed assets		-	-	-	-	-	2,500
Premium tax and stamp duty		8,999	3,809	-	-	12,808	8,309
Total expenses		357,728	28,615	-	-	386,343	274,811
Excess of income over expenses		343,397	171,669	39,880	16,716	571,662	281,169
Policyholders' benefits	6	(170,912)	(50,029)	(22,566)	-	(243,507)	(201,142)
Surplus before exceptional items and tax		172,485	121,640	17,314	16,716	328,155	80,027
Exceptional items							
Provision for PAYE and WHT arrears		-	-	-	-	-	8,811
Restructuring costs	7	2,105	-	-	-	2,105	-
		2,105	-	-	-	2,105	8,811
Increase in life funds during the year	3	170,380	121,640	17,314	16,716	326,050	71,216
Life funds at 1 January		904,416	90,295	108,865	81,007	1,184,583	1,012,424
Transfer from shareholders' funds		-	-	-	-	-	100,943
Life funds at 31 December	28	1,074,796	211,935	126,179	97,723	1,510,633	1,184,583

General insurance business revenue accounts

	Motor pool Shs '000	Aviation Shs '000	C.A.R. & engineering Shs '000	Fire domestic Shs '000	Fire industrial Shs '000	Liability Shs '000	Marine & transit Shs '000	Motor private Shs '000	Motor commercial Shs '000	Medical insurance Shs '000	Personal accident Shs '000	Theft insurance Shs '000	Workmen's compensation Shs '000	Misc. accident Shs '000	Total 2003 Shs '000	Total 2002 Shs '000
Gross premium income	-	38,878	7,649	8,210	61,171	5,256	4,992	98,641	147,287	40,693	30,230	28,922	11,809	2,790	484,528	454,484
Outward reinsurance	-	(31,002)	(6,304)	(2,387)	(48,380)	(555)	(5,342)	(8,734)	(42,221)	(28,485)	(16,726)	(18,503)	(339)	(882)	(206,859)	(162,303)
Net written premium	-	7,876	1,345	5,823	12,791	4,701	(350)	89,907	105,066	12,208	14,504	10,419	11,471	1,908	277,669	292,181
Unearned premium b/f	-	2,518	748	3,716	14,235	803	513	23,886	43,834	2,653	3,684	5,606	6,215	444	108,835	108,745
Unearned premium c/f	-	(4,626)	(515)	(2,450)	(7,339)	(3,401)	(811)	(43,591)	(34,223)	(648)	(2,522)	(3,082)	(3,396)	(740)	(107,354)	(108,855)
Net earned premium	-	5,768	1,578	7,079	19,667	2,103	(648)	70,202	114,677	14,213	15,666	12,943	14,290	1,612	279,170	292,071
Claims paid	77	1,580	145	6,350	2,247	580	3,079	56,824	33,821	21,939	14,837	27,311	16,473	653	186,716	139,037
Claims expenses	2	424	6	177	266	25	158	1,950	2,473	2,474	629	1,607	573	866	11,730	12,184
Claims outstanding c/f	6,302	562	1,153	2,087	11,015	20,483	6,546	91,540	166,166	3,522	19,665	23,871	29,732	2,101	384,746	381,107
Claims outstanding b/f	(6,319)	(1,390)	(1,027)	(3,289)	(8,433)	(17,369)	(6,762)	(87,860)	(173,888)	(2,339)	(17,754)	(20,954)	(33,009)	(854)	(381,107)	(356,544)
Claims incurred	2	1,176	277	5,326	5,095	3,719	3,023	62,854	28,571	25,896	17,177	31,835	13,769	2,866	201,085	175,764
Commission	-	(884)	126	1,129	1,729	1,003	183	9,198	8,189	14,065	1,771	(284)	2,329	243	38,797	5,419
Movement in deferred acq. costs	-	(235)	80	196	1,572	(513)	(87)	(1,064)	729	401	126	120	530	(27)	948	1,588
Expenses	-	12,233	2,407	2,583	19,247	1,654	1,571	31,037	46,343	12,804	9,512	8,471	3,716	878	152,456	117,729
Premium tax & levies	-	657	97	140	734	27	74	1,677	2,504	692	514	442	200	47	7,805	7,452
Total commission and expenses	-	11,771	2,710	4,048	23,282	2,171	1,761	39,948	57,765	27,982	11,923	8,749	6,775	1,141	209,006	132,168
Technical (loss) / profit	(2)	(7,179)	(1,409)	(2,295)	(8,690)	(3,787)	(5,432)	(32,400)	28,341	(39,345)	(13,434)	(27,641)	(6,254)	(2,395)	(121,922)	(15,861)
Provision for doubtful debts															(77,789)	(31,754)
Underwriting loss															(199,710)	(47,615)



Pan Africa Insurance Holdings Limited
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Group balance sheet

	Note	Long-term Insurance Business Shs.'000	Shareholders' funds Shs.'000	Total 2003 Shs.'000	Total 2002 Shs.'000
Capital employed					
Share capital	24	-	240,000	240,000	240,000
Share premium	25	-	364,431	364,431	364,431
Revaluation reserves	26	-	663	663	44,535
Retained earnings	27	-	397,240	397,240	420,680
Assigned capital	18	527,261	(527,261)	-	-
Transfer to life funds	28	(397,943)	-	(397,943)	(397,943)
Shareholders' funds		129,318	475,073	604,391	671,703
Statutory funds	28	1,412,910	-	1,412,910	1,103,576
General fund	28	97,723	-	97,723	81,007
Total life funds		1,510,633	-	1,510,633	1,184,583
Total capital, reserves and long-term funds		1,639,951	475,073	2,115,024	1,856,286
Represented by:					
Investments					
Government securities	13	623,570	-	623,570	611,863
Investment property	12	275,000	282,500	557,500	818,870
Investment in associates	17	-	142,580	142,580	28,704
Quoted shares	14	189,072	-	189,072	50,407
Unquoted shares	15	-	-	-	90,107
Mortgage loans	19	55,739	49,794	105,533	154,588
Policy loans	20	73,897	-	73,897	75,342
Bank balances, deposits and cash	22	238,497	120,204	358,701	227,715
Commercial paper		65,400	-	65,400	85,100
		1,521,175	595,078	2,116,253	2,142,696
Non-current assets					
Property and equipment	10	124,918	24,741	149,659	218,252
Prepaid operating lease rentals	11	-	-	-	10,710
Other non-current assets		-	791	791	3,670
		124,918	25,532	150,450	232,632
Current assets					
Outstanding premiums		231,013	-	231,013	264,747
Due from reinsurers		36,241	19,227	55,468	156,045
Other receivables	23	53,122	31,193	84,315	111,632
Land & development	21	-	42,765	42,765	37,545
Tax recoverable		-	20,044	20,044	14,598
		320,376	113,229	433,605	584,567
Total assets		1,966,469	733,839	2,700,308	2,959,895
Liabilities					
Technical provisions		-	-	-	108,855
Unearned premiums		-	-	-	454,322
Outstanding claims		91,149	-	91,149	563,177
		91,149	-	91,149	563,177
Non-current liabilities					
Deferred tax liability	29	-	52,555	52,555	108,838
Other liabilities					
Due to reinsurers		4,646	20,367	25,013	128,401
Other payables	30	197,678	101,811	299,489	245,819
Current tax		-	3,135	3,135	15,017
Borrowings	31	33,045	-	33,045	27,128
Warranties payable	36(a)	-	65,669	65,669	-
Unclaimed dividends		-	15,229	15,229	15,229
		235,389	206,211	441,580	431,594
Total liabilities		326,518	258,766	585,284	1,103,609
		1,639,951	475,073	2,115,024	1,856,286

The financial statements on pages 25 to 52 were approved for issue by the board of directors on 13 May 2004 and signed on its behalf by:

JPN Simba
Chairman

AD Greenwood
Director



Company balance sheet

		2003	2002
	Note	Shs.'000	Shs.'000
Capital employed			
Share capital	24	240,000	240,000
Share premium	25	364,431	364,431
Retained earnings		671,795	671,795
Transfer to life funds	28	(397,943)	(397,943)
Shareholders' funds		878,283	878,283
Represented by:			
Investments in subsidiaries			
Pan Africa Life Assurance Limited	16	230,261	230,261
Pan Africa General Insurance Limited	16	679,009	679,009
		909,270	909,270
Current assets			
Bank balance		817	-
Prepayments		546	-
Tax recoverable		13,680	13,680
		15,043	13,680
Total assets		924,313	922,950
Other liabilities			
Other payables		30,801	29,438
Unclaimed dividends		15,229	15,229
Total liabilities		46,030	44,667
		878,283	878,283

The financial statements on pages 25 to 52 were approved for issue by the board of directors on 13 May 2004 and signed on its behalf by:

JPN Simba
Chairman

AD Greenwood
Director



Pan Africa Insurance Holdings Limited
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Consolidated statement of changes in equity

Year ended 31 December 2002	Note	Share capital Shs.'000	Share premium Shs.'000	Revaluation reserves Shs.'000	Retained earnings Shs.'000	Total Shs.'000
At start of the year						
As previously reported		240,000	364,431	(1,756)	283,824	886,499
Reclassification of leasehold land	12	-	-	-	205,120	205,120
Deferred tax on investment property gains	29	-	-	-	(23,166)	(23,166)
As restated		240,000	364,431	(1,756)	465,778	1,068,453
Transfer of excess depreciation	26	-	-	(3,676)	3,676	-
Deferred tax on transfer	26	-	-	1,319	(1,319)	-
Revaluation surplus on property and equipment	26	-	-	11,153	-	11,153
Deferred tax on revaluation	26	-	-	(2,499)	-	(2,499)
Fair value gain on unquoted investment	26	-	-	8,523	-	8,523
Fair value loss on quoted investment	26	-	-	(370)	-	(370)
Released on disposal of shares		-	-	31,839	(31,839)	-
Net gains not recognised in Income statement		-	-	46,291	(29,484)	16,807
Net loss for the year		-	-	-	(15,614)	(15,614)
		240,000	364,431	44,535	420,680	1,069,646
Transfer to life funds		-	-	-	-	(397,943)
At end of year						671,703
Year ended 31 December 2003						
At start of year						
As previously reported		240,000	364,431	44,535	238,726	887,692
Reclassification of leasehold land	12	-	-	-	205,120	205,120
Deferred tax on investment property gains	29	-	-	-	(23,166)	(23,166)
As restated		240,000	364,431	44,535	420,680	1,069,646
Revaluation deficit	26	-	-	(11,771)	-	(11,771)
Deferred tax on revaluation	26	-	-	3,531	-	3,531
Released on disposal of subsidiary company	26	-	-	(23,671)	-	(23,671)
Released on disposal of shares	26	-	-	(8,153)	-	(8,153)
Released on disposal of plant and machinery	26	-	-	(3,808)	-	(3,808)
Net gains not recognised in Income statement		-	-	(43,872)	-	(43,872)
Net loss for the year		-	-	-	(23,440)	(23,440)
		240,000	364,431	663	397,240	1,002,334
Transfer to life funds		-	-	-	-	(397,943)
At end of year						604,391

Company statement of changes in equity

Year ended 31 December 2002	Share capital Shs.'000	Share premium Shs.'000	Revaluation reserves Shs.'000	Retained earnings Shs.'000	Total Shs.'000
At start of year	240,000	364,431	(32,889)	363,585	935,107
Realised on disposal of quoted shares	-	-	32,889	(32,889)	-
Profit / (loss) for the year	-	-	-	341,119	341,119
Transfer to life funds	-	-	-	-	(397,943)
At end of year	240,000	364,431	-	671,795	878,283
Year ended 31 December 2003					
At start of the year	240,000	364,431	-	671,795	1,276,226
Transfer to life funds	-	-	-	-	(397,943)
At end of year	240,000	364,431	-	671,795	878,283



Shareholders' funds consolidated cash flow statement

	Note	2003 Shs.'000	2002 Shs.'000
Cash flow from operating activities			
Loss before tax		(68,776)	(6,452)
Adjustment for:			
Depreciation and amortisation		2,774	17,293
Profit on sale of general business		(53,157)	-
Profit on disposal of fixed assets		(6,377)	-
Loss on sale of subsidiary company		11,148	-
Impairment charge - fixed assets		5,338	19,142
Investment income		(108,236)	(69,994)
Share of result of associated company		1,416	-
Operating profit before working capital changes		(215,870)	(40,011)
Decrease / (increase) in debtors		101,081	59,042
Decrease / (increase) in non current receivable		2,879	-
(Decrease) / increase in creditors		(9,582)	(42,244)
Increase in land and development		(5,220)	-
Premiums and claims reserves		2,138	24,670
Cash generated from operations		(124,574)	1,457
Income taxes paid		(22,405)	(30,138)
Net cash from operating activities		(146,979)	(28,681)
Return on investments and servicing of finance			
Dividends paid		-	(3,697)
Net cash flow from investments and servicing of finance		-	(3,697)
Cash flows from investing activities			
Investment income received		64,938	73,994
Purchase of property, plant & equipment		(704)	(3,142)
Mortgage loans redeemed (issued)		25,911	(7,433)
Net sale / (purchase) of shares		1,411	(2,657)
Net (redemptions) / purchase of government securities		(21,668)	13,737
Proceeds on sale of non listed shares		96,252	-
Proceeds on disposal of investment property		21,500	-
Proceeds on sale of property and equipment		3,018	-
Net inflow from transfer of general insurance business		9,407	-
Net cash from investing activities		200,965	74,499
Net increase in cash and cash equivalents		53,086	42,121
Cash and cash equivalents at start of year		67,118	24,997
Cash and cash equivalents at end of year	22	120,204	67,118



Notes forming part of the financial statements

1. Restructuring of the Group

As was mentioned in the 2002 financial statements, the restructuring of the Group into two wholly owned subsidiaries i.e. Pan Africa Life Assurance Limited and Pan Africa General Insurance Limited was completed in 2002. In the same year, Pan Africa Insurance Company Limited changed its name to Pan Africa Insurance Holdings Limited.

Pursuant to the resolution passed by the shareholders on 8 December 2000, Pan Africa General Insurance Limited merged its general insurance business with that of Apollo Insurance Company Limited to form APA Insurance Limited. This consolidation process was completed during the year and net assets with a fair value of Kshs 16 million were transferred to APA Insurance Limited as at 31 December 2003, in accordance with the Sale and Transfer Agreement entered into by the two parties. Note 36 contains more details on this transaction.

Assets and liabilities of Pan Africa General Insurance Limited not transferred to APA Insurance Limited have been accounted for under Shareholders' funds.

2. Segment information: Business segments

Up to 31 December 2003, the core activity of the group was carrying out general and long term insurance business in Kenya. With effect from 1 January 2004, the core activity will be the carrying out of long term insurance business only. 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 mgt. Shs.'000	Total Shs.'000
Year ended 31 December 2003:				
Net premium / Turnover	279,170	18,997	-	298,167
Segment operating (loss)/profit	(91,475)	6,975	(624)	(85,124)
Exceptional items	17,764	-	-	17,764
Share of associate's loss	(4,101)	2,685	-	(1,416)
Loss before tax	(77,812)	9,660	(624)	(68,776)
Tax (charge)/credit	48,892	(3,556)	-	45,336
Net Loss	(28,920)	6,104	(624)	(23,440)
Segment assets	624,233	106,063	3,543	733,839
Segment liabilities	175,741	69,299	13,726	258,766
Capital expenditure	877	68	-	945
Depreciation	2,198	819	-	3,017
Year ended 31 December 2002:				
Net 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



Notes forming part of the financial statements (continued)

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	Shareholders' funds Shs.'000	Total 2003 Shs.'000	Total 2002 Shs.'000
Depreciation (Note 10)	13,558	2,774	16,332	31,378
Impairment provision on fixed assets (Note 10)	-	5,338	5,338	19,142
Auditors' remuneration	1,856	2,205	4,061	4,001
Staff costs (Note 4)	98,014	73,568	171,582	165,765
Amortisation of prepaid operating leases (Note 11)	3,464	-	3,464	4,516

4. Staff costs

The following items are included within staff costs:

	Group 2003 Shs.'000	Group 2002 Shs.'000	Company 2003 Shs.'000	Company 2002 Shs.'000
Salaries and wages	180,085	155,203	-	-
Social security costs	381	543	-	-
Pension costs-defined contribution plan	11,118	10,018	-	-

	Number	Number	Number	Number
The number of persons employed at year end was:				
Full time staff	93	153	-	-
Part time staff	-	1	-	-

5. Investment income

(a) Shareholders' funds

	Total 2003 Shs.'000	Total 2002 Shs.'000
Interest received	11,186	17,937
Property rentals	48,415	52,450
Dividends received	2,137	3,607
Gain/(loss) on disposal of shares	14,298	(1,100)
Fair value gain/(loss) on investment properties	29,000	(2,500)
Other	3,200	-
Total	108,236	70,394



Notes forming part of the financial statements (continued)

(b) Long-term insurance business

	Individual life Shs.'000	Super annuation Shs.'000	General fund Shs.'000	Total 2003 Shs.'000	Total 2002 Shs.'000
Interest received	47,368	21,196	4,176	72,740	62,410
Property rentals	45,814	-	4,128	49,942	54,958
Dividends received	5,391	131	482	6,004	3,646
Other income	2,145	-	193	2,338	2,933
Loss on disposal of fixed assets	(444)	-	(40)	(484)	(228)
Foreign exchange loss	(972)	-	(88)	(1,060)	(1,109)
Fair value gain on quoted shares (note 14)	111,485	6,051	9,915	127,451	15,632
Gross investment income	210,787	27,378	18,766	256,931	138,242
Expenses					
Fund management fees	(4,826)	(2,082)	(404)	(7,312)	(4,531)
Property expenses	(17,844)	(515)	(1,608)	(19,967)	(26,261)
Total investment expenses	(22,670)	(2,597)	(2,012)	(27,279)	(30,792)
Investment income before revaluation of properties	188,117	24,781	16,754	229,652	107,450
Fair value (loss) / gain on fixed assets	(838)	-	(57)	(695)	45,811
Fair value gain on investment properties	216	-	19	235	-
Total investment income	187,695	24,781	16,716	229,192	153,261

6. Policyholder benefits

	Individual life Shs.'000	Group life Shs.'000	Pension funds Shs.'000	2003 Total Shs.'000	2002 Total Shs.'000
Gross death and disability claims	20,882	155,671	-	176,553	159,692
Less: Amounts recovered from reinsurers	-	(105,642)	-	(105,642)	(106,195)
Net death and disability claims	20,882	50,029	-	70,911	53,497
Maturities & pension claims	69,035	-	22,566	91,601	82,946
Surrenders and bonuses	32,949	-	-	32,949	17,717
Annuities	49,369	-	-	49,369	51,000
Reserves released to the Life fund	(1,323)	-	-	(1,323)	(4,018)
Net policyholders' benefits paid	170,912	50,029	22,566	243,507	201,142

7. Exceptional items

	Long-term insurance business Shs.'000	Shareholders' funds Shs.'000	Total 2003 Shs.'000	Total 2002 Shs.'000
Provision for PAYE and withholding tax	-	-	-	28,597
Restructuring expenses	2,105	35,394	37,499	12,938
Gain on disposal of business net of warranties	-	(53,157)	(53,157)	-
	2,105	(17,763)	(15,658)	41,535

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. In the year 2002, the Kenya Revenue Authority conducted a compliance audit covering the 1998 to 2001 years of



Notes forming part of the financial statements (continued)

income. A final assessment was issued in early 2003 relating to PAYE and Withholding tax arrears, and although the Company has objected to some of the charges through its Tax consultants, a provision of Kshs 28.6 million was made to cover any tax liability arising therefrom.

Restructuring expenses, which include staff retrenchment costs of Kshs. 7.7 million, relate to costs incurred following the restructuring of the Group as described in Note 1.

Gain on the disposal of the general insurance business is explained further in note 36.

8. Tax

(a) Shareholders' funds

	2003 Shs.'000	2002 Shs.'000
Current tax	6,833	14,684
Deferred tax (Note 29(a))	(52,756)	(12,887)
Current year tax (credit)/ charge	(45,923)	1,777
Underprovision for current tax in prior years	-	7,000
Share of tax of associate (Note 17)	587	385
Tax (credit) / charge	(45,336)	9,162

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

Loss before tax	(68,776)	(6,452)
Corporation tax at 30 %	(20,633)	(1,936)
Tax effect of :		
- Expenses not deductible for tax purposes	4,295	8,449
- Income not taxable	(21,807)	(6,386)
Investment property disposal	(32,570)	-
Deferred tax asset not recognised	25,379	2,035
Under provision of current tax in prior years	-	7,000
Tax (credit) / charge	(45,336)	9,162

(b) Long-term business

	2003 Shs.'000	2002 Shs.'000
Current tax	-	-
Deferred tax	-	-
Tax charge	-	-

The tax on the long term business (loss)/profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

Increase in life funds before tax	326,050	80,027
Corporation tax at 30 %	97,815	24,008
Tax effect of :		
- Expenses not deductible for tax purposes	122,484	68,124
- Income not taxable	(260,222)	(128,283)
Deferred tax asset not recognised	39,923	36,151
Tax charge	-	-



Notes forming part of the financial statements (continued)

9. 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:

	2003 Shs.'000	2002 Shs.'000
Net loss attributable to shareholders	(23,440)	(15,614)
Weighted average number of ordinary shares in issue (thousands)	48,000	48,000
Loss per share (Shs)	(0.49)	(0.33)

There were no potentially dilutive shares outstanding at 31 December 2003.

10. Property and equipment

	Land, buildings and water works Shs.'000	Motor vehicles Shs.'000	Furniture fixtures and fittings Shs.'000	Computer equipment Shs.'000	2003 Total Shs.'000
Cost or valuation:					
At start of year	210,518	14,461	86,778	47,415	359,172
Additions during the year	-	-	2,479	2,739	5,218
Reclassification	1,049	-	(1,049)	-	-
Revaluation deficit	(12,466)	-	-	-	(12,466)
Impairment	-	-	(5,338)	-	(5,338)
Write off of fully depreciated assets	-	(3,093)	(50,579)	(28,069)	(81,741)
Disposals	(68,592)	(2,804)	(1,322)	(2,867)	(75,585)
At end of year	130,509	8,564	30,969	19,218	189,260
Depreciation:					
At start of year	39,261	11,654	56,586	33,418	140,919
Charge for the year	4,308	1,377	4,940	5,707	16,332
Write off of fully depreciated assets	-	(3,093)	(50,579)	(28,069)	(81,741)
Disposals	(30,945)	(2,792)	(1,129)	(1,043)	(35,909)
At end of year	12,624	7,146	9,818	10,013	39,601
At 31 December 2003	117,885	1,418	21,151	9,205	149,659
Comprising:					
Long-term insurance business	97,385	1,023	19,283	7,227	124,918
Shareholders' funds	20,500	395	1,868	1,978	24,741
	117,885	1,418	21,151	9,205	149,659
At 31 December 2002	171,257	2,806	30,192	13,997	218,252

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.97,708,675 (2002-Shs. 96,123,874), 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.11,638,831 (2002 - Shs.12,102,749).



Notes forming part of the financial statements (continued)

11. Prepaid operating lease rentals

	Long-term insurance business Shs.'000	Shareholders' funds Shs.'000	Total 2003 Shs.'000	Total 2002 Shs.'000
Cost				
At start of the year	7,846	7,380	15,226	15,226
- reclassified to investment property (note 12)	-	(7,380)	(7,380)	-
At end of year	7,846	-	7,846	15,226
Amortisation				
At start of the year	(4,382)	(134)	(4,516)	-
Charge for the year	(3,464)	-	(3,464)	(4,516)
Reclassified to investment property (note 12)	-	134	(134)	-
	(7,846)	-	(7,846)	(4,516)
At end of year	-	-	-	10,710

12. Investment properties

	Long-term insurance business Shs.'000	Shareholders' funds Shs.'000	Total 2003 Shs.'000	Total 2002 Shs.'000
At start of year				
- as previously reported	274,750	339,000	613,750	606,189
- reclassification of leasehold land	-	205,120	205,120	206,120
- as restated	274,750	544,120	818,870	811,309
Additions / reclassifications	16	7,380	7,396	2,250
Disposals	-	(298,000)	(298,000)	(36,500)
Fair value gain	234	29,000	29,234	41,611
At end of year	275,000	282,500	557,500	818,870
Reconciliation of fair value gain / (loss) on investment properties				
Included in investment income (Note 5)	234	29,000	29,234	43,311
Included in subsidiaries' net profits on the Profit & Loss account	-	-	-	(1,500)
	234	29,000	29,234	41,811

The revaluation of investment properties was last carried out by Lloyd Masika Limited and CB Richard Ellis, professional independent valuers as at 31 December 2003. The basis of valuation was open market value. Following the early adoption of IAS 40, Investment Properties (Revised 2003), qualifying leasehold land has been reclassified from prepaid operating lease rentals to investment property, and is now carried at fair value.



Notes forming part of the financial statements (continued)

13. Government securities

	Long-term insurance business Shs.'000	Shareholders' funds Shs.'000	Total 2003 Shs.'000	Total 2002 Shs.'000
Treasury bills and bonds:				
Maturing within 91 days of the date of acquisition	27,600	-	27,600	183,513
	27,600	-	27,600	183,513
Maturing in 91 days - 1 year	30,042	-	30,042	79,250
Maturing within 1 to 5 years	412,850	-	412,650	107,100
Maturing in over 5 years	153,278	-	153,278	242,000
	595,970	-	595,970	428,350
	623,570	-	623,570	611,863

14. Quoted ordinary shares

	Long-term insurance business Shs.'000	Shareholders' funds Shs.'000	Total 2003 Shs.'000	Total 2002 Shs.'000
At start of year	48,576	1,831	50,407	53,759
Additions	31,502	49	22,176	10,260
Fair value gains	111,485	-	120,860	15,262
Disposals	(2,491)	(1,880)	(4,371)	(28,874)
At end of year	189,072	-	189,072	50,407

The ordinary shares are revalued annually at the close of business on 31 December by reference to the Nairobi Stock Exchange quoted prices. The market value approximates to the fair value. The fair value gains arising from the revaluation of the shares have been included in investment income (Note 5).

15. Unquoted ordinary shares

	Total 2003 Shs.'000	Total 2002 Shs.'000
At start of year	90,107	70,870
Additional investment in East Africa Reinsurance Company Limited	-	13,053
Disposal of shares in East Africa Reinsurance Company Limited	(90,107)	(2,339)
Fair value gain	-	8,523
At end of year	-	90,107

16. Investment in subsidiary companies - Company

	Total 2003 Shs.'000	Total 2002 Shs.'000
Pan Africa Life Assurance Limited	230,261	230,261
Pan Africa General Insurance Limited	679,009	679,009
	909,270	909,270

Pan Africa Life Assurance Limited and Pan Africa General Insurance Limited are both wholly owned subsidiaries of Pan Africa Insurance Holdings Limited. The two subsidiaries carry out long term and general insurance business respectively. At 31 December 2003, the general insurance business of Pan Africa General Insurance was



Notes forming part of the financial statements (continued)

transferred to APA Insurance Limited (Note 1). Pan Africa General Insurance Limited, now trading as PA Securities Limited, has the following subsidiary companies (both incorporated in Kenya):

Name of subsidiary	Shareholding	Principal activity
Mae Properties Limited	100%	Development and sale of plots
Chem Chemi Limited	100%	Dormant

The sale of 75.1% of the Group's interest in Runda Water Limited was concluded during 2003. Runda Water Limited is now an associated company.

17. Investment in associated undertakings

At 31 December 2003, the Group held a 39.97% investment in APA Insurance Limited and a 25% investment in Runda Water Limited. Movements during the year are shown below;

	Total 2003 Shs.'000	Total 2002 Shs.'000
At start of year	28,704	25,143
Acquisition of shares in APA Insurance Limited	135,027	-
Investment in Runda Water Limited	4,868	-
Acquisition of additional interest in Reliance Insurance Company Limited	-	2,878
Share of results before tax	(1,416)	1,068
Share of tax	(587)	(385)
Transfer to APA Insurance Limited of shares held in Reliance Insurance Company (T) Limited	(24,016)	-
At end of year	142,580	28,704

18. 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 to fund growth in the individual life business. The assignment of capital of Kshs.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 1 January 2001.

The General insurance business was assigned Kshs. 679,009,000. In both cases the assignment was based on the net assets of the two business sectors as at 1st January 2001.

19. Mortgage loans

	Long-term insurance business Shs.'000	Shareholders' funds Shs.'000	Total 2003 Shs.'000	Total 2002 Shs.'000
At start of year	55,784	98,804	154,588	144,794
Loan advances made during the year/accrued interest	3,232	3,451	6,683	27,000
Loan repayments	(3,277)	(29,362)	(32,639)	(17,206)
Transferred to APA Insurance Limited	-	(23,099)	(23,099)	-
At end of year	55,739	49,794	105,533	154,588
Maturity profile of mortgage loans				
Loans maturing:				
Within 1 year	4,823	49,794	54,617	598
In 2 to 5 years	19,440	-	19,440	2,753
In over 5 years	31,476	-	31,476	151,237
	55,739	49,794	105,533	154,588
Loans at:				
Concessionary rates	54,828	-	54,828	120,914
Market rates	911	49,794	50,705	33,674
	55,739	49,794	105,533	154,588



Notes forming part of the financial statements (continued)

20. Policy loans

	Total 2003 Shs.'000	Total 2002 Shs.'000
At start of year	75,342	78,835
Loans advanced during the year	29,629	34,225
Loan repayments	(31,074)	(37,718)
At end of year	73,897	75,342

21. Land and development

	Total 2003 Shs.'000	Total 2002 Shs.'000
At start of year	37,545	38,242
Additional costs during the year	8,144	-
Released in respect of plots sold	(2,924)	(697)
At end of year	42,765	37,545

22. Bank balances, deposits and cash

	Group 2003 Shs.'000	Company 2003 Shs.'000	Group 2002 Shs.'000	Company 2002 Shs.'000
Cash at bank and in hand	32,856	817	73,173	-
Short term bank deposits	325,845	-	154,542	-
At end of year	358,701	817	227,715	-
Comprising:				
Long-term insurance business	238,497	-	160,597	-
Shareholders' funds	120,204	817	67,118	-
	358,701	817	227,715	-

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

	Total 2003 Shs.'000	Total 2002 Shs.'000
Cash and bank balances	120,204	67,118



Notes forming part of the financial statements (continued)

23. Other receivables

	Long-term insurance business Shs.'000	Shareholders' funds Shs.'000	Total 2003 Shs.'000	Total 2002 Shs.'000
Rent outstanding	25,013	2,849	27,862	19,140
Accrued Interest	-	3,211	3,211	21,015
Plot debtors	-	6,836	6,836	24,160
Cost of investment in the College of Insurance	-	1,171	1,171	1,171
Deferred acquisition costs	-	-	-	13,355
Sundry debtors and prepayments	28,109	17,126	45,235	32,791
At end of year	53,122	31,193	84,315	111,632

24. Share capital

	2003 Shs.'000	2002 Shs.'000
At end of year	240,000	240,000

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

25. Share premium

On 16th February 2000, a rights issue of one share for every one share held was made at a price of Kshs.21.50 per share. A total of 24,000,000 shares were issued.

The net proceeds from the rights issue was Kshs.484,431,000, after deducting issue expenses amounting to Kshs.31,569,000, hence a share premium arising of Kshs.364,431,000.

26. Revaluation reserves

	2003 Shs.'000	2002 Shs.'000
Quoted shares	-	(1,418)
Unquoted shares	-	8,523
Plant, machinery and water works	-	26,654
Land and buildings	663	10,776
	663	44,535

The movements in each category of reserves were as follows :

i) Quoted shares

At start of year	(1,418)	(32,889)
Released on disposal of shares	1,418	31,841
Fair value(loss)/gain	-	(370)
At end of year	-	(1,418)



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Notes forming part of the financial statements (continued)

	Total 2003 Shs.'000	Total 2002 Shs.'000
ii) Unquoted shares		
At start of year	8,523	-
Released on disposal of shares	(8,523)	-
Fair value gains	-	8,523
At end of year	-	8,523
iii) Plant, machinery and waterworks		
At start of year	26,654	26,654
Revaluation deficit	(5,726)	-
Deferred tax on revaluation	1,716	-
Released on disposal of property, plant and equipment	(3,808)	-
Released on disposal of Subsidiary	(18,836)	-
	-	26,654
iv) Land and buildings		
At start of year	10,776	4,479
Revaluation deficit	(6,050)	11,153
Deferred tax on revaluation	1,815	(2,499)
Released on disposal of subsidiary	(5,878)	-
Transfer of excess depreciation	-	(3,676)
Deferred tax on transfer	-	1,319
	663	10,776

27. Retained earnings

Movements in retained earnings are set out in the statement of changes in equity on page 34.

	Long-term insurance business Shs.'000	Shareholders' funds Shs.'000	Total 2003 Shs.'000	Total 2002 Shs.'000
Unrealised fair value gains on investment properties	-	123,000	123,000	366,811
Other retained earnings	-	274,240	274,240	53,869
	-	397,240	397,240	420,680

28. Life funds

(a) Statutory funds

The statutory funds, which comprise the individual life fund and superannuation funds, were established in 1990 as required under Section 45 of the Insurance Act.

The latest actuarial valuation of the life fund held by the Pan Africa Life Assurance Limited was carried out by the consulting actuaries as at 31 December 2003 and revealed an actuarial surplus after allowing for interest and bonus declarations to with-profit policies.

During 2002, the directors authorised a total transfer of Kshs.397,943,000 from shareholders' funds to the individual life fund to finance an actuarial deficit arising from new business strain and the write downs of certain investment properties.



Notes forming part of the financial statements (continued)

(b) 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 the recommendation of the actuary.

29. 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 2003 Shs.'000	Group 2002 Shs.'000	Company 2003 Shs.'000	Company 2002 Shs.'000
At start of year as previously stated	85,672	96,062	-	61,932
Prior year adjustment	23,166	23,166	-	-
As restated	108,838	119,228	-	61,932
Profit and loss account	(52,756)	(12,887)	-	(61,932)
Charged to equity	(3,532)	2,497	-	-
At end of year	52,555	108,838	-	-

The prior year adjustment relates to the recognition of deferred tax on the company's investment property fair value gains. 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) Shareholders' funds

	At start of the year Shs.'000	Prior year adjustment 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	(1,544)	-	1,693	-	149
Property revaluations	109,228	23,166	(88,733)	(3,532)	40,133
Deferred development costs	10,707	-	1,566	-	12,273
Tax losses	(29,535)	-	29,535	-	-
General provisions for debtors	(1,763)	-	1,763	-	-
Provisions	(1,420)	-	1,420	-	-
	85,672	23,166	(52,756)	(3,532)	52,555

(b) Long term business

	At start of the year 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	1,398	(6,513)	-	(5,115)
Property revaluations	65,999	-	(208)	65,791
Tax losses	(150,400)	(85,940)	-	(236,340)
Provisions	(323)	41,271	-	40,948
	(83,326)	(51,182)	(208)	(134,716)
Less: deferred tax asset not recognised	83,326	51,182	208	134,716
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.



Notes forming part of the financial statements (continued)

30. Other payables

	Long-term insurance business Shs.'000	Shareholders' funds Shs.'000	Total 2003 Shs.'000	Total 2002 Shs.'000
Rent deposits	11,661	10,050	21,711	19,213
Payroll creditors	37,780	2,139	39,919	34,684
Due to related parties	14,136	12,878	27,014	16,799
Commission related costs	106,654	-	106,654	42,489
Other creditors and accruals	27,447	76,744	104,191	132,634
	197,678	101,811	299,489	245,819

31. Borrowings

	Long-term insurance business Shs.'000	Shareholders' funds Shs.'000	Total 2003 Shs.'000	Total 2002 Shs.'000
Premium financing	33,045		33,045	27,128

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 Group had received full premiums during the year in respect of the policies that were the subject of the financing.

32. 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:

	2003 %	2002 %
Treasury bills	1	9
Treasury bonds	8	13
Mortgage loans	5	6
Borrowings	15	19
Policy loans	13	16

33. Commitments

Capital commitments

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



Notes forming part of the financial statements (continued)

Operating lease commitments

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

	2003 Shs.'000	2002 Shs.'000
Not later than one year	7,299	15,877

34. 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 director who is claiming damages for wrongful dismissal. Two of the subsidiaries are also defendants in legal proceedings filed against them by third parties. In the opinion of the directors, the outcome of these proceedings will not have a material effect on the financial position of the Group.

At 31 December 2003, the Group had contingent liabilities in respect of bank guarantees amounting to Kshs.15,746,000 (Pan Africa Life Assurance Limited Kshs 1,800,000 and Pan Africa General Insurance Limited Kshs 13,946,000) arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from these guarantees.

35. Related party transactions

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

(i) Loans at concessionary rates

	At start of year Shs.'000	Advanced in 2003 Shs.'000	Repayments Shs.'000	At end of year Shs.'000
Principal amount	16,923	-	(6,918)	10,005
Interest on loans	1,908	-	(2,060)	(152)
	18,831	-	(8,978)	9,853

(ii) Loans at market rates

	At start of year Shs.'000	Advanced in 2003 Shs.'000	Repayments Shs.'000	At end of year Shs.'000
Principal amount	22,337	-	(971)	21,366
Interest on loans	2,418	-	(2,526)	(108)
	24,755	-	(3,497)	21,258

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

(b) Mortgage loans to current Directors at concessionary rates

	At start of year Shs.'000	Advanced in 2003 Shs.'000	Repayments Shs.'000	At end of year Shs.'000
Principal amount	3,786	-	(91)	3,695
Interest on loans	196	-	(248)	(52)
	3,982	-	(339)	3,643



Notes forming part of the financial statements (continued)

(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

	2003 Shs.'000	2002 Shs.'000
East Africa Reinsurance Company Limited	4,484	12,608
Reliance Insurance Company Tanzania Limited	1,792	-
African Life Assurance Limited	122	67,819
	6,398	80,427

(ii) Claims recoverable

	2003 Shs.'000	2002 Shs.'000
East Africa Reinsurance Company Limited		8,846
African Life Assurance Limited	54,612	50,422
	54,612	59,268

(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 Limited which will be reimbursed to them. The cumulative effect of these transactions as at 31 December 2003 was:

	At start of year Shs.'000	Transactions during the year Shs.'000	At end of year Shs.'000
Receivable from African Life Assurance Limited	4,613	892	5,505
Payable to African Life Assurance Limited	(16,799)	(10,215)	(27,014)
	(12,186)	(9,323)	(21,509)

The amount payable to African Life Assurance Limited can be further analysed as follows:

	At start of year Shs.'000	Transactions during the year Shs.'000	At end of year Shs.'000
Pan Africa Life Assurance Limited	8,226	5,910	14,136
PA Securities Limited	7,436	4,305	11,741
Mae Properties Limited	1,137	-	1,137
	16,799	10,215	27,014

Included in the Kshs. 10,215,000 as transactions during the year is Kshs. 5,910,000 (2002 - Kshs. 4,333,891) relating to management fees.



Notes forming part of the financial statements (continued)

(e) Directors remuneration

	Long-term insurance business Shs.'000	Shareholders' funds Shs.'000	Total 2003 Shs.'000	Total 2002 Shs.'000
Directors' remuneration:				
- fees	-	2,083	2,083	2,225
- for management	15,049	-	15,049	16,600
	15,049	2,083	17,132	18,825

36. Transfer of business and provisions for warranties

(a) Warranties payable

The sale and transfer agreement of the the general insurance businesses formerly conducted by both Pan Africa General Insurance Limited and Apollo Insurance Company Limited to APA Insurance Limited created certain warranties relating to both receivables and payables.

	Payable by Pan Africa General Insurance Company Limited Shs.'000	Receivable from Apollo Insurance Company Limited Shs.'000	Net warranty Shs.'000
Reinsurance debtors	(42,698)	1,365	(41,333)
Premium debtors	(18,711)	6,695	(12,016)
Rental debtors	(149)	3,328	3,179
Staff debtors	(35)	42	7
Claims payable	(22,711)	7,405	(15,406)
	(84,404)	18,835	(65,569)

(b) Gain on sale of assets to APA

Agreed consideration	94,056
Fair value of assets transferred (see (36d) below)	(16,200)
	77,856

(c) Negative goodwill on acquisition

Fair values of APA Insurance Limited net assets as at 31.12.2003	337,567
39.97% share thereon attributable to Pan Africa Insurance Holdings Limited	134,926
Agreed consideration	(94,056)
	40,870

Net gain on transfer of the general insurance business net of warranties (a+b+c)	53,157
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Notes forming part of the financial statements (continued)

(d) Summary of assets and liabilities transferred:		Shs'000
Assets		
Investments		409,488
Non current assets		1,423
Current assets		186,248
Total assets		597,159
Liabilities		
Technical provisions		492,100
Other liabilities		88,859
Total liabilities		580,959
Net assets		16,200

The group has applied IFRS 3 (Business combinations) in accounting for the transfer of the general insurance business to APA Insurance Limited.



Administration

Pan Africa Life Assurance Limited

Executive Committee

AD Greenwood
CA(SA), CA(Aus)
Chief Executive

L Kiboi
Dip. B.Ed MBA, CPS(K),
Human Resources Manager

G Kioi
BSc(Hons), MBA, CPA(K), CPS(K)
General Manager – Finance/Company Secretary

JM Muiruri
BSc(Hons), ACII
General Manager

GJ Richter
BA, BA(Hons) Biok, Ph.D
National Sales Manager

J Wamwea
BSc(Hons), MBA, Dip.CS, CISA, ACE
Divisional Manager - IST

Divisional Managers

W Ngari
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Training Manager

M Nzomo
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F Ogwei
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Regional Sales Manager – Western

Deputy Divisional Managers

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Operations

L Magambo
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Finance

Unit Leaders

S Mwangi
Finance

C Mweru (Ms)
BCom
New Business

J Njenga (Mrs)
BEd
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N Waruinge (Ms)
BA, ACII
Premium Liaison

R Waweru-Kirueya (Mrs)
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IST

W Kariithi
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Agency Managers

T Amina (Mrs)
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Nakuru

J Amunga
BEd
Eldoret

N Andhoga (Mrs)
MCom
Mombasa

K Bow
Nyeri

J Gatoto
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Nairobi Metro

P Kitela
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Thika

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Meru

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T Omiti
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T Nzilani Michael
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PA Securities Limited

LN Munjuga
BSc, CPA(K)
Head of Operations



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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 29 June 2004 and at any adjournment thereof.

As witness my/our hands this _____ day of _____ 2004.

Signature(s) of _____

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

