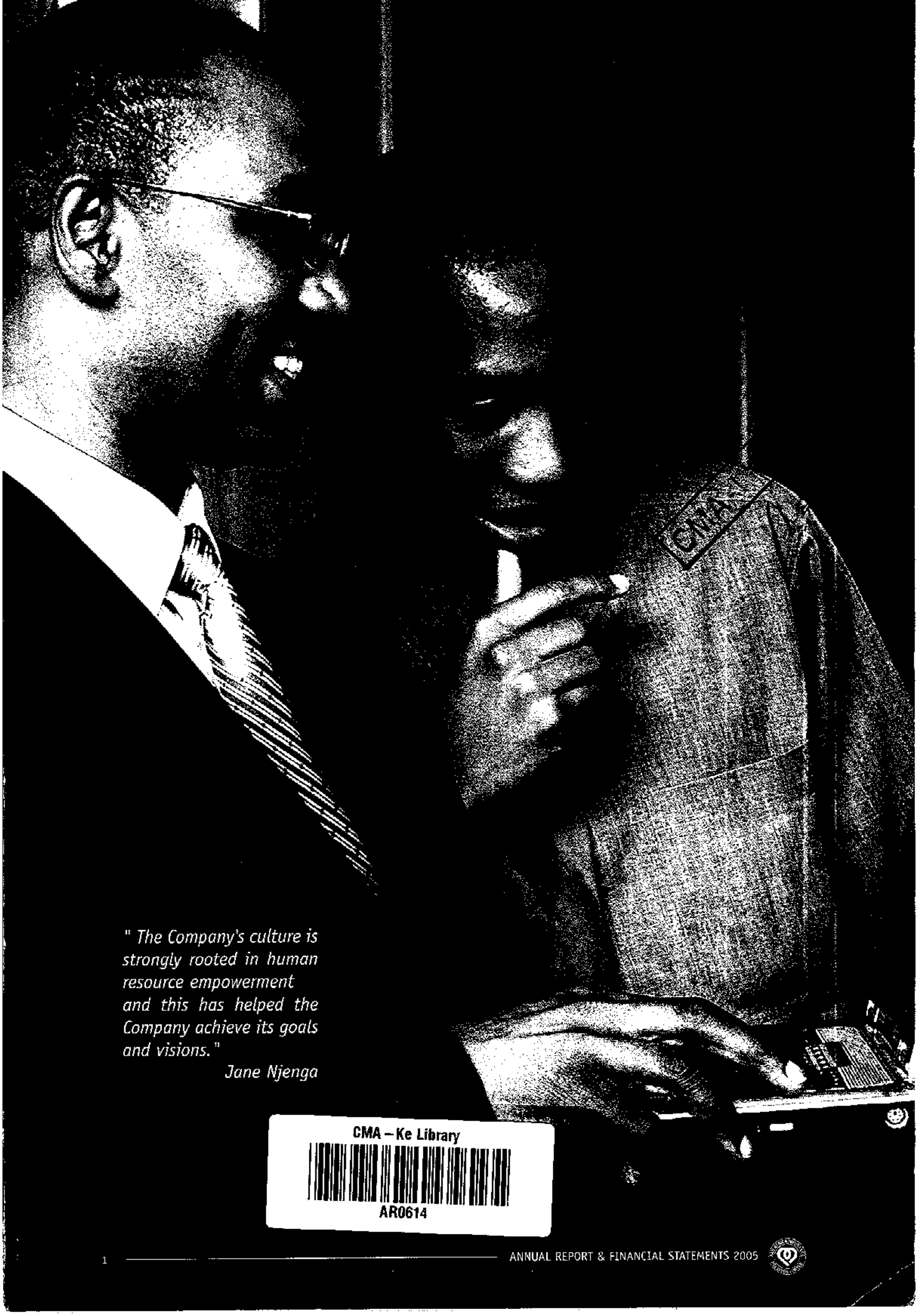
PAN AFRICA INSURANCE HOLDINGS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005



" The Company's culture is strongly rooted in human resource empowerment and this has helped the Company achieve its goals and visions."

Jane Njenga

FIVE YEAR GROUP REVIEW

Profit and Loss Account

(Kshs million)	2001	2002	2003	2004	2005
Investment return	30	70	337	194	219
(Loss)/profit before income tax	(158)	(6)	(69)	91	175
(Loss)/profit attributable to shareholders	(152)	(15)	(23)	93	176
Proposed dividends	-	-	-	48	58

Long Term Insurance Business

(Kshs million)	2001	2002	2003	2004	2005
Gross premium income	473	576	793	941	1,169
Net premium income	421	378	701	790	1,031
Policyholder benefits	132	182	221	580	845
Management expenses	132	158	155	302	378

Balance Sheet

(Kshs million)	2001	2002	2003	2004	2005
Shareholder's funds	589	672	604	799	931
Long term business funds	1,016	1,076	1,384	1,786	2,196
Share capital	240	240	240	240	240
Total assets	2,672	2,960	2,742	3,045	3,696

Key Indicators

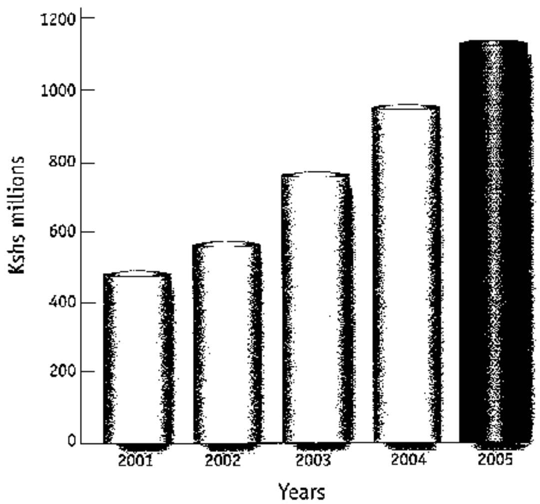
Year	2001	2002	2003	2004	2005
Basic (loss)/earnings per share (Kshs)	(3.17)	(0.33)	(0.49)	1.95	3.68
Dividend per share (Kshs)	-	-	-	1.00	1.20
Market capitalisation at year end (Kshs million)	629	336	1,128	1,032	1,920

Company Share Prices at the NSE

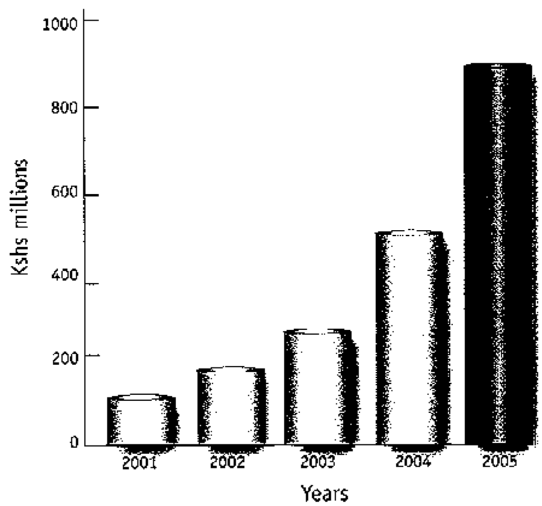
Year	2001	2002	2003	2004	2005
High (Kshs)	14	13	25	35	42
Low (Kshs)	10	7	7	18	22
Share price at year end (Kshs)	13	7	24	22	40

FIVE YEAR GROUP REVIEW (CONTINUED)

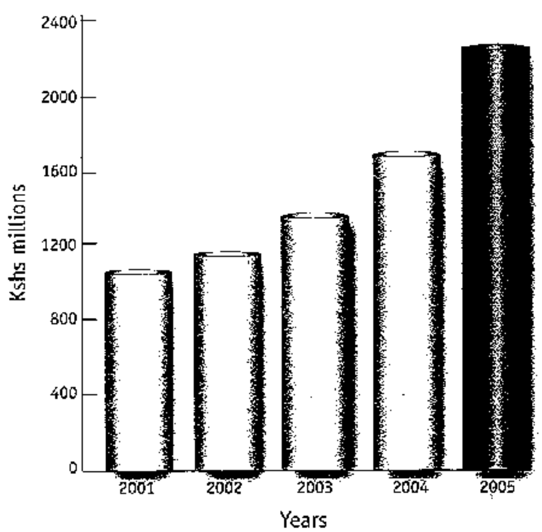
Gross Premium Income



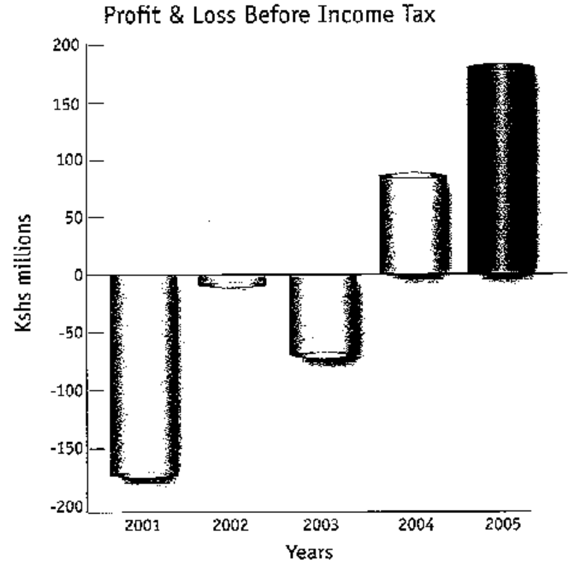
Policyholder Benefits



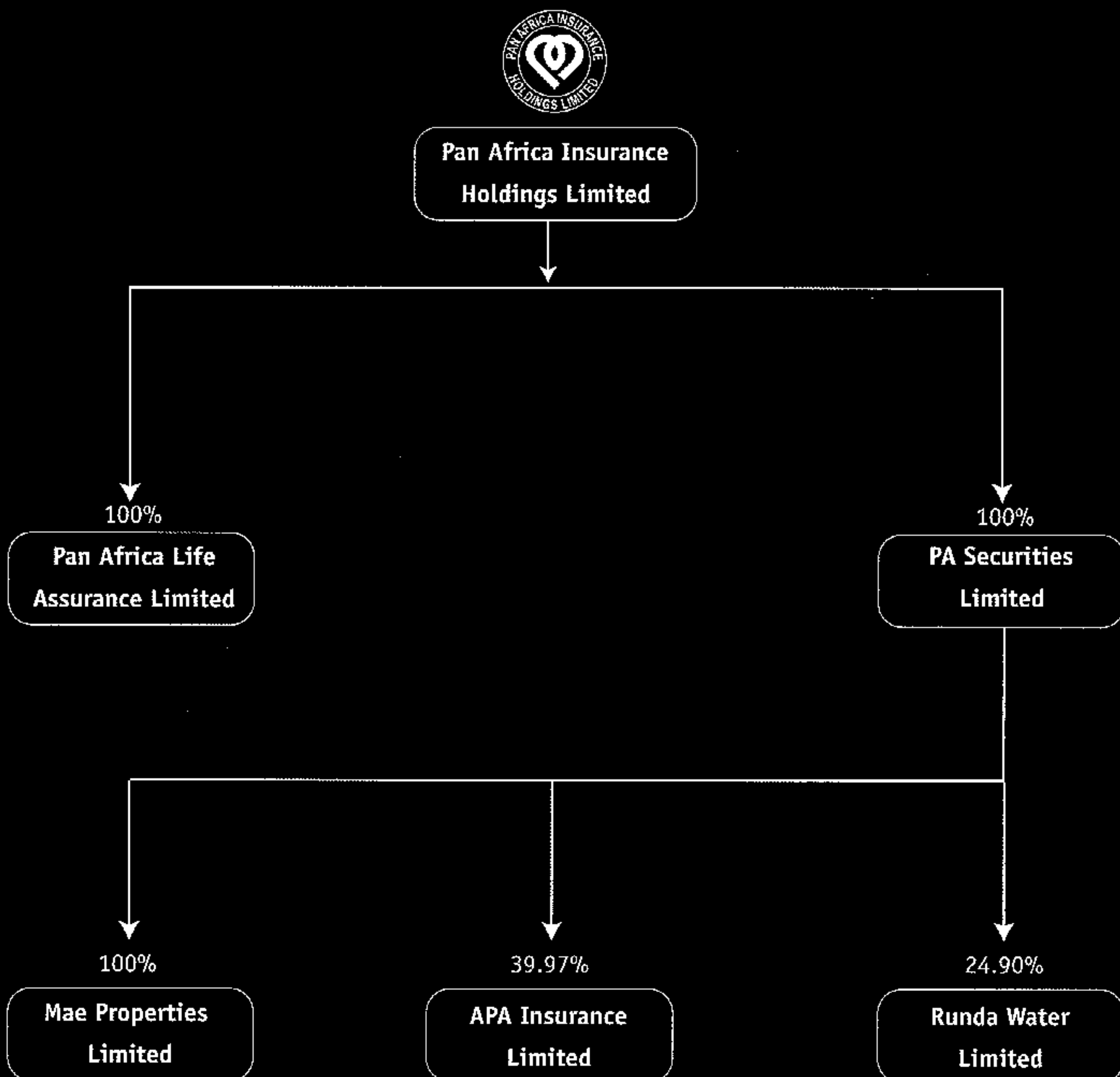
Long Term Business Funds



Profit & Loss Before Income Tax



PAN AFRICA INSURANCE GROUP COMPANY STRUCTURE



AGENCY OFFICES

ELDORET OFFICE

EMBU OFFICE

KISII OFFICE

KISUMU OFFICE

MACHAKOS OFFICE

MERU OFFICE

MOMBASA OFFICE

NAIROBI CITY CENTRE

NAIROBI MEGA

NAKURU OFFICE

NYERI OFFICE

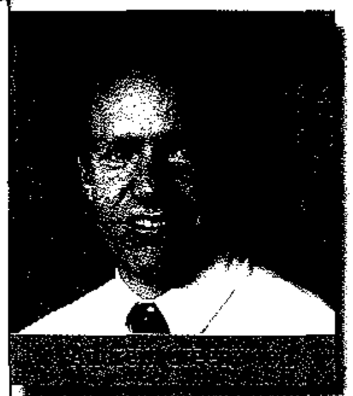
THIKA OFFICE

John Simba (61)
(Chairman)

Appointed to the Board in December 2001 & Chair in March 2002
Occupation: Lawyer, Partner in Simba & Simba, Advocates
Professional Qualification: Advocate of the High Court of Kenya
Other Chairmanships: APA Insurance Limited
Other Directorships: Pan Africa Life Assurance Limited, and subsidiaries within the Pan Africa Insurance Group of Companies.

Andrew Greenwood (41)
(Chief Executive)

Appointed to the Board in December 2000
Occupation: Chief Executive, Pan Africa Insurance Group
Professional Qualifications: Chartered Accountant (SA) and (Aus)
Chairmanships: AKI Life Insurance Council, Deputy Chairman - AKI
Other Directorships: Pan Africa Life Assurance Limited
Board Memberships: Association of Kenya Insurers, Policyholder Compensation Fund.

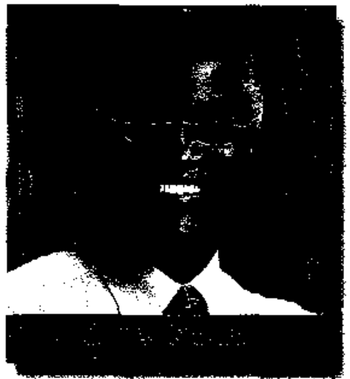


John Burbidge (56)

Appointed to the Board in April 2000
Occupation: Director (International), African Life Assurance
Professional Qualifications: Chartered Accountant (UK) & (SA)
Other Directorships: African Life Assurance Company Limited, Pan Africa Life Assurance Limited, and subsidiaries within the African Life Group of Companies.

Margaret Dawes (49)

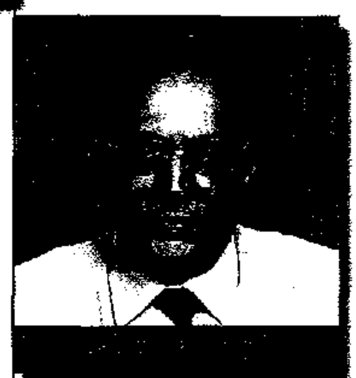
Appointed to the Board in March 2005
Occupation: Finance Director, African Life Assurance Limited
Professional Qualification: Chartered Accountant (SA)
Chairperson: Audit Committee, Pan Africa Insurance Group
Other Directorships: African Life Assurance Company Limited, Pan Africa Life Assurance Limited, and subsidiaries within the African Life Group of Companies.



James Gitoho (50)
Appointed to the Board in December 2001
Occupation: Architect
Professional Qualification: Registered Architect
Chairman: Remuneration Committee, Pan Africa Insurance Group
Other Directorships: Pan Africa Life Assurance Limited, and subsidiaries in the Pan Africa Insurance Group of Companies.

Craig Harding (39)
Appointed to the Board in March 2005
Occupation: Director (International), African Life Assurance
Professional Qualification: Chartered Accountant (SA)
Other Directorships: African Life Assurance, Pan Africa Life Assurance Limited, and subsidiaries within the African Life Group of Companies.

Joshua Kituri (59)
Appointed to the Board in July 1994
Occupation: Executive Director, EA Region, Intertek Caleb Brett
Other Directorships: Pan Africa Life Assurance Limited, and subsidiaries within the Pan Africa Insurance Group of Companies.



Baloobhai Patel (67)
Appointed to the Board in December 2001
Occupation: Managing Director, Transworld Safaris Limited
Chairman: Investment Committee, Pan Africa Insurance Group
Other Directorships: Pan Africa Life Assurance Limited, and subsidiaries in the Pan Africa Insurance Group of Companies

Jeremy Rowse (52)
Appointed to the Board in August 2003
Occupation: Chief Executive, African Life Assurance
Other Directorships: African Life Assurance Company Limited, Pan Africa Life Assurance Limited, and subsidiaries within the African Life Group of Companies.

REPORT OF THE DIRECTORS

The Board of Directors submit their report together with the audited financial statements for the year ended 31 December 2005, which disclose the state of affairs of the Company and its subsidiaries.

Incorporation

The Company was incorporated in Kenya on 26th October 1946 through certificate 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 Group, 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 37 of this Annual Report.

Dividends

The directors recommend a first and final dividend of KShs 1.20 (2004: 1.00) for each ordinary share of KShs 5/= on the issued and paid up share capital of the Company.

Financial Risk Management Objectives & 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 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, James Gitoho, Craig Harding (resigned on 15th February 2006), Joshua Kituri, Baloobhai Patel and Jeremy Rowse (resigned on 15th February 2006). In accordance with the Company's Articles of Association, James Gitoho retires by rotation and, being eligible, offers himself for re-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
Chief Executive

John P N Simba
Chairman

13 February 2006

" There is a lot of potential for growth in the Company especially at the branch level where the market is still largely untapped... I intend to be a part of that growth."
Martin Omido

"The Group's financial results for 2005 are excellent: the Group's after tax profits grew by 88% to KShs 176 Million in 2005.... The Board intends to recommend to the shareholders, a dividend of KShs 1.20 per share...."

John P N Simba,
Chairman

CHAIRMAN'S STATEMENT

It gives me great pleasure to report on the strong performance of the Pan Africa Insurance Group of Companies in 2005. The Group's total embedded value improved by 17.1% to KShs 1.507 Billion. The basic earnings per share is now KShs 3.68 compared to KShs 1.95 in 2004. This excellent results stem from the strong foundation laid following the restructuring of group operations about which I have reported previously.

Economic Environment

Kenya's economy grew by 5% in 2005 due to favourable weather conditions in the first half of the year, improved performance in the tourism sector and privatisation initiatives in the transport and power sectors. Demand for Kenyan goods and services by the global markets also contributed to this growth. The 12 month overall inflation rate largely declined over the year from 14.9% in January 2005. The decline in overall inflation largely reflected reduced prices for food and drink basket items. However, inflation rose sharply from 4.3% in September to 7.6% in December as the dry weather conditions forced food prices up in the last quarter of 2005. This upward movement in inflation is expected to continue in 2006. Treasury bill rates opened at 8.25% in January and closed the year at 8.14%, a clear indication that interest rates remained relatively stable in the period under review. The reasons for this include the Central Bank's achievement in borrowing KShs 20 Billion for the fiscal year 2005/2006 against a budget of KShs 25.3 Billion, Kenya Revenue Authority's collection of KShs 140 Billion against a KShs 136 Billion target and continued liquidity in the money market. However, interest rates could spike in 2006 due to rising inflation and an increase in Government borrowing to finance famine relief efforts. Foreign exchange rates have remained stable and the Kenya shilling appreciated by 8.3% against the United States Dollar, 16.7% against the Pound Sterling and 18.5% against the Euro. The Shilling's strength is good for inflation and accounted for the rise in imports during the year. Conversely, the currency appreciation eroded revenue and profits in the export sector fuelling calls to the Central Bank to intervene. Buoyed by renewed optimism for economic growth, positive corporate earnings, low interest rates, attractive valuations, and improved liquidity (as a result of the implementation of the Central Depository System), the NSE 20 Share Index gained 34.9% in 2005. Market capitalisation increased by 33% to close the year at KShs 462.5 Billion and turnover levels increased from KShs 22.3 Billion in 2004 to KShs 36.6 Billion in 2005. In summary, 2005 was a year of prosperity for shareholders of NSE listed companies.

Business Environment

The political environment was extremely dynamic in the last half of 2005 arising from the constitutional debates. This culminated in the November 21st historic referendum on the new proposed constitution for Kenya. Although the electorate rejected the proposed constitution, indications were that the energetic debates that pre-ceded the vote did not significantly impact on the economy and the financial markets thereby underlying Kenya's maturing democracy. Regrettably, corruption and related scandals involving important political and other personalities continued to dominate media headlines. In mid 2005 the Government sought to introduce an Investment Certificate Law. This law required foreign investors to obtain investment certificates before tying their monies in any project in the country. Among other things, the new certificate law would have rendered uncertain the title to land, shares or loans given by foreign investors. The law was, however, not enacted leading to a sigh of relief from those who would have been affected.

Insurance Industry

The shrinking client base, the large number of industry players, unsavoury tactics and unrealistically low premiums, has made it difficult for some insurance companies to make underwriting profits.

Inadequate pricing means that some insurance companies are not able to pay claims and the roll on effect is the public's negative perception of the industry and the 'purchase reluctance' and 'post purchase blues' of potential policyholders. With over 40 insurers, more than 200 insurance brokers, approximately 1,000 insurance agencies and 3,000 agents, Kenya's insurance industry can be considered crowded. There are indications that more players are joining the market and since January 2005, the Commissioner of Insurance has licensed three new insurance companies. Analysts may consider this licensing as unnecessary in a market that is already oversupplied with underwriting capacity. On the other hand, more competition also creates a wider choice for insurance clients. The bottom line is that competition will intensify in the Kenyan insurance industry. Product innovation, efficiency and orthodox ways of doing business may as well be the result for those who wish to remain standing in the arena of competition.

Sanlam Limited's Acquisition of African Life Group

In 2005, Sanlam Limited acquired Pan Africa Group's biggest shareholder, African Life Group, for 2.4 Billion Rand. As a result Sanlam now, indirectly, owns African Life Group's 50% stake in Pan Africa Insurance Holdings Limited. Sanlam Limited is the second largest insurance company in South Africa and is listed on the Johannesburg Stock Exchange. Sanlam has assets equivalent to KShs 3.2 Trillion and offers a wide range of products in life insurance, asset management, health & general insurance. Sanlam's entry into the local market through Pan Africa is positive and will enable us to benefit from the diversity of its products and experience.

Dividend

Pan Africa Insurance Group's philosophy will be to maintain a smooth dividend growth pattern that will not necessarily reflect the Group's earnings and to pay dividends from realised gains / profits. It is also the considered decision of the Board that the dividend policy should be reviewed annually to ensure that not only are shareholder's expectations managed but also that the Group retains a strong capital position. The Board intends to recommend to the shareholders at the Company's 61st Annual General Meeting that the Company declare a dividend of KShs 1.20 per share payable to shareholders appearing in the register by close of business on 12th May 2006. The dividend represents an increase of 20% per share over the dividend declared in respect of the year 2004. Subject to the approval of the dividend by the AGM, dividend cheques will be posted on 22nd May 2006.

Note of Appreciation

The Chief Executive and his management team are commended for another excellent performance in a year for which the Board had set ambitious financial targets. The Board of Directors congratulates the team for their diligence and commitment to grow our business. My deepest gratitude goes to the members of the Board for their counsel and contribution throughout the year. We have shared a clear vision of our business and remained focused on our goals.

On behalf of the Board, I would like to thank the insurance intermediaries for providing access to our corporate insurance clients. Individual life policyholders are extremely valuable to the growth of our business and the servicing of their needs shall continue to be the Group's priority. I thank them, sincerely, for their belief in the value of our insurance products. To our shareholders and policyholders, who continue to support the Pan Africa Insurance Group, your contribution and belief in our business is greatly appreciated. Finally, thank you to the Office of the Commissioner of Insurance for its understanding and guidance throughout the year.

John P N Simba, MBS, OGW
Chairman
13 February 2006

TAARIFA YA MWENYEKITI

Inanipa furaha kuu kuripoti juu ya utendaji ulioimarika wa kundi la makampuni ya 'Bima ya Pan Africa Insurance' katika mwaka wa elfu mbili na tano (2005). Jumla ya thamani ya pesa zilizowekwa na kundi hili imeimariki kwa asilimia kumi na saba nukta moja (17.1%) kwa shilingi bilioni elfu moja mia tano na saba (Kshs 1.507 billioni). Mapato ya msingi kwa kila hisa kwa sasa ni shilingi tatu nukta sita nane (Kshs 3.68) ikilinganishwa na shilingi moja nukta tisa na tano (Kshs 1.95) katika mwaka wa elfu mbili na nne (2004). Hayo matokeo bora yanatokana na msingi thabiti uliowekwa kufuatia kupangwa upya kwa utendaji kazi wa kundi ili jinsi vile nimeisha ripoti hapo awali kama matokeo kulikuwa na maendeleo dhahiri.

Mazingira Ya Kiuchumi

Uchumi wa Kenya uliongezeka kwa asilimia tano (5%) katika mwaka wa elfu mbili na tano (2005) kwa sababu ya hali nzuri ya hewa (kipindi cha nusu ya kwanza ya mwaka) utendaji kazi ulioimarika katika sekta ya utalii na kuanzishwa kwa ubinafsishaji katika sekta za uchukuzi na kawi. Kuagizwa kwa bidhaa na huduma kutokana na masoko ya ulimwengu pia yalichangia kwa ongezeko hili. Kiwango cha wastani cha jumla ya kupanda kwa gharama za maisha kwa mwaka zilipunguka sana kwa mwaka huo. Kutoka kwa asilimia kumi na nne nukta tisa (14.9%) mnamo Januari mwaka elfu mbili na tano (2005). Kule kupunguka kwa kupanda kwa ghara za maisha. Kujidhihirika kwa wingi kwa bei za vyakula na vinywaji vilivyowekwa kwa pakiti au vifurusi. Ijapokuwa kupanda kwa gharama za maisha kulipanda kwa juu sana kwa asilimia nne nukta tatu (4.3%) katika mwezi wa Septemba hadi asilimia saba nukta sita (7.6%) katika mwezi wa Desemba wakati ambapo ukavu wa hali ya hewa ulitazimisha bei za vyakula kupanda juu katika robo ya mwisho wa mwaka elfu mbili na tano (2005) mwinuko huu wa juu kwa kupanda kwa gharama za maisha inatarajiwa kuendelea katika mwaka wa elfu mbili na sita (2006). Viwango vya hawala za serikali vilifunguka kwenye kiwango cha asilimia nane nukta mbili tano (8.25%) katika Januari na kufunga mwaka kwenye kiwango cha asilimia nane nukta moja nne (8.14%), ikiwa dhihirisho wazi kuwa viwango vya riba vilibakia imara kiasi hii hali zinajumuisha kufaulu kwa benki kuu kwa kukopa shilingi bilioni ishirini za Kenya (Kshs 20 billion) mwaka wa fedha wa elfu mbili na tano hadi elfu mbili na sita (2005/2006) dhidi ya bajeti ya shilingi bilioni ishirini na tano nukta tatu za Kenya(kshs 25.3 billion).

Ukusanyaji ushuru wa shilingi bilioni mia moja arobaini (Kshs 140 billion), na halmashauri ya ukusanyaji ushuru ya Kenya, dhidi ya shabaha ya shilingi bilioni mia moja thelathini na sita (Kshs 136 billion) na kuendelea kwa hali ya kuwa na mali na vitu vinavyoweza kugeuzwa fedha kwa haraka katika soko. Lakini viwango vya riba huenda vikapanda juu kwa sababu ya kupanda kwa gharama za maisha na ongezeko la ukopaji wa kugharamia juhudi za kutuliza baa la njaa. Viwango vya ubadilishaji fedha za kigeni vimebakia imara na shilingi ya Kenya iliongezeka thamani kwa asilimia nane nukta tatu (8.3%) dhidi ya dola ya Merikani, asilimia kumi na sita nukta saba (16.7%) dhidi ya paundi ya Uingereza na asilimia kumi na nane nukta tano (18.5%) dhidi ya sarafu ya ulaya (Uro). Nguvu ya shilingi ya Kenya ni nzuri kwa ajili ya kupanda kwa gharama za maisha na ilikadiria ongezeko la uagizaji wa bidhaa kutoka nchi za nje mnamo mwaka huo. Kinyume na hayo, kuongezeka kwa thamani ya fedha kuimomonyoa mapato na faida katika sekta ya mauzo ya bidhaa kwa nchi za nje, ikaongezeka miito kwa Benki Kuu kuingilia kichangamshwa na matumaini mapya ya kukua kwa uchumi, mapato ya hakika ya mashirika, viwango vya riba vya chini, ukadiriaji wa kuvutia, na hali iliyoimarika ya kuwa na mali inayoweza kubadilishwa kwa fedha kwa haraka (kama matokeo ya utekelezaji wa mfuno wa kuweka fedha katika hazina kuu); soko la hisa la Nairobi (NSE 20 Share Index) ilipata aslilimia thelathini na nne nukta tisa(34.9%) katika mwaka wa elfu mbili na tano (2005). Kugeuza soko kuwa mtaji kuliongezeka kwa asilimia thelathini na tatu (33%) kwa kufunga mwaka kwa shilingi za Kenya bilioni 462.5 na viwango vya jumla ya fedha zilizopokewa na kulipwa vikaongezeka kutoka shilingi za Kenya bilioni 22.3 katika mwaka wa 2004 hadi shilingi bilioni 36.6 za Kenya, katika mwaka wa 2005. Kwa mulitasari, mwaka wa 2005 ulikuwa mwaka wa ufamsi kwa makampuni yenye hisa kwa soko la hisa la Nairobi (NSE)

Mazingira Ya Biashara

Mazingira ya kisasa yalikuwa na mwendo wa kasi sana katika nusu ya mwisho wa mwaka 2005 sababu ya majadiliano kuhusu katiba. Hali hii ilifika utimilifu au ukamilifu katika kura ya maoni ya kihistoria mnamo Novemba ishirini na moja (21), juu ya katiba mpya iliyopendekezwa kwa ajili ya Kenya.

Ingawa wapiga kura walikataa katiba iliyopendekezwa, madhihirisho yalikuwa kwamba hayo majadiliano yenye nguvu yalioitangulia kwa hayakuathiri uchumi na masoko ya fedha na kwa hapo kuweka msingi wa ukomavu wa demokrasia ya Kenya. Kwa majuto, ufisadi wa sakata nyinginezo zinazohusisha wanasiasa na watu wengineo mashuhuri, ziliendelea kuvijaza vichwa vya habari na magazeti.

Katikati ya mwaka wa 2005, serikali ilitafuta kuileta sheria mpya inayohusu cheti cha uwekezaji. Hii sheria iliwahitaji wawekezaji wa (nchi za) kigeni kuvipata vyeti vya uwekezaji kabla ya kuzifungua fedha zao

TAARIFA YA MWENYEKITI (KUFULIZA)

katika mradi fulani nchini. Miongoni mwa vitu vinginevyo, sheria mpya ya vyeti vya uwekezaji ingeweka hati za kumiliki mashamba, hisa na mikopo itolewayo na wawekezaji wa kigeni katika hali ya kutoeleweka. Lakini sheria hiyo haikupitishwa, na baadaye kukawa kutanafusi kutoka kwa wale ambao wangeathiriwa.

Biashara ya Bima

Upungufu wa msingi wa wateja, idadi kubwa ya wafanyi biashara wenye mbinu zisizopendeza na ada zisizo za juu au ada za chini, zimeifanya kuwa ngumu kwa makampuni ya bima kusalisha faida iliyodhaminiwa. Kuthamini kusiofaa kunamaanisha kwamba makampuni mengine ya bima hayawezi kulipa madai na Athari ya jambo hili au kupanda na kushuka ni utambuzi usiofaa katika biashara na 'kulegeza kwa ununuzi' na ununuzi wa kufuja pesa za mahali za biashara, ya wenye hati bora za bima. Zaidi ya waweka kampuni ya bima 40, zaidi ya maajenti wa bima, kama wakala wa bima 1,000 na maajenti 3000, Biashara ya bima ya Kenya, inaweza kuchukuliwa kusongamana na soko la biashara ya bima na tangu Januari, 2005. Kamishina wa bima ametoa leseni kwa makampuni tatu mpya za biashara ya bima. Mdadisi aweza kuchukulia utoaji huu wa leseni kama ovyo au isiyohitajika katika soko ambalo limekwisha gawiwa zaidi ya kiasi na ujazo uliokubalika. Kwa upande mwingine, mashindano zaidi pia yanabuni uchaguzi mpana kwa wateja wa bima.

Kiini cha chini ni kwamba mashindano yataongeza nguvu katika biashara ya Bima ya Kenya. Uvumbuzi wa bidhaa, utendaji bora, na njia sahihi ya kufanya biashara inaweza pia kuwa matokea kwa wale ambao wangetaka kubaki wima katika uwanja wa mashindano.

Kampuni ya 'Sanlam Limited' Kununua Kampuni ya 'African Life Group'

Katika mwaka wa 2005, Kampuni ya 'Sanlam Limited' ilijipatia Kampuni ya 'African Life Group', ambayo ni mhisa mkuu wa kundi la makampuni ya 'Pan Africa', kwa bei ya Randi Billion mbili nukta nne (Randi Billion 2.4). Kama, matokeo sasa, na isivyodhahiri, inamiliki asilimia hamsini (50%) ya kitega - Uchumi cha Kampuni ya 'African Life Group' katika makampuni za Bima za 'Pan Africa Insurance Holdings Limited. Kampuni ya 'Sanlam Limited' ndiyo ya pili kwa ukubwa katika makampuni ya bima huko Afrika kusini, na imeorodheshwa kwa soko la hisa la Johannesburg (JSE). 'Sanlam Limited' inazo rasilimali zenye thamani ya Shilingi Trillioni tatu nukta mbili za Kenya (Kshs.3.2 Trillion) kufikia Desemba 2005 na hutoa bidhaa, za aina mbali mbali katika bima ya maisha, usimamizi wa rasilimali, afya na bima za kawaida. Kuingia kwa Kampuni ya Sanlam ndani ya soko la humu inchini kupitia kwa kampuni ya 'Pan Africa' ni kwa hakika na kutatuwezesha kunufaika kutokana na bidhaa zake mbali mbali na ujuzi wake.

Faida ya Gawio

Falsa ya kundi la makampuni ya Bima la 'Pan Africa' itakuwa kudumisha kiolezo cha ongezeko laini cha faida ya gawio ambacho kitadhihirisha kwa sharti mapato ya kundi hili na kulipa faida ya gawio kutoka kwa faida zilizopatikana. Pia ni uamuzi uliofiriwa na Halmashauri kuwa sera ya faida ya gawio yafaa ikaguliwe kila mwaka kuhakikisha kuwa sio tu kushughulikia matarajio ya wenye hisa, bali pia kuwa, kundi hili linaweka hali imara ya kitega - Uchumi (mtaji). Halmashauri inanuia kupendekeza kwa wenye hisa kwenye Mkutano Mkuu wa Mwaka, wa mara ya sitini na moja (61), wa kampuni hii, kwamba kampuni hii, inatangaza faida ya gawio ya shillingi moja na senti ishirini (Kshs1.20) kwa kila hisa itakayolipwa kwa wanahisa walio katika rejesta kwa wakati wa kufunga shughuli za kibiashara hapo tarehe kumi na mbili, mwezi wa Mei, mwaka wa 2006 (Mei 12, 2006). Hii faida ya gawio inawakilisha ongezeko la asilimia ishirini kwa kila hisa kwa sehemu ya faida iliyotangazwa kulingana na mwaka wa 2004. Kwa kutegemea kuidhirishwa kwa faida ya gawio na Mkutano Mkuu wa Mwaka, hundi za faida ya gawio zitatumwa tarehe 22 Mei, 2006.

Ukumbusho wa Shurani

Mkurugenzi na timu ya usimamizi wanasafiria kwa utendaji kazi mwingine bora mwakani ambao halmashauri walikuwa wameweka lengo la tamaa kuu ya fedha. Halmashauri ya wakurugenzi waliipongeza hiyo timu kwa bidii yao na kwa kujitolea nafsi kukuza biashara yetu. Shukrani mno inaenda kwa wanachama wa halmashauri kwa mawaidha yao na mchango kote mwakani. Tumeshirikiana kwenye maoni dhahiri ya biashara yetu na kubakia malengo yetu.

Kwa niaba ya halmashauri, ningependa kushukuru wasuluhishi kwa kutoa njia kwa umoja wa wateja wetu. Wenye hati za Bima ya maisha kibinafsi ni wa thamani mno kwa ukuaji wa biashara yetu na kuhudumia mahitaji yao utaendelea kuwa wa kipaumbele kwa kikundi. Nawashukuru kwa uaminifu, na imani yao, kwa thamani ya bidhaa zetu za Bima. Kwa wanahisa wetu na wenye hati, ambao wanaendelea kusaidia kikundi cha Bima ya Pan Africa, mchango wenu wa imani katika biashara yetu inapongezwa sana. Mwishowe, kwa afisi ya kamishiria wa Bima kwa kufaulu na mwongozo kwa mwaka wote.

John P N Simba, MBS, OGW
Mwenyekiti
Februari 13, 2006

"Pan Africa Life removed the HIV/AIDS exclusion for any new claims subsequent to 1 September 2005 for the entire book of in-force policies written by the company. The company is thus the first in Kenya with an entire portfolio of individual life business that pays all claims, irrespective of the cause of death..."

Andrew Greenwood,
Chief Executive

CHIEF EXECUTIVE'S STATEMENT

Highlights of Performance

The group has produced excellent results for 2005. The Group's after tax profits grew by 88% to KShs 176 Million in 2005. Total income increased by 42% to KShs 1.6 Billion while growth in recurring expenses was contained at 22% as explained in more detail below.

Individual Life Business

Pan Africa Life has again demonstrated significant growth in 2005, continuing a five-year growth trend that substantially exceeds that of the market. Gross premium income of KShs 1.2 Billion represents a 24% increase over the prior year while net earned premiums have increased by 31%. Total assets and the actuarial value of policyholder liabilities grew by 21% and 25% to KShs 3.7 Billion and KShs 2.0 Billion respectively.

Individual life recurring premium business is our core activity and in 2005 we achieved growth of 44% to KShs 830 Million in premium income for this line. A series of charges of mis-selling overselling and non-disclosure were made against the industry during the course of the year. Pan Africa Life personnel led industry initiatives to address these concerns via dialogue with employers, union officials and employee associations. Subsequent to these discussions, the Association of Kenya Insurers (AKI) introduced new procedures aimed at raising sales standards in the industry. These standards were embraced by the company and were immediately adopted. While the additional costs of disclosure, documentation collection and compliance monitoring impacted on sales volumes for the year, there can be little doubt that, in the long term, the additional benefits of a better-informed consumer market will outweigh these costs. The sizeable growth in premium income over the prior year is therefore a commendable achievement for the company in light of the more onerous marketing environment experienced during the year.

We continue to place emphasis on diversifying our sources of business and exceeded our targets for writing business in non-traditional markets, thus continuing to reduce the risk of being exposed to one major source of business while at the same time marketing our range of products to a broader customer base.

While average premiums have increased by 14% over 2004, we were disappointed by the decision of a number of large government and parastatals bodies to remove the facility to lodge new business electronically. This has resulted in a longer period between the time a customer completes an application form and the time the first premium is collected, hence delaying the commencement date of life insurance cover. For the paypoints concerned, it has also impacted upon the company's ability to collect automatic annual premium updates matched by equivalent increases in benefits. As the purpose of these annual updates is to combat the effects of inflation, a number of policyholders will temporarily forego these inflation-fighting benefits until appropriate premium update collection methods are agreed with their employers. We expect to conclude this process mid year in 2006.

Pan Africa Life's Wealth Provider and Family Finance Plan continue to dominate the individual life sales market and will be enhanced and complemented by additional products and benefits in 2006.

Corporate Business

Gross premium income of KShs 337 million reflects a 7% reduction compared with 2004, indicating the competitiveness of this line of business where premium undercutting, particularly in respect of major Group Life Assurance schemes, has become a significant feature. Management has adopted a deliberate strategy of maintaining prudent underwriting and profit policies and is prepared to forego business opportunities where premium rates do not meet company benchmarks. Although it is a severely competitive market the company has obtained 19 new schemes which contributed 30% of premium income for the year and achieved our profit targets for this line. Outstanding service standards and response times to clients and intermediaries needs are key to our success and will sustain our growth in this line of business.

Group Investment Income

Buoyant capital and money markets resulted in favourable investment returns for the group's investment portfolio. However, the overall investment returns were reduced by a KShs 34 million loss arising from the sale of Ambalal House. The decision to dispose of this building, considered substandard for our property portfolio, was made after considering the level of maintenance and capital expenditure that

would be required in order for the building to meet our required quality standards. Sales proceeds derived from this property have been invested in higher earning, more liquid, government stocks and quoted equities. While we are satisfied that we have now achieved an investment portfolio mix that matches the group's liabilities to policyholders and other creditors, we continue to lobby for revisions to the Insurance Act that will allow a wider range of investment opportunities to life companies, thus enabling them to compete on a level footing with other players in the financial services sector where investment regulations are less restrictive than those for insurance companies.

Group Expenses

While total income has increased by 42%, recurrent expenditure, represented by commission and operating expenses, has increased by only 20% reflecting the success of management's continued efforts to drive down the growth of the expense base in relation to premium income and the number of active policies under administration.

Provision has been made for expenses that may be incurred in relation to outstanding claims and other warranties associated with the sale and transfer of the general insurance business to APA Insurance Limited. While the full extent, if any, of these liabilities has not yet been determined, the group has made prudent provision for any expenditure that may be incurred.

Policyholder Benefits and Life Funds

Total benefits to policyholders during the year amounted to KShs 331 million, an increase of 16% over 2004, while Life Funds grew by 24% to KShs 2.0 billion, reflecting the level of growth in business volumes and also the positive investment returns that have been passed on to policyholders. A simple reversionary vesting bonus of 2.5% together with an annually reviewable simple non-vesting bonus of 2.5% has been recommended for individual life with-profit policyholders. For Deposit Administration schemes, an interest declaration of 11% has been recommended for the year under review.

Pan Africa Life was the first company in the Kenyan market to launch a range of individual life insurance products that do not require prospective clients to undertake medical examinations as a prerequisite for cover, nor to contain an HIV/AIDS exclusion clause. However, an HIV/AIDS exclusion clause was included in products sold by the company prior to 2002. This meant that no benefit, other than a refund of premiums, was due to the policyholder in the event of death by this disease. Pan Africa Life removed the HIV/AIDS exclusion for any new claims subsequent to 1 September 2005 for the entire book of in-force policies written by the company. The company is thus the first in Kenya with an entire portfolio of individual life business that pays all claims, irrespective of the cause of death, where death falls outside the prescribed waiting period. We believe this a strong demonstration of our commitment to corporate social responsibility and our anti-discriminatory policy towards HIV/AIDS sufferers.

Subsidiary & Associated Company Performance

Pan Africa Insurance Holdings other wholly-owned subsidiary, PA Securities Limited, is essentially an investment vehicle with a 39.97% shareholding in general insurer APA Insurance Limited (APA) and a 100% stake in Mae Properties Limited.

The Nairobi Stock Exchange share index recorded growth of 34.9% for the year and this primarily contributed to the very positive results of APA. The merger of our general insurance business with that of Apollo Insurance to form APA in 2003 in order to create operational efficiency and a new, substantial general insurer in the market continues to bear fruit. While APA recorded an underwriting loss of KShs 21 million, this is a 75% improvement over the prior year. After bringing to account investment and other income, APA recorded a profit after tax of KShs 497 million of which our share of earnings amounts to KShs 199 million. APA remains one of the top three general insurance companies in Kenya in terms of market share.

Mae Properties produced a profit, from the sale of residential plots, of KShs 36 million in 2005. The company retains 52 acres of land, currently under development into residential plots which will be made available for sale in 2006 and 2007.

Financial Reporting

As explained in more detail in note 1(e) to the accounts, International Financial Reporting Standard 4 (IFRS 4) became effective for the reporting period commencing 1st January 2005. This necessitated a restatement of the comparative results, which resulted in reductions to the comparative gross

premium income, commission expenses and change in the actuarial value of policyholder liabilities by KShs 124 million, KShs 24 million and KShs 101 million respectively. There is no overall impact on the comparative profit for the year.

Embedded Value

For the second year the company has reported the embedded value and the value of new business of the Group. Although the publication of embedded value reports for life insurance companies is mandatory in more developed markets, it is not yet a requirement in Kenya and is currently only reported by the Pan Africa Insurance Holdings Group.

The report provides a measure of the value of assets, including the intrinsic value of the book of in-force long term insurance business, of the group as at 31 December 2005. The in-force book of business is valued by computing the present value of future after tax profits expected to arise from the policies in force as at 31 December discounted at the risk discount rate set out on page 30 of the report.

Total Group embedded value as at 31 December 2005 stands at KShs 1,507 million. In 2005, the return on embedded value, measured by embedded value earnings over the opening embedded value, grew by 21%. The value of in-force business, at KShs 576 million, represents growth of 18% when compared with 2004.

We wish to see more players in the industry provide this level of disclosure in future as it provides a far more meaningful representation of the value of the business to stakeholders than the basic set of financial statements.

Regulatory Environment

The regulatory environment remains uncertain. The HIV/AIDS Prevention and Control Bill, National Social Health Insurance Fund and the bill proposed for the establishment of the National Social Security Pension Trust all lapsed when Parliament was prorogued late in 2005. However, there are strong indications that these initiatives will be revived when Parliament reconvenes. As mentioned in previous reports, each of these pieces of draft legislation contain clauses that are potentially damaging to the life insurance sector and private pensions industry. Management, through its representation on various industry boards and councils, has continued to take an active part in dialogue with government to amend the proposed elements of legislation that are detrimental to the industry.

Last year the Minister of Finance announced his intention to create an independent Regulatory Authority for the insurance industry and to undertake a comprehensive review of the Insurance Act. While we strongly support these initiatives, regrettably no major steps have yet been taken to achieve these objectives. While a Parliamentary committee has been established to review the Act, there has been little dialogue to date with the industry through its umbrella organisations. Meanwhile, the Association of Kenya Insurers and Association of Insurance Brokers of Kenya have worked hand in hand to develop position papers on proposed amendments. We hope to see an acceleration of this process during 2006.

In September 2004, the Policyholders Compensation Fund was established under the provisions of Section 179 of the Insurance Act, Cap 487 and became effective for all new or renewed policies of insurance from 1 January 2005. In terms of the legal notice founding the Fund, all policyholders are required to contribute 0.25% of the premium payable per policy, and insurance companies are required to contribute an equal amount, towards the fund. The establishment of this fund is seen as an initial step to safeguard policyholders against the insolvency of insurers. This, together with positive changes to the regulatory environment, should result in an increase in public confidence in the insurance sector.

Prospects

Despite a challenging year in which the industry has witnessed an increased level of dissatisfaction with the manner in which life insurance products are sold and serviced by elements of the industry and an increasing trend in the level of policy cancellations, the Group has again witnessed tremendous growth. We remain confident that enormous potential still exists to further penetrate the relatively immature life insurance market in the country. 2006 will see the launch of new products and services to continue meeting the needs of our market and to provide more efficient, prompter and transparent service to our customers. Sustained focus on the key drivers of our business will ensure that we provide value to our customers and enhanced returns to our shareholders.

Andrew Greenwood

13 February 2006

Andrew Greenwood · *Stephen Kamanda* · *Godfrey Kioi* · *James Muiruri* · *Warren Smith* · *Lucy Kiboi* · *Sharon Maviala* · *Joseph Wamwea*

EXECUTIVE COMMITTEE

Andrew Greenwood (41)

Chief Executive Officer

CA(SA), CA(Aus)

Years with Pan Africa: 5

Membership: Policyholder Compensation Fund, Association of Kenya Insurers (Life Insurance Council Chairman and Deputy Chairman of the Association)

Stephen Kamanda (39)

General Manager (Finance)

MBA, BA, FCCA(UK), ICSA(UK)

Years with Pan Africa: 6 months

Godfrey Kioi (41)

General Manager (Operations)

MBA, BSc, CPA(K), CPS(K)

Years with Pan Africa: 6

Memberships: ICPAK (Financial Services Committee)

James Muiruri (50)

General Manager (Corporate Business)

BSC, ACII, AIIK, ACIArb, ACS

Years with Pan Africa: 6

Memberships: KIM, College Management Board (Vice Chairman), Insurance Institute of Kenya (Deputy Director), AKI (Individual Life Convener, Life Insurance Council)

Warren Smith (40)

National Sales Manager

Henley Diploma in Management

Years with Pan Africa: 1 year 6 months

Lucy Kiboi (49)

Human Resources Manager

MBA, CPS, Dip BEd

Years with Pan Africa: 2

Sharon Maviala (31)

Company Secretary

LLB, Dip(KSL), CPS(K)

Years with Pan Africa: 1 year 6 months

Memberships: ICPSK, Law Society of Kenya

Joseph Wamwea (33)

Divisional Manager IST

MBA, BSc, Diploma Computer Studies, CISA, Unix ACE

Years with Pan Africa: 6

Memberships: Australian Computer Society (ACS), Information Systems Audit & Control Association (ISACA)

NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the 61st Annual General Meeting of Pan Africa Insurance Holdings Limited will be held on Friday, 12 May 2006 at 10.00 am at the Serena Hotel to transact the following business:

1. To confirm the minutes of the 60th annual general meeting held on 6 July 2005.
2. To consider and adopt the audited financial statements of the Group for the year ended 31 December 2005 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, James Gitoho retires by rotation, and being eligible, offers himself for re-election.
4. To consider and approve the Board's recommendation for the payment of a first and final dividend of Kshs. 1.20 per ordinary share to shareholders registered at the close of business on 12 May 2006.
5. To approve the remuneration of the directors.
6. To authorise the Board to determine the remuneration of the Auditors.
7. To transact any other business with the permission of the Chairman

Note:

(a) 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.

(b) A 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
Sharon Maviala
Company Secretary
31 March 2006

Registered Office:
Pan Africa House, Kenyatta Avenue
P O Box 10493, Nairobi 00100
Tel 247600

ILANI YA MKUTANO MKUU WA MWAKA

Ilani inatolewwa kwamba mkutano mkuu wa mwaka wa mara ya sitini na moja wa kampuni ya Bima ya 'Pan Africa Insurance Holdings Limited,' utakuwa siku ya Ijumaa, tarehe Mei 12, 2006, saa nne za asubuhi (10.00 am) katika hoteli ya Serena kwa shughuli rasmi zifuatazo:

1. Kuthibitisha kumbukumbu ya mkutano mkuu wa mwaka wa mara ya sitini, uliofanywa tarehe Julai 6, 2005.
2. Kufikiria na kukubali taarifa za kifedha zilizokaguliwa za kundi hili kwa mwaka ulioisha tarehe Desemba 31, 2005 na ripoti za mwenyekiti, mkurugenzi, wakurugenzi, wakaguzi wa hesabu na mtakwimu Bima wa kisheria.
3. Kuwachagua wakurugenzi: kulingana na kanuni za kampuni, James Gitoho anastaafu kwa zamu, na akiwa na haki ya kuchaguliwa, anajitolea kuchaguliwa tena.
4. Kufikiria na kuthibitisha pendekezo la halmashauri la malipo ya kwanza na ya mwisho ya faida ya gawio ya shilingi moja na senti ishirini (Kshs 1.20) kwa kila hisa ya kawaida kwa wanahisa waliosajiliwa wakati wa kufunga shughuli za kibiashara tarehe Mei 12, 2006.
5. Kuthibitisha malipo ya wakurugenzi.
6. Kuidhirisha halmashauri kuamua malipo/ujira wa wakaguzi wa hesabu.
7. Kuendeleza shuguli zozote kwa idhini ya mwenyekiti.

Kumbuka:

(a) Mwenye hisa aliye na haki ya kuhudhuria na kupiga kura anaweza kumteua wakili, ambayo si sharti awe mshiriki wa kampuni, kuhudhuria na kupiga kura kwa maba yake.

(b) Fomu ya wakili imewekwa mwishoni mwa ripoti hii. Ili kuwa halali, fomu iliyojazwa na kutiwa sahihi ipasavyo yaweza kutumwa au kupokewa kwenye Afisi ya kampuni iliyosajiliwa isiyochelewa masaa arobaini na nne (48) kabla ya kuanza kwa mkutana mkuu wa mwaka.

Kwa Amri ya Halmashauri

Sharon Maviala

Katibu wa Kampuni

Machi 31, 2006

Afisi Iliyosajiliwa:

Jengo la 'Pan Africa House', Barabara kuu ya Kenyatta

S.L.P. 10493, Nairobi 00100

Simu 247600

CORPORATE GOVERNANCE

Introduction

The board of directors ("the Board") 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. 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. The Company continues to sponsor members of the Board in attending the Directors Training Workshop offered by the Corporate Governance Trust. In this way, the Board keeps abreast of corporate governance best practices.

Composition of the Board of Directors

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 this influence.

Board and Committee Structure

The Board is responsible for the management of the Company and formal meetings are therefore of great importance. The Board therefore meets at least once in each quarter during the year. To enable it to carry on its responsibilities the Board has constituted three committees: audit, investment and remuneration. The membership of the board committee is approved and minuted by the full Board.

Responsibilities

The primary responsibility of the Board is to lead and control the company. The Board meets once every quarter to review the financial performance and operations of the Company. At these meetings, the Board also considers strategic matters and other issues that will impact on the company'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 a 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 its 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 directors 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.

Skills Set of Directors

The diverse skills, experience and professions of the directors enliven the deliberations of the Board. The current 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 in 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.

Disclosure of Material Interests

It is a general rule that a director is not permitted to vote at a meeting on a matter in which he has a material interest. For this reason, a director discloses to the Board any material interest that he has in a contract before the Board.

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.

Insider Trading

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 Capital Market Authority'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 31 December and 31 March) and the half year-end (30 June and 15 August). In 2005 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 1.

Table 1: Director's Shareholding as at 31 December 2005

	Name of Director	Shareholding
1	Baloobhai Patel	8,282,459 Shares
2	Andrew Greenwood (Chief Executive)	100,000 Shares
3	John Simba (Chairman)	10,000 Shares
4	Joshua Kituri	4,416 Shares
5	James Gitoho	4,000 Shares

Attendance at Meetings

Table 2 summarises the attendance record of the Board 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.

Table 2: Summary of Meetings Attended by Directors for the Year Ended 31 December 2005

	Board Meetings		Audit Committee		Investment Committee		Remuneration Committee	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Margaret Dawes	4	3	3	2	4	3		
Craig Harding	4	4	3	2	4	4		
John Simba	4	4			4	4	3	3
John Burbidge	4	1	3	1	4	1	3	2
James Gitoho	4	4					3	3
Andrew Greenwood	4	4	3	3	4	4	3	3
Joshua Kituri	4	4			4	4	3	3
Baloobhai Patel	4	4	3	3	4	4		

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

Principles of Directors' 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, and fourth, 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 directors' fee is annual but sitting allowances are only paid subject to attendance at a board and/or committee meetings confirmed by the register of attendance.

audit committee meetings at which the half year and end year results are being deliberated upon.

Investment Committee

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 2005. The investment committee has six members described in table 4.

Table 3: Audit Committee Membership

	Member	Directorship Status
1	Margaret Dawes (Chairperson)	Non-Executive, Finance Director for African Life Group
2	Andrew Greenwood	Chief Executive
3	Craig Harding	Non-Executive, Executive Director for African Life Group
4	Joshua Kituri	Non-Executive, Independent
5	Baloobhai Patel (Chairman)	Non-Executive, Independent

Audit Committee

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 2005. The audit committee has five members described in table 3.

Stephen Kamanda (General Manager, Finance) and Sharon Maviala (Company Secretary/Chief Legal Officer) are in attendance at these meetings. The Group's investment advisors, AIG Global (East Africa) Limited and the Group's property managers, Knight Frank Limited present their quarterly operations report for the Investment Committee's review and consideration.

Table 4: Investment Committee Membership

	Member	Directorship Status
1	Baloobhai Patel (Chairman)	Non-Executive, Independent
2	Andrew Greenwood	Chief Executive
3	Margaret Dawes	Non-Executive, Finance Director for African Life Group
4	Craig Harding	Non-Executive, Executive Director for African Life Group
5	John Simba	Non-Executive, Independent
6	Joshua Kituri	Non-Executive, Independent

Stephen Kamanda (General Manager, Finance) and Sharon Maviala (Company Secretary/Chief Legal Officer) are in attendance at these meetings. The Group's auditors, PricewaterhouseCoopers and the Group's statutory actuary, Giles Waugh of Deloitte & Touche (South Africa) are invited to present at the

Remuneration Committee

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 2005. The remuneration committee has six members described in table 5.

Whereas the directors are responsible for preparing the accounts and for presenting a balanced and fair view of the financial position of the Company and its subsidiaries. **PricewaterhouseCoopers** examine and give their opinion on the reasonableness of the financial statements. As the Group's external auditors

Table 5: Remuneration Committee Membership

	Member	Directorship Status
1	James Gitoho (Chairman)	Non-Executive, Independent
2	Margaret Dawes	Non-Executive, Finance Director for African Life Group
3	Andrew Greenwood	Chief Executive
4	Craig Harding	Non-Executive, Executive Director for African Life Group
5	Joshua Kituri	Non-Executive, Independent
6	John Simba	Non-Executive, Independent

Lucy Kiboi (Human Resources Manager) and Sharon Maviala (Company Secretary/Chief Legal Officer) are in attendance at these meetings.

Professional Advice

To enable it to carry on its responsibilities in an independent and impartial fashion the Board seeks and benefits from professional counsel.

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.

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.

A significant component of the investments within the Group comprise of residential and commercial properties. **Knight Frank Limited** 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.

PricewaterhouseCoopers reports independently and directly to the Board.

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 Company's statutory actuary, **Giles Waugh of Deloitte & Touche (South Africa)**, reports independently and directly to the Board.

Communication with Shareholders

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 the annual general

meeting. The Company has an authorised share capital of KShs 500 Million divided into 100 Million shares of KShs 5/= each. 48 Million shares are currently issued. The top 10 shareholders, based on the Company's register as at 31 December 2005, are shown in table 6.

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 7 and 8.

Table 6: Top 10 Shareholders as at 31 December 2005

	2005 Number of Shares	%	2004 Number of Shares	%
Hubris Holdings Limited	24,000,000	50.0	22,119,653	46.0
Baloobhai Patel	8,282,459	17.2	7,059,724	14.7
Thammo Holdings Limited	3,380,652	7.04	3,380,652	7.04
Kancher Kenya Limited	2,025,028	4.21	2,025,028	4.21
Westlands Triangle Properties Limited	2,000,000	4.16	2,000,000	4.16
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
Apollo Insurance Co. Limited	259,303	0.54	259,303	0.54
TOTAL	**42,099,587**	**87.6**	**38,996,5005**	**81.1**

Table 7: Distribution Schedule

Category	Number of Shareholders	Number of Shares	%
Less than 1,000	1,827	1,010,744	2.1
1,000 - 5,000	558	1,101,653	2.2
5,001 - 10,000	76	530,857	1.1
10,001 - 50,000	86	1,749,703	3.6
50,001 - 100,000	20	712,701	1.5
More than 100,000	15	42,894,342	89.5
TOTAL	**2,582**	**48,000,000**	**100**

Table 8: Shareholders Profile

Category	Number of Shareholders	Number of Shares	%
Local Corporate	139	34,764,678	72.4
Local Individual	1343	11,713,789	24.4
East African Individual	890	882,131	1.8
Foreign Investors	194	638,294	1.3
East African Corporate	1	1,108	0.23
Total	**2,567**	**48,000,000**	**100**

Central Depository System

The Central Depository System is a computer system that facilitates the holding of shares in electronic accounts created at the offices of the Central Depository and Settlements Corporation Limited, a company regulated by the Capital Markets Authority. The CDS functions include holding jumbo certificates, clearing and settlement for funds and securities, registration with transfer secretaries and corporate actions processing. What this means is that instead of the Share Registrar processing transfers for shareholders, preparing share certificates and processing dividend cheques, for example, these responsibilities now lie with the CDS.

Table 9: Immobilisation Report as at 31 December 2005

Item	Amount	Percentage
Company's Share Capital	KShs 500,000,000	100.0%
Number of Un-Issued Shares	452,000,000 Shares	90.4% of Share Capital
Total Number of Issued Shares	48,000,000 Shares	9.6% of Share Capital
Total Number of Shares Immobilised by the CDSC	7,758,421 Shares	16.2% of Issued Shares
Total Number of Non-Immobilised Shares	40,241,579 Shares	83.8% of Issued Shares

With effect from the last week of February 2005, shareholders trading in the Company's shares had to have a CDS account with a stockbroker or a custodian bank. For those shareholders already with share certificates, the share certificates were retained by the CDSC in a process termed as immobilisation. As share certificates are immobilised, the Company no longer issues share certificates. Instead, shareholders get monthly / quarterly statements (depending on the volumes of trading that they have been involved in) directly from the CDS. Communication to shareholders will be undertaken by the CDS directly to shareholders through press announcements and statements. The role of the Share Registrar will be limited to confirming the authenticity of share certificates currently in issue and private transfers. Table 9 provides information on the current status of immobilisation.

FiRe (Financial Reporting) Awards

The FiRe Awards recognise excellence in financial reporting, corporate governance and corporate social responsibility. 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 2nd runners up trophy in the 'Insurance Companies' category for its 2004 Annual Report and Financial Statements.

Going Concern

The Board submits this annual report and audited financial statements for the year ended 31 December 2005. This 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 reports 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 Simba	**Andrew Greenwood**
Chairman	**Chief Executive**

13 February 2006

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

For the year ended 31 December 2005

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

Andrew Greenwood
Chief Executive

13 February 2006

REPORT OF THE INDEPENDENT AUDITORS

To the Members of Pan Africa Insurance Holdings Limited for the year ended 31 December 2005

We have audited the consolidated financial statements of Pan Africa Insurance Holdings Limited (the Company) and its subsidiaries together with the group for the year ended 31 December 2005 set out on pages 33 to 55, and the accompanying balance sheet of the Company standing alone as at 31 December 2005 (the Financial Statements).

Respective Responsibilities of Directors and Auditors

The directors are responsible for the preparation of financial statements as described on page 26. 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 2005 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 its books of account.

PRICEWATERHOUSECOOPERS

Certified Public Accountants
Nairobi

13 February 2006

REPORT OF THE STATUTORY ACTUARY

Certificate of Solvency in respect of Life & 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 2005.

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 2005.

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

13 February 2006

EMBEDDED VALUE

For the year ended 31 December 2005

1. Definition Of Embedded Value

This report sets out the embedded value and the value of new business of Pan Africa Insurance Holdings Limited. 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:

- The value of the shareholders' net assets; plus
- 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

Group Embedded Value	**As at 31 December 2005 KShs '000**	**Restated As at 31 December 2004 KShs '000**
Shareholders' funds	931,300	799,144
Value of in-force business	575,526	487,479
Embedded value	**1,506,826**	**1,286,623**

3. Embedded Value Earnings

	2005 KShs '000	**2004 KShs '000**
The embedded value earnings are derived as follows:		
Embedded value at end of year	1,506,826	1,286,623
Embedded value at beginning of year	(1,286,623)	(1,061,327)
Change in embedded value	220,203	225,296
Dividends paid and new capital	48,000	-
Embedded value earnings	268,203	225,296
These earnings can be analysed as follows:		
Roll forward	124,353	68,728
Investment return on free assets	44,156	37,320
Expected return on life business in force	80,197	31,408
Value of new business at end of year	120,103	158,924
Value of new business at point of sale	111,996	151,260
Expected return on new business to end of year	8,106	7,664
Changes in assumptions and methodology	(46,472)	(31,748)
Experience variations	70,219	29,392
Total earnings	**268,203**	**225,296**

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 2005, accumulated to the end of the year at the risk discount rate.

	2005 KShs '000	Restated 2004 KShs '000
Value of new business at end of year	120,103	158,924
Value at point of sale	111,996	151,260
Expected return	8,106	7,664

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 African Life Group. The sensitivity of the embedded value to the risk discount rate is set out below.

Risk Discount Rate	14%	15%	16%
	KShs '000	**KShs '000**	**KShs '000**
Shareholder's net assets	931,300	931,300	931,300
Value of in-force business	586,860	575,526	559,900
Embedded value	1,518,160	1,506,826	1,491,200
Value of one year's new business at valuation date	127,224	120,103	114,480

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:

6.1 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%

6.2 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

6.3 Expenses
The maintenance expense assumption is based on the results of recently conducted internal expense investigations.

6.4 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 2005.

6.5 Persistency / Surrender Basis
The assumptions for lapse and surrender rates are based on the results of recent experience investigations conducted by the company.

6.6 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 Net Premium 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 KShs m	% Change over base
Values as at 31 December 2005	575,526	
Policy discontinuance rate increases by 10% e.g. from 10% to 11%	568,393	-1.24%
Future expense increases by 10%	538,695	-6.40%
Expense inflation increases by 1% e.g. from 10% to 11%	570,332	-0.90%
Mortality and morbidity experience increases by 10%	546,085	-5.12%
Investment returns decrease by 1% e.g. from 10% to 9%	540,063	-6.16%
Premium increase take-up rate decreases by 10% e.g. from 90% to 81%	571,755	-0.66%

The sensitivity of the value of new business is as follows:

Value of one year's new business as at 31 December 2005	120,103	
Policy discontinuance rate increases by 10% e.g. from 10% to 11%	114,218	-4.90%
Future expense increases by 10%	112,058	-6.70%
Expense inflation increases by 1% e.g. from 10% to 11%	119,295	-0.67%
Mortality and morbidity experience increases by 10%	115,515	-3.82%
Investment returns decrease by 1% e.g. from 10% to 9%	116,865	-2.70%
Premium increase take-up rate decreases by 10% e.g. from 90% to 81%	119,204	-0.75%
Increase in non-commission acquisition expenses by 10%	106,621	-11.23%

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

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

13 February 2006

FINANCIAL STATEMENTS

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 compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs), and prepared under the historical cost convention, as modified by the carrying of certain property and equipment, investment property and certain 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 IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

(b) Adoption of New & Revised Standards

In 2003 the Group early adopted IAS 17, Leases (revised 2003) and IAS 40, Investment Property (revised 2003). In 2005, the following new and revised standards became effective for the first time and have been adopted by the Group where relevant to its operations.

- IAS 1 (revised 2003) Presentation of Financial Statements
- IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 (revised 2003) Events after the Balance Sheet Date
- IAS 16 (revised 2003) Property, Plant and Equipment
- IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
- IAS 24 (revised 2003) Related Party Disclosures
- IAS 27 (revised 2003) Consolidated and Separate Financial Statements
- IAS 28 (revised 2003) Investments in Associates
- IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
- IAS 33 (revised 2003) Earnings per Share
- IAS 36 (revised 2005) Impairment of Assets
- IAS 38 (revised 2005) Intangible Assets
- IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement

The adoption of these new and revised standards had no material effect on the group's accounting policies or disclosures, except as follows:

- Following the adoption of IFRS 4 (issued 2004) and IAS 8 (revised 2003) the company has effected a change in accounting policy for premium income (see (e) below and Note 3) and expanded the disclosures in respect of insurance contracts;
- IAS 16 (revised 2003) has required the disclosure of comparative figures for movements in property and equipment;
- IAS 24 (revised 2003) has affected the identification of related parties and some other related party disclosures;
- IAS 39 (revised 2003) has resulted in a change in accounting policy relating to the classification of financial assets.

(c) Consolidation

- **Subsidiaries** are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.
- **Associates** are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or

exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(d) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(e) Income Recognition

During the year, the group changed its income recognition policy for premium income on individual life policies. Previously, the full annual premium was recognised in respect of ordinary life recurring policy contracts on policy anniversary dates, after making a provision for policy lapses and other terminations. Effective 1 January 2005, premium income on individual life policies is recognised on the basis of premium instalments expected during the year. Note 3 details the effect of the change in accounting policy. **Group life premiums** are accounted for when receivable and collection is reasonably assured. **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.

(f) Policyholder Benefits

Policyholder benefits incurred comprise benefits paid in the year and changes in the provision for insurance contract liabilities. Benefits paid represent all payments made during the year, whether arising from events during that or earlier years. Insurance contract liabilities represent the estimated ultimate cost of settling all benefits accruing to policyholders, and are discounted to their present value.

(g) Deposit Administration Contracts

The group administers the funds of a number of retirement benefit schemes. The liability of the group to the schemes is included in the balance sheet.

(h) Property & Equipment

All categories of property and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at market value, based on valuations by external independent valuers. All other property and equipment is stated at historical cost less depreciation. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred. Increases in the carrying amount 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 reserve; all other decreases are charged to the profit and loss account. Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost or revalued amount to their residual values over their estimated useful lives, as follows:

Buildings	Over the unexpired lease period
Equipment and motor vehicles	3 - 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may

not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

(i) Investment Property

Buildings, or part of a building, and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation and are not occupied by the group are classified as investment property. Investment property is carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are included in investment income in the profit and loss account. On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

(j) Intangible Assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

(k) Investments

The group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates such designation at every reporting date:

- Financial assets at fair value through profit or loss Management have designated quoted shares as investments at fair value through profit or loss. previously quoted shares were classified as available-for-sale.
- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are disclosed on the face of the balance sheet.
- Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group has the positive intention and ability to hold to maturity. Held to maturity investments comprise government securities, commercial paper and corporate bonds.

Purchases and sales of investments are recognised on the trade date, which is the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques. These include the use of recent arms length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances. The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(l) Translation of Foreign Currencies

Transactions in foreign currencies during the year are converted into the functional currency, Kenya Shillings, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such

transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(m) 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.

(n) Land & Development

Land and development, comprising plots held for resale, is stated at the lower of cost and net realisable value. The cost of land and development includes infrastructure costs incurred in respect of unsold plots, which are deferred and released to income as the land is sold.

(o) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(p) Employee Entitlements

• Retirement benefit obligations: The group operates a defined contribution retirement benefit scheme for qualifying employees. The group and all its employees also contribute to the National Social Security Fund, which is also a defined contribution scheme. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The group's contributions to the defined contribution schemes are charged to the profit and loss account in the year to which they relate.

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

(q) Income Tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax. **Current income tax** is the amount of income tax payable on the taxable 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.

(r) 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 approved at a general meeting of the shareholders.

(s) Comparatives

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

GROUP PROFIT AND LOSS ACCOUNT

	Notes	2005 Shs'000	Restated 2004 Shs'000
Gross premium income	2	**1,168,582**	**940,974**
Outward reassurances		(137,165)	(151,279)
Net premium income		**1,031,417**	**789,695**
Investment return	4	219,126	194,592
Income from associated companies		199,500	18,703
Commission income		33,764	37,589
Other income	5	85,591	63,972
		537,981	**314,856**
Commission expense		229,711	192,408
Operating expenses	6	378,230	301,553
Discontinued operations	7	27,403	7,066
Policyholder benefits	8	845,075	580,188
Less: Reassurance recoveries		(86,366)	(67,671)
		1,394,053	**1,013,544**
Profit before income tax		175,345	91,007
Income tax credit	10	1,260	2,804
Profit for the year		**176,605**	**93,811**
		Shs	**Shs**
Basic and diluted earnings per share		3.68	1.95
Dividends:		Shs'000	Shs'000
Proposed final dividend	**13**	**57,600**	**48,000**

GROUP BALANCE SHEET

Year ended 31 December 2005

	Note	2005 Shs'000	Restated 2004 Shs'000
Capital employed			
Share capital	11	240,000	240,000
Share premium	11	364,431	364,431
Revaluation surplus		4,253	663
Retained earnings		562,056	443,051
Transfer to life funds	12	(297,001)	(297,001)
Proposed dividends	13	57,600	48,000
Shareholders' funds		**931,339**	**799,144**
Represented by:			
Assets			
Property and equipment	14	56,708	57,576
Intangible assets	15	3,648	-
Investment property	16	471,000	774,000
Investment in associates	18	363,895	169,078
Quoted shares	19	490,082	231,433
Mortgage loans	20	89,889	79,190
Policy loans		98,692	81,900
Receivables arising out of reassurance arrangements		96,332	99,804
Receivables arising out of direct insurance arrangements		72,623	11,972
Reassurers' share of technical provisions and reserves		32,422	39,640
Other receivables	21	112,931	163,498
Land and development		44,990	23,216
Current income tax		22,113	20,044
Deferred income tax	26	6,068	-
Government securities	22	1,113,742	1,006,761
Deposits with financial institutions		319,463	102,935
Commercial paper and corporate bonds		150,020	136,718
Cash and bank balances		151,445	47,806
Total assets		**3,696,063**	**3,045,571**
Liabilities			
Insurance contracts liabilities	24	2,029,944	1,628,392
Payable under deposit administration contracts	25	166,442	157,423
Deferred income tax	26	36,900	47,260
Creditors arising from reassurance arrangements		83,269	97,538
Other payables	27	448,169	309,981
Current income tax			5,833
Total liabilities		**2,764,724**	**2,246,427**
Net assets		**931,339**	**799,144**

The financial statements on pages 38 to 55 were approved for issue by the Board of Directors on 13 February 2006 and signed on its behalf by:

John P N Simba
Chairman

Andrew Greenwood
Chief Executive

COMPANY BALANCE SHEET

Year ended 31 December 2005

	Notes	2005 Shs'000	2004 Shs'000
Capital employed			
Share capital	11	240,000	240,000
Share premium	11	364,431	364,431
Retained earnings		614,195	671,795
Transfer to life funds	12	(297,001)	(297,001)
Proposed dividends	13	57,600	48,000
Shareholders' funds		**979,225**	**1,027,225**
Represented by:			
Assets			
Investment in subsidiaries	17	1,010,212	1,010,212
Other receivables	21	15,526	851
Divided receivable from subsidiary		-	48,000
Current income tax		13,680	13,680
Cash and bank balances		5,925	3,499
Total assets		**1,045,343**	**1,076,242**
Liabilities			
Other payables	27	66,118	49,017
Total liabilities		**66,118**	**49,017**
Net assets		**979,225**	**1,027,225**

GROUP STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Notes	Share capital Shs '000	Share premium Shs '000	Transfer to life funds Shs '000	Revaluation surplus Shs '000	Retained earnings Shs '000	Proposed dividends Shs '000	Total Shs '000
Year ended 31 December 2004								
At start of year		240,000	364,431	(297,001)	663	397,240	-	705,333
Profit for the year		-	-	-	-	93,811	-	93,811
Dividends:								
- Proposed final for 2004	13	-	-	-	-	(48,000)	48,000	
At end of year		**240,000**	**364,431**	**(297,001)**	**663**	**443,051**	**48,000**	**799,144**
Year ended 31 December 2005								
At start of year		240,000	364,431	(297,001)	663	443,051	48,000	799,144
Profit for the year		-	-	-	-	176,605	-	176,605
Share of associate's revaluation surplus		-	-	-	3,590	-	-	3,590
Dividends:								
- Final for 2004 paid	13	-	-	-	-	-	(48,000)	(48,000)
- Proposed final for 2005	13	-	-	-	-	(57,600)	57,600	
At end of year		**240,000**	**364,431**	**(297,001)**	**4,253**	**562,056**	**57,600**	**931,339**

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Notes	Share capital Shs '000	Share premium Shs '000	Transfer to life funds Shs '000	Retained earnings Shs '000	Proposed dividends Shs '000	Total Shs '000
Year ended 31 December 2004							
At start of year		240,000	364,431	(297,001)	671,795	-	979,225
Profit for the year	13	-	-	-	48,000	-	48,000
Dividends:							
- Proposed final for 2004	13	-	-	-	(48,000)	48,000	-
At end of year		**240,000**	**364,431**	**(297,001)**	**671,795**	**48,000**	**1,027,225**
Year ended 31 December 2005							
At start of the year		240,000	364,431	(297,001)	671,795	48,000	1,027,225
Dividends:							
- Final for 2004 paid	13	-	-	-	-	(48,000)	(48,000)
- Proposed final for 2005	13	-	-	-	(57,600)	57,600	-
At end of year		**240,000**	**364,431**	**(297,001)**	**614,195**	**57,600**	**979,225**

CASH FLOW STATEMENT

	Notes	2005 Shs'000	2004 Shs'000
Operating activities			
Cash generated from operations	31	317,626	146,701
Interest income		147,373	157,794
Tax paid		(20,792)	(7,588)
Net cash from/(used in) operating activities		444,207	296,907
Investing activities			
Purchase of property and equipment	14	(14,797)	(26,028)
Purchase of quoted shares	19	(265,666)	(27,063)
Purchase of government securities and commercial paper		(666,045)	(676,105)
Mortgage loans advanced	20	(24,735)	(238)
Repayments of mortgage loans	20	17,584	26,581
Net policy loans advanced		(16,792)	(8,003)
Proceeds from disposal of investment property		241,000	21,992
Proceeds from the disposal of Government securities		539,215	217,042
Proceeds from disposal of property and equipment		1,357	-
Proceeds from disposal of quoted shares		111,708	-
Dividend received from associate		5,995	-
Purchase of software	15	(4,864)	-
Net cash from/(used in) investing activities		(76,040)	(471,822)
Financing activities			
Repayment of borrowings		-	(33,045)
Dividends paid		(48,000)	
		(48,000)	(33,045)
Increase/(decrease) in cash and cash equivalents		**320,167**	**(207,960)**
Movement in cash and cash equivalents at start of year			
At the start of the year		150,741	358,701
Increase/(decrease)		320,167	(207,960)
At end of year	**30**	**470,908**	**150,741**

NOTES

1 Principal Activity & Business Segment Information

The core activity of the group is in the carrying out of long term insurance business. The group also has interests in an investment company, a general insurance business, and a company involved in the development and sale of plots.

	Long-term Insurance Shs'000	Investments/ General Insurance Business Shs'000	Sale of Plots Shs'000	Others Shs'000	Total 2005 Shs'000
Year ended 31 December 2005:					
Gross premium income	1,168,582	-	-	-	1,168,582
Net premium income	1,031,417	-	-	-	1,031,417
Other income	282,969	191,318	63,694	-	537,981
-Investment income	232,057	(12,931)	-	-	219,126
-Other income	50,912	4,759	63,684	-	119,355
-Share of associate's profit	-	199,490	10	-	199,500
Segment inflows	1,314,386	191,318	63,694	-	1,569,398
Segment outflows	(1,314,386)	(49,289)	(30,378)	-	(1,394,053)
Profit before income tax	-	142,029	33,316	-	175,345
Income tax credit/(expense)	-	(2,278)	3,538	-	1,260
Profit for the year	-	139,751	36,854	-	176,605
Segment assets	2,772,750	814,799	108,514	-	3,696,063
Segment liabilities	2,542,490	163,998	58,236	-	2,764,724
Capital expenditure	14,651	146	-	-	14,797
Armortisation and Depreciation	15,750	474	43	-	16,267
Year ended 31 December 2004:					
Gross premium income	940,974	-	-	-	940,974
Net premium income	789,695	-	-	-	789,695
Other income	188,009	81,723	54,480	2,500	314,856
-Investment income	149,707	56,741	-	-	194,592
-Other income	38,302	6,634	54,125	2,500	101,561
-Share of associate's profit	-	18,348	355	-	18,703
Segment inflows	977,704	81,723	54,480	2,500	1,104,551
Segment outflows	(977,704)	(30,803)	(16,768)	(125)	(1,013,544)
Profit before income tax	-	50,920	37,712	2,375	91,007
Income tax credit/(expense)	-	7,625	(4,821)	-	2,804
Profit for the year	-	58,545	32,705	2,375	93,811
Segment assets	2,058,173	861,855	120,152	5,391	3,045,571
Segment liabilities	2,058,173	135,274	39,139	13,841	2,246,427
Capital expenditure	25,367	661	-	-	26,028
Armortisation and Depreciation	10,665	529	215	-	11,409

2 Premium Income

	2005 Shs'000	2004 Shs'000
Recurring premium		
Individual life	829,682	578,093
Gross recurring premium	**829,682**	**578,093**
Single Premium		
Individual life	1,608	1,317
Group business	337,292	361,564
Total Single premiums	338,900	362,881
Gross premium income	**1,168,582**	**940,974**

3 Change of Accounting Policy

During the year, the company changed the accounting policy for recognition of premium income for individual life policies, as described in accounting policy (e) above. This change resulted in restatement of comparatives as shown below.

	As previously Stated Shs'000	Adjustment Shs'000	As Restated Shs'000
Gross premium income	1,065,885	(124,911)	940,974
Commission expense	217,688	(25,280)	192,408
Operating expenses	299,913	1,640	301,553
Receivables arising out of direct assurance arrangements	320,021	(308,049)	11,972
Other payables	417,993	(108,012)	309,981
Insurance contracts liabilities	1,828,429	(200,037)	1,628,392

4 Investment Return

	2005 Shs'000	2004 Shs'000
Interest from Government Securities	98,977	84,889
Bank deposit interest	16,774	14,330
Loan interest	31,622	16,419
Dividends from listed entities	10,352	10,703
Rental income from investment properties	39,799	31,453
Investment expenses	(21,089)	-
Fair value gains/(losses)		-
- investment properties (Note 16)	(37,000)	21,500
- quoted shares (Note 19)	104,691	15,298
- realised loss on disposal of investment property	(25,000)	-
	219,126	**194,592**

5 Other Income

	2005 Shs'000	2004 Shs'000
Sale of plots	57,426	50,270
Debt recovery	400	4,357
Profit commission	16,119	-
Miscellaneous income	10,742	3,652
Fee income deposit administration business	373	899
Gain on disposal of property and equipment	531	4,794
	85,591	**63,972**

6 Operating and other Expenses

Other expenses include:	2005 Shs'000	2004 Shs'000
Employee benefits expense (Note 9)	157,146	144,010
Amortisation and depreciation (Notes 14 and 15)	16,267	11,409
Fees for managerial and administrative services	20,831	16,911
- Auditor's remuneration	2,773	2,565
- Actuarial	18,058	14,346
Repairs and maintenance expenditure	1,212	2,357
Impairment provision on reinsurance receivable	-	7,066
Premium tax and stamp duty	17,904	12,513

7 Discontinued Operations

This relates to claims paid and provisions which have been made in relation to outstanding claims and other warranties associated with the sale and transfer of the General insurance business to APA Insurance Limited. While the full extent, if any, of these liabilities has not yet been determined, the group has made prudent provision for any expenditure that may be incurred.

8 Policyholder Benefits Payable

	2005 Shs'000	2004 Shs'000
Gross death and disability claims	213,085	192,891
Maturity and survival benefits	150,339	125,035
Policy surrenders	54,294	34,364
Interest declared to deposit administration funds	21,721	11,856
Change in actuarial value of insurance contract liabilities	405,636	216,042
	845,075	**580,188**

9 Employee Benefits Expense

	2005 Shs'000	2004 Shs'000
Employee benefits expense include the following:		
- Retirement benefit costs	12,351	8,548
- Social security benefit costs	565	320

10 Income Tax

	2005 Shs'000	2004 Shs'000
Current income tax	12,890	10,286
Deferred income tax (Note 26)	(16,428)	(5,295)
Share of Associates' tax (Note 18)	2,278	(7,795)
Income tax credit	**(1,260)**	**(2,804)**

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

	2005 Shs'000	2004 Shs'000
Profit/(loss) before Income Tax	175,345	91,007
Tax calculated at the statutory income tax rate of 30%	52,604	27,302
Tax effect of:		
- Income not subject to income tax	(58,571)	(19,565)
- Expenses not deductible for tax purposes	6,450	19
Under provision of current income tax in prior years	1,215	-
Over provision of deferred income tax in prior years	(16,895)	-
Deferred income tax not recognised	13,937	(10,560)
Income tax credit	**(1,260)**	**(2,804)**

11 Share Capital and Share Premium

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

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

12 Transfer to Life Funds

During 2001, the directors authorised a total trasfer of Shs 297,001,000 from shareholders' funds to the individual life fund to finance an actuarial deficit arising from new business strain and the write down of certain investment properties.

13 Dividends

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. At the general meeting to be held on 12 May 2006, a dividend in respect of the year ended 31 December 2005 of KShs 1.20 per share amounting to a total of KShs 57,600,000 is to be proposed. At the annual general meeting 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 was declared. Payment of dividends is subject to withholding tax at the rate of either 5% or 10%, depending on the residence of the individual shareholders.

14 Group Property and Equipment

Year ended 31 December 2005:

	Buildings & freehold land Shs'000	Motor Vehicles Shs'000	Fittings & Equipment Shs'000	Total Shs'000
Cost or valuation				
At start of year	23,951	9,501	64,051	97,503
Additions	-	4,364	10,433	14,797
Disposals		(437)	(1,779)	(2,216)
At end of year	**23,951**	**13,428**	**72,705**	**110,084**
Depreciation				
At start of year	8,240	3,379	28,308	39,927
Charge for the year	170	3,096	11,572	14,838
On disposals	-	(437)	(952)	(1,389)
At end of year	**8,410**	**6,038**	**38,928**	**53,376**
Net book amount:	**15,541**	**7,390**	**33,777**	**56,708**

Year ended 31 December 2004:

	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 16)	(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**

Buildings and freehold land were last revalued during 2005, by Llyod Masika, independent valuers, on the basis of the market value for existing use.

15 Group Intangible Assets (Software)

	2005 Shs'000	2004 Shs'000
Cost		
At start of the year		
Additions	4,864	-
At end of year	**4,864**	**-**
Amortisation:		
At start of the year	-	-
Charge for the year	1,216	-
At end of year	**1,216**	**-**
Net carrying amount	3,648	-

16 Group Investment Property

	2005 Shs'000	2004 Shs'000
At start of year	774,000	557,500
Reinstatement of leasehold land to market value on adoption of IAS 40(revised)	-	100,942
Reclassification from property and equipment (note 14)	-	94,058
Fair value (loss)/gain	(37,000)	21,500
Disposals	(266,000)	-
At end of year	**471,000**	**774,000**

17 Group Investment in Subsidiary Companies

	2005 Shareholding	2004 Shs'000	Shs'000
Pan Africa Life Assurance Limited	100%	331,203	331,203
PA Securities Limited	100%	679,009	679,009
		1,010,212	**1,010,212**

18 Group Investment in Associated Companies

	2005 Shs'000	2004 Shs'000
At start of year	169,078	142,580
Share of results before income tax	199,500	18,703
Share of revaluation surplus	3,590	-
Share of income tax	(2,278)	7,795
Dividends received	(5,995)	-
At end of period	**363,895**	**169,078**

Associated companies comprise	Principal activity	2005 Shareholding	2004 Shareholding
APA Insurance Limited	General insurance	39.97%	39.97%
Runda Water Limited	Water distribution	24.90%	24.90%

APA Insurance Limited and Runda Water Limited are incorporated in Kenya.

19 Group Quoted Shares

	2005 Shs'000	2004 Shs'000
At start of year	231,433	189,072
Additions	265,666	27,063
Fair value gains	104,691	15,298
Disposals	(111,708)	-
At end of year	**490,082**	**231,433**

20 Group Mortgage Loans

	2005 Shs'000	2004 Shs'000
At start of year	80,190	105,533
Accrued interest	7,623	
Loans advanced	24,735	238
Loan repayments	(17,584)	(25,581)
		-
At end of year	**94,964**	**80,190**
Impairment:		
At start of year	1,000	-
Reclassified from other payables	1,288	-
Charge for the year	2,787	1,000
	5,075	1,000
	89,889	**79,190**

Maturity Profile of Mortgage Loans:

	2005 Shs'000	2004 Shs'000
Loans Maturing:		
Within 1 year	18,611	7,175
In 1-5 years	44,082	22,939
In over 5 years	32,271	50,076
	94,964	**80,190**
Loans at:		
Market rate	16,990	21,751
	16,990	**21,751**

Included in mortgage loans is KShs 49,623,744 due from employees.

Lending commitments:
There were no lending commitments as at 31 December 2005. In 2004 a mortgage loan of KShs. 16,500,000 was approved but had not been advanced by 31 December 2004

21 Group Other Receivables

	Company 2005 Shs'000	2004 Shs'000	Group 2005 Shs'000	2004 Shs'000
Debtors and prepayments	1,404	851	76,639	63,004
Amounts due from related parties (Note 32)	14,122		10,618	15,316
Rent outstanding			16,521	20,537
Plot debtors			-	59,506
Accrued interest			-	3,113
Other non-current assets			9,153	2,022
	15,526	851	**112,931**	163,498

22 Group Government Securities

	2005 Shs'000	2004 Shs'000
Treasury bills and bonds maturing:		
- Within 1 year	263,485	256,645
- In 1-5 years	622,057	420,508
- After 5 years	228,200	329,608
	1,113,742	**1,006,761**

23 Group 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:

	2005 %	2004 %
Treasury bills	8	7
Treasury bonds	10	9
Mortgage loans	8	6
Deposits with financial institutions	8	9
Policy loans	14	14

24 Actuarial Value of Policyholder Liabilities

The company determines its liabilities on long term insurance contracts based on assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. A margin for risk and uncertainty is added to these assumptions. The liabilities are determined on the advice of the consulting actuary and actuarial valuations carried out on an annual basis.

Valuation Assumptions

The latest actuarial valuation of the life fund was carried out as at 31 December 2005 by Deloitte & Touche, consulting actuaries, using the Net Present Value method. Significant valuation assumptions are summarised below. The assumptions did not change in 2005:

a) Mortality

The company uses A1949/52 as a base table of standard mortality. Statistical methods are used to adjust the rates reflected on the table based on the company's experience. For contracts insuring survivorship, an allowance is made for future mortality improvements made on trends identified in the data.

b) Persistency

Statistical methods are used to determine an appropriate persistency rate, with reference to the company's experience over the most recent five years. An allowance is then made for any trends in the data to arrive at a best estimate of future persistency rates.

c) Investment Returns

A weighted average rate of investment return is derived with reference to the portfolio that backs the liabilities. For the current valuation, the rate of return was 10% (2004: 10%)

d) Expenses, Tax and Inflation

The current level of expenses is taken to be an appropriate expense base. Expense inflation is assumed to be 8% (2004: 10%). It has been assumed that the current tax legislation and rates continue unaltered.

Sensitivity Analysis

The following table presents the sensitivity of the value of long term insurance liabilities to movements in key assumptions used in the estimation of liabilities.

Sensitivity Analysis:		2005	2004
	Change in Variable	Increase in PVFP	Increase in PVFP
Worsening of mortality	+10%	16,153	15,920
Lowering of investment returns	-1%	52,545	51,864
Worsening of base expense level	+10%	43,928	41,954
Worsening of expense inflation	+1%	6,282	5,675
Worsening of lapse rate	+10%	43,928	43,888

***PVFP=Present value of future profits**

25 Group 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 at a weighted average rate of 11% for the year (2004: 9%).

	2005 Shs'000	2004 Shs'000
As at 1 January	157,423	126,179
Contributions received	25,403	27,733
Benefits paid	(38,105)	(8,345)
Interest cost	21,721	11,856
At 31 December	**166,442**	**157,423**

26 Group Deferred Income Tax

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal income tax rate of 30% (2004: 30%). The movement on the deferred income tax account is as follows:

	2005 Shs'000	2004 Shs'000
At start of year	47,260	52,555
Profit and loss account (Note 10)	(16,428)	(5,295)
At end of year	**30,832**	**47,260**
Comprising		
Deferred income tax liability on the balance sheet	36,900	47,260
Deferred income tax asset on the balance sheet	(6,068)	
	30,832	47,260

Group 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-Jan 2005 Shs'000	Over provision in prior years Shs'000	Charged/ (credited) to P/L Shs'000	31-Dec 2005 Shs'000
Property and equipment	35,459	(149)	(1,090)	34,220
Investment property fair value gains	(19,871)	(3,229)	18,600	(4,500)
Deferred expenditure	6,965	(6,965)	-	-
Provisions	(52,741)	(6,552)	(9,393)	(68,686)
Tax losses carried forward	(115,741)		(65,820)	(181,561)
	(145,929)	(16,895)	(57,703)	(220,527)
Deferred income tax not recognised	193,189	-	58,170	251,359
Pan Africa Life Assurance Limited	126,634		44,404	171,038
PA Securities Limited	66,555		13,766	80,321
Deferred income tax on the balance sheet	**47,260**	**(16,895)**	**467**	**30,832**

27 Other Payables	Company 2005 Shs'000	2004 Shs'000	Group 2005 Shs'000	2004 Shs'000
Rent deposits			5,655	6,780
Amounts due to related parties (Note 32)	18,196	12,167	4,050	1,950
Warranties payables			28,018	15,506
Unclaimed dividends	17,402	15,027	17,402	15,027
Other payables and accrued expenses	30,520	21,823	393,044	270,718
	66,118	49,017	448,169	309,981

28 Contingent Liabilities

The group companies are defendants in legal proceedings filed against them by third parties. In the opinion of the directors, the outcome of these proceedings will not have a material impact on the financial position of the group.

29 Commitments

Group capital commitments

	2005 Shs'000	2004 Shs'000
Property and equipment	**450**	**-**

Group operating lease commitments

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

	2005 Shs'000	2004 Shs'000
Not later than 1 year	508	136
Later than 1 year but not later than 5 years	6,216	4,793
	6,724	**4,929**

30 Group Cash and Cash Equivalents

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

	2005 Shs'000	2004 Shs'000
Cash and bank balances	151,445	47,806
Deposits with financial institutions	319,463	102,935
	470,908	**150,741**

31 Group Cash Generated from Operations

Reconciliation of profit before income tax to cash generated from operations:

	2005 Shs.'000	Restated 2004 Shs.'000
Profit before tax	175,345	91,007
Adjustments for:		
Interest income	(147,373)	(157,794)
Impairment provision on mortgage loans	2,787	-
Investment property fair value gains	37,000	(21,500)
Quoted shares fair value gains	(104,691)	(15,298)
Loss on disposal of investment property	25,000	-
Depreciation and amortisation (Note 6)	16,267	11,409
Profit on sale of property and equipment	(531)	(4,794)
Income from associates	(199,500)	(18,703)
Changes in:		
- receivables from direct insurance arrangements	(60,651)	(89,008)
- receivables from direct reassurance arrangements	3,472	(41,839)
- other receivables	57,785	(78,392)
- land and development	(21,774)	19,549
- insurance contract liabilities	401,552	310,687
- payable under deposit administration contracts	9,019	31,244
- payable under reassurance arrangements	(14,269)	72,527
- other payables	138,188	37,606
Cash generated from operations	**317,626**	**146,701**

32 Related Party Transactions

(a) Group mortgage loans to former directors and companies related to them

i) Loans at concessionary rates

	2005 Shs'000	2004 Shs.'000
Principal amount	8,551	9,511
Interest on loans	1,998	605
	10,549	**10,116**

ii) Group loans at market rates

	2005 Shs'000	2004 Shs.'000
Principal amount	10,661	11,054
Interest on loans	3,258	1,133
	13,919	**12,187**

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

(b) Group mortgage loans to current directors at concessionary rate

	2005 Shs'000	2004 Shs.'000
Principal amount	3,073	3,494
Interest on loans	313	72
	3,386	**3,566**

(c) Group insurance balances with related parties - claims recoverable

	2005 Shs'000	2004 Shs.'000
African Life Assurance Company Limited	16,869	8,664
	16,869	**8,664**

(d) Receivables from related parties	Company 2005 Shs.'000	2004 Shs.'000	Group 2005 Shs.'000	2004 Shs.'000
African Life Assurance Company Limited	-	-	6,338	15,316
APA Insurance Company Limited	-	-	2,941	-
Runda Water Limited	-	-	16	-
PA Securities Limited	14,122	-	-	-
Former directors and staff	-	-	1,323	-
	14,122	**-**	**10,618**	**15,316**

(e) Payables to related parties

	2005 Shs.'000	2004 Shs.'000	2005 Shs.'000	2004 Shs.'000
African Life Assurance Company Limited	-	-	-	1,950
Pan Africa Life Assurance Limited	18,196	12,167	-	-
Other	-	-	4,050	-
	18,196	**12,167**	**4,050**	**1,950**

(f) Key management compensation

	2005 Shs.'000	2004 Shs.'000
-Salaries and other short-term employment benefits	55,509	48,162
-Post-employment benefits	9,075	7,095
	64,584	**55,257**

(g) Directors' remuneration

	2005 Shs.'000	2004 Shs.'000
- Fees for services as a director	5,480	4,923
- Other emoluments (included in key management compensation above)	25,960	23,678
Total remuneration of directors of the company	31,440	28,601

ADMINISTRATION

Pan Africa Life Assurance Limited

Executive Committee

Andrew Greenwood	CA(SA), CA(Aus)	Chief Executive Officer
Stephen Kamanda	MBA, BA, FCCA(UK), ICSA(UK)	General Manager - Finance
Godfrey Kioi	*MBA, BSc, CPA(K), CPS(K)*	*General Manager - Operations*
James Muiruri	BSc, ACII, AIIK, ACIArb, ACS	General Manager - Corporate Business
Warren Smith		National Sales Manager
Lucy Kiboi	*MBA, CPS, Dip BEd*	*Human Resources Manager*
Sharon Maviala	LLB, Dip (KSL), CPS(K)	Company Secretary/Chief Legal Officer
Joseph Wamwea	MBA, BSc, Dip CS, CISA, Unix ACE	Divisional Manager IST

Divisional Manager

Luke Magambo	BSc, CPA(K), CPS, Dip IMIS	Finance

Deputy Divisional Managers

Samuel Chege	BCom, CPA(K), CPS(K)	Policy Administration
Jane Ntutu	BSc	Regional Sales Manager - Eastern
Martin Nzomo	*MBA, FCII, FIIK, ACIArb*	*Corporate Business Manager*
Francis Ogwel	BA	Regional Sales Manager - Western

Unit Leaders

Samuel Gichuki	BA, Dip HR	Human Resources
Jack Kionga	BAdmin, ACII	Customer Service
Samson Mwangi		Finance
Cecilia Mweru	BCom	New Business
Jane Njenga	BEd	Corporate Business
Gwen Njiru	IBA(Marketing)	Commercial Pay Point Manager
Barrack Otieno	*BCom, ACII*	*National Training Manager*
Shirine Simwa	BA, FLMI, ACS, UND	Policy Administration
Njoki Waruinge	BA, ACII	Quality Compliance Services
Rita Waweru	*Dip CS*	*IST*
Linda Were	BSc Actuarial	Actuarial

Sales Managers

N Adhoga	MCom	Mombasa
T Amina	BEd	Nakuru
J Amunga	BEd	Eldoret
M Kiragu	MEd	Nyeri
P Kitela	BSc	Thika
G Kubai	BEd	Meru
P Mbugua		Machakos
B Mureithi	BEd	Embu
T Omiti	BCom	Kisumu
J Owiti	*BCom*	*Nairobi Mega*
M Sikini (acting)	MCom	Kisii
J Tsimbiri	BEd	Nairobi City Centre

MAE Property Limited, PA Securities Limited

Lucy Munjuga	BSc & CPA	Head of Operations