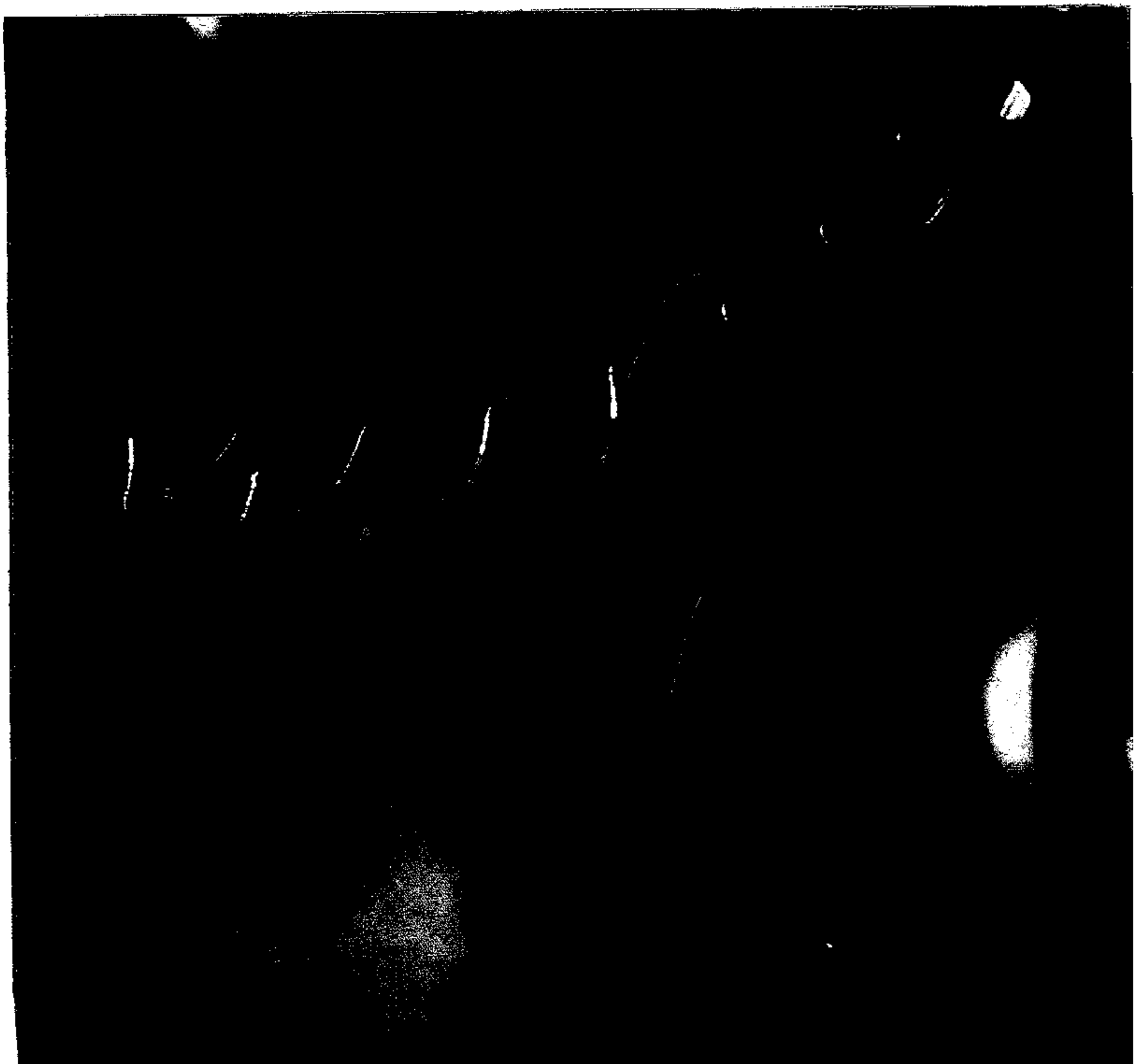


PAN AFRICA INSURANCE HOLDINGS LIMITED

ANNUAL REPORT & FINANCIAL STATEMENTS 2004

CONTENTS

THE PAN AFRICA INSURANCE GROUP OF COMPANIES

The companies that make up the Pan Africa Insurance Group of Companies are Pan Africa Insurance Holdings Limited (public Company listed on the Nairobi Stock Exchange), Pan Africa Life Assurance Limited (wholly owned subsidiary carrying on life insurance business), PA Securities Limited (wholly owned subsidiary with investments that include a 40% shareholding in a general insurance Company, APA Insurance Company Limited) and Mae Properties Limited (wholly owned subsidiary that carries on the business of developing and selling land in Runda).

Pan Africa Insurance Holdings Limited

Pan Africa Insurance Holdings Limited was incorporated on 26th October 1946. Its name, at that time, was Indo Africa Insurance Company Limited. In 1947 the Company began writing life insurance business and in 1972 commenced general insurance business. When the Company was listed on the Nairobi Stock Exchange in 1963 (the first insurance Company to be quoted) it changed its name to Pan Africa Insurance Company Limited to reflect its broader ownership base. In 2000, Pan Africa Insurance Company Limited entered into a strategic partnership with African Life Assurance of South Africa. A change in the structure of the Company followed and two companies were incorporated to carry on life insurance and general insurance i.e. Pan Africa Life Assurance Limited and Pan Africa General Insurance Limited (whose business has now merged with Apollo Insurance to form APA Insurance Company Limited) respectively. After incorporating these two companies, Pan Africa Insurance Company Limited changed its name to Pan Africa Insurance Holdings Limited to reflect its present role as a holding Company.

Pan Africa Life Assurance Limited

Pan Africa Life Assurance Limited was incorporated to focus on the growth in the largely under-developed life assurance market in Kenya. Expertise was sourced from the strategic partner, African Life Assurance Limited from South Africa, who has a commanding market share and considerable experience in writing life business in Southern Africa. The incorporation of a company dedicated to the provision of life insurance was, in part, intended to focus the business on the specific and technical requirements of writing quality life insurance business. The impact of fresh thinking in Pan Africa Life was immediately apparent with the launch of new life insurance products. For example, Pan Africa Life was the first company to offer life insurance products without HIV/AIDS exclusions; the first company to offer life insurance without the necessity of a medical test; and the first company to actively market and distribute unit-linked life assurance products. Today, Pan Africa Life has one of the fastest growing customer bases in the Kenyan life insurance industry.

PA Securities Limited

Established in 2001 as Pan Africa General Insurance Limited to carry on general insurance business, the Company changed its name to PA Securities Limited to reflect its new investment business. In 2003, it merged its general insurance business with that of Apollo Insurance Company Limited through the sale and transfer of certain of their respective assets and liabilities to APA Insurance Limited. The transaction resulted in PA Securities Limited acquiring a 39.97 % shareholding in APA Insurance Limited. In addition to its shareholding in APA insurance Limited, PA Securities retained its non-insurance business including its 100% stake in Mae Properties Limited and other commercial properties in the City of Nairobi.

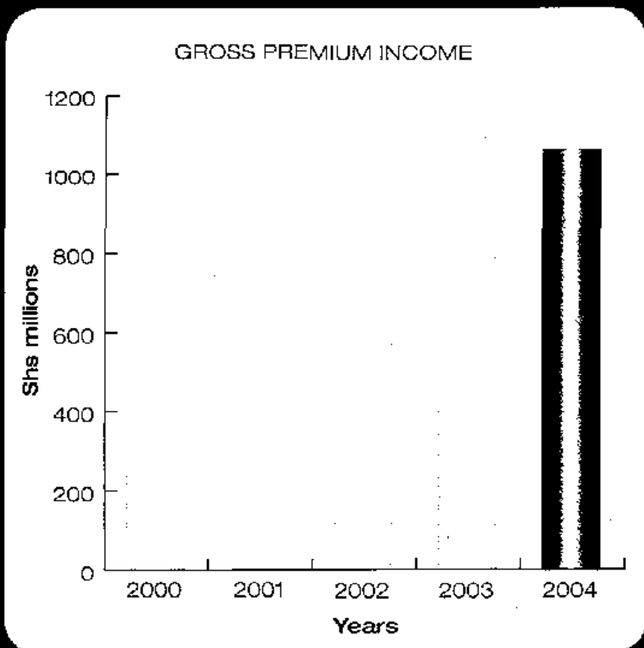
Mae Properties Limited

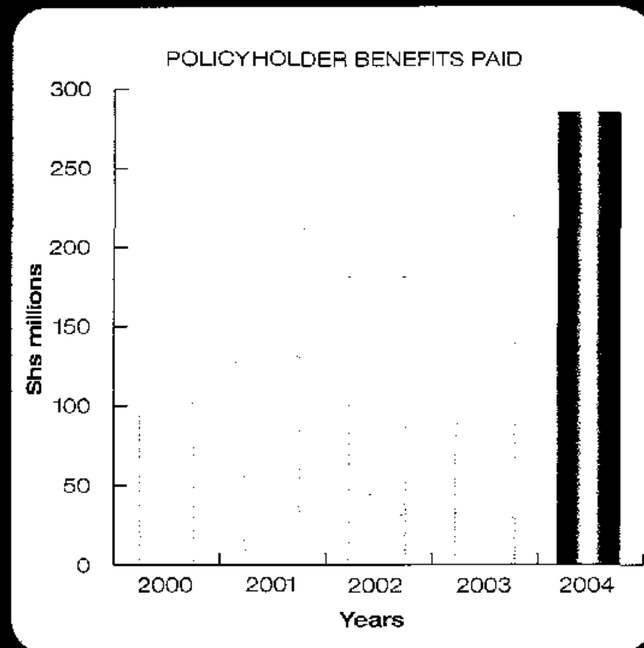
Mae Properties Limited is a land-holding company and a wholly owned subsidiary of PA Securities Limited. Its prime investment is the land in the well-known Runda Estate in Nairobi. Mae Properties still owns a significant portion of land under coffee and two more development phases are in the pipeline. This will see the area under coffee cleared and infrastructure put in place to facilitate the sub-division and sale of the land as serviced residential plots. Mae Properties has a 24.9% shareholding in Runda Water Limited. The principal activity of this water company is the supply of water and provision of estate management services to the residents of Runda Estate.

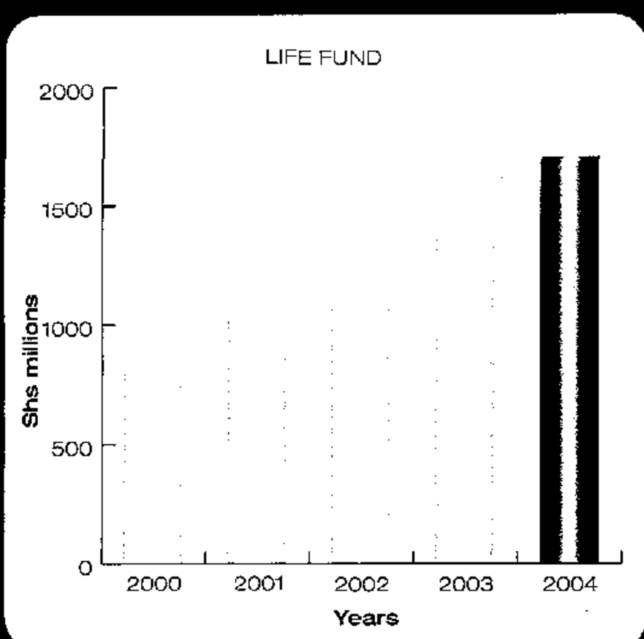
FIVE YEAR GROUP REVIEW

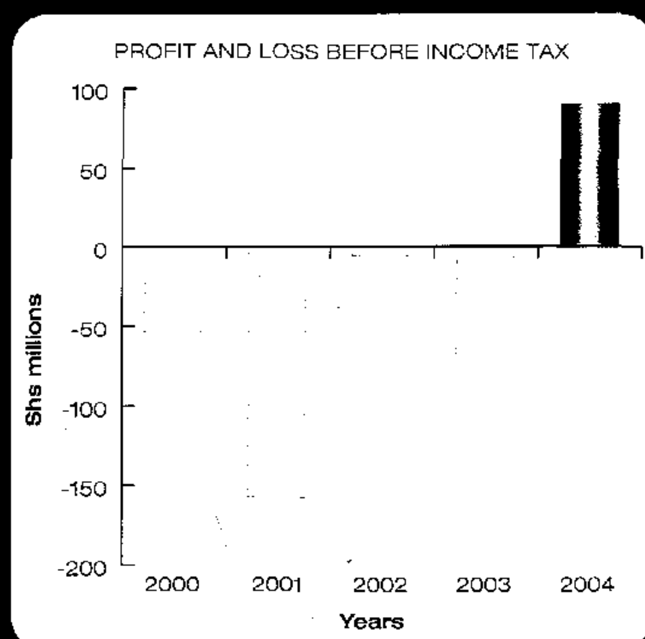
Profit and loss accounts (Shs million)	2000	2001	2002	2003	2004
Investment income	59	30	70	337	194
Profit/(loss) before income tax	(54)	(158)	(6)	(69)	91
Profit/(loss) attributable to shareholders	(65)	(152)	(15)	(23)	93
Proposed dividends	-	-	-	-	48
Long term insurance business					
Gross premium income	245	473	576	793	1,066
Net premium income	243	421	378	701	915
Policyholder benefits paid	102	132	182	221	285
Management expenses	114	132	158	155	189
Actuarial value of policyholder liabilities	842	1,016	1,076	1,384	1,717
Balance sheet					
Shareholder's funds	1,550	589	672	604	799
Actuarial value of policyholder liabilities	842	1,016	1,076	1,384	1,717
Share capital	240	240	240	240	240
Total assets	3,887	2,672	2,960	2,742	3,354
Key ratios					
Basic earnings/(loss) per share (Shs)	(1.46)	(3.17)	(0.33)	(0.49)	1.95
Dividend per share (Shs)	0.50	-	-	-	1.00
Market capitalisation at year end (Shs million)	528	629	336	1,128	1,056
Company share prices at the NSE					
High (Shs)	27	14	13	25	35
Low (Shs)	11	10	7	7	18
Share price at year end (Shs)	11	13	7	24	22

FIVE YEAR GROUP REVIEW (continued)









REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2004, which disclose the state of affairs of the Company and its subsidiaries.

Incorporation

The Company was incorporated in Kenya on 26th October 1946 under certificate of incorporate number C.10/46 under the Companies Act (Chapter 486 of the Laws of Kenya) and is domiciled in Kenya.

Principal Activities

The principal activity of the Company, through its subsidiary (Pan Africa Life Assurance Limited) is the underwriting of all classes of long-term insurance business as defined by the Insurance Act (Chapter 487 of the Laws of Kenya), with the exception of bond investment and industrial life insurance. The Company has interests in a wholly owned investment company (PA Securities Limited), a wholly owned landholding company (Mae Properties Limited) and an associate general insurance company, APA Insurance Company Limited.

Results

The results for the year are set on page 33 of this Annual Report.

Dividends

The directors propose to recommend a first and final dividend of Shs 1/= (2003 : Nil) for each ordinary share of Shs 5/= on the issued and paid up share capital of the Company at the annual general meeting.

Financial Risk Management Objectives and Policies

The activities of the Company and its subsidiaries 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. Therefore the risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance. These 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 to enable optimal liquidity management and to maximise returns within an acceptable level of risk.

Directors

The board of directors who served during the year and to the date of this report are:

- John Simba (Chairman)
- Andrew Greenwood (Chief Executive)
- John Burbidge
- Margaret Dawes (appointed on 30th March 2005)
- James Gitoho
- Craig Harding (appointed on 30th March 2005)
- Joshua Kituri
- Baloobhai Patel
- Jeremy Rowse
- Andre Van Heerden (alternate was Douglas Lacey; retired on 10th August 2004)

In accordance with the Company's Articles of Association, John Simba and John Burbidge retire by rotation and, being eligible, offer themselves for re-election and Margaret Dawes and Craig Harding who were appointed to the board since the last annual general meeting retire from office and being eligible offer themselves for election.

Auditors

The Company's auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office in accordance with Section 159(2) of the Companies Act (Chapter 486 of the Laws of Kenya).

Andrew Greenwood	**John P N Simba**
Chief Executive	**Chairman**
31st March 2005	**31st March 2005**

This Group structure is proving more efficient ..., more convenient ... and mitigates risk...

John P N Simba
Chairman

REPORT OF THE CHAIRMAN

John P N Simba
(Chairman)

Review of the Kenyan Economy

In 2004, the Kenyan economy is estimated to have grown by 2.4% in real terms. The Government's efforts in effectively promoting tourism can primarily be credited with the increased number of tourist arrivals and tourism earnings and reforms in the agricultural sector have led to the improvement of supplier prices of commodities such as maize, milk, sugar and wheat. It is anticipated that Kenya's economy will grow to more than 3% in 2005. Agriculture and tourism are again expected to largely support this growth as Kenya emerges from a drought stricken year and as tourism continues to expand while Asia re-builds and re-positions itself after the Tsunami. Commercial banks increased their consumer and small business lending activities as they sought returns higher than those offered by government securities and this lending contributed positively to the economy. The Kenya Shilling was relatively weak in the first three quarters of 2004 but towards the end of the last quarter it strengthened somewhat against major world currencies. The Kenya Shilling traded at Shs 77.34 against the United States Dollar at the close of the year. It is expected that K Shilling will remain stable in 2005 as more donors release funding, domestic interest rates improve and foreign exchange reserves continue to support our currency. Kenya's overall annual inflation rate was 11.62% as at 31 December 2004 and the underlying average inflation rate was 3.46%.

Review of the Business Environment

There has been substantial progress in Kenya's business environment. With the implementation of the East African Customs Union Protocol being one of them. As the hub of Eastern Africa, Kenya stands to gain greatly. Efforts by the country over the years in leading the peace negotiations in the Sudan and Somalia that culminated in the formation of a new government in Somalia and the return of peace in Southern Sudan should now begin to bear fruit in terms of improved security and renewed interest in business opportunities in the region. Donor relations seem to be improving and it would be expected that if confidence is restored in the donor community then foreign investors would have renewed interest in Kenya and the East African region generally. The implementation of the Central Depository System finally began in 2004 after a period of delay. It is now faster and easier to trade shares on the Nairobi Stock Exchange.

Such advances notwithstanding, the environment for business is constrained by deficiencies in physical infrastructure; power, water, telecommunication, railways and roads. Divisions in the ruling coalition and a stalled constitutional review process are also a contributing factor to the poor foreign direct investment in Kenya particularly when compared to the FDI of its neighbours, Uganda and Tanzania. In addition, insecurity, perceived corruption and bureaucracy continue to impact negatively on Kenya as an investment destination. In as far as corruption is concerned, although the government has created institutions to fight corruption, it still remains a challenge. Creation of special units to deal with security concerns coupled with other reforms in the police force will, hopefully, address these concerns.

Review of the Insurance Industry

Serious competition and undercutting were the hallmark of the insurance industry and the risk of writing un-profitable business and an underwriter not being able to meet policyholders' claims is

REPORT OF THE CHAIRMAN (continued)

real. The enactment of the 'Policyholder Protection Fund' will protect a policyholder's claim of up to Shs 100,000/= that cannot be met by insolvent insurance companies. However, the Fund is an additional cost for insurance and will not fully address the poor practice of writing bad insurance business in the first place. A commendable effort in stemming the rise of white-collar crime was the 'Proceeds of Crime and Money Laundering (Prevention) Bill 2004' is key legislation that, when passed into law, will have an impact on insurance companies in the future. It is intended to ensure that insurance companies, among others, put in place policies and procedures to detect and/or prevent money laundering activities. The '2004 Kenya Insurance Survey' presented sobering information on the insurance industry as it described the industry as fragmented, having less than 300 insurance professionals, operates under out-dated legislation, having a weak regulatory framework, and insurance companies not providing consistent and/or adequate financial information. Going forward, the insurance industry will continue to operate under difficult conditions and the competition for disposable incomes by insurance companies, hire purchase companies, commercial and microfinance banks are a signal of more difficult times ahead for our industry.

The Board of Directors

Andre van Heerden resigned in August 2004. Craig Harding joined the Board in March 2005 and as the former head of International Financial Services for Africa Life Assurance Limited, brings significant experience and expertise to the life insurance business of the company. Margaret Dawes, the Finance Director for African Life Assurance Limited, also joined the Board in March 2005 and her financial experience is expected to greatly boost the disclosure and quality of the company's financial reporting.

Review of Group's Performance

In 2003 the decision was made to transfer the life insurance business to Pan Africa Life Assurance Limited and the general insurance business to PA Securities Limited (formerly known as Pan Africa General Insurance Limited). PA Securities then merged with Apollo to form APA Insurance Company Limited. This Group structure is proving more efficient than having all activities under one company, more convenient as it allows different parts of the business to be run as independent cost centres and mitigates risk because of the separate legal structure of each business unit. The dedicated business focus by each Management team for each subsidiary is resulting in better performance by each of the subsidiaries. Cumulatively therefore, the Pan Africa Insurance Group of Companies has shown an upward trend in performance. The basic earnings per share for Pan Africa Insurance Holdings Limited was Shs 1.95 compared to losses of Shs 0.49 and Shs 0.33 in 2003 and 2002 respectively. I am encouraged by these results and believe that the foundation has been laid for a continuation of this positive result.

Note of Appreciation

Together with the Board of Directors I would like to extend my sincerest gratitude to Andre van Heerden, for his support, diligence and commitment during his tenure. Let me also extend my appreciation to my fellow Directors for their considered counsel that contributed to the fruitful deliberations at board and committee meetings. Management and staff members are commended for their energy and efforts that continue to drive the business. A special note of appreciation goes to our investors and policyholders who, over the years, have continued to support and invest in Pan Africa Insurance and, finally, the Office of the Commissioner of Insurance for its invaluable advice and guidance throughout the period under review.

John P N Simba
Chairman
31st March 2005

TAARIFA YA MWENYEKITI

John P N Simba
(Mwenyekiti)

Ukaguzi wa uchumi wa Kenya
Inakadiriwa kuwa mwakani 2004 uchumi wa Kenya ulikua kwa asilimia mbili nukta nne (2.4%). Juhudi za serekali za kujizatiti kuukuza utalii zilichangia kuweko na watalii zaidi waliokuja nchini na kuongezeka kwa mapato ya kifedha kutokana na utalii. Urekebishaji wa sekta ya ukulima umechangia kuwepo bei bora zaidi kwa wagawaji wa bidhaa kama vile mahindi, maziwa, sukari na ngano. Inatarajiwa kuwa uchumi wa Kenya utakua kwa zaidi ya asailimia tatu (3%) mwaka 2005. Vile vile inatazamiwa kwamba ukulima na utalii utaendelea kusaidia kukua kwa uchumi wakati Kenya ikijinaswa na ukame wa mwaka uliotangulia; na utalii ukizidi kukua huku nchi za Bara Hindi zikijirekebisha na kujitoa kutoka kwenye maafa ya tujani (tsunami).

Katika harakati za kutafuta mapato ya juu zaidi kuliko yake yanayotolewa na nyaraka za serikali, benki za kibiashara nazoziliongeza utoaji wa mikopo kwa wateja wake na kwenye biashara ndogo ndogo. Ukopeshaji huu ulichangia kukua kwa uchumi. Ingawa shilingi ya Kenya haikuwa na nguvu katika robo tatu za kwanza za mwaka 2004, robo ya mwisho ya mwaka ilishudia uthabiti wa shilingi dhidi ya fedha zenye uthabiti mkubwa ulimwenguni. Mwishoni mwa mwaka, dola moja ya Kiamerikani iliuzwa / ilinunuliwa kwa shilingi sabini na saba nukta thelathini na nne (77.34) za Kenya. Inatarajiwa kwamba katika mwaka 2005, shilingi ya Kenya itazidi kumarika hasa ikiwa wafadhali zaidi watatoa misaada/mikopo, utozaji wa riba nchini ukiwa boa a hifadhi za fedha za kigeni zikiendelea kuimarisha sarafu ya Kenya. Kufikia tarehe 31 Disemba, 2004, jumla ya ongezeko la gharama ya maisha (mfumuko a bei) ilikuwa asilimia kumi na moja nukta sitini na mbili (11.62%) ilhali mfumuko wa bei wa wastani ulikuwa asilimia tatu nukta robaini na sita (3.46%).

Ukaguzi wa mazingira ya kibiashara
Kumekuwa na maendeleo makubwa katika mazingira ya kibiashara nchini. Mojawapo ya maendeleo haya ni katika uekelezaji wa itifaki za ushirika wa ushuru wa nchi za Afrika Mashariki. Kenya kama kitovu cha biashara katika nchi za Afrika Mashariki itanufaika sana kutokana na utekelezaji wa itifaki hii. Jitihada za miaka mingi za kuongoza mashauriano ya amani katika nchi za Sudan and Somali zimefua dafu / zimefika kilele kwa utengenezaji upya wa serikali ya Somali na kurudishwa kwa amani kusini mwa Sudan. Matunda ya jitihada hizi yataonekana kwa kuongezeka kwa usalama na ukuaji wa biashara katika eneo hili. Uhusiano kati yetu na wafadhili unaonekana kana kwamba una kuwa bora na inatarajiwa kwamba imani ya wafadhili wetu ikirudi, wawekezaji wa kigeni watarutiwa na nchi ya Kenya na eneo zima la Afrika Mashariki. Utekelezaji wa mfumo wa uwekaji Amana (Central Depository System) mwaka 2004 – baada ya kucheleweshwa kwa muda – umerahisisha biashara katika Soko la Hisa la Nairobi.
Ingawa kuna maendeleo hayo ya kibiashara, kama ilivyotajwa hapa awali, mazingira ya kibiashara yanazoroteshwa na upungufu wa miundo misingi; nguvu za umeme, maji, mawasiliano ya simu, reli na barabara. Migogoro kati ya viongozi wa chama kinachotawala na kukwama kwa shuguli za kuirekebisha katiba kumechangia kuzoroteka kwa uwekezaji wa kigeni nchini Kenya hasa tukilinganisha na FDI ya nchi jirani,; Uganda na Tanzania. Vile vile ukosefu wa usalama, ufisadi na urasimu mwingi unaendelea kuathiri vibaya nchi ya Kenya kama nchi ya uwekezaji hata ingawa serikali imeweka taasisi ya kukabiliana na ufisadi, vita dhidi ya ufisadi vingali bado ni changamoto kwa serikali inatarajiwa kwamba kubuniwa kwa vikosi maalum vya kukabiliana na maswala ya usalama pamoja na mabadiliko/ marekebisho katika idara ya polisi vitakabiliana na maswala ya ufisadi na usalama.

Ukaguzi wa sekta ya Bima
Mashindani makali na utozaji wa bei za chini vilikuwa dhahiri katika sekta ya bima. Hatari za kutoa bima kwa biashara zisizo faida na watoaji wa bima kutoweza kuwalipa wenye hati za bima madai yao ni mambo

TAARIFA YA MWENYEKITI (kuendelea)

yaliyodhihiri. Kupitishwa kwa sheria ya hazina ya kuwahami wenye hati za bima madai yao hadi kiwango cha shilingi laki moja, iwapo hawataweza kulipwa na kampuni za bima zilizofilisika, kutawakinga wenye hati za bima. Hata hivyo hazina hiyo ni gharama ya ziada kwa kampuni ya bima na haitatatua kikamilifu tatizo la kutoa bima zisizofaa.

Juhudi inayostahili kutukuzwa katika harakati za kukabiliana na uhalifu wa kiofisi ni kuwasilishwa bungeni mwaka 2004 kwa mswada wa sheria wa kukinga kunufaika kutokana na mapato ya kihalifu na uhalalishaji wa fedha za kimagendo. Mswada huu ni muhimu sana na ukipitishwa kuwa sheria, utakuwa na matokeo ya maana kwa kampuni za bima katika siku za usoni. Mswada huo unakusudia katika kuhakikisha kuwa kampuni za bima, pamoja na zingine, zitaweka sera na taratibu za kuchunguza, kugundua na kuzuia shughuli za uhalalishaji wa fedha za magendo. Uchunguzi wa bima nchini Kenya wa mwaka 2004 ulitoa taarifa za kutatanisha kuhusu sekta ya bima. Taarifa hiyo ilieleza kuwa sekta ya bima ilikuwa na matatizo sana: ilikuwa na wataalamu chini ya mia tatu, ilitawaliwa na sheria za kizamani, iliongozwa na msingi hafifu, na kadhalika. Vile vile kampuni za bima hazikutoa habari toshelezi na thabiti za kifedha.

Katika siku zijazo, sekta ya bima itaendela kufanya kazi katika mazingira magumu na kampuni za ununuzi kwa malipo ya pole pole, benki za biashara na benki nyingine ndogo ndogo; zote hizi ni ishara kwamba sekta yetu itakuwa na wakati mgumu siku za usoni.

Halmashauri ya wakurugenzi

Andre van Heerden (na mbadala wake Douglas Lacey) walijiuzulu mwezi Agosti 2004. Craig Harding alijiunga na halmashauri ya wakurugenzi mwezi Machi 2005. Bwana Craig Harding ambaye alikuwa mkuu wa huduma za fedha za kimataifa katika kampuni ya Africa Life Assurance ameileta kampuni hii utalamu na ubingwa mwingi katika biashara ya bima ya maisha. Margaret Dawes aliyekuwa mkurugenzi wa fedha katika kampuni ya Africa Life Assurance pia alijiunga na halmashauri ya wakurugenzi mwezi Machi mwaka huu. Intarajiwa kwamba utaalamu wake utaongeza ufichuaji wa usahihi wa utoaji taarifa za kifedha za kampuni.

Ukaguzi wa utendaji wa kampuni

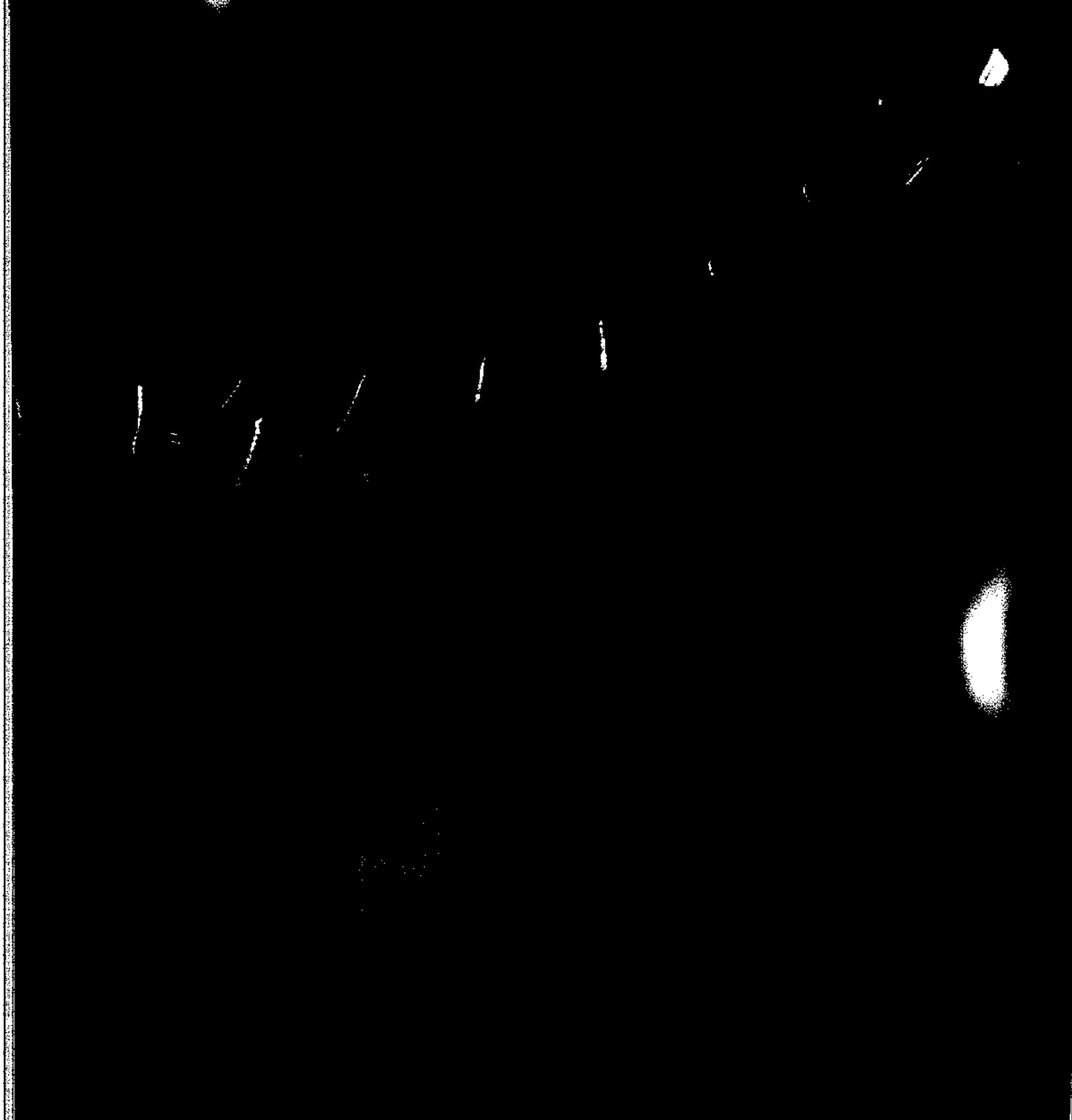
Mwakani 2003, uamuzi ulifikiwa wa kuihamisha biashara ya bima ya maisha kwa kampuni ya Pan African Assurance na biashara ya bima ya jumla kwa kampuni ya PA Securities (iliyojulikana kama kampuni ya bima ya Pan African General). Baadaye, kampuni ya PA Securities iliungana na kampuni ya Apollo na kuunda kampuni ya bima ya APA Insurance Company Limited.

Muundo huu wa kikundi umedhuhirika kuwa madhubuti kuliko ule wa kuwa na shughuli zote chini ya kampuni moja. Hii ni kwa sababu unaruhusu sehemu mbali mbali za kampuni kuendelea bila kutegemea sehemu zingine za kampuni kifedha. Vile vile, muundo huu unapunguza hatari kwa sababu kila sehemu ya kibiashara inakuwa kanuni zake. Kule kujitolea kikazi kwa kila kimoja cha vikundi hivi kumeleta matokeo mazuri katika kila sehemu. Kwa jumla, shirika la bima la Pan African limeonyesha mwelekeo mzuri wa utendaji kazi. Mapato ya kawaida kwa kila hisa ya kampuni ya bima ya Pan African Holdings katika mwaka wa 2004 yalikuwa shilingi moja na senti tisaini na tano (Kshs. 1.95) yakilinganishwa na senti arubaini na tisa (Kshs. 0.49) mwaka 2003 na senti thelathini na tatu (Kshs. 0.33) mwaka 2002. Nimeridhishwa na matokeo haya na ninaamini kwamba msingi umekwisha kuandaliwa utakaoendeleza matokeo haya.

Shukrani

Mimi, pamoja na halmashauri ya wakurugenzi, ningependa kuwapa shukrani yangu Andre van Heerden na Douglas Lacey kwa usaidizi, jitihada na uajibikaji wao walipokuwa kwenye halmashauri. Ningependa pia kuwapa shukrani wakurugenzi wenzangu kwa ushauri wao muhimu uliochangia mazungumzo ya manufaa kwenye mikutano ya kihalmashauri na ya kikamati. Ningependa kuwatukuza viongozi na wafanyikazi kwa jumla kwa jitihada zao na juhudi za biashara ya kampuni kuiendeleza mbele. Ninaielekeza shukrani maalum kwa wawekezaji wetu ambao miaka nenda miaka rudi wameendelea kuisaidia kampuni kwa kuweka hazina katika kampuni ya bima ya Pan Africa. Mwishowe, ningependa kuishukuru ofisi ya Kamishna wa bima kwa ushauri na mwongozo wake wenye thamani katika muda huu wote.

John P N Simba
Mwenyekiti
31 Machi 2005



For the fourth consecutive year Pan Africa Life Assurance Limited has demonstrated consistently impressive growth.

Andrew D Greenwood
Chief Executive

REPORT OF THE CHIEF EXECUTIVE

Andrew D Greenwood
(Chief Executive)

Long-term Insurance Business

Highlights of Performance

For the fourth consecutive year Pan Africa Life Assurance Limited has demonstrated consistently impressive growth. Gross premium income has grown by 34% and now exceeds the one billion shilling milestone. This growth reflects a 37% increase in Individual Life premium income and a 30% increase in Corporate Business premiums.

Individual Life

The Company issued 24,700 new individual life policies in 2004 thus maintaining it's position as the leading Company in new individual life business written. Average premiums increased by 7% over 2003. Great emphasis was placed on diversifying the source of sales and this saw an increase of 23% of sales from non-traditional sources. We have thus reduced our market concentration risk while at the same time offering customers alternative methods with which to pay premiums. In addition, attention was placed on a greater mix of products sold. This, together with stricter proposal acceptance guidelines and a more rigorous follow up of pending sales, saw a commendable improvement in the number of proposals converted into premium paying policies in 2004. In 2001 we pioneered the concept of annual premium updates matched by equivalent increases to benefits as a means of combating the effects of inflation on policyholder benefits. All our individual life recurring premium products now carry an automatic annual premium update. This has contributed most positively to new business premium income for the year under review. While our two flagship products, the Wealth Provider and Family Finance Plan, continue to meet the needs of the majority of our target market, new product development is taking place that will see the range of products enhanced in 2005.

Corporate Business

We retained all our major Corporate Business schemes in 2004 and secured new business comprising 37 new schemes totalling Shs 83 million. Much growth stems from the group credit product launched towards the end of 2003. Our success is driven by exceptional service standards and brisk turnaround in the settlement of benefits. This, combined with a level of attention to broker and direct client needs that is unmatched in the industry, will ensure the sustained growth of Corporate Business into the future. In accordance with International Financial Reporting Standards, contributions received in respect of deposit administration (pension) schemes administered by the Company are no longer reflected as premium income.

Investment Returns

As a result of the relatively stagnant stock exchange during the year and the continuing low domestic interest rate environment, investment returns are approximately two-thirds of those attained in 2003. We continue to seek optimal investment returns from the restrictive opportunities imposed by the Insurance Act while we continue to lobby the Regulator for a wider range of investment opportunities that would put us on the same footing as other players, such as banks, collective investment schemes and pension funds, in the financial services sector.

Management of Expenses

Despite the 34% growth in premium income, expense growth has been tightly controlled with variable expense growing by 17% and fixed operating expenses reflecting a marginal decline over 2003. This confirms the success of managements' initiatives to continuously drive down acquisition and maintenance costs per policy.

REPORT OF THE CHIEF EXECUTIVE (continued)

Benefits to Policyholders

Net benefits to policyholders of Shs 285 million (Shs 352 million gross) reflect a 28% increase over the prior year, partly as a result of increasing our retention levels over the last two years, but also as a function of the increased volume of business. Of this total, Shs 125 million, representing 44% of total benefits paid, were in respect of death and disability claims. These benefits remain within the actuary's mortality assumptions.

Growth of Life Funds

Life funds have grown by 23% to Shs 1.7 billion as at 31 December 2004. As previously mentioned, amounts payable under deposit administration contracts (pensions business) are no longer included in life funds in accordance with International Financial Reporting Standards.

Report on Embedded Value

The report of the statutory actuary, which confirms the solvency of Company, appears on page 25 of this report. In addition, a report of the embedded value of the group appears on pages 26 to 27. While it has become mandatory to report embedded value for companies that undertake long term insurance business in more developed markets, it is not yet a requirement in Kenya. We are therefore pleased to be the first Company in Kenya to report this information to stakeholders. Very simplistically, embedded value is a measure of the value of the book of long term insurance business in force as at 31 December 2004. This value is derived by computing the present value of future after tax profits expected to arise from the policies in force at 31 December discounted at the risk discount rate set out on page 28 of the report. For the year under review, embedded value has grown by Shs 272 million to Shs 1,333 million, reflecting an increase for the year of 26%. Embedded value of new business was Shs 159 million compared with Shs 79 million in 2003. We expect to see more companies moving towards better, more meaningful disclosure to stakeholders by disclosing embedded value information in their annual reports in future.

Regulatory Environment

Despite the encouraging results, the prevailing regulatory environment contains a high degree of uncertainty which has the potential to impact the business. An HIV/AIDS Bill, introduced into the House in 2003, lapsed but was succeeded by a relatively unchanged HIV/AIDS Prevention and Control Bill in 2004. Through substantial lobbying by the insurance industry in particular, this bill was also not passed into law. It is clear that government intends to introduce legislation to address some of the social and economic concerns covered by the bill. While we support these principles we strongly believe that the bill in its current form would impose unfair trade restrictions on the insurance industry. Hence we continue to support the Association of Kenya Insurers' initiatives, through dialogue with government, to remove the clauses contained in the proposed legislation that are detrimental to the industry.

The proposed legislation to enact the National Social Health Insurance Fund would also have imposed an enormous burden to the private sector and to the current limited State and private medical facilities available in Kenya. Consequently the Company took an active part in AKI's initiatives to defer this legislation. However, a similar threat prevails with the drafting of the National Social Insurance Pension Scheme. The proposed levels of contribution to this scheme are prohibitive to the private sector and the introduction of such legislation could see the collapse of the pension industry business in the country. Again, we have worked hand in hand with AKI to seek redress of this draft legislation.

On the other hand, we firmly support the announcement made by the Minister of Finance to create a Regulatory Authority for the insurance industry. We believe that the creation of an autonomous insurance regulator will provide the necessary powers to enforce discipline and compliance in the insurance sector. As has been mentioned in the Chairman's Report, we also welcome the draft "Proceeds on Crime and Money

REPORT OF THE CHIEF EXECUTIVE (continued)

Laundering (Prevention)" bill aimed at ensuring money laundering transactions are detected and prevented.

The Minister has also announced that he will put together a working group to comprehensively review the Insurance Act which is now 18 years old. We again welcome this development and, through AKI, will address our particular concerns regarding the actuarial valuation basis, restriction on investments referred to earlier, and method of paying commissions as currently imposed in the Act. We view this as an ideal opportunity to overhaul a particularly outdated piece of legislation.

Technology

In 2004 we developed an in-house administration system to fully support our unit linked products. We now have fully integrated life administration and general ledger systems. We expect to roll out these facilities for use at our 12 branches during the next financial year.

Human Resources

With 85 administrative staff and more than 450 agents in the field, the group is a major employer in this sector. Strong initiatives have been developed over the last 4 years to ensure that the Pan African Group is seen as a preferred employer. Recent industry remuneration surveys have indicated that our remuneration policy places us in the top quartile of the industry with highly innovative performance incentive schemes together with market leading job evaluation, performance evaluation and succession planning policies.

4.6% of the payroll was allocated to training and development in 2004, compared with 4.1% in 2003. This remains well above industry averages and continues to reflect the Company's commitment to developing staff and agents of the highest calibre in the market. A total of 29 staff undertook work-related tertiary studies. Two employees completed the requirements for the attainment of the ASII and FCII titles.

In our agency force, a total of 263 agents undertook the Certificate of Proficiency examinations in 2004. We achieved pass rates of 88% and 83% for Paper 1 and Paper 3, respectively, in the October sitting. This compares with industry averages of 70% and 69%, reflecting our commitment to raising the standards of professionalism in this theatre of our operations.

In the 2004 AKI Agents of the Year Competition, Pan African Life produced 79 of the total number of 204 agents throughout the industry that qualified for the competition. 21 of our agents were positioned in the top 50 that received awards, and 5 were in the top 10. Our domination of the competition resulted in the Company receiving the AKI Agents of the Year - Company Award for the third successive year.

The Company has also participated in a number of social upliftment activities during the year. Through staff, Company and director contributions, an amount of Shs 430,000 was raised to purchase 12 tonnes of Unimix that was contributed to the Save a Life Fund during the drought and consequent famine mid year. The Company has also sponsored participation in marathons run by the major banks in the country. 68 members of staff also participated in the Rotary "Sow a Seed" walk organised by the Rotary Club of Nairobi North.

Customer Base and Bonus

The Company finished the year with 64,000 active life insurance policies on its books. An additional 145,000 lives were covered through group life and group credit schemes. Thus, a total of 209,000 individuals were covered by Pan Africa Life by the end of the year, representing year on year growth of 48%. A bonus of 5% (2003: 6%) was declared for with-profit policyholders, comprising a 2.5% (2003: 2.5%) vesting bonus together with an annually reviewable simple 2.5% (2003: 3.5%) non-vesting bonus. Members of Deposit Administration Schemes under management will receive interest on their funds at a declaration rate of 9% (2003: 9%).

REPORT OF THE CHIEF EXECUTIVE (continued)

Prospects

Recent surveys indicate that, although the long term insurance industry in Kenya has attained a growth rate considerably higher than the average GDP growth rate in recent years, there is still a very low penetration rate for life insurance products in the Kenyan market. Life insurance premiums as a percentage of GDP at 0.81% compares unfavourably with 2.35% and 2.62% for Zimbabwe and Mauritius respectively, and the penetration rate of 15.92% for South Africa*. Consequently, we believe there remains tremendous potential to further develop the long term insurance industry in the country. With increasing awareness of life insurance needs by the community, the Company will continue to develop products and services to meet the needs of our market, to develop new channels of distribution for these products and to maintain our focus on customer service excellence. In addition, our human resource programs aimed at retaining and recruiting dynamic, motivated and performance driven staff and agents will ensure that the Company has the personnel, products and services to provide continued, sustainable growth to all its stakeholders.

PA Securities

PA Securities Limited was established in 2001 as Pan Africa General Insurance Limited to conduct the general insurance business of the group following a comprehensive restructuring the previous year. In 2003 this business was transferred into the newly-created APA Insurance Limited, into which the general insurance business of Apollo Insurance was also transferred. The transaction resulted in PA Securities acquiring a 39.97% shareholding in APA Insurance Limited while Apollo Insurance retained the remaining shareholding in the new Company. Pan Africa General subsequent changed its name to PA Securities Limited to reflect the new nature of it's operations as an investment vehicle for the Pan Africa Group.

Apart from the 39.97% holding in APA Insurance, PA Securities holds a 100% stake in Mae Properties Limited, a Company primarily engaged in the business of developing and selling plots in Runda Estate, Nairobi and, indirectly through it's holding in Mae Properties, a 24.9% shareholding in Runda Water Limited, which supplies water and provides estate management services to the residents of Runda Estate. PA Securities also holds certain immovable property and other marketable securities in its own right.

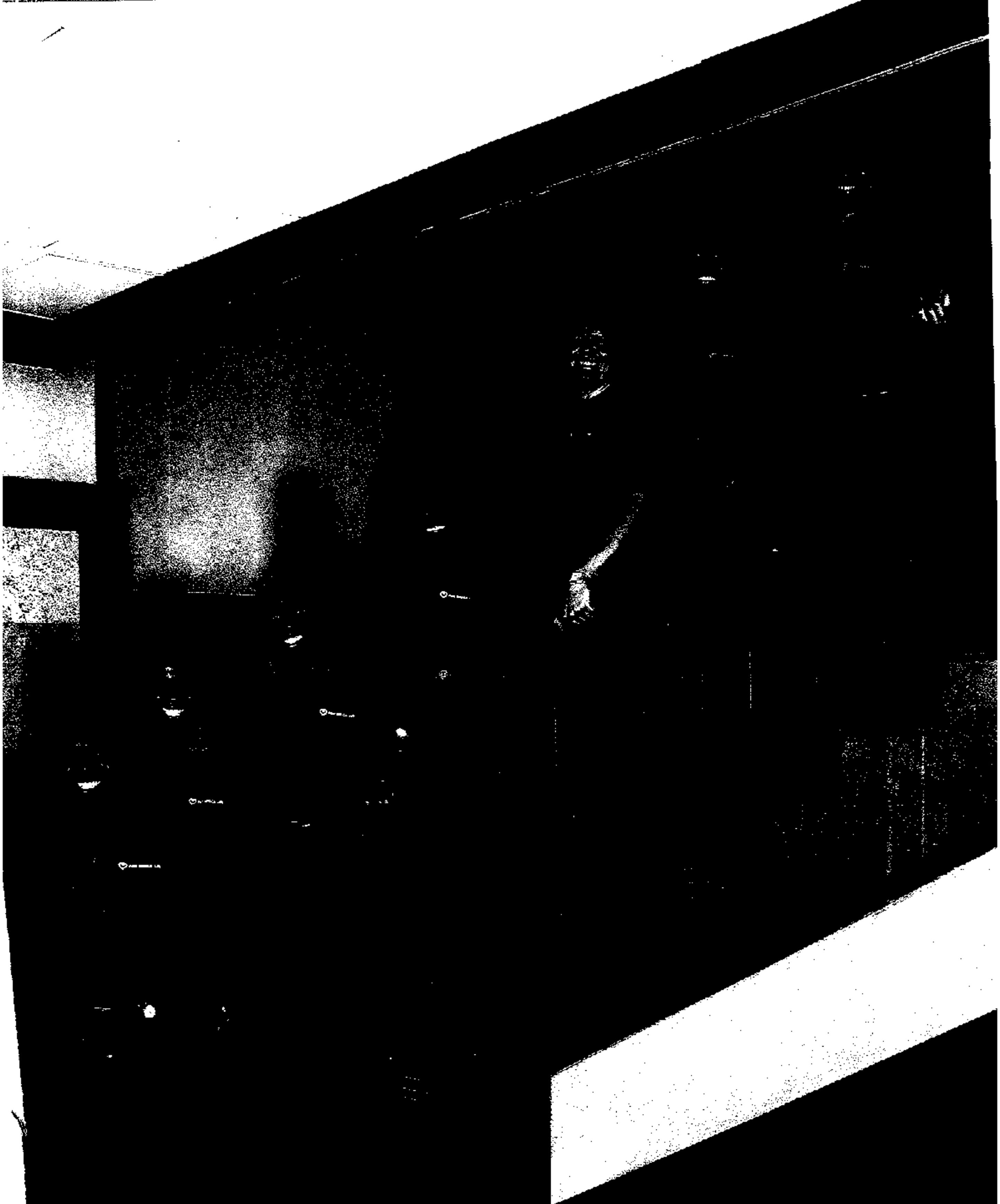
APA Insurance has produced an encouraging set of results in its first full year of operations. Despite an underwriting loss of Shs 87 million, investment and other net income of Shs 131 million resulted in a profit before tax of Shs 43 million of which the Pan Africa Group's share was approximately Shs 17 million. For a first year of business comprising the challenges of harmonising policies, culture and systems, this turnaround in the Group's short term insurance operations provides considerable confidence for the future operations of the enlarged business and vindicates the decision of the board to merge these operations.

The sale of plots owned by Mae Properties produced impressive results for this Company which has contributed Shs 24 million to after tax profits of the group. With some 72 acres of land still available for sub division and subsequent sale, Mae Properties is well positioned to contribute most positively to group results in the future.

All other non-insurance operations in the group performed satisfactorily, also adding to the surplus for the year.

Andrew D Greenwood
Chief Executive
31st March 2005

* Source: IIK 2004 Kenya Insurance Survey



EXECUTIVE COMMITTEE

Left to right:

James Muiruri (49)	General Manager - Corporate Business
Sharon Maviala (30)	Company Secretary
Godfrey Kioi (39)	General Manager - Operations
Joseph Wamwea (32)	Divisional Manager - IST
Warren Smith (39)	National Sales Manager
Lucy Kiboi (47)	Human Resource Manager
Andrew Greenwood (40)	Chief Executive

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 60th Annual General Meeting of Pan Africa Insurance Holdings Limited will be held on 6th July 2005 at the Hilton Hotel, Ivory Room at 11.00 a.m. to transact the following business:

1. To confirm the minutes of the 59th annual general meeting held on 29 June 2004.

2. To receive the audited financial statements for the year ended 31 December 2004 and the reports of the Chairman, the Chief Executive, the Directors, the Auditors and the Statutory Actuary.

3. To elect directors:

   In accordance with the Company's Articles of Association Margaret Dawes and Craig Harding were appointed to the board since the last annual general meeting retire from office and being eligible offer themselves for re-election.

   In accordance with the Company's Articles of Association, John Simba and John Burbidge 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 annual general meeting.

By Order of the Board
S Maviala
Secretary
31st March 2005

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 sitini wa kampuni ya Pan Africa Insurance Holdings Limited utafanyika katika hoteli ya Hilton, Ivory Room tarehe 6 Julai 2005 saa tano kamili kujadili mambo yafuatayo.

1. Kuthibitisha kumbukumbu za mkutano wa hamsini na tisa mkuu wa mwaka uliofanyika mnamo tarehe 29 Juni 2004.

2. Kupokea taarifa ya hesabu ya pesa kwa mwaka uliomalizika tarehe 31 Desemba, 2004 pamoja na taarifa ya Mwenyekiti, Mkurugenzi Mkuu, Wakurugenzi, Wakaguzi-hesabu na Statutory Actuary.

3. Kuwachagua Wakurugenzi:

   Kuambatana na Vifungu vya Kushirikishwa kwa Kampuni Bi Margaret Dawes na Bwana Craig Harding wanastaafu na kwa kuwa wanastahili, wamejitolea kuchaguliwa tena.

   Kuambatana na Vifungu vya Kushirikishwa kwa Kampuni, Mabwana John Simba na John Burbidge 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 kwa 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
S Maviala
Katibu
31 Machi 2005

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

CORPORATE GOVERNANCE

Principles of Governance

The board of directors of Pan Africa Insurance Holdings Limited is committed to developing and implementing policies that entrench sound corporate governance practices in the Company. The Board prides itself on the stewardship of a Company that is ethical, transparent and accountable. These are the core values that inform the operations of the Company, its subsidiaries, the conduct of its management and staff members and interaction with shareholders, customers, regulatory authorities and the government as the primary stakeholders of the Company. The 'Continuing Obligations' and the 'Principles of Corporate Governance' of the Capital Markets Authority Act (Chapter 485A of the Laws of Kenya) are the benchmark by which the Company measures its corporate governance practices. In addition, the Board continues to critique its own corporate governance standards in different ways. Directors are challenged to attend seminars and courses on best practices on directorships and as an example, the Company has sponsored members of the Board in attending the Directors Training Workshop offered by the Corporate Governance Trust. In 2004, the Board resolved to evaluate its members and discussions on board evaluation criteria and forms will be concluded in the first half of 2005. Discussions on corporate governance that draw on the best practice guidelines from Kenya, South Africa and the United Kingdom will culminate in the development and implementation of corporate governance measures for the Board.

The Board of Directors

Composition

The composition of the Board is well balanced between executive, non-executive and independent non-executive directors and for this reason, the practice has been that no individual or groups of individuals can dominate the decision making process of the Board: the Chairman is an independent non-executive director, the Chief Executive is the only executive director, three directors represent the strategic partner African Life, and three non-executive and independent directors balance their influence.

Responsibilities

The primary responsibility of the Board is to lead and control the Group. The Board meets once every three months to review the financial performance and operations of the Group. At these meetings, the Board also considers strategic matters and other issues that will impact on the group's financial position and reputation. The political, business, legislative and technological environments are always discussed in this context. Whereas the day-to-day executive management of the Company has been delegated to the Chief Executive, and detailed discussions on audit, investments and remuneration have been delegated to committees (described later in this Annual Report), the running of the Board is the responsibility of the Chairman.

Responsibility for Financial Reporting

It is the responsibility of the directors to prepare financial statements that give a true and fair view of the state of affairs of the Company and its subsidiaries. This requires the Board to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. The Board is also responsible for safeguarding the assets of the Company. The directors accept responsibility for these financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that these financial statements give a true and fair view of the financial affairs of the Company and its subsidiaries. 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.

CORPORATE GOVERNANCE (continued)

Operations

The diverse skills, experience and professions of the directors enliven the deliberations of the Board. The profiles of the directors are described on the inside front cover of this Annual Report. By way of summary, the Board benefits from professional knowledge of its members in accounting, architecture, entrepreneurship, insurance, finance, law and management. It is important that the board has proper information supplied to it n a timely manner. Notices of board meetings are circulated at least 21 clear days before board meetings and agendas for meetings and detailed board papers are circulated at least 7 clear days before any board meeting. To ensure the continuous flow of information, the Company encourages dialogue and meetings between members of the Board and senior management outside of the formal quarterly board meetings. Directors also continually avail themselves on areas of their expertise, particularly, accounting, law, insurance and strategic management.

Remuneration

In remunerating the directors, the Company's policy has been to consider, first, the demands and requirements made on the directors in relation to the business of the Company, second, the availability of the directors for ad hoc consultation, professional and business counsel as and when the need arises, third, industry and related companies benchmarks, fourth, international experiences such as the bankruptcies of Enron and WorldCom due to conflict of interests at board level and management, and fifth, the caliber of directors needed to run this Company. The directors have always, are, and will be expected to continue to add value to the business. The financial results indicate that the financial performance of the Company is on upward trend and it is recognised that this, in part, is due to the improvement of the quality of corporate governance at the board level. Based on management's considered recommendation, the level of remuneration of directors was increased in 2004. The directors' fee is annual but the sitting allowances are only paid subject to attendance at the board and/or committee meetings confirmed by the register of attendance. Both the annual fees and sitting allowance are paid on a quarterly basis.

Appointments to the Board

The Board formed an ad hoc committee responsible for nominating appointments to this Board. In 2004, the committee comprised of the Chairman, John Simba, and two non-executive directors, John Burbidge and Jeremy Rowse.

Re-Election to the Board

All the directors submit themselves for re-election every three years. Their appointment is for a specific period but subject always to the provisions of the Companies Act (Chapter 486 of the Laws of Kenya) on retirement and removal of directors. In every year, newly appointed directors are subject to election by the shareholders during the Annual General Meeting and thereafter submit themselves for re-election every three years.

Service Contracts and Compensation

Aside from the Chief Executive, no director or a party related to a director has a service contract or receives compensation from the Company.

Disclosure of Interests

In 2001, the Board resolved that the directors would disclose their interests in a special form once in every year. The practice now has been for the directors to disclose their interests every six months and in the event that there are changes, the directors disclose their interest at the next board meeting. Every quarter, the disclosure of interest form is circulated with the board papers.

CORPORATE GOVERNANCE (continued)

Audit Committee

The audit committee has four members: the chair is Margaret Dawes (non-executive), John Burbidge (non-executive), Baloobhai Patel (independent, non-executive) and Andrew Greenwood (executive). Godfrey Kioi (General Manager, Finance) and Sharon Maviala (Company Secretary/Chief Legal Officer) are in attendance at these meetings. The audit committee's functions are outlined in its terms of reference and include (1) reviewing reports and following up on matters raised by the external auditors, internal auditors and statutory actuary; (2) to review and approve the financial statements, reports and public announcements; and (3) reviewing cases of fraud and litigation. The audit committee met four times in 2004.

Investment Committee

The investment committee has five members: the chair is Baloobhai Patel (non-executive, independent), Margaret Dawes (non-executive), John Burbidge (non-executive), Andrew Greenwood (executive), John Simba (non-executive, independent) and Joshua Kituri (non-executive, independent). Godfrey Kioi (General Manager, Finance), Sharon Maviala (Company Secretary/Chief Legal Officer) and Lucy Munjuga (Head of Operations, PA Securities and Mae Properties Limited) are in attendance at these meetings. The investment committee's functions are outlined in its terms of reference and include (1) developing and ensuring the implementation of its investment guidelines; (2) measuring the Company's performance against the investment benchmarks; (3) reviewing the Company's investments and recommending appropriate action; and (4) approving the acquisition, disposal and capital expenditure in relation to investments. The investment committee met four times in 2004.

Remuneration Committee

The remuneration committee has five members: the chair is James Gitoho (non-executive, independent), John Burbidge (non-executive), Craig Harding (non-executive), Joshua Kituri (non-executive, independent) and Andrew Greenwood (executive). Lucy Kiboi (Human Resources Manager) and Sharon Maviala (Company Secretary/Chief Legal Officer) are in attendance at these meetings. The remuneration committee's functions are outlined in its terms of reference and include (1) reviewing and approving the annual salary reviews and staff bonuses as recommended by management; (2) approving terms and conditions of service and any amendments thereto; and (3) approving the remuneration of the Chief Executive. The remuneration committee met three times in 2004.

Attendance at Meetings

Table 1 below summarises the attendance record of the directors at the full board and board committee meetings. A record of attendance is kept in a register, which is in the Company Secretary's custody. The record of attendance, partial attendance, absence and absence with apologies is also noted in the minutes of meetings.

CORPORATE GOVERNANCE (continued)

Table 1: Summary Of Meetings Attended By Directors For The Year Ended 31st December 2004

	Board Meetings		Audit Committee		Investment Committee		Remuneration Committee	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
John Simba	4	4			4	4		
John Burbidge	4	3	4	3	4	3	3	3
James Gitoho	4	4					3	3
Andrew Greenwood	4	4	4	4	4	4	3	3
Jeremy Rowse	4	3						
Joshua Kituri	4	4			4	4	3	3
Baloobhai Patel	4	3	4	3	4	3		
A Van Heerden*	2	2	2	2	2	2		

Notes

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

(b) Number of meetings attended by the director during the year

(c) *Resigned in August 2004 and did not attend third quarter and fourth quarter meetings

Professional Advice

The board is of the view that to carry on its responsibilities in an independent and impartial fashion it should seek and benefit from professional counsel.

Company Secretary

All members of the board have direct access to the Company Secretary who is responsible for ensuring that board procedures, rules and regulations are followed. As the Company Secretary is also the Chief Legal Officer, she reports independently and directly to the board on litigious matters affecting the Company and its subsidiaries.

Investment Management Services

The subsidiaries of the Company have significant investments that need to be managed optimally to ensure the highest possible return to customers and shareholders. The management and investment of these funds has been outsourced to AIG Global (East Africa) Limited. AIG reports independently and directly to the Board at every quarterly board meeting.

Property Management Services

A significant component of the investments within the Group comprise of residential and commercial properties. Knight Frank is responsible for the management of these commercial properties, collection of rent, general repairs and maintenance. Knight Frank reports independently and directly to the Board at every quarterly board meeting.

Audit Services

Whereas the directors are responsible for preparing the accounts and for presenting a balanced and fair view of the financial position of the Company, PricewaterhouseCoopers examine and give their opinion on the

CORPORATE GOVERNANCE (continued)

reasonableness of the financial statements. PricewaterhouseCoopers reports independently and directly to the board at the half year and end year board meetings.

Tax and Consulting Services

As the Government introduced a tax amnesty, the Board took the view that it would be an opportune time to review the Company's tax plans. KPMG were consulted on this and all their recommendations have been implemented. Going forward, the Board is confident of the Company's tax position.

Statutory Actuary

The statutory actuary is responsible for examining the financial soundness of the Company and does this by independently valuing the Company's assets and policy liabilities. The statutory actuary reports independently and directly to the Board at every quarterly board meeting.

Trading In Securities

Insider trading occurs when a person has knowledge of the Company's affairs before such information is made available to the public. In compliance with the Nairobi Stock Exchange's regulations to prevent insider trading, the Company's policy is that directors, management, staff members, any of their relatives, or any of the companies / businesses / organisations that they exercise significant influence over are not allowed to deal in the Company's shares during the closed season. The closed season is the period between the end of the Company's reporting period and the publication of results. This occurs at the year-end (between 31st December and 31st March) and the half year-end (30th June and 15th August). In 2004 there was only 1 employee with shares in the Company i.e. Jane Maina with 1,362 shares. Details of the directors' shareholding in the Company are summarised in Table 2 below.

Table 2: Directors' Shareholding

	Number of shares as at 1st January 2005	Purchased during 2005	Disposed in 2005	Number of shares as at 31 March 2005
Baloobhai Patel	7,059,724	0	0	7,059,724
Andrew Greenwood	78,214	0	0	78,214
John Simba	10,000	0	0	10,000
Joshua Kituri	4,416	0	0	4,416
James Gitoho	4,000	0	0	4,000
TOTAL	7,156,354	0	0	7,156,354

The Board discloses to shareholders the financial position of the Company three times a year: at the annual general meeting, by publication of the half-year results in the English daily newspapers and by publication of the end-year results in the English daily newspapers. The financial position of the Company together with relevant information such as the share price and on the central depository system are made available for viewing on the Company's website, www.pan-africa.com. The share register is kept at the offices of the Company and a computer database stores this information. The Company Secretary is responsible for the share register and responds to correspondence directly from shareholders. The official books of the Company, as stipulated by the Companies Act (Chapter 486 of the Laws of Kenya), are kept at the head office of the Company and are available for the perusal of shareholders during working hours. The Company publishes the annual report and audited accounts, which are sent out to all shareholders, entitled to attend

CORPORATE GOVERNANCE (continued)

the annual general meeting. The Company has an authorised share capital of Shs 500 Million divided into 100 Million shares of Shs 5/= each. 48 Million shares are currently issued. The top 10 shareholders, based on the Company's register as at 31st March 2005 are shown in Table 3 below.

Table 3: Top 10 Shareholders

	2004		2003	
	Number of shares	%	Number of shares	%
Hubris Holdings Limited	22,119,653	46	22,199,653	46
Baloobhai Patel	7,059,724	14.7	5,335,090	11.10
Thammo Holdings Limited	3,380,652	7.04	3,380,652	7.04
Co-operative Bank of Kenya	2,227,095	4.63	3,697,745	7.70
Kancher Kenya Limited	2,025,028	4.21	2,025,028	4.21
Westlands Triangle Properties Limited	2,000,000	4.16	0	0
Kenya Reinsurance Corporation Limited	921,440	1.91	921,440	1.91
Cannon Assurance (K) Limited	469,850	0.97	469,850	0.97
Financial Futures Limited	430,855	0.89	430,855	0.89
Stanbic Nominees (K) Limited	330,000	0.68	330,000	0.68
TOTAL	40,964,297	85.19	38,790,313	80.5

The Capital Markets Authority requires the Company to provide information on the distribution of shareholders based on the number of shares owned and based on their nationality. This information is presented in Tables 4 and 5 below.

Table 4: Distribution Schedule

Category	Number of Shareholders	Number of Shares	%
Less than 1,000	1,679	1,021,094	2.12
1,000 - 5,000	625	1,271,039	2.70
5,001 - 10,000	106	732,756	1.52
10,001 - 50,000	112	2,202,389	4.60
50,001 - 100,000	24	1,634,730	3.40
More than 100,000	21	41,137,992	85.66
TOTAL	2,567	48,000,000	100.00

Table 5: Shareholders' Profile

Category	Number of Shareholders	Number of Shares	%
Local Corporate	139	33,419,735	69.62
Local Individual	1343	13,044,403	27.17
East African Individual	890	894,245	1.86
Foreign Investors	194	640,009	1.33
East African Corporate	1	1,608	0.02
TOTAL	2,567	48,000,000	100.00

CORPORATE GOVERNANCE (continued)

Risk Management

A significant risk for the Company and its subsidiaries is continuity of operations in the event of catastrophes that are beyond the Company's control. In 2004 the Board approved, in principle, a 'Business Continuity and Data Replication Project' that would mitigate this risk to an acceptable level. The objective of this project is to ensure that if operations or equipment at head office are disrupted to such an extent that operations cannot continue then within the hour the Company is able to retrieve all its data from a remote location and continue with business as usual. The design and implementation of this project will be in 2005, but it is the first step in the development of a comprehensive risk management policy for the Company.

FIRE (Financial Reporting) Awards

The FiRe Awards recognise excellence in financial reporting, corporate governance and corporate social responsibility. This year's award had 75 companies competing in six categories. The annual reports are assessed on 10 criteria with a heavy emphasis on compliance with international financial reporting standards, visual appearance of financial statements, and corporate governance practices. We are pleased to announce that the Company was awarded the runners up trophy in the 'Insurance Companies' category.

Going Concern

The Board of directors submits this annual report and audited financial statements for the year ending 31st December 2004. The annual report and audited financial statements present, in the opinion of the directors, a fair, balanced and understandable assessment of the state of the affairs of the Company's position and prospects. The board of directors report that the business is a going concern and they have no reason to believe that the Company and its subsidiaries will not be going concerns into the foreseeable future.

John P N Simba
Chairman
31st March 2005

Andrew Greenwood
Chief Executive
31st March 2005

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

for the year ended 31 December 2004

The Companies Act requires the directors to prepare consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and of the profits of the Group for that year. It also requires the directors to ensure the Group and the Company keep proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and the Company. They are also responsible for safeguarding the assets of the Group and Company.

The directors accept responsibility for the annual consolidated 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 consolidated financial statements give a true and fair view of the state of the financial affairs of the Group and the Company and of its profits. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Company and its subsidiaries will not remain a going concern for at least twelve months from the date of this statement.

John P N Simba
Chairman
31st March 2005

Andrew Greenwood
Chief Executive
31st March 2005

REPORT OF THE INDEPENDENT AUDITORS

to the members of Pan Africa Insurance Holdings Limited for the year ended 31 December 2004

We have audited the financial statements of Pan Africa Insurance Holdings Limited for the year ended 31 December 2004, set out on pages 30 to 50.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements as described on page 25. 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 purpose 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 financial affairs of the group and of the Company as at 31 December 2004 and of the profit 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
31st March 2005

REPORT OF THE STATUTORY ACTUARY

for the year ended 31 December 2004

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 2004.

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 2004.

Giles T Waugh
Statutory Actuary
MA, FIA, FASSA, ASA
Fellow of the Institute of Actuaries
31st March 2005

EMBEDDED VALUE REPORT
for the year ended 31 December 2004

1. Definition of Embedded Value
This report sets out the embedded value and the value of new business of Pan Africa Insurance Holdings. The embedded value represents an estimate of the economic value of the Company excluding the value attributable to future new business. The embedded value comprises: a) The value of the shareholders' net assets; plus b) The value of the in-force business. The value of in-force business is the present value of future after-tax profits arising from business in force at the valuation date, discounted at the risk discount rate.

2. Embedded Value Results

	As at 31 Dec. 2004 Shs'm	As at 31 Dec. 2003 Shs'm
Group embedded value		
Shareholders' adjusted net assets	**799.1**	762.2
Value of in-force business	**534.7**	299.1
Embedded value	**1,333.8**	1,061.3

3. Embedded Value Earnings

The embedded value earnings are derived as follows	
Embedded value at end of year	**1,333.8**
Embedded value at beginning of year	**(1,061.3)**
Change in embedded value	**272.5**
Dividends and new capital	**-**
Embedded value earnings	**272.5**
These earnings can be analysed as follows:	
Roll forward	**162.5**
Investment return on free assets	**131.1**
Expected return on life business in force	**31.4**
Value of new business at end of year	**158.9**
Value of new business at point of sale	**151.3**
Expected return on new business to end of year	**7.6**
Changes in assumptions and methodology	**15.4**
Experience variations	**(64.3)**
Total earnings	**272.5**

4. Value of New Business
The value of new business represents the value of projected after-tax profits at the point of sale arising from new policies sold during the year to 31 December 2004, accumulated to the end of the year at the risk discount rate.

	Shs'm
Value of new business at end of year	**158.9**
Value at point of sale	**151.3**
Expected return	**7.7**

The premium income in respect of new business written over the year can be found on page 40.

5. Sensitivity to the Risk Discount Rate
The risk discount rate appropriate to an investor will vary depending on the investor's own requirements, tax position and perception of the risks associated with the realisation of the future profits of the Pan African Insurance Group. The sensitivity of the embedded value to the risk discount rate is set out below.

	Shs'm	Shs'm	Shs'm
Risk Discount Rate	14%	**15%**	16%
Shareholder's net assets	799.1	**799.1**	799.1
Value of in-force business	549.7	**534.6**	520.5
Embedded value	1,348.9	**1,333.8**	1,319.6
Value of one year's new business at valuation date	167.5	**154.1**	143.7

EMBEDDED VALUE REPORT (continued)

for the year ended 31 December 2004

6. Assumptions

The assumptions used in the calculation of the embedded value are based on the Company's best estimate of future experience. The main assumptions used are as follows:

(i) Economic Assumptions; The main economic assumptions (p.a.) used are as follows:

Risk discount rate	Overall investment return (pre tax)	Expense inflation rate
15%	10%	8%

(ii) Mortality Rates; The assumptions for future mortality rates are based on the results of recent experience investigations conducted by the Company. Allowance has been made for expected future AIDS mortality using a table derived for Kenyan experience.

(iii) Expenses; The maintenance expense assumption is based on the results of recently conducted internal expense investigations.

(iv) Premium Escalations; The embedded value of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business. The value of new business includes the expected value of future premium increases resulting from premium indexation arrangements on new business written during the year to 31 December 2004.

(v) Persistency / Surrender Basis; The assumptions for lapse and surrender rates are based on the results of recent experience investigations conducted by the Company.

(vi) Tax; Allowance was made for the current life office taxation basis.

7. Sensitivities

This section illustrates the effect of different assumptions on the value of in-force business net of cost of capital. The effect of assumption changes in the Financial Soundness Valuation has been included in the value of in-force business. For each sensitivity illustrated all other assumptions have been left unchanged.

	Value of in force Shs m	% Change over base
Values as at 31 December 2004	534.6	-
Policy discontinuance rate increases by 10% e.g. from 10% to 11%	523.2	2.2%
Future expense increases by 10%	503.6	5.8%
Expense inflation increases by 1% e.g. from 10% to 11%	529.5	1.0%
Mortality and morbidity experience increases by 10%	522.2	2.3%
Investment returns decrease by 1% e.g. from 10% to 9%	498.2	6.8%
Premium increase take-up rate decreases by 10% e.g. from 90% to 81%	528.7	1.1%
The sensitivity of the value of new business is as follows:		
Value of one year's new business as at 31 December 2004	154.1	
Policy discontinuance rate increases by 10% e.g. from 10% to 11%	144.7	6.1%
Future expense increases by 10%	142.9	7.3%
Expense inflation increases by 1% e.g. from 10% to 11%	152.1	1.3%
Mortality and morbidity experience increases by 10%	147.2	4.5%
Investment returns decrease by 1% e.g. from 10% to 9%	149.4	3.1%
Premium increase take-up rate decreases by 10% e.g. from 90% to 81%	151.0	2.0%
Increase in non-commission acquisition expenses by 10%	151.9	1.4%

Assumed management action;

Mortality charges have been assumed to change in line with the costs of providing benefits.

Giles T Waugh
Statutory Actuary
31st March 2005

PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(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 the carrying of investment property and available-for-sale investments at fair value, impaired assets at their recoverable amounts, and actuarially determined liabilities at their present 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 using 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 investments in an associated undertaking reaches zero, unless the Group has incurred obligations in respect of the associated undertakings.

(c) Income recognition

Premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for estimated lapses.

The full annual premium 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 premiums are recognised as income when received.

Commissions receivable are recognised as income in the period in which they are earned.

Investment income is stated net of investment expenses. Interest income is recognised on a time proportion basis using the effective interest method. 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.

(d) Claims incurred

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years.

PRINCIPAL ACCOUNTING POLICIES (continued)

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.

Claims arising on maturing policies are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for on payment.

(e) Deposit administration contracts

The company's subsidiary, Pan Africa Life Assurance Limited, administers the funds of a number of retirement benefit schemes. The liability of the Company to the schemes has been included within the balance sheet.

(f) Property and equipment

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

Increases in the carrying amount of land and buildings arising on revaluation are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; 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 surplus to retained earnings.

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

(i) Buildings 25 - 40 years
(ii) Equipment and motor vehicles 3 - 8 years
(iii) Freehold land is not depreciated.

Property and equipment is periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

(g) Investment property

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are treated as long term investments and carried at fair value, representing market value determined annually by external independent valuers. Investment properties are not subject to depreciation. Changes in their carrying amount between balance sheet dates are processed, net of deferred income tax, through the profit and loss account.

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.

(h) Other investments

The group classifies its investments into available-for-sale investments, originated loans and held to maturity investments. The classification is dependant on the purpose for which the investments were acquired. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such designations on a regular basis as follows;

(i) Investments intended to be held for an indefinite period of time, but which may be sold in response to needs of liquidity or changes in interest rates, are classified as available-for-sale.

(ii) Non-equity investments purchased in the primary market (i.e. directly from the issuer) are classified as originated loans.

(iii) Investments with fixed maturity that the Company has the intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortised cost.

Purchases and sales of investments are recognised on the trade date, which is the date the group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair

PRINCIPAL ACCOUNTING POLICIES (continued)

value, whilst originated loans are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of available-for-sale investments are recorded in the profit and loss account in the year in which they arise and are included in investment income.

(i) 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.

(j) 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.

(k) 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 Company 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.

(l) Employee benefits

(i) Retirement benefit obligations

The group operates a defined contribution retirement benefit scheme for its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the employer and employees. The group companies and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

The Company's contributions to both the defined contribution schemes are charged to the profit and loss account in the year to which they relate. The group has no further obligation once the contributions have been paid.

(ii) Other entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

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

(m) Income tax

Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

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

(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 to changes in presentation in the current year.

GROUP PROFIT AND LOSS ACCOUNT

	Notes	2004 Shs'000	2003 Shs'000
Gross premium income	2	1,065,885	793,430
Reassurance		(151,279)	(91,955)
Net earned premiums	2	914,606	701,475
Investment return	3	194,592	337,428
Income from associated companies	16	18,703	(1,416)
Commissions earned		37,589	22,786
Other income	4	63,972	35,084
		314,856	393,882
Commission expense		217,687	187,560
Selling expenses		65,086	52,916
Operating expenses	5	217,920	222,079
Discontinued operations	6	7,066	146,553
Premium tax and stamp duty		16,943	12,808
Policyholder benefits	7	284,617	220,940
Change in actuarial value of policyholder liability		329,136	321,277
		1,138,455	1,164,133
Profit/(loss) before income tax		91,007	(68,776)
Income tax credit	9	2,804	45,336
Profit/(loss) for the year		**93,811**	**(23,440)**
		Shs.	**Shs.**
Basic and diluted earnings/(loss) per share		**1.95**	**(0.49)**
Dividends:			
Proposed final dividend per share for the year	**12**	**1.00**	**-**

Financial statements for the year ended 31 December 2004

GROUP BALANCE SHEET

	Notes	2004 Shs'000	2003 Shs'000 (Restated)
Capital employed			
Share capital	10	240,000	240,000
Share premium	10	364,431	364,431
Revaluation surplus		663	663
Retained earnings		443,051	397,240
Transfer to life funds	11	(297,001)	(397,943)
Proposed dividends	12	48,000	-
Shareholders' funds		**799,144**	**604,391**
Represented by:			
Assets			
Property and equipment	13	57,576	149,659
Investment property	14	774,000	557,500
Investment in associates	16	169,078	142,580
Quoted shares available for sale	17	231,433	189,072
Mortgage loans	18	79,190	105,533
Policy loans		81,900	73,897
Receivables arising out of reinsurance arrangements		99,804	55,468
Receivables arising out of direct insurance arrangements		320,021	231,013
Reinsurers' share of technical provisions and reserves	19	39,640	42,137
Other receivables	20	163,498	85,106
Land and development		23,216	42,765
Current tax recoverable		20,044	20,044
Government securities	21	1,006,761	623,570
Deposits with financial institutions		102,935	298,245
Commercial paper and corporate bonds		136,718	65,400
Cash and bank balances		47,806	60,456
Total assets		**3,353,620**	**2,742,445**
Liabilities			
Actuarial value of policyholder liabilities	23	1,716,787	1,384,456
Payable under deposit administration contracts	24	157,423	126,179
Outstanding claims provisions	25	111,642	133,286
Deferred income tax	26	47,260	52,555
Creditors arising from reinsurance arrangements		97,538	25,011
Borrowings		-	33,045
Other payables	27	417,993	380,387
Current income tax		5,833	3,135
Total liabilities		**2,554,476**	**2,138,054**
Net assets		**799,144**	**604,391**

The financial statements on pages 30 to 50 were approved for issue by the Board of Directors on 31 March 2005 and signed on its behalf by:

John P N Simba
Director

Andrew Greenwood
Director

COMPANY BALANCE SHEET

	Notes	2004 Shs'000	2003 Shs'000
Capital employed			
Share capital	10	240,000	240,000
Share premium	10	364,431	364,431
Retained earnings		671,795	671,795
Transfer to life funds	11	(297,001)	(397,943)
Proposed dividends	12	48,000	-
Shareholders' funds		**1,027,225**	**878,283**
Represented by:			
Assets			
Investment in Pan Africa Life Assurance Limited	15	331,203	230,261
Investment in PA Securities Limited	15	679,009	679,009
Other receivables		851	546
Current tax recoverable		13,680	13,680
Dividend receivable from subsidiary		48,000	-
Cash and bank balances		3,499	817
Total assets		**1,076,242**	**924,313**
Liabilities			
Other payables		49,017	46,030
Total liabilities		**49,017**	**46,030**
Net assets		**1,027,225**	**878,283**

The financial statements on pages 30 to 50 were approved for issue by the Board of Directors on 31 March 2005 and signed on its behalf by:

John P N Simba
Director

Andrew Greenwood
Director

GROUP STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital Shs'000	Share premium Shs'000	Revaluation reserve Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 December 2003							
At start of year		240,000	364,431	44,535	420,680	-	1,069,646
Revaluation deficit		-	-	(11,771)	-	-	(11,771)
Deferred tax on revaluation		-	-	3,531	-	-	3,531
Released on disposal of Subsidiary Company		-	-	(23,671)	-	-	(23,671)
Released on disposal of shares		-	-	(8,153)	-	-	(8,153)
Released on disposal of plant and machinery		-	-	(3,808)	-	-	(3,808)
Net gains/(losses) not recognised in the profit and loss account:		-	-	(43,872)	-	-	(43,872)
Net loss for the year		-	-	-	(23,440)	-	(23,440)
At 31 December before transfer to life funds		240,000	364,431	663	397,240	-	1,002,334
Transfer to life funds		-	-	-	-	-	(397,943)
At end of year		240,000	364,431	663	397,240	-	604,391
Year ended 31 December 2004							
At start of year before transfer to Life funds		240,000	364,431	663	397,240	-	1,002,334
Profit for the year		-	-	-	93,811	-	93,811
Dividends:							
- Proposed final for 2004	12	-	-	-	(48,000)	48,000	-
At 31 December before transfer to life funds		240,000	364,431	663	443,051	48,000	1,096,145
Transfer to life funds		-	-	-	-	-	(297,001)
At end of year		**240,000**	**364,431**	**663**	**443,051**	**48,000**	**799,144**

Financial statements for the year ended 31 December 2004

COMPANY STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital Shs'000	Share premium Shs'000	Revaluation reserves Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 December 2003							
At start of 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
Year ended 31 December 2004							
At start of the year		240,000	364,431	-	671,795	-	1,276,226
Profit for the year		-	-	-	48,000	-	48,000
Proposed dividends	12	-	-	-	(48,000)	48,000	-
At 31 December before transfer to life funds		240,000	364,431	-	671,795	48,000	1,324,226
Transfer to Life funds		-	-	-	-	-	(297,001)
At end of year		**240,000**	**364,431**	**-**	**671,795**	**48,000**	**1,027,225**

Financial statements for the year ended 31 December 2004

GROUP CASH FLOW STATEMENT

	Notes	2004 Shs'000	2003 Shs'000
Operating activities			
Cash generated from/(used in) operations	30	138,698	(118,429)
Income tax paid		(7,588)	(22,405)
Net cash from/(used in) operating activities		131,110	(140,834)
Investing activities			
Interest income		157,794	169,730
Purchase of property and equipment	13	(26,028)	(5,218)
Purchase of quoted shares	17	(27,063)	(22,176)
Purchase of government securities		(604,787)	(128,387)
Purchase of commercial paper and corporate bonds		(71,318)	-
Mortgage loans advanced	18	(238)	(6,683)
Repayments of mortgage loans	18	26,581	32,639
Proceeds from disposal of property and equipment		21,992	46,053
Proceeds from sale of investment property		-	21,500
Proceeds from disposal of government securities		217,042	33,486
Proceeds from sale of subsidiary		-	100
Proceeds from sale of commercial paper		-	19,700
Proceeds from sale of shares		-	96,252
Net inflow from transfer of the General Insurance Business		-	9,407
Net cash (used in)/from investing activities		(306,025)	266,403
Financing activities			
Borrowings		-	5,917
Repayment of borrowings		(33,045)	-
Net cash (used in)/from financing activities		(33,045)	5,917
(Decrease)/Increase in cash and cash equivalents		(207, 960)	131,486
Movement in cash and cash equivalents			
At start of year		358, 701	227,215
(Decrease)/increase in cash and cash equivalents		(207,960)	131,486
At end of year	**31**	**150,741**	**358,701**

NOTES

1. Business segment information

After the transfer of the general insurance business in 2003, the core activity of the Group is the carrying out of long term insurance business. The group also holds interests in an investment Company and a Company involved in the sale and distribution of plots.

	Long-term insurance Shs'000	Investments/ General business Shs'000	Sale of plots Shs'000	Distribution of water Shs'000	Total Shs'000
Year ended 31 December 2004:					
Gross premium income	1,065,885	-	-	-	1,065,885
Net premium income	914,606	-	-	-	914,606
Other income	187,973	70,089	54,294	2,500	314,856
:-Investment income	149,485	45,107	-	-	194,592
:-Other income	38,488	6,634	53,939	2,500	101,561
:-Share of associate's profit	-	18,348	355	-	18,703
Segment inflows	1,102,579	70,089	54,294	2,500	1,229,462
Segment outflows	(1,102,579)	(18,983)	(16,768)	(125)	(1,138,455)
Profit before income tax	-	51,106	37,526	2,375	91,007
Income tax credit/(expense)	-	7,625	(4,821)	-	2,804
Net profit for the year	-	58,731	32,705	2,375	93,811
Segment assets	2,366,222	861,855	120,152	5,391	3,353,620
Segment liabilities	2,366,222	135,274	39,139	13,841	2,554,476
Capital expenditure	25,367	661	-	-	26,028
Depreciation	10,665	529	215	-	11,409
Year ended 31 December 2003:					
Gross premium income	793,430	-	-	-	793,430
Net premium income	701,475	-	-	-	701,475
Other income	251,978	117,303	24,579	22	393,882
:-Investment income	229,192	108,236	-	-	337,428
:-Other income	22,786	10,483	24,579	22	57,870
:-Share of associate's profit	-	(1,416)		-	(1,416)
Segment inflows	953,453	117,303	24,579	22	1,095,357
Segment outflows	(953,453)	(193,032)	(17,002)	(646)	(1,164,133)
Loss before income tax	-	(75,729)	7,577	(623)	(68,776)
Income tax credit/(expense)	-	48,892	(3,556)	-	45,336
Net loss for the year	-	(26,837)	11,133	(623)	(23,440)
Segment assets	2,008,606	624,233	106,063	3,543	2,742,445
Segment liabilities	1,879,288	175,741	69,299	13,726	2,138,054
Capital expenditure	4,273	877	68	-	5,218
Depreciation	13,315	2,198	819	-	16,332

Financial statements for the year ended 31 December 2004

NOTES (continued)

2 Premium income

The principal activity of the Group is the underwriting of long-term insurance business as defined by the Insurance Act. Premium income can be analysed between the two main classes as follows:

	2004 Shs'000	2003 Shs'000
Recurring premium	886,725	641,374
Single premium	179,160	152,056
Gross earned premium	1,065,885	793,430
Reassurances	(151,279)	(91,955)
Net earned premium	914,606	701,475

The total premium is further analysed between the two lines of business as follows:

	2004	2003
Individual life:		
Gross premium	704,321	514,242
:- Recurring	703,004	514,192
:- Single	1,317	50
:- Reassurance	(1,539)	(812)
Net individual life premium	702,782	513,430
Group life:		
Gross premium	361,564	279,188
:- Recurring	183,721	127,182
:- Single	177,843	152,006
:- Reassurance	(149,740)	(91,143)
Net group life premium	211,824	188,045
Total net earned premium	914,606	701,475

3 Investment return

	2004 Shs'000	2003 Shs'000
Interest	115,638	76,609
:-Interest from government securities	84,889	58,202
:-Interest from bank deposits	14,330	7,012
:-Interest from loans	16,419	11,395
Dividends from listed entities	10,703	8,141
Rental income from investment properties	31,453	78,390
Other sundry income	-	10,591
Fair value gains	36,798	163,697
:- Investment properties fair value gains (Note 14)	21,500	29,234
:- Property and equipment	-	(695
:- Quoted shares (Note 17)	15,298	120,860
:- Gain on disposal of quoted shares	-	14, 298
	194,592	337,428

NOTES (continued)

4 Other income

	2004 Shs'000	2003 Shs'000
Sale of plots	53,939	24,579
Miscellaneous income	9,134	21,653
Fee income from deposit administration business	899	-
Loss on disposal of shares in a subsidiary company	-	(11,148)
	63,972	35,084

5 Operating and other expenses

Other expenses include:

	2004 Shs'000	2003 Shs'000
Staff costs (Note 8)	144,010	171,582
Depreciation	11,409	16,332
Fees for managerial and administrative services		
:- Auditor's remuneration	3,065	3,720
:- Actuarial	14,346	3,092
:-Tax and corporate consulting	2,378	588
Prepaid operating lease rentals for land and buildings	-	3,464
Repairs and maintenance expenditure	2,357	1,894
Impairment provision on reinsurance receivables	7,066	-
Impairment provision on property and equipment	-	5,338
Profit on disposal of property and equipment	(3,739)	(7,178)

6 Discontinued operations

On 31 December 2003, the Group transferred its general insurance business to APA Insurance Limited. The results of the general business in 2003 and 2004 are comprised of:

	2004 Shs'000	2003 Shs'000
Underwriting loss from the general insurance business	-	199,710
Gain on transfer of the general insurance business net of warranties	-	(53,157)
Impairment charge on reinsurance receivables	7,066	-
	7,066	146,553

NOTES (continued)

7 Policyholder benefits payable

	2004 Shs'000	2003 Shs'000
Gross death and disability claims	192,891	176,553
Less: Amounts recovered from reinsurers	(67,673)	(105,642)
Net death and disability claims	125,218	70,911
Maturity and survival benefits	63,849	69,035
Policy surrenders	34,364	32,948
Annuities	61,186	49,369
Reserves released to the life funds	-	(1,323)
	284,617	220,940

8 Staff costs

	2004 Shs'000	2003 Shs'000
Staff costs include the following:		
: - Retirement benefit costs	8,548	11,116
:- Social security benefit costs	320	381

The number of persons employed by the Company at the year end was		
: - Full time staff	89	93

9 Income tax credit

	2004 Shs'000	2003 Shs'000
Current income tax	10,286	6,833
Deferred income tax (Note 26)	(5,295)	(52,756)
Current year income tax charge/(credit)	4,991	(45,923)
Share of Associates' tax	(7,795)	587
	(2,804)	(45,336)

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

	2004 Shs'000	2003 Shs'000
Profit/(loss) before Income tax	91,007	(68,776)
Tax calculated at a statutory tax rate of 30% (2003: 30%)	27,302	(20,633)
Tax effect of:		
- Income not subject to income tax	(19,565)	(21,807)
- Expenses not deductible for income tax purposes	19	4,295
Investment properties disposal	-	(32,570)
Deferred income tax asset not recognised	(10,560)	25,379
	(2,804)	(45,336)

NOTES (continued)

10 Share capital and share premium

	Number of shares Shs'000	Ordinary shares Shs'000	Share premium Shs'000
At start and end of year	48,000	240,000	364,431

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

11 Transfer to life funds

In 2002, in line with the recommendation of the Institute of Certified Public Accountants of Kenya, and as required by the International Accounting Standards Board, leasehold properties were accounted for as operating lease rentals and carried at amortised historical costs. Consequently, the group reclassified leasehold land from property and equipment and investment properties, to prepaid operating lease rentals. Included in the reclassification from property and equipment was Shs.100,942,000 relating to policyholder assets. In order to protect the interests of the policyholders following this write-down, the board approved the transfer of a similar amount from shareholders to the policyholders funds. Following changes in the structure of the group, mainly the sale and transfer of the general insurance business at the end of 2003 and the subsequent relocation of these operations to external premises, the property qualifies to be accounted for as an investment property and be carried at fair value. This transaction has now been reversed by restating the life funds and the relevant asset accounts. Similarly, a transfer of Shs. 100,942,000 has been made from policyholder to shareholder funds.

12 Dividends

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. At the annual general meeting to be held on 6 July 2005, a dividend in respect of the year ended 31 December 2004 of Shs 1.00 per share amounting to a total of Shs 48,000,000 is to be proposed. No dividends were declared in 2003. Payment of dividends is subject to withholding tax, where applicable, at the rate of either 5% or 10%, depending on the residence of the individual shareholders.

13 Property and equipment

	Buildings & Freehold Land Shs'000	Motor Vehicles Shs'000	Fittings & Equipment Shs'000	Total Shs'000
Cost or valuation				
At start of year	130,509	8,564	50,187	189,260
Additions	2,000	6,200	17,828	26,028
Reclassification to investment properties (Note 14)	(94,058)	-	-	(94,058)
Disposals	(14,500)	(5,263)	(3,964)	(23,727)
At end of year	23,951	9,501	64,051	97,503
Depreciation				
At start of year	12,624	7,146	19,831	39,601
Reversed on transfer of buildings to investment property	(4,554)	-	-	(4,554)
Charge for the year	170	1,101	10,138	11,409
On disposals	-	(4,868)	(1,661)	(6,529)
At end of year	8,240	3,379	28,308	39,927
Net book amount:				
At 31 December 2004	15,711	6,122	35,743	57,576
At 31 December 2003	117,885	1,418	30,356	149,659

Buildings and freehold land were revalued during 2004 by Lloyd Masika, independent valuers, on the basis of open market value.

NOTES (continued)

14 Investment property

	2004 Shs'000	2003 Shs'000
At start of year	557,500	818,870
Reinstatement of leasehold land to market value on adoption of IAS 40(revised)	100,942	-
Reclassification from property and equipment (Note 13)	94,058	-
Fair value gains	21,500	29,234
Additions/reclassifications	-	7,396
Disposals	-	(298,000)
At end of year	774,000	557,500

15 Investment in subsidiaries - Company

	Shareholding	2004 Shs'000	2003 Shs'000
Pan Africa Life Assurance Limited	100%	331,203	230,261
PA Securities Limited	100%	679,009	679,009
		1,010,212	909,270

PA Securities Limited owns 100% of Mae Properties Limited, a company that deals with the development and selling of land. Mae Properties is incorporated in Kenya. The increase in the investment in Pan Africa Life Assurance Limited relates to the reversal of the transaction referred to in note 11.

16 Investment in associated companies

	2004 Shs'000	2003 Shs'000
At start of year	142,580	28,704
Acquisition of shares in APA Insurance Limited	-	135,027
Investment in Runda Water Limited	-	4,868
Transfer to APA Insurance Limited of shares held in Reliance Company (T) Limited	-	(24,016)
Share of results before income tax	18,703	(1,416)
Share of income tax	7,795	(587)
At end of year	169,078	142,580

Associated companies comprise:

	Principal activity	2004 Shareholding	2003 Shareholding
APA Insurance Limited	General Insurance	39.97%	39.97%
Runda Water Limited	Water distribution	24.9%	24.9%

APA Insurance and Runda Water Limited are incorporated in Kenya.

NOTES (continued)

17 Quoted shares available for sale

	2004 Shs'000	2003 Shs'000
At start of year	189,072	50,407
Additions	27,063	22,176
Fair value gains	15,298	120,860
Disposals	-	(4,371)
At end of year	231,433	189,072

18 Mortgage loans

	2004 Shs'000	2003 Shs'000
At start of year	105,533	154,588
Loans advanced	238	6,683
Loan repayments	(26,581)	(32,639)
Transferred to APA Insurance Limited	-	(23,099)
At end of year	79,190	105,533

Maturity profile of mortgage loans:

	2004 Shs'000	2003 Shs'000
Loans maturing:		
Within 1 year	6,175	54,617
In 1-5 years	22,939	19,440
In over 5 years	50,076	31,476
	79,190	105,533
Loans at:		
Concessionary rate	57,439	54,828
Market rate	21,751	50,705
	79,190	105,533

Included in mortgage loans is Shs.8,370,000 to a related party and Shs.36,840,000 to employees.

Lending commitments:

A mortgage loan of Shs. 16,000,000 was approved during the year but had not been advanced by 31 December 2004.

19 Reinsurers' share of technical provisions and reserves

	2004 Shs'000	2003 Shs'000
Reinsurers' share of claims outstanding	39,640	42,137
	39,640	42,137

NOTES (continued)

20 Other receivables

	2004 Shs'000	2003 Shs'000
Debtors and prepayments	63,004	39,730
Amounts due from related parties (Note 32)	15,316	5,505
Rent outstanding	20,537	27,862
Plot debtors	59,506	6,836
Accrued interest	3,113	3,211
Other non-current assets	2,022	1,962
	163,498	85,106

21 Government securities

	2004 Shs'000	2003 Shs'000
Treasury bills and bonds maturing:		
- Within 1 year	256,645	57,642
- In 1-5 years	420,508	412,650
- After 5 years	329,608	153,278
	1,006,761	623,570

22 Weighted average effective interest rates

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

	2004 %	2003 %
Treasury bills	7	1
Treasury bonds	9	8
Mortgage loans	6	5
Deposits with financial institutions	9	15
Policy loans	14	13

23 Actuarial value of policyholder liabilities

The latest actuarial valuation of the life fund was carried out as at 31 December 2004 by GT Waugh, Statutory Actuary, using the net premium valuation (NPV) method.

	2004 Shs'000	2003 Shs'000
Actuarial value of policyholder liabilities		
:- Individual life	1,495,244	1,185,156
:- Group life	171,346	115,281
Bonus declarations	50,047	56,414
Surplus not available for distribution	150	27,605
Actuarial value policyholder liabilities	1,716,787	1,384,456

24 Amounts payable under deposit administration contracts

The liabilities of the Company in respect of funds managed under deposit administration contracts are shown inclusive of interest accumulated to 31 December. Interest was declared and credited to the customer accounts on a pro rata basis at the rate of 9% (2003: 9%).

NOTES (continued)

24 Amounts payable under deposit administration contracts (continued)

	2004 Shs'000	2003 Shs'000
At start of year	126,179	108,865
Contributions received	27,733	27,338
Benefits paid	(8,345)	(22,566)
Interest credited to the fund	11,856	12,542
At end of year	157,423	126,179

25 Outstanding claims provision

	2004 Shs'000	2003 Shs'000
At start of year	133,286	121,560
Claims notified in the year	243,827	362,197
Payments for claims and claims handling expenses	(265,471)	(350,471)
At end of year	111,642	133,286

26 Deferred income tax (asset)/liability

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal income tax rate of 30% (2003: 30%). The movement on the deferred income tax account is as follows:

	2004 Shs'000	2003 Shs'000
At start of year	52,555	108,843
Profit and loss account (Note 9)	(5,295)	(52,756)
Charged to equity	-	(3,532)
At end of year	47,260	52,555

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

	1 January 2004 Shs'000	Charged/ (credited) to P/L Shs'000	31 December 2004 Shs'000
Property and equipment on historical cost basis	40,282	-	40,282
Provision/deferred development costs	12,273	(15,855)	(3,582)
Deferred income tax asset in subsidiary not recognised	-	10,560	10,560
	52,555	(5,295)	47,260

27 Other payables

	2004 Shs'000	2003 Shs'000
Rent deposits	6,780	21,711
Amounts due to related parties (Note 32)	1,950	27,014
Commission payable	108,012	106,654
Warranties	15,506	65,669
Unclaimed dividends	15,027	15,229
Other creditors and accruals	248,401	104, 191
Payroll creditors	22,317	39,919
	417,993	380,387

NOTES (continued)

28 Contingent liabilities

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 the 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.

29 Commitments

Capital commitments

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

Operating lease commitments

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

	2004 Shs'000	2003 Shs'000
Not later than 1 year	136	120
Later than 1 year but not later than 5 years	4,793	5,982
Later than 5 years	-	1,197
	4,929	7,299

30 Cash generated from operations

Reconciliation of profit/(loss) before income tax to cash generated from operations:

	2004 Shs'000	2003 Shs'000
Profit/(loss) before income tax	91,007	(68,776)
Adjustments for:		
Investment income	(157,794)	(169, 730)
Fair value (gains)/losses:		
:- property and equipment	-	695
:- investment property	(21,500)	(29,234)
:- shares	(15,298)	(120,860)
Gain on disposal of shares	-	(14,298)
Depreciation (Note 13)	11,409	16,332
Amortisation of prepaid operating lease rentals	-	3,464
Impairment charge on property and equipment	-	5,338
Profit on sale of property and equipment	(4,794)	(7,178)
Gain on transfer of general insurance business	-	(53,157)
Share of results of associated Company before income tax	(18,703)	1,416
Loss on sale of investment in subsidiary	-	11,148
Changes in:		-
:- policy loans	(8,003)	1,445
:- receivables from direct insurance arrangements	(89,008)	(98,252)
:- receivables from direct reinsurance	(41,839)	(75,937)
:- other receivables	(78,392)	119,418
:- land and development	19,549	(5,220)
:- actuarial value of policyholder liabilities	332,331	308,738
:- payable under deposit administration contacts	31,244	17,314
:- technical provisions	(21,644)	11,726
:- payable under reinsurance arrangements	72,527	(54,914)
:- other payables	37,606	82,093
Cash generated from/(used in) operations	138,698	(118,429)

NOTES (continued)

31 Cash and cash equivalents

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

	2004 Shs'000	2003 Shs'000
Cash and bank balances	47,806	60,456
Deposits with financial institutions	102,935	298,245
	150,741	358,701

32 Related party transactions

(a) Mortgage loans to former directors

i) Loans at concessionary rates

	2004 Shs'000	2003 Shs'000
Principal amount	9,511	10,005
Interest on loans	605	(152)
	10,116	9,853

ii) Loans at market rates

	2004 Shs'000	2003 Shs'000
Principal amount	11,054	21,150
Interest on loans	1,133	108
	12,187	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

	2004 Shs'000	2003 Shs'000
Principal amount	3,494	3,591
Interest on loans	72	52
	3,566	3,643

(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 / (receivable)

	2004 Shs'000	2003 Shs'000
East Africa Reinsurance Company Limited	-	4,484
Reliance Insurance Company Tanzania Limited	-	1,792
African Life Assurance Company Limited	-	122
	-	6,398

NOTES (continued)

32 Related party transactions (continued)

(ii) Claims recoverable	2004 Shs'000	2003 Shs'000
African Life Assurance Company Limited	8,664	54,612
	8,664	54,612

(d) Outstanding balances from transactions with related parties

	2004 Shs'000	2003 Shs'000
Receivable from African Life Assurance Company Limited	15,316	5,505
Payable to African Life Assurance Company Limited	(1,950)	(27,014)
	13,366	(21,509)

(e) Directors remuneration

	2004 Shs'000	2003 Shs'000
Directors' remuneration:		
- fees	6,185	2,083
- for management	17,968	15,049
	24,153	17,132

APPENDIX

STATEMENT OF CHANGES IN POLICYHOLDER FUNDS

	Individual life Shs'000	Group life Shs'000	Pension funds Shs'000	Total 2004 Shs'000	Total 2003 Shs'000
Gross earned premium	704,321	361,564	-	1,065,885	793,430
Outward reassurances	(1,539)	(149,740)	-	(151,279)	(91,955)
Net earned premium	702,782	211,824	-	914,606	701,475
Pension funds deposits received	-	-	27,733	27,733	27,338
Investment income	117,160	20,655	11,856	149,671	228,391
Other income	713	-	-	713	801
Commission earned	154	37,435	-	37,589	22,786
Total income	**820,809**	**269,914**	**39,589**	**1,130,312**	**980,791**
Commissions expense	188,722	28,966	-	217,688	187,560
Selling expenses	54,270	10,691	-	64,961	52,916
Expenses of management	162,171	27,063	-	189,234	155,844
Premium tax and stamp duty	12,513	4,430	-	16,943	12,808
Policyholder benefits paid	178,728	105,889	8,345	292,962	243,506
Restructuring costs	-	-	-	-	2,105
Total expenses	596,404	177,039	8,345	781,788	654,739
Surplus before tax	224,405	92,875	31,244	348,524	326,052
Life funds at 1 January					
:- as previously reported	1,172,520	211,936	126,179	1,510,635	1,184,583
Reclassification of leasehold property					
:- property and equipment	4,554	-	-	4,554	-
:- prepaid operating lease rentals	10,497	-	-	10,497	-
Life funds at 31 December	**1,411,976**	**304,811**	**157,423**	**1,874,210**	**1,510,635**

ADMINISTRATION

Pan Africa Life Assurance Limited

Executive Committee

AD Greenwood	CA(SA), ACA(Aus)	Chief Executitve
G Kioi	BSc(Hons), MBA, CPA(K), CPS(K)	General Manager - Operations
J Muiruri	BSc(Hons), ACII	General Manager - Corporate Business
W Smith		National Sales Manager
L Kiboi	MBA, Dip BEd, CPS(K)	Human Resources Manager
S Maviala	LLB, Dip KSL, CPS(K)	Company Secretary/Chief Legal Officer
J Wamwea	MBA, BSc(Hons), Dip CS, ACE, CISA	Divisional Manager IST

Deputy Divisional Managers

S Chege	BCom, CPA(K), CPS(K)	Premium Administration
L Magambo	BSc, CPA(K), CPS, Dip IMIS	Finance
J Ntutu	BSc	Regional Sales Manager - Eastern
M Nzomo	MBA, FCII, ACIrb	Corporate Business
F Ogwel	BA	Regional Sales Manager - Western

Unit Leaders

S Gichuki	BA, Dip HR	Human Resources
S Mwangi		Finance
C Mweru	BCom	New Business
J Njenga	BEd	Corporate Business
B Otieno	BCom, ACII	National Training Manager
N Waruinge	BA, ACII	Quality Compliance Services
R Waweru	Dip CS	IST
L Were	BSc Actuarial	Actuarial

Sales Managers

N Adhoga	MCom	Mombasa
T Amina	BEd	Nakuru
J Amunga	BEd	Eldoret
K Bow		Nyeri
P Kitela	BSc	Thika
G Kubai	BEd	Meru
B Mureithi	BEd	Embu
T Nzilani		Machakos
T Omiti	BCom	Kisumu
C Ongeche	BCom	Kisii
D Owiyo	BCom, CII	Nairobi Mega
J Tshimbiri	BEd	City Centre

PA Securities & Mae Properties Limited

LN Munjuga	BSc, CPA(K)	Head of Operations