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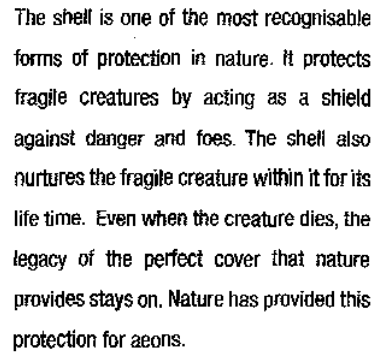
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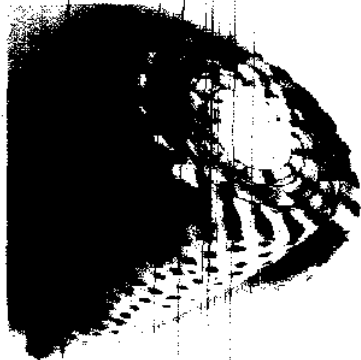


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protection for 99 years.
with a 99 year term, Pan Africa
dependents and their
it to save the lives of its
society and the world as a whole.
death, the loss of income or
from it when they need
curriculum and for protection as their A

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1. Pan Africa Insurance Company Ltd - Kenya - Periodic
2. Insurance law - Kenya - Periodic

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FIVE YEAR GROUP REVIEW

Profit and loss account (KShs million)

	2002	2003	2004	2005	2006
Investment return	70	337	194	219	404
Profit/(loss) before income tax	(6)	(69)	91	175	454
Profit/(loss) attributable to shareholders	(15)	(23)	93	176	450
Dividends	-	-	48	58	69

Long term insurance business (KShs million)

	2002	2003	2004	2005	2006
Gross premium income	576	793	941	1,169	1,397
Net premium income	378	701	790	1,031	1,248
Policyholder benefits paid	182	221	580	845	951

Balance sheet (KShs million)

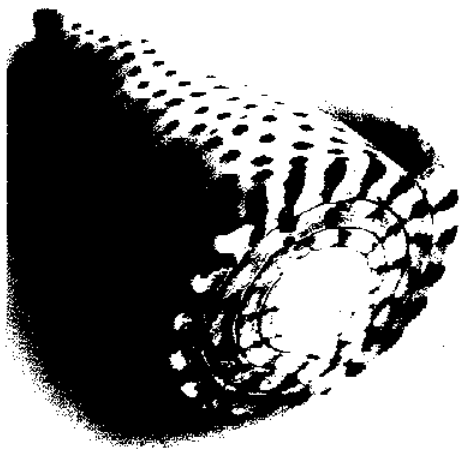
	2002	2003	2004	2005	2006
Shareholder's funds	672	604	799	931	1,327
Long term business funds	1,076	1,384	1,786	2,196	2,402
Share capital	240	240	240	240	240
Total assets	2,960	2,742	3,045	3,696	4,753

Key indicators

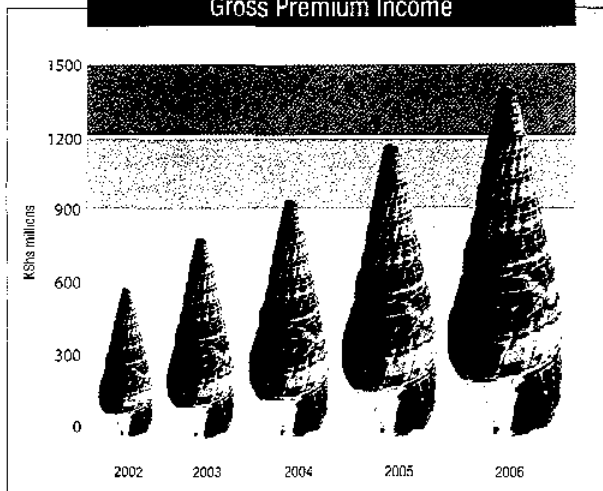
	2002	2003	2004	2005	2006
Basic earning/(loss) per share (KShs)	(0.33)	(0.49)	1.95	3.68	9.38
Dividend per share (KShs)	-	-	1.00	1.20	1.44
Market capitalisation at year end (KShs million)	336	1,128	1,032	1,920	4,392

Company share prices at the NSE

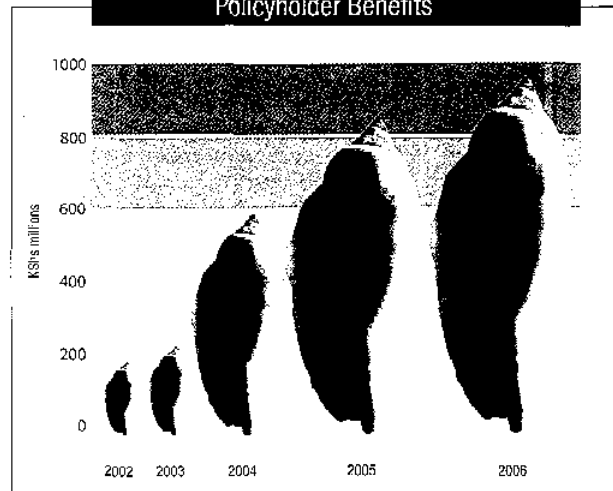
	2002	2003	2004	2005	2006
High (KShs)	13	25	35	42	100
Low (KShs)	7	7	18	22	34
Share price at year end (KShs)	7	24	22	40	92

FIVE YEAR GROUP REVIEW *cont.*

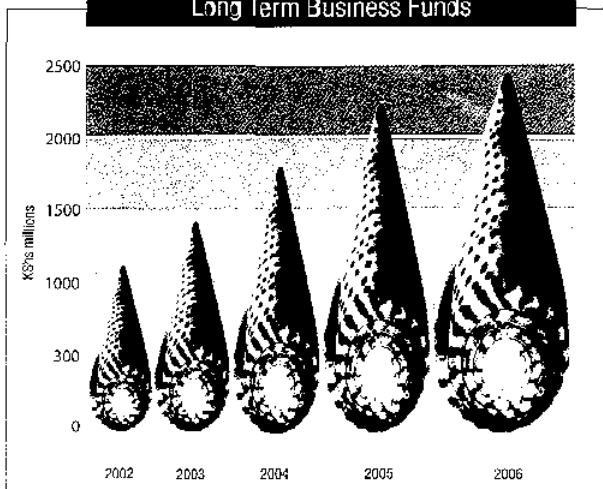
Gross Premium Income



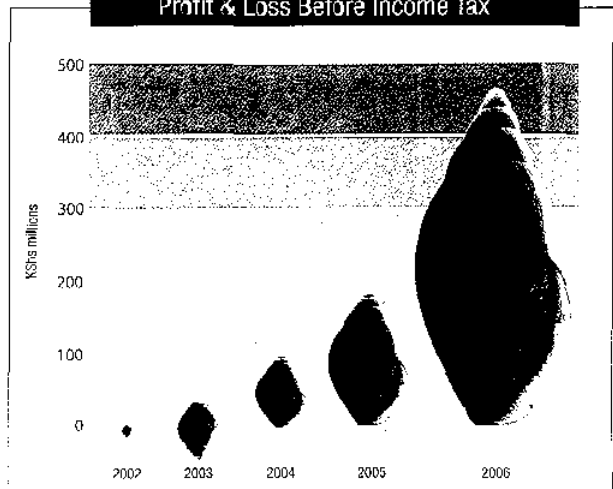
Policyholder Benefits



Long Term Business Funds



Profit & Loss Before Income Tax



REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2006 that disclose the state of affairs of the Company and its subsidiaries.

Incorporation

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

Principal Activities

The principal activity of the 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 industrial life insurance. The Group has interests in a wholly owned investment company PA Securities Limited, and an associate general insurance company, APA Insurance Limited.

Results

The profit for the year of KShs 450,395,000 (2005: KShs 176,605,000) has been added to the retained earnings.

Dividends

The Directors will recommend the approval of a dividend of KShs 69,120,000 (2005: KShs 57,600,000) to the shareholders at the 61 Annual General Meeting of the Company.

Financial Risk Management Objectives and Policies

The activities of the Company and its subsidiaries expose it to a variety of financial risks, including underwriting risk, credit risk and the effects of changes in debt and equity market prices, and interest rates. Therefore the risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance. These include the use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place to enable optimal liquidity management and to maximise returns within an acceptable level of risk.

Directors

The Board of Directors who served during the year and up to the date of this report are:

- 1) John P N Simba (Chairman)
- 2) Andrew Greenwood (Chief Executive)
- 3) John Burbidge
- 4) Margaret Dawes
- 5) James Gitohi
- 6) Craig Harding (Resigned on 15 February 2006)
- 7) Joshua Kituri
- 8) Balooobhai Patel
- 9) Jeremy Rowse (Resigned on 15 February 2006)
- 10) Heinie Werth (Appointed on 28 April 2006)*

*Alternate is Robert Dommissie appointed on 9 November 2006

- In accordance with the Company's Articles of Association John P N Simba retires by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-election.
- In accordance with the Company's Articles of Association, Heinie Werth retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election.
- Joshua Kituri has advised the Company of his intention to retire at the forthcoming Annual General Meeting. Consequently he will not offer himself for re-election.

Auditors

Since the last Annual General Meeting, PricewaterhouseCoopers resigned from office and in accordance with section 159(6) of the Company's Act (Chapter 486 of the Laws of Kenya), the Board of Directors appointed Ernst & Young as auditors. Ernst & Young have indicated their willingness to continue in office.

Andrew Greenwood

Chief Executive

22 March 2007



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PROFILE OF THE DIRECTORS



John P N Simba (62)
(Chairman)

Appointed to the Board in December 2001

Appointed as Chairman in March 2002

Occupation: Lawyer, Partner in Simba & Simba, Advocates

Professional Qualification: Advocate of the High Court of Kenya

Skills: Bachelor of Law (University of Dar-es-Salaam)

Other Relevant Chairmanships: APA Insurance Limited

Relevant Directorships: Pan Africa Life Assurance Limited and other subsidiaries within the Pan Africa Insurance Group of Companies.



Andrew Greenwood (42)
(Chief Executive)

Appointed to the Board in December 2000

Occupation: Chief Executive – Pan Africa Life Assurance Limited

Professional Qualifications: Chartered Accountant (SA) Chartered Accountant (Aus)

Skills: Certificate in the Theory of Accountancy (University of Cape Town), COP (IISA), Dip.

Retirement Funds Management

Relevant Directorships: Pan Africa Life Assurance Limited, Chairman of the Life Insurance Council & Deputy Chairman of the Association of Kenya Insurers; Board member Policyholders Compensation Fund.



John Burbidge (57)

Appointed to the Board in April 2000

Occupation: Executive Director - International, African Life Assurance Limited

Professional Qualifications: ACA (England & Wales), Chartered Accountant (SA)

Relevant Directorships: African Life Assurance Company Limited, Pan Africa Life Assurance Limited and a number of subsidiaries within the African Life Group of Companies.



Margaret Dawes (50)

Appointed to the Board in March 2005

Occupation: Executive Director - Finance, African Life Assurance Limited

Professional Qualifications: ACA (England & Wales), Chartered Accountant (SA)

Skills: Higher Diploma in Tax Law (University of the Witwatersrand)

Relevant Directorships: African Life Assurance Company Limited, Pan Africa Life Assurance Limited and a number of subsidiaries within the African Life Group of Companies.

**James Gitohi (51)**

Appointed to the Board in December 2001

Occupation: Architect

Professional Qualification: Registered Architect

Relevant Directorships: Pan Africa Life Assurance Limited and subsidiaries in the Pan Africa Insurance Group of Companies

**Joshua Kituri (60)**

Appointed to the Board in July 1994

Occupation: Area Manager, East African Region, Intertek Testing Services, Caleb Brett

Skills: Bachelor of Arts Degree in Business Administration (University of East Africa)

Relevant Directorships: Pan Africa Life Assurance Limited and a number of subsidiaries within the Pan Africa Insurance Group of Companies.

**Balooobhai Patel (68)**

Appointed to the Board in December 2001

Occupation: Managing Director, Transworld Safaris Limited

Relevant Directorships: Pan Africa Life Assurance Limited, and subsidiaries in the Pan Africa Insurance Group of Companies

**Hernie Werth (43)**

Appointed to the Board in April 2006

Occupation: Chief Executive, Sanlam Developing Markets

Professional Qualification: Chartered Accountant (SA)

Skills: EDP (Manchester Business School), MBA (University Stellenbosch) Cum Laude, Hons B (B & A) (University Stellenbosch) Cum Laude, Hons B. (Accountancy), B. Accountancy (University Stellenbosch) Cum Laude

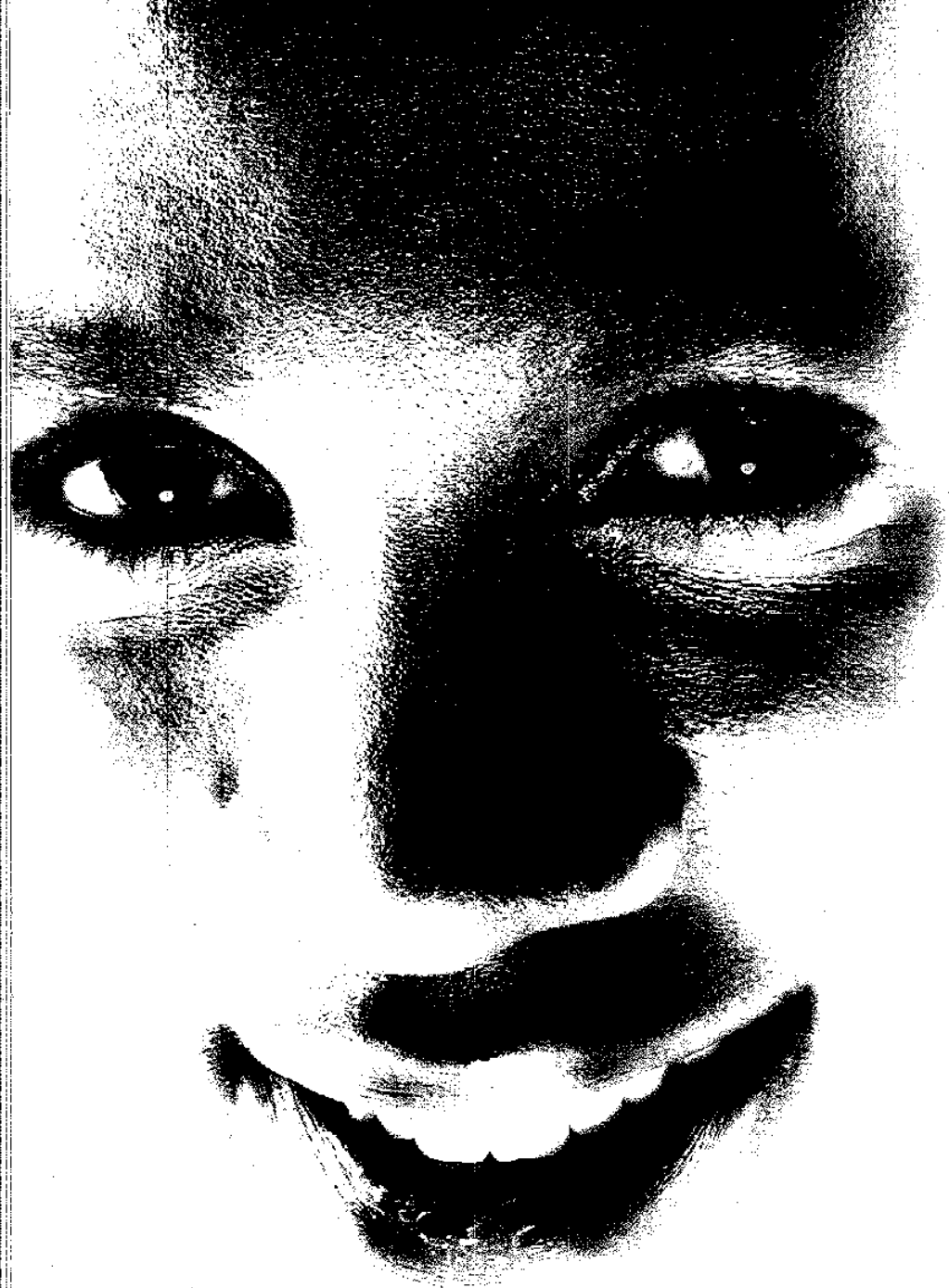
Relevant Directorships: Pan Africa Life Assurance Limited, subsidiaries within Sanlam Limited, and subsidiaries within the African Life Group of Companies

Robert Domisse (38) - Alternate to Heinie Werthe

Occupation: General Manager - Structural Growth at Sanlam Limited

Professional Qualifications: Chartered Accountant (SA)

Skills: MBA (Stellenbosch University)



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CHAIRMAN'S STATEMENT

Economic Environment

Global Economy

The global economic recovery that began in 2002 has continued. This was largely driven by consumer spending and international trade. The US Dollar weakened in 2006 shedding 11% and 13% against the Euro and Sterling Pound respectively. There are various factors that contributed to this including the prospect of decelerating economic activity, contained inflation, narrowing interest rate differentials between Europe and the US and the lingering threat of foreign reserve exchange diversification by cash rich Asian central banks. In the global financial markets, equities continued their strong rally that began in July 2006 until the end of the year and the Dow Jones Index was up 16% to hit record levels.

African Economy

African economies grew by 4.8% in 2006 but are expected to grow by 6% in 2007. The growth will be supported by the oil exporting countries, subsiding political risks in a number of countries, increased interest of foreign direct investors, increased activity in the stock markets and contained inflation in many countries.

However, African countries face several constraints to the medium term growth of their economies. One constraint is the rise in world interest rates that will increase the cost of debt servicing. The United States and other major industrial countries continue to pursue their 'prudent' tightening of monetary policy by raising short term interest rates. This, in turn, raises the cost of external debt service thereby dampening the growth of African countries.

Drought remains a threat to agricultural production. Agricultural production will continue to be severely affected by climatic shocks (droughts, floods, desertification etc) and African countries need to invest in strategies for managing climate risk so that they are better prepared.

The HIV/AIDS pandemic remains a threat to labour supply and productivity and African countries must invest in preventative and educational programmes to fight the spread of HIV/AIDS and also create jobs for those employed under these programmes.

Private sector growth is hampered by insufficient or inadequate public infrastructure and unreliable energy supplies. The infrastructure must be improved to enable African economies to unlock the values of the private sector, increase access to social services and markets for the poor. This should be an important agenda for any poverty eradication plan.

Finally, and in my view, African economies should make it a policy to intensify efforts at regional integration. This is key to expanding trade opportunities and increasing our continent's leverage in world trade negotiations.

Kenyan Economy

GDP grew by about 6% (compared to 5.8% in 2005) in very positive economic conditions. Interest rates have decreased during the year despite an overall increase in annual average inflation of 14.5%. The Kenya Shilling remained relatively stable throughout the year gaining 5 points against the US Dollar. Although 2007 is an election year, it is expected that the crucial role of proper economic management will retain its importance for the Government.

Business Environment

Key sectors of our economy remained strong in 2006: tourism (grew by 20%), building and construction (cement consumption grew by 9%), transport and telecommunications (grew by 12%). The NSE share index recorded growth of 42.9% for the year to reach 5,645.7 on 31 December 2006. New equity listings and corporate actions ignited immense interest in the stock market. Market capitalisation increased by 71.2% to stand at KShs. 791.9 billion up from KShs.462.5 billion. The trend of strong corporate earnings continued to support the stock market. The Group's investment performance benefited, particularly, from this.

Corporate Governance

Globally, numerous high profile corporate financial scandals and ensuing business failures that cost investors and employees billions of dollars have called into question the honesty and integrity of corporate boards and executive management. In America there was the corporate frauds illustrated by Enron, Worldcom and Tyco; in Europe there were the scandals with Vivendi and Parmalat for example. Given these incidents

CHAIRMAN'S STATEMENT *cont.*

from other countries, corporate governance is gaining more credence in Kenya. More companies - both listed and unlisted - are encouraging their directors to attend corporate governance training sessions to equip them with the necessary knowledge; firstly on what their obligations and responsibilities as directors are and; secondly on how best to handle those obligations and responsibilities. The directors of the Group are awake to these developments and, as stated below, endeavour at all times to embrace best practice.

Reporting Standards

Studies show that the majority of corporate frauds are perpetrated through withholding of information from shareholders, depositors and regulatory authorities or by presentation of misleading information by corporate executives. For this reason the full disclosure of corporate governance structures, policies and practices are key assurances to investors that a company is well governed. Pan Africa has various standards for reporting:

- **Financial Reporting** in accordance with the International Financial Reporting Standards;
- **Risk Management Reporting** in accordance with the standards and guidelines of the Audit & Risk Committee;
- **Corporate Governance Reporting** in accordance with the CMA's 'Principles of Corporate Governance' and other statutory/regulatory requirements;
- **Subsidiary / Associated Companies / Board Committees** report every quarter to the holding company, Pan Africa Insurance Holdings Limited;

Statement of Corporate Governance

Our annual reports (including this current edition) contain our statement of corporate governance. As a publicly listed company, Pan Africa complies with the Capital Markets Authority 'Guidelines on Corporate Governance'. The Group is also part of the African Life Assurance Company Limited Group which has shared its knowledge and experience in this area. This Board has taken it upon itself to adopt even more stringent corporate governance standards. The nature of our business demands this.

New Policies

In 2006, the Board introduced several policies designed to improve our corporate governance standards: Self evaluation of the board by its members at least once a year; a Risk Management Policy; a Code of

Ethics; a Gift Policy; a Financial Crime Combating Policy; and a Zero Tolerance Approach to financial crime. Further details of these policies are contained in our corporate governance statement. Suffice it to say that as Chairman and speaking for the Board we are confident that the information that is not only disclosed by our management team to the Board but also the information disclosed by the Board to its investors, regulators and the public gives a true and fair picture of the operations and performance of the Group. This Board will continue to be more accountable to our shareholders and stakeholders.

Changes to the Board

Craig Harding and Jeremy Rowse resigned from the Board in February 2006. Heinie Werth joined the Board in May 2006. As the Chief Executive for Sanlam Developing Markets and Chief Executive for the African Life Group, Heinie brings to the Board significant expertise and experience in life insurance. Our longest serving board member, Joshua Kituri, has indicated that he will retire from the Board at the annual general meeting.

Group's Performance

The Group grew its profit after tax by 155% to KShs 450.3 Million in 2006. The Group also had a good year on the Nairobi Stock Exchange seeing its market capitalization improving to KShs 4.392B (2005: KShs 1.92B) and basic earnings per share also improving to KShs 9.38 (2005: KShs 3.68). These results are encouraging and illustrate the Group's continued improvement in performance over the last five years.

Note of Appreciation

Together with the Board of Directors I would like to extend my deepest thank you to Craig Harding, Joshua Kituri and Jeremy Rowse for their contribution to the Board. For the members of the Board, I thank them for their commitment to attending and actively participating at board meetings. Management and staff members are encouraged to continue driving the business of the Group and their efforts in enhancing the Group's performance is appreciated. I pay tribute to our shareholders who have invested in the Group and have encouraged us to raise our corporate governance standards. Finally, to our customers, I thank them for supporting the Company and playing a key role in its successful performance in 2006. Your needs remain our priority.

John P N Simba, MBS OGW

Chairman

22 March 2007



TAARIFA YA MWENYEKITI

Mazingira Ya Kiuchumi

Uchumi Ulimwenguni

Ufufuaji wa uchumi ulimwenguni ulioanza mwaka 2002 uliendelea katika mwaka 2006. Hali hii ilisababishwa zaidi na jinsi wanunuzi walivyotumia pesa na pia biashara ya kimataifa. Dola ya Marekani ilipunguka thamani mwaka 2006 kwa kuteremka na asilimia kumi na moja na asilimia kumi na tatu dhidi ya Euro na Paundi Ya Uingereza mtawalia. Kuna sababu nyingi zilizochangia haya. Kati ya sababu hizo ni juhudi ya kupunguza shughuli za kibiashara, kudhibitiwa kwa uongezekaji wa gharama za maisha, upungukaji wa tofauti kati ya viwango vya riba vya Ulaya na vile vya Marekani na pia vifitisho vya muda mrefu vya Benki Kuu tajiri za Asia kutaka kubadilisha kuwa pesa tasilimu akiba zao za pesa za kigeni tofauti tofauti. Katika masoko ya pesa ulimwenguni, hisa zilididisha mashindano yao yaliyoanza mwezi Julai 2006 hadi mwisho wa mwaka ambapo nambari faharasa ya Dow Jones iliongezeka na ikaweka rekodi ya asilimia kumi na sita.

Uchumi Ya Afrika

Uchumi ya Afrika uliongezeka kwa asilimia nne nukta nane lakini unatazamiwa kukua kwa asilimia sita katika mwaka 2007. Oongezeko hili litasababishwa na nchi zinazouza mafuta nchi za nje, upungukaji wa hatari za kisiasa katika nchi nyingi, oongezeko la riba kwa watega uchumi wa kigeni, kuongezeka kwa shughuli katika masoko ya hisa na kudhibitiwa kwa oongezeko la gharama za maisha katika nchi nyingi.

Hata hivyo, nchi za Afrika zinakumbwa na vikwazo vingi katika kuendelea uchumi wao kwa angalao viwango vya wastani. Kikwazo kimoja ni kuongezeka kwa viwango vya riba ulimwenguni ambavyo hatimaye huongeza gharama za kulipia madeni. Marekani na nchi nyingine zenye viwanda vikubwa zinaendelea kutia vikwazo katika taratibu za sera za kifedha kwa kuongeza viwango vya riba ya mikopo ya muda mfupi. Hali hii inaongezeka gharama za kulipia mikopo ya kutoka nchi za nje, na hivyo basi kusababisha kuzorota kwa maendeleo ya nchi za kiAfrika.

Ukame bado umebaki kuwa tishio kubwa katika uzalishaji wa kilimo. Uzalishaji wa kilimo utaendelea kuathirika zaidi kutokana na mabadiliko ya ghafila ya hali ya hewa (ukame, mafuriko, kuenea kwa majangwa n.k.); kwa hivyo, nchi za Afrika zinatafikana kujipangia mikakati ya kukabiliana na hatari za hali ya hewa ili ziwe ziko tayari wakati zinapotokea.

Janga la Ukimwi (HIV/AIDS) linaendelea kuwa tishio katika upatikanaji wa wafanyi kazi na pia uzalishaji kazini. Ni lazima nchi za kiAfrika zigharamike katika kuandaa mipango ya jinsi ya kujikinga na kutoa mafunzo ya kupambana na kuenea kwa Ukimwi (HIV/AIDS), na pia kubuni nafasi za ajira kwa wale watakaofanya kazi katika mipango hii.

Uendelezaji wa sekta ya waekezaji wa kibinafsi unaathiriwa na miundo msingi haba au isiyotosha pamoja na ukosefu wa uhakika wa upatikanaji wa umeme. Ni lazima miundo msingi iboreshwe ndio uchumi wa Afrika uweze kuzikwamua thamani za sekta ya waekezaji wa kibinafsi, kuongezeka uwezekano wa kuzifikia huduma za kijamii na hata masoko ya wale watu masikini. Hii inatafikana iwe ajenda muhimu sana katika mpango wowote wa kuondoa umaskini.

Nikimalizia, kwa maoni yangu, uchumi wa Afrika lazima uifanye kuwa sera, taratibu za oongezaji ushirikiano katika eneo hili. Jambo hili ni muhimu sana katika kupanua nafasi za biashara na pia kuongezeka uwezo wa ushawishi wakati wa mazugumzo ya kibiashara ulimwenguni.

Uchumi Kenya

GDP (mapato ya nchi) iliongezeka kwa karibu asilimia sita (ukilinganisha na asilimia tano nukta nane katika mwaka 2005) kwa sababu hali ifirishisha kiuchumi. Mwaka huu viwango vya riba vilishuka; hata ingawa kwa ujumla, kwa mwaka mzima, gharama za maisha ziliongezeka kwa asilimia kumi na nne nukta tano. Shilingi ya Kenya ilikuwa imara katika kipindi chote cha mwaka ndio maana ikaongezeka pointi tano dhidi ya dola ya Marekani. Uchaguzi mkuu unaotazamiwa kufanyika mwaka 2007 unaweza kwa kiasi fulani kuathiri uchumi wa nchi hii; ijapokuwa kwa kiwango kikubwa, inaaminika kwamba, tayari wafanyi biashara wamelitilia suala hili maanani katika mipango yao. Hata hivyo, pia inatarajiwa kuwa serikali italitilia maanani jukumu lake muhimu la kusimamia vyema shughuli za uchumi.

Soko La Hisa

Sekta muhimu za uchumi wetu ziliendelea kuwa imara katika mwaka 2006: utalii (uliongezeka kwa asilimia ishirini), ujenzi (utumiaji wa simiti uliongezeka kwa asilimia tisa), usafiri na mawasiliano (uliongezeka kwa asilimia kumi na mbili). Mwaka huu, nambari faharasa ya NSE (Soko la Hisa la Nairobi) iliongezeka kwa asilimia arobaini na mbili nukta moja ambapo hadi tarehe 31 Desemba 2006 ilikuwa imefikia elfu tano mia sita arobaini na tano nukta saba. Uanikiswaji wa hisa mpya pamoja na kujihusisha kwa makampuni au mashirika kumekuwa kivituo kikubwa kwenye soko la hisa. Rasimali ya soko iliongezeka asilimia sabini na moja nukta mbili na ika fikia shilingi bilioni mia saba tisini na moja nukta tisa, ikiwa imeongezeka kutoka shilingi bilioni mianne sitini na mbili nukta tano. Matokea ya mapato mazuri kwa makampuni yaliendelea soko hili la hisa. Kutokana na sababu hii, matokea ya uekezaji kwa Kundi la Makampuni ya mmiliki mmoja ulifaidika sana.

Usimamizi wa Makampuni

Kashfa nyingi na za hali ya juu kuhusu pesa za makampuni pamoja na kuendelea kufilisika kwa mabiasara kote ulimwenguni, ambako kumewagharimu watega uchumi na wafanyi kazi wao mabilioni ya dola,

TAARIFA YA MWENYEKITI *Kufuliza*

kumezua maswali mengi kuhusu uaminifu na uadilifu wa bodi za wakurugenzi wa makampuni na pia mamaneja wasimamizi. Nchini Marekani kumekuwa na udanganyifu katika makampuni kama vile Enron, Worldcom na Tyco. Huko Ulaya kashfa pia zimetokea; kwa mfano, katika kampuni za Vivendi na Parmalat. Tukichua mifano hii kutoka nchi nyingine, usimamizi wa makampuni unazidi kuaminika nchini Kenya. Makampuni mengi – yaliyo orodheshwa nayale ambayo bado hayajaorodheshwa – yanawahimiza wakurugenzi wao kuhudhuria vikao vya mafunzo ili waweze kupata ujuzi unaohitajika. Kwanza, waweze kujua ni nini wajibu na majukumu yao kama wakurugenzi; na pili, jinsi wanavyoweza kuutekeleza wajibu na majukumu hayo. Wakurugenzi wa kampuni zetu wanajua kuhusu maendeleo haya; na kama inavyoelezewa hapa chini, wakati wote wao hupendezwa na utendaji mzuri.

Viwango vya Kuripoti

Uchunguzi umedhihirisha kwamba udanganyifu mwingi katika makampuni unafanyika kwa makosa ya kutotaa jabari kwa wenye hisa, waweka akiba na halmashauri zinazo simamia utendaji; au kwa uwasilishwaji wa taarifa potofu ni wakurugenzi wa makampuni. Kwa sababu hii, mpangilio, sera na utendaji katika usimamizi wa makampuni ni lazima ujulikane waziwazi ili waekezaji wahakikishe kwamba kampuni hiyo inasimamiwa vizuri. Pan Africa ina viwango aina tofauti tofauti vya kutolea ripoti:

- Ripoti Ya Fedha ambayo hutayarishwa kulingana na International Financial Reporting Standards (Viwango vya Kimataifa vya kutolea Ripoti za Kifedha);
- Ripoti Ya Usimamizi wa Bima ambayo hutayarishwa kulingana na viwango na mwongozo wa Audit & Risk Committee (Kamati ya Ukaguzi wa Hesabu na Bima);
- Ripoti Ya Usimamizi wa Kampuni au Shirika ambayo hutayarishwa kulingana na CMA's "Principles of Corporate Governance (Kanuni za CMA kuhusu Usimamizi wa Makampuni);
- Ripoti za Kampuni Tanzania/Kampuni Shirika/Kamati ya Bodi hutayarishwa kila robo ya mwaka na kuwasilishwa kwa Kampuni mmiliki, yaani, Pan Africa Insurance Holdings Limited.

Taarifa ya Usimamizi wa Kampuni

Katika ripoti zetu za mwaka (pamoja na hii ya sasa) huwa muna taarifa kuhusu usimamizi wa kampuni. Ikiwa kampuni iliyo orodheshwa kwa umma, Pan Africa hufuata "Mwongozo wa Usimamizi wa Makampuni" ("Guidelines on Corporate Governance") uliotayarishwa na Capital Markets Authority. Kundi hili la makampuni ni sehemu ya kundi la makampuni ya African Life Assurance Company Limited ambayo imetuchangia kwa kutupa ufahamu na ujuzi wake katika kazi hii. Bodi ya wakurugenzi imechukua jukumu la kupanga taratibu zenye vizingo thabiti vya usimamizi wa kampuni. Biashara tunayofanya inahitaji mipango kama hii.

Sera Mpya

Katika mwaka wa 2006, Bodi ya Wakurugenzi ilianzisha sera tofauti tofauti ambazo zilikuwa na lengo la kuboresha viwango vyetu vya usimamizi wa kampuni: wanachama wa bodi wathimini bodi yao

angalao mara moja kwa mwaka, Mfumo wa Maadili, sera ya kupambana na uhalifi unaohusiana na fedha, na Mtazamo wa Kutovumilia kabisa uhalifi unaohusisha fedha. Habari zaidi kuhusu sera hizi ziko katika taarifa yetu kuhusu usimamizi wa kampuni. Mimi kama Mwenyekiti na nikiongea hapa kwa niaba ya Bodi ya wakurugenzi, ninaridhika nikisema kwamba nina hakika ya kuwa sio tu taarifa iliyopewa Bodi ya wakurugenzi ni timu yetu ya wasimamizi, bali hata taarifa iliyotoka kwa Bodi ya wakurugenzi na kupewa waekezaji, wadhibiti mipangilio na umma, inaelezea ukweli wa utendaji na utekelezaji wa Kundi la makampuni yetu. Bodi ya wakurugenzi itaendelea kuwajibika kuwatumikia wenye hisa na washika dau.

Mabadiliko ya Bodi ya Wakurugenzi

Mabwana Craig Harding na Jeremy Rowse walijiuzulu kutoka bodi mnamo Februari 2006. Mwezi Mei 2006, Heinie Werth alijiunga na bodi akiwa ndiye mkurugenzi wa Sanlam Development Markets na pia Africa Life Group. Heinie ameiongezea bodi ustadi na ujuzi mkubwa katika maswala ya bima ya maisha. Ijapokuwa anaweza kuchaguliwa tena, mwanachama wa bodi yetu ambaye ametumikia kwa muda mrefu zaidi - Bw. Joshua Kituri amesema kwamba atajiuzulu kutoka kwa bodi wakati wa mkutano huu wa mwaka.

Utendaji wa Kundi la Makampuni Yetu

Baada ya kutozwa kodii, faida ya makampuni yetu iliongezeka kwa asili mia moja hamsini na tano na ikafikia shilingi milioni mia nne na hamsini nukta tatu katika mwaka 2006. Makampuni yetu pia yalikuwa na mwaka mzuri katika soko la hisa la Nairobi (Nairobi Stock Exchange) ambako rasimili yao iliongezeka hadi kufikia shilingi milioni elfu nne mia tatu tisa na mbili (mwaka 2005 ilikuwawashilingi elfu moja mia tisa na ishirini), pia mapatano ya chini kabisa kwa kila hisa yaliongezeka na kuwa shilingi tisa nukta tatu nane (mwaka 2005 ilikuwa shilingi tatu nukta sita nane). Matokeo haya yana tia moyo na yanadhihirisha jinsi makampuni yetu yanavyoendelea kuboresha utendaji wake katika kipindi cha miaka mitano iliyopita.

Ujumbe wa Shukurani

Pamoja na bodi ya wakurugenzi, mimi ningependa kutoa shukurani zangu za dhati kwa Craig Harding, Joshua Kituri na Jeremy Rowse kwa mchango wao kwa bodi. Kwa wanachama wa bodi, nawashukuru wote kwa kujitolea kwa kuhakikisha kwamba wanahudhuria na kujihusisha kikamilifu wakati wa mikutano ya bodi. Mamaneja na wafanyi kazi wote wanashauriwa waendeleo kuziendeleza biashara za makampuni yetu zinafurahiwa. Pia, natoa shukurani kwa wanahisa wetu ambao wameekeza uchumi kwenye makampuni yetu na wakatupa moyo wa kuviboresha viwango vyetu vya usimamizi wa makampuni haya. Mwisho kabisa ni kwa wateja wetu, nawashukuru wote kwa kuiunga mkono kampuni hii na kuchangia pakubwa katika mafanikio ya utendaji yaliyopatikana mwaka 2006. Mahitaji yetu bado yanabaki kuwa kipaumbele kwetu.

John P N Simba, MBS OGW

Chairman

22 Machi 2007

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CHIEF EXECUTIVE'S STATEMENT *cont.*

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 31 of the report.

Total Group embedded value as at 31 December 2006 stands at KShs 2,380 million, an increase of 58% over the prior year. After allowing a fair value adjustment for undeveloped land owned by the group amounting to KShs 246 million, the year on year increase in embedded value amounts to 42%. In 2006, the return on embedded value, measured by embedded value earnings over the opening embedded value, grew by 62%. The value of in-force business, at KShs 806 million, represents growth of 40% when compared with 2005 with the growth primarily being generated by our corporate line of business.

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. As part of the process of maintaining the highest standards of corporate governance, the Pan Africa Insurance Group will continue to publish its embedded value report and currently remains the only insurer to do so. 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

In 2005, 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. Parliament passed the Insurance (Amendment) Act, 2006, which encompasses the creation of the Insurance Regulatory Authority out of the Department of Insurance in the Ministry of Finance. The industry has welcomed this move as it is believed that the Authority better protect policyholders by regulating and controlling insurers and this, in turn, will create greater awareness and confidence in the insurance industry. Hence, it is felt that the Authority will stimulate growth in the sector. The Authority is expected to come into operation in the second half of 2007.

A less positive amendment to the Insurance Act in 2006 now enables agents to write insurance business for any number of principals. Not only does this contradict common law practice but also has the potential to substantially dilute the efforts taken by the Company and other leading insurers to raise the standards of professionalism of the agents in their field force referred to earlier. The Company, through the Association of Kenya Insurers, is lobbying very strongly for a return to the original legislation restricting an agent to sell insurance business for one principal only.

While a Parliamentary committee has been established to review the 1984 Insurance Act, there has regrettably been little dialogue between this committee and the industry to discuss proposed changes to the legislation. The Association of Kenya Insurers and Association of

Insurance Brokers of Kenya have worked hand in hand to develop position papers on proposed amendments and we anticipate progress in this area during the remainder of 2007.

After three years of being presented as a bill without it being passed by parliament, the HIV/AIDS Prevention and Control Act, with minor amendments, ultimately received assent on 30th December 2006. There are a number of very noteworthy principles within the Act aimed at preventing discrimination against those suffering from HIV/AIDS, guaranteeing privacy regarding one's HIV status and promoting public awareness of and prevention and control of HIV/AIDS. Regrettably, however, the Act may well impose unfair trade restrictions on the insurance industry by compelling insurers to accept insurance risks in instances where an insurer may well have declined to offer cover to prospective customers but for the provisions of this Act. Considerable dialogue will be required between the industry and regulators to clarify these provisions of the legislation.

Prospects

2006 will be remembered as a groundbreaking year where the Group took major steps to raise the quality of sales agents, improve the standards of the sales process, simplify the structure of insurance products and wording of insurance contracts, improve and expand on our customer service functionality and create a far greater awareness of the needs for and benefits of life insurance. The benefits of seeing the quality of new business sales improve dramatically and the higher levels of policy retention for existing business justify the significant investment made in this exercise. Pan Africa Life is strongly positioned to continue capitalising on this investment into 2007. A range of new individual life products will be launched in the New Year to compliment our existing suite of products. Our Corporate Business division is similarly well positioned to leverage off the strong relationships built with intermediaries and other financial institutions to tap further into the bancassurance and other markets that have demonstrated enormous growth potential in the last year.

While the results of other aspects of the group's business have benefited considerably by unparalleled gains on the NSE in recent years, market corrections are predicted in 2007 where investor cautiousness is traditionally exercised during an election year. Nevertheless, investment flows from other channels together with the continued improvements in underwriting performance anticipated from associate company APA Insurance are expected to maintain the growth trend in operational performance from these other lines of the Group's business.

Andrew Greenwood
Chief Executive
22 March 2007

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CHIEF EXECUTIVE'S STATEMENT

Highlights of Performance

The Pan Africa Insurance Holdings Group again produced impressive results in 2006 led by strong growth in the Life insurance sector, the Group's principal activity. Total income increased by 34%. Gross premium income from life insurance business of KShs 1.4 billion represents a 20% increase over the prior year with new business premium income growing by 35%. This growth has been achieved while recurring expenditure (commission and operating expenses) has been contained to an increase of less than 7% over 2005. The surplus for the year, driven strongly by the operating performance of Pan Africa Life, which produced an operating surplus of KShs 201 Million (2005: Nil) and of the investment markets, notably the Nairobi Stock Exchange, has increased by 155% to KShs 450 Million.

Individual Life Business

The sale of individual life assurance policies is our core business and in 2006 our premium income from this source amounted to KShs 1 billion, representing 22% growth over 2005. In 2005 Pan Africa Life embarked on a major exercise of raising sales standards within our agency field force and this process was enhanced in 2006. Thus, through a more rigorous recruitment process, greater levels of training and education prior to issuing agents with sales licences, additional sales procedures for the level of disclosure at the point of sale to ensure affordability for the customer and to ensure that the right product is selected to meet the client's needs, greater requirements for documentation collection to verify authenticity and the introduction of a compliance monitoring unit we have seen significant improvements in the quality of sales made with a consequential improvement in take up and persistency rates for new business. Thus the company has successfully and profitably grown its book of business in 2006.

The launch of our Kinga Halisi product in 2006, an accidental death policy with a range of very attractive rider benefits, has been extremely well received by the market and has exceeded sales expectations for the year. We expect the product to make an important contribution to sales in future, contributing to the range of life products already offered to the market by Pan Africa Life. The company remains the only life insurer 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.

During the year all of the company's 12 branches were linked to the Head Office life administration system via a lease line, wider area network. Not only has this improved the quality of new business capture and underwriting but we are now able to offer better service to customers at the branches using these facilities to access the central customer database remotely. We aim to enhance these facilities in 2007 with the ultimate objective of being able to service customers at the branches with

the same level of functionality as that used in our Customer Service Centre in Nairobi.

2006 also saw the introduction of contact with customers via the use of SMS technology. This has proved an efficient alternative to the traditional methods of communicating to customers via mail or landline telephone. In addition, customers can make enquiries regarding a number of matters relating to their policies by sending an sms to the company. This, too, has proved to be a very popular and efficient manner in which to deal with customers queries.

Diversification of our sources of business as a means of reducing the risk of being exposed to one major source of business is a key strategy for the company and we exceeded our targets for writing business in non-traditional markets. In addition, we have seen considerable improvements in the level of take up rates and premium collection from banks and private institutions compared with prior years. This has contributed significantly to the embedded value of our book of business.

Pan Africa Life's three major individual life product offerings, the Wealth Provider, Family Finance Plan and Kinga Halisi continue to provide attractive benefits for our chosen markets. The range will be complemented by additional products and benefits in 2007.

Corporate Business

Corporate Business includes Group Life Assurance, Group Mortgage Protection, Group Credit, Group Last Expense and Group Disability Insurance. Pension Administration is also managed by this business segment. In 2006, Corporate Business has again made a large contribution to the results of Pan Africa Life. Gross premium income of KShs 380 million is 13% up on the previous year. We retained most major schemes and continued to grow our most profitable lines of business. 18 new schemes with a premium income of KShs 39m were added to our portfolio during the year, a commendable achievement considering the highly competitive nature of the group risk market in the country. Group credit premium income grew by 54% and the company has established itself as the leader in bancassurance in Kenya, with the major international and some local banks choosing Pan Africa Life as their lead insurer for this line of business. Our success in this line continues through the provision of innovative, competitively priced products while maintaining outstanding service standards and response times to clients and intermediaries.

Group Investment Income

Investment and other income has increased by 59% over 2005 to KShs 854 Million. KShs 72 Million, representing 78% of the realised investment surplus for the year, stems from the sale of residential plots in Runda Estate, Nairobi. Another year of exceptional growth in the Nairobi Stock Exchange index was the main driver of very favourable investment returns with investment and other income increasing by 60% over 2005.

**CHIEF EXECUTIVE'S STATEMENT** *cont.*

However, KShs 539 million, representing 62% of total group investment and other income, is unrealised. With the expectation of a market correction to the current pricing of NSE counters, a cautionary approach will be exercised on further NSE share acquisitions for the group portfolio. The lack of alternative suitable investment avenues in the country have again heightened the need for a review of the restrictive investment legislation imposed on insurers by the Insurance Act. The company, through the Association of Kenya Insurers, will continue to lobby for amendment to the Insurance Act to allow for broader investment opportunities that will enable the industry to compete on a level footing with other players in the financial services sector where investment regulation is less restrictive.

Overall investment returns were reduced by provisions amounting to KShs 67 million relating to the property portfolio as a number of the properties within the portfolio require refurbishment in order to meet the Group's required quality standards. The Group will continue to review opportunities to compliment it's property portfolio, with some exciting new prospects being investigated for the remaining undeveloped commercial and residential land owned by the Group in Runda Estate, Nairobi, being considered for 2007. Key to any future developments will be the objective of holding a mix of assets that matches the underlying Group liabilities to policyholders and other creditors.

Group Expenses

While total income has increased by 34%, recurrent expenditure, represented by commission and operating expenses, has increased by less than 7% 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.

The Group results continue to be affected by historical issues arising from the general insurance business previously undertaken by Pan Africa General Insurance Limited. Provision has been made for expenses, potential claims and other liabilities arising from this business which amounts to KShs 112m (2005: KShs 27m). 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 & Life Funds

Total benefits to policyholders during the year before recoverable amounts

from reinsurers amounted to KShs 951 million, an increase of 12.5% over 2005, while Life Funds grew by 25.5% to KShs 2.6 billion, largely reflecting the positive investment returns that have been passed on to policyholders together with the level of growth in business volumes. A simple reversionary vesting bonus of 2.5% (2005: 2.5%) together with an annually reviewable simple non-vesting bonus of 3.5% (2005: 2.5%) has been recommended for individual life with-profit policyholders. For Deposit Administration schemes, an interest declaration of 12.5% (2005: 11%) has been recommended for the year under review.

Subsidiary and Associated Company Performance

Pan Africa Insurance Holding's other wholly-owned subsidiary, PA Securities Limited, is essentially an investment vehicle with the principal asset being a 39.97% shareholding in general insurer APA Insurance Limited ("APA").

The Nairobi Stock Exchange share index recorded growth of 42.9% for the year and, as for the previous year, this primarily contributed to the very positive results of APA. General insurance premiums written by APA exceeded a milestone KShs 2 billion in 2006. APA recorded a modest underwriting profit of KShs 10 million compared with an underwriting loss of KShs 21 million in 2005. After bringing to account investment and other income, APA recorded a profit after tax of KShs 794 million of which our share of earnings amounts to KShs 317 million. 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.

Mae Properties produced a loss of KShs 8 million in the year. The net assets of the company were merged with those of the holding company, Pan Africa Insurance Holdings Limited, in the second half of the year as part of a restructuring plan to create greater group operational efficiencies. It is our intention to wind down the operations of Mae Properties and to deregister the company in 2007.

Embedded Value

The Company has, for the third consecutive year, reported the embedded value and the value of new business of the 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 2006. The in-force book of business is valued by computing the present

CHIEF EXECUTIVE'S STATEMENT *cont.*

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Andrew Greenwood
Chief Executive
22 March 2007



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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 13 June 2007 at the Hilton Hotel at 11.00 am to transact the following business:

1. To confirm the minutes of the previous annual general meeting held on 12 May 2006.
2. To receive the audited financial statements for the year ended 31 December 2006 and the reports of the Chairman, the Chief Executive, the Directors, the Auditors and the Statutory Actuary.
3. To declare a dividend.
4. To elect directors:
 - 4.1 In accordance with the Company's Articles of Association John P N Simba retires by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-election.
 - 4.2 In accordance with the Company's Article of Association, Heinie Werth retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election.
 - 4.3 Joshua Kituri has advised the Company of his intention to retire at the forthcoming Annual General Meeting. Consequently he will not offer himself for re-election.
5. To fix the remuneration of the directors.
6. To appoint auditors.
7. To authorise the directors to fix the remuneration of the auditors.
8. To transact any other business with the permission of the Chair for which 48 hours notice had been given to the Company Secretary at the registered office of the Company.

Note:

- A shareholder entitled to attend and vote may appoint a proxy, who need not be a member of the company, to attend and vote on his or her behalf.
- A detachable form of proxy is provided at the end of this report. To be valid, the duly completed and signed proxy form should be deposited or received at the Company's registered office not later than 48 hours before the start of the annual general meeting.

By Order of the Board

Company Secretary
22 March 2007

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

Ilani inatolewa kwamba mkutano mkuu wa mara ya sitini na moja wa kampuni ya Bima ya Pan Africa Insurance Holdings Limited, tarehe 13 Juni, 2007, saa tano (11.00 am) katika hoteli ya Hilton kwa shughuli rasmi zifuatazo:

1. Kuthibitisha kumbukumbu ya mkutano mkuu wa mwaka wa mara ya sitini, uliofanywa tarehe 12 Mei, 2006.
2. Kufikiria na kukubali taarifa za kifedha zilizokaguliwa za kundi hili kwa mwaka ulioisha tarehe 31 Desemba, 2006 na ripoti za mwenye kiti, mkurugenzi, wakaguzi wa hesabu na mtakwimu wa Bima kisheria.
3. Kutangaza mgawo.
4. Kuwachagua wakurugenzi:
 - 4.1 Kulingana na kanuni za kampuni, John P N Simba atastaafu wakati wa Mkutano wa Mwaka unaofuatia na akiwa na haki ya kuchaguliwa, kama atajitolea kuchaguliwa tena.
 - 4.2 Kulingana na kanuni za kampuni, Heinie Werth atastaafu wakati ikiwa, huu ndio Mkutano wake wa kwanza wa Mwaka tangu kuchaguliwa kwenye Bodi, na ana haki ya kuchaguliwa kama atajitolea kuchaguliwa tena.
 - 4.3 Joshua Kifuri amearifu Kampuni kwamba atastaafu wakati wa Mkutano wa Mwaka unaofuatia. Na yeye hatajitolea kuchaguliwa tena.
5. Kuidhinisha malipo ya wakurugenzi.
6. Kuchagua wakaguzi wa hesabu.
7. Kuidhinisha malipo ya wakurugenzi kuamua malipo/ujira wa wakaguzi wa hesabu.
8. Kuendeleza shughuli zozote kwa idhini ya mwenyekiti.

Kumbuka:

- Mwenye hisa aliye na haki ya kuhudhuria na kupiga kura anaweza kumteua mwakilishi ambaye si sharti awe mshiriki wa kampuni, kuhudhuria na kupiga kura kwa niaba yake.
- Fomu ya mwakilishi imewekwa mwisho mwa ripoti hii. Ili kuwa halali, fomu iliyojazwa na kutiwa sahihi ipasavyo yaweza kutumwa au kipokewa kwenye Afisi ya kampuni iliyosajiliwa, masaa arobaini na nane (48) kabla ya kuanza kwa mkutano mkuu wa mwaka.

Kwa Amri ya Halmashauri

Katibu wa Kampuni

22 Machi, 2007

Afisi iliyosajiliwa:

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

SLP 10493, Nairobi 00100

Barua pepe: insure@pan-africa.com

CORPORATE GOVERNANCE REPORT

Principles of Governance

The Board of Directors of Pan Africa Insurance Holdings Limited is committed to developing and implementing policies that entrench ethics, transparency and accountability by Management to the Board, by the Board to its shareholders, and by the Group to its policyholders, customers, regulatory authorities and the government of Kenya. To ensure that it maintains international practice in good corporate governance the Board continually educates itself and learns from measures implemented in South Africa for the good management of listed companies and of insurance companies. In 2006 the Board introduced the following policies to guide the operations of the Group:

1. **Code of Ethics:** this outlines 10 ethical principles that are designed to prevent an employee from engaging in any activity that would raise questions as to the Group's integrity, respect for diversity, impartiality or reputation;
2. **Gift Policy:** this outlines the policy on the acceptance or giving of gifts and is designed to prevent the unfair granting of a benefit or favour;
3. **Financial Crime Combating Policy:** this outlines the policy in combating financial crime and unlawful conduct and provides a framework for which this can be prevented, detected, investigated and ultimately dealt with;
4. **Zero Tolerance Approach:** this outlines the policy that financial crime and unlawful conduct are not tolerated. The zero tolerance approach outlines the consequences to a member of the Group where financial crime and unlawful conduct is proven;
5. **Schedule of Offences:** this describes the instances of 'unlawful conduct' and the prescribed sanction should a member of the Group be found to have transgressed.

Finally, the 'Continuing Obligations' and the 'Principles of Corporate Governance' of the Capital Markets Authority Act are the benchmark by which the Company measures its corporate governance practices.

Self Evaluation

To ensure that it continues to be effective and relevant to the Company, the Board introduced a formal self evaluation process in 2006 as well. This facilitates the Board to review its performance collectively and the performance of the Chairman, Chief Executive and the Company Secretary in the conduct of board matters. The results of this evaluation are discussed and action plans are put in place to strengthen operational processes.

Composition

The composition of the Board is well balanced between executive,

non-executive and independent non-executive directors. For this reason, 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 directors balance this influence.

Responsibilities

The primary responsibility of the Board is to lead and control the Company. The Board meets once every three months 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.

Operations

The diverse skills, experience and professions of the directors enliven the deliberations of the Board. The profiles of the directors are described in page 8 of this Annual Report. By way of summary, the Board benefits from professional knowledge of its members in accounting, architecture, entrepreneurship, insurance, finance, law and management. It is important that the Board has proper information supplied to it 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, particularly, accounting, law, insurance and strategic management.

Remuneration

In remunerating the directors, the Company's policy has been to consider, first, the demands and requirements made on the directors in relation to the business of the Company, second, the availability of the directors for ad hoc consultation, professional and business



CORPORATE GOVERNANCE REPORT *cont.*

counsel as and when the need arises, third, industry and related companies benchmarks, fourth, international experiences such as the bankruptcies of Enron and WorldCom due to conflict of interests at Board level and management, and fifth, the caliber of directors needed to run this Company. The directors have always, are, and will be expected to continue to add value to the business. The financial results indicate that the financial performance of the Company is on upward trend and it is recognised that this, in part, is due to the improvement of the quality of corporate governance at the board level. The directors' fee is annual but the sitting allowances are only paid subject to attendance at the board and/or committee meetings confirmed by the register of attendance. Both the annual fees and sitting allowance are paid on a quarterly basis.

New Appointments to the Board

In 2006 Craig Harding resigned as a director of the Board. The Board identified Heinie Werth as a suitable replacement. As the Chief Executive – Sanlam Developing Markets based in Johannesburg South Africa he brings his significant experiences in managing the operations of a life insurance company. Heinie has appointed Robert Dommissie as his alternate.

Re-Election to the Board

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

Service Contracts and Compensation

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

Disclosure of Interests

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

directors to complete. The Company Secretary is the custodian of these forms.

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 & Risk Committee, Investment Committee and Human Resources Committee. The members of the committees were reviewed in 2006.

Audit Committee

The members of the Audit Committee are described in Table 1 below. In 2006, the Committee reviewed and expanded its charter and introduced, for the first time, an annual plan that details the specific matters that it must discuss at each quarterly meeting. In this way, the Committee ensures that it keeps track of all specific matters affecting the Group. The second change was expanding the Committee's mandate to consider all risks that affect the Group, legally, financially, technologically, politically, and to develop measures to manage identified risks. The Committee may in consultation with the Chairperson of the Board, and in cooperation with the Board's Company Secretary obtain outside legal or other independent professional advice.

Specifically, for and on behalf of the board, the Committee is responsible for: Setting and overseeing the overall standard for financial and actuarial reporting, risk management and internal controls within the Company and Group; Monitoring the effectiveness of business risk management processes in the Company and Group; Reviewing and assessing the quality of the work done by the professionals responsible for financial and actuarial reporting, risk management and internal control; Engaging in discussions with external and internal auditors on the quality and acceptability of the control environment and reporting structures.

The Board of the Company has authorised the Committee to investigate any activity within its terms of reference. The Committee is authorised to seek any information it requires from any employee in the Company or Group, and all employees are expected to co-operate with any request made by the Committee.

CORPORATE GOVERNANCE REPORT *cont.*

Table 1: Audit Committee Members

	Member	Directorship Status
1	Margaret Dawes (Chairperson)	Non-Executive Director, Finance Director for African Life Group
2	Baloobhai Patel	Non-Executive Director
3	Joshua Kituri	Non-Executive Director
4	John Burbidge	Non-Executive Director, Executive Director for African Life Group

Investment Committee

The members of the Investment Committee are described in Table 2 below. The primary functions of the Investment Committee are: To establish appropriate investment guidelines for the Life & General Businesses; To set investment benchmarks, for example, recommended percentage compositions of property, equities, cash, bonds etc for each of the two investment portfolios; To review the actual portfolio compositions against these benchmarks on a quarterly basis; To review the performance of investments and make recommendations where appropriate; To approve the acquisition and disposal of significant investments; To approve major capital works on property investments.

Table 2: Investment Committee Membership

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

Human Resources Committee

The members of the Human Resources Committee are described in Table 3 below. In 2006 this Committee developed a new charter and an annual plan to guide the agenda of meetings throughout the year. This committee changed its name from the 'Remuneration' Committee to the 'Human Resources Committee' to reflect its new charter and expanded mandate. Specifically, its new responsibilities are to ensure that an effective management succession process exists; to regularly evaluate the long-term availability of management expertise; and to give careful attention to succession planning for the positions of the senior management, including making recommendations with regard to the position of Chief Executive.

Table 3: Human Resources Committee Membership

	Member	Directorship Status
1	James Gitohi (Chairperson)	Non-Executive Director
2	Margaret Dawes	Non-Executive Director, Finance Director for African Life Group
3	John Burbidge	Non-Executive Director, Executive Director for African Life Group
4	Joshua Kituri	Non-Executive Director
5	John Simba	Non-Executive Director
6	Heinie Werth	Non-Executive Director, Chief Executive – Sanlam Developing Markets

Attendance at Meetings

Table 4 below summarises the attendance record of the directors at the full board and board committee meetings in 2006. A record of attendance is kept in a register, which is in the Company Secretary's custody. The record of attendance, partial attendance and absence is also noted in the minutes of meetings.

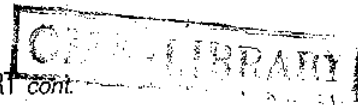
Table 4: Summary of Meetings Attended by Directors for the Year Ended 31 December 2006

	Board Meetings		Audit Committee		Investment Committee		Human Resources Committee	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Margaret Dawes	4	3	4	4	4	4	2	2
Heinie Werth/Robert Domisse*	4	3					2	1
John Simba	4	4			4	4	2	2
John Burbidge	4	3	4	2	4	3	2	1
James Gitohi	4	4					2	2
Andrew Greenwood	4	4	4	4	4	4		
Joshua Kituri	4	3	4	3	4	3	2	2
Baloobhai Patel	4	4	4	4	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; *Robert Domisse is Heinie Werth's alternate.



CORPORATE GOVERNANCE REPORT *cont.*



Professional Advice

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

Company Secretary

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

CB Richard Ellis

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

Ernst & Young

To fill a casual vacancy that arose when PricewaterhouseCoopers resigned in 2006, the Board appointed Ernst & Young as the auditors for the year ended 31 December 2006. Whereas the directors are responsible for preparing the accounts and for presenting a balanced and fair view of the financial position of the Company, Ernst & Young examine and give their opinion on the reasonableness of the financial statements. Ernst & Young reports independently and directly to the Board at the half year and end year board meetings.

KPMG

They are the Group's tax advisors. They were appointed by the Board and liaise with management to ensure that the Group optimises its tax position and complies with all tax matters.

Statutory Actuary

Giles Waugh (of Deloitte, South Africa) is the Group's statutory actuary responsible for examining the financial soundness of the Company. He does this by independently valuing the Company's assets and policy liabilities. The statutory actuary reports independently and directly to the Board at board meetings where the half year results and the year end results are being considered.

Shareholding

Prevention of 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 Nairobi Stock Exchange's regulations to prevent insider trading, the Company's policy is that directors, management, staff members, any of their relatives, or any of the companies / businesses / organisations that they exercise significant influence over are not allowed to deal in the Company's shares during the closed season. The closed season is the period between the end of the Company's reporting period and the publication of results. This occurs at the year-end (between 31 December and 31 March) and the half year-end (30 June and 15 August). Details of the directors' shareholding in the Company are summarised in Table 5 below.

CORPORATE GOVERNANCE REPORT *cont.***Table 5: Director's Shareholdings as at 31 December 2006**

	Name of Director	Shareholding
1	Baloobhai Patel	8,598,640 Shares
2	Andrew Greenwood (Chief Executive)	100,000 Shares
3	John Simba (Chairman)	10,000 Shares
4	Joshua Kituri	4,416 Shares
5	James Gitohi	4,000 Shares

Disclosure of Information to 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 year-end 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 Group 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.

Top 10 Shareholders in the Company

The top 10 shareholders, based on the Company's register as at 31 December 2006 are shown in Table 6 below.

Table 6: Top Ten Shareholders as at 31 December 2006

	2006		2005	
	Number of Shares	%	Number of Shares	%
Hubris Holdings Limited	24,000,000	50.00	24,000,000	50.00
Baloobhai Patel	8,598,640	17.13	8,282,459	17.20
Kanchar Kenya Limited	2,025,028	4.21	2,025,028	4.21
Thammo Holdings Limited	1,709,943	3.56	3,380,652	7.04
Robert Willie Ngigi	932,860	1.94	88,410	0.18
Cannon Assurance (K) Ltd	505,400	1.52	469,850	0.97
Barclays Bank Nominees Ltd.	421,587	0.87	-	-
APA Insurance Limited	384,269	0.80	-	-
Stanbic Nominee (K) A/C SCKPF	260,700	0.54	330,000	0.68
First Ten Limited	243,843	0.54	243,843	0.54
TOTAL	39,082,270	81	38,820,24	80.82

Distribution of Shareholders

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 below.

Table 7: Distribution Schedule

	Number of Shareholders	Number of Shares	%
Less than 1,000	1,229	1,110,186	2.31
1,001 - 5,000	665	1,301,673	2.71
5001 - 10,000	81	774,755	1.61
10,001 - 50,000	127	2,535,158	5.28
50,001 - 100,000	30	1,951,541	4.06
More than 100,000	20	40,326,687	84.01
TOTAL	2,152	48,000,000	100.00

CORPORATE GOVERNANCE REPORT *cont.***Table 8: Shareholders Profile**

Category	Number of Shareholders	Number of Shares	%
Local Corporate	40	35,285,185	73.51
Local Individual	1,037	11,197,936	23.33
East African Individual	886	877,477	1.83
Foreign Investors	188	638,294	1.30
East African Corporate	1	1,108	0.23
TOTAL	2,152	48,000,000	100.00

Immobilisation of Shares

The Central Depository System came into effect on 1 June 2003. The CDS 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 shall 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. Details of the process of immobilisation and the advantages of this system can be obtained from the Nairobi Stock Exchange website: www.nse.co.ke. The Company commenced operations in February 2005. A progress report on the immobilisation is presented in Table 9 below.

Table 9: Immobilisation Report as at 31 December 2006

Item	Amount (KShs)	%
Company's Share Capital	500,000,000	100.0
Number of Un-Issued Shares	452,000,000	90.4
Total Number of Issued Shares	48,000,000	9.6
Total Number of Shares Immobilised by the CDSC	9,415,835	19.6
Total Number of Non-immobilised Shares	38,584,165	80.4

Going Concern

The Board submits this annual report and audited financial statements for the year ending 31 December 2006. The annual report and audited financial statements present, in the opinion of the directors, a fair, balanced and understandable assessment of the state of the affairs of the Company's position and prospects. The Board 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 P. N. Simba
Chairman
22 March 2007

Andrew Greenwood
Chief Executive
22 March 2007

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

For the year ended 31 December 2006

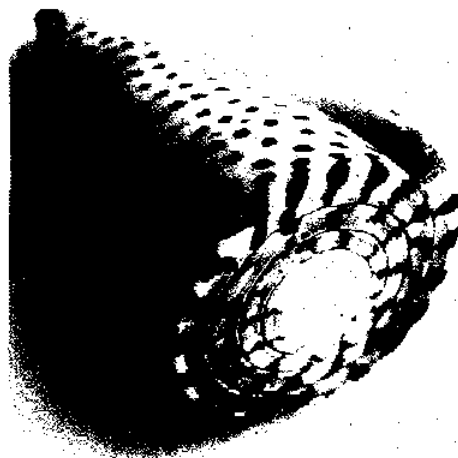
The Kenyan Companies Act requires the directors to prepare consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and of the profits of the Group for that year. It also requires the 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 the Company.

The directors accept responsibility for the annual consolidated 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 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
22 March 2007

Andrew Greenwood
Chief Executive
22 March 2007



REPORT OF THE INDEPENDENT AUDITORS

To the members of Pan Africa Insurance Holdings Limited for the year ended 31 December 2006

We have audited the financial statements of Pan Africa Insurance Holdings Limited (the Company) and of its subsidiaries together with the Group's financial statements for the year ended 31 December 2006, which comprise the balance sheet, income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Pan Africa Insurance Holdings Limited (the Company) and of its subsidiaries as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on Other Legal and Regulatory Requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- In our opinion proper books of accounts have been kept by the Group and the Company, so far as appears from our examination of those books;
- The balance sheet of the Group and of the Company are in agreement with the books of account.

Ernst & Young

22 March 2007

REPORT OF THE STATUTORY ACTUARY

For the year ended 31 December 2006

Certificate of Solvency in respect of Pan Africa Life Assurance Limited's Life and Pension Policies

I have conducted a statutory actuarial valuation of the long-term business of Pan Africa Life Assurance Limited as at 31 December 2006.

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 2006.

Giles T Waugh

Statutory Actuary

MA, FIA, FASSA, ASA

Fellow of the Institute of Actuaries

22 March 2007

**1. Definition Of Embedded Value**

This report sets out the embedded value and the value of new business of Pan Africa Insurance Holdings Ltd. The embedded value represents an estimate of the economic value of the group excluding the value attributable to goodwill. 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 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 Dec 2006 Shs '000	As at 31 Dec 2005 Shs '000
Shareholders' adjusted net assets	1,573,492	931,300
Value of in-force business	806,488	575,526
Embedded value	2,379,980	1,506,826

3. Embedded Value Earnings

The embedded value earnings are derived as follows:

Embedded value at end of year	2,379,980	1,506,826
Embedded value at beginning of year	(1,506,826)	(1,286,623)
Change in embedded value	873,154	220,203
Dividends paid and new capital	57,600	48,000
Embedded value earnings	930,754	268,203

These earnings can be analysed as follows:

Adjustment to fair value of subsidiary	246,175	-
Roll forward	134,343	124,353
Investment return on free assets	42,259	44,156
Expected return on life business in force	92,084	80,197
Value of new business at end of year	163,993	120,103
Value of new business at point of sale	152,263	111,996
Expected return on new business to end of year	11,730	8,107
Changes in assumptions and methodology	97,813	(46,472)
Experience variations	78,149	(104,322)
Increase in NAV for other subsidiaries	210,281	174,541
Total earnings	930,754	268,203

4. Value Of New Business

The value of new business represents the value of projected profits at the point of sale arising from new policies sold during the year to 31 December 2006, accumulated to the end of the year at the risk discount rate.

	2006 Shs '000	2005 Shs '000
Value of new business as at December 2006	163,993	120,103
Value at point of sale	152,263	111,996
Expected return	11,730	8,107

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

Risk Discount Rate	15%	16%	17%
	Shs '000	Shs '000	Shs '000
Shareholder's net assets	1,573,492	1,573,492	1,573,492
Value of in-force business	830,460	806,487	783,732
Embedded value	2,403,953	2,379,980	2,357,224
Value of one year's new business at valuation date	172,384	163,993	156,004

EMBEDDED VALUE REPORT *cont.***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:

Overall investment return (pre tax)	Risk discount rate	Expense inflation rate
11.60%	16%	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 2006.

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 Shs '000	% Change over base
Values as at 31 December 2006	806,487	
Policy discontinuance rate increases by 10% e.g. from 10% to 11%	804,086	-0.3%
Future expense increases by 10%	767,643	-4.8%
Expense inflation increases by 1% e.g. from 10% to 11%	793,783	-1.6%
Mortality and morbidity experience increases by 10%	755,865	-6.3%
Investment returns decrease by 1% e.g. from 10% to 9%	748,850	-7.1%
Premium increase take-up rate decreases by 10% e.g. from 90% to 81%	798,559	-1.0%
The sensitivity of the value of new business is as follows:		
Value of one year's new business as at 31 December 2006	163,993	
Policy discontinuance rate increases by 10% e.g. from 10% to 11%	157,336	-4.1%
Future expense increases by 10%	149,489	-8.8%
Expense inflation increases by 1% e.g. from 10% to 11%	160,174	-2.3%
Mortality and morbidity experience increases by 10%	131,597	-19.8%
Investment returns decrease by 1% e.g. from 10% to 9%	155,799	-5.0%
Premium increase take-up rate decreases by 10% e.g. from 90% to 81%	160,882	-1.9%
Increase in non-commission acquisition expenses by 10%	141,600	-13.7%

Assumed Management Action

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

Giles T Waugh MA, FIA, FASSA, ASA

Statutory Actuary, Fellow of the Institute of Actuaries

22 March 2007



PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements are prepared in 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) Consolidation

(i) Subsidiaries

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.

(ii) Associates

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.

(c) 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.

(d) Income recognition

Premium income on individual life policies is recognised on the basis of premium instalments expected during the year.

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.

(e) 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 the present value.

(f) Deposit administration contracts

The group administers the funds of a number of retirement benefit

PRINCIPAL ACCOUNTING POLICIES *cont.*

schemes. The liability of the group to the schemes is included in the balance sheet.

(g) Property and 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 surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the profit and loss account.

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.

(h) 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.

(i) 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).

(j) 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:

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

Management has designated quoted shares as investments at fair value through profit or loss. Previously quoted shares were classified as available for sale.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are disclosed on the face of the balance sheet.

(iii) Held-to-maturity investments

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 comprises 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 arm's 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.



PRINCIPAL ACCOUNTING POLICIES *cont.*

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.

(k) 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.

(l) 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.

(m) Land and 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.

(n) 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.

(o) Employee entitlements

(i) 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.

(ii) Other entitlements

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

(p) 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.

(q) 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.

(r) Comparatives

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

GROUP PROFIT & LOSS ACCOUNT

For the year ended 31 December 2006

	Note	2006 Shs'000	2005 Shs'000
Gross premium income	2	1,396,908	1,168,582
Outward reassurances		(148,713)	(137,165)
Net premium income		1,248,195	1,031,417
Investment return	3	404,012	219,126
Income from associated companies		320,974	199,500
Commission income		36,887	33,764
Other income	4	92,389	85,591
		854,262	537,981
Commission expense		235,469	229,711
Operating expenses	5	414,943	378,230
Discontinued operations	6	111,831	27,403
Policyholder benefits	7	950,952	845,075
Less: Reassurance recoveries		(64,805)	(86,366)
		1,648,390	1,394,053
Profit before income tax		454,067	175,345
Income tax (charge)/credit	9	(3,872)	1,260
Profit for the year		450,395	176,605
Basic and diluted earnings per share		Shs 9.38	Shs 3.68
Dividends:		Shs'000	Shs'000
Proposed final dividend	12	69,120	57,600

**COMPANY PROFIT & LOSS ACCOUNT**
For the year ended 31 December 2006

	2006	2005
	Shs'000	Shs'000
Investment return	57,600	-
Income from associated companies	266	-
Other income	69,518	-
	127,384	-
Operating expenses	33,118	-
Profit before income tax	94,266	-
Income tax	-	-
Profit for the year	94,266	-

GROUP BALANCE SHEET

As at 31 December 2006

	Note	2006 Shs'000	2005 Shs'000
Capital employed			
Share capital	10	240,000	240,000
Share premium	10	364,431	364,431
Revaluation surplus		7,436	4,253
Retained earnings		700,014	562,056
Transfer to life funds	11	(53,684)	(297,001)
Proposed dividends	12	69,120	57,600
Shareholders' funds		1,327,317	931,339
Represented by:			
Assets			
Property and equipment	13 (a)	62,886	56,708
Intangible assets	14	4,362	3,648
Investment property	15	439,000	471,000
Investment in associates	17	675,821	363,895
Financial assets at fair value through profit or loss	18	925,146	490,082
Mortgage loans	19	98,370	89,889
Policy loans		198,641	98,692
Receivables arising out of reinsurance arrangements		-	96,332
Receivables arising out of direct insurance arrangements		75,011	72,623
Reassurers' share of technical provisions and reserves		36,395	32,422
Other receivables	20	196,813	112,931
Land and development		39,825	44,990
Current income tax		23,293	22,113
Deferred income tax	25	6,068	6,068
Government securities	21	1,392,819	1,113,742
Deposits with financial institutions		276,172	319,463
Commercial paper		192,381	150,020
Cash and bank balances		109,581	151,445
Total assets		4,752,584	3,696,063
Liabilities			
Insurance contracts liabilities	23	2,401,988	1,922,646
Amounts payable under deposit administration contracts	24	216,675	163,211
Claims reported and claims handling expenses		128,926	110,529
Revaluation of unit-linked advances		9,644	-
Deferred income tax	25	-	36,900
Creditors arising from reinsurance arrangements		30,817	83,269
Other payables	26	637,217	448,169
Total liabilities		3,425,267	2,764,724
Net assets		1,327,317	931,339

The financial statements on pages 33 to 54 were approved by the Board of Directors on 22 March 2007 and signed on its behalf by:

John P N Simba
Chairman
22 March 2007

Andrew Greenwood
Chief Executive
22 March 2007

COMPANY BALANCE SHEET
As at 31 December 2006

		2006	2005
	Note	Shs'000	Shs'000
Capital employed			
Share capital	10	240,000	240,000
Share premium	10	364,431	364,431
Retained earnings		639,341	614,195
Transfer to life funds	11	(297,001)	(297,001)
Proposed dividends	12	69,120	57,600
Shareholders' funds		1,015,891	979,225
Represented by:			
Assets			
Property and equipment	13 (b)	341	-
Investment property	15	6,000	-
Investment in subsidiaries	16	1,010,212	1,010,212
Investment in associates	17	8,356	-
Other receivables	20	112,640	15,526
Land and development		39,825	-
Current income tax		13,680	13,680
Cash and bank balances		13,475	5,925
Total assets		1,204,529	1,045,343
Liabilities			
Other payables	26	188,638	66,118
Total liabilities		188,638	66,118
Net assets		1,015,891	979,225

The financial statements on pages 33 to 54 were approved by the Board of Directors on 22 March 2007 and signed on its behalf by:

John P N Simba
Chairman
22 March 2007

Andrew Greenwood
Chief Executive
22 March 2007

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

		Share Capital	Share Premium	Transfer Life Fund	Revaluation Reserve	Retained Earnings	Proposed Dividends	Total
	Note	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
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:								
Proposed final for 2005	12	-	-	-	-	(57,600)	57,600	-
Final for 2004 paid	12	-	-	-	-	-	(48,000)	(48,000)
At end of year		240,000	364,431	(297,001)	4,253	562,056	57,600	931,339
Year ended 31 December 2006								
At start of year		240,000	364,431	(297,001)	4,253	562,056	57,600	931,339
Profit for the year		-	-	-	-	450,395	-	450,395
Transfer to shareholders' funds	11	-	-	243,317	-	(243,317)	-	-
Revaluation of buildings held at amortised cost		-	-	-	1,364	-	-	1,364
Share of associates revaluation gain on freehold land and buildings		-	-	-	2,598	-	-	2,598
Share of associates deferred tax gain		-	-	-	(779)	-	-	(779)
Dividends:								
Proposed final for 2006		-	-	-	-	(69,120)	69,120	-
Final for 2005 paid	12	-	-	-	-	-	(57,600)	(57,600)
At end of year		240,000	364,431	(53,684)	7,436	700,014	69,120	1,327,317

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2006

	Note	Share Capital Shs'000	Share Premium Shs'000	Transfer Life Fund Shs'000	Retained Earnings Shs'000	Proposed Dividends Shs'000	Total Shs'000
Year ended 31 December 2005							
At start of the year		240,000	364,431	(297,001)	671,795	48,000	1,027,225
Dividends:							
Proposed final for 2005	12	-	-	-	(57,600)	57,600	-
Final for 2004 paid		-	-	-	-	(48,000)	(48,000)
At end of year		240,000	364,431	(297,001)	614,195	57,600	979,225
Year ended 31 December 2006							
At start of the year		240,000	364,431	(297,001)	614,195	57,600	979,225
Profit for the year		-	-	-	94,266	-	94,266
Dividends:							
Proposed final for 2006		-	-	-	(69,120)	69,120	-
Final for 2005 paid	12	-	-	-	-	(57,600)	(57,600)
At end of year		240,000	364,431	(297,001)	639,341	69,120	1,015,891

GROUP CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	2006 Shs'000	2005 Shs'000
Operating activities			
Cash generated from operations	30	467,779	317,626
Interest income		179,118	147,373
Tax paid		(1,321)	(20,792)
Net cash from operating activities		645,576	444,207
Investing activities			
Purchase of property and equipment	13 (a)	(29,425)	(14,797)
Purchase of quoted shares	18	(292,339)	(265,666)
Purchase of government securities		(295,008)	(666,045)
Mortgage loans advanced	19	(24,291)	(24,735)
Repayments of mortgage loans	19	16,635	17,584
Net policy loans advanced		(136,666)	(16,792)
Proceeds from disposal of investment property		-	241,000
Proceeds from the sale of government securities		20,950	539,215
Proceeds from disposal of property and equipment		-	1,357
Proceeds from disposal of quoted shares		69,586	111,708
Dividend received from associate		-	5,995
Purchase of software	14	(2,573)	(4,864)
Net cash used in investing activities		(673,131)	(76,040)
Financing activities			
Dividends paid		(57,600)	(48,000)
		(57,600)	(48,000)
(Decrease)/increase in cash and cash equivalents		(85,155)	320,167
Movement in cash and cash equivalents at start of year			
At the start of the year		470,908	150,741
(Decrease)/increase in cash and cash equivalents		(85,155)	320,167
At end of year		385,753	470,908

NOTES TO THE FINANCIAL STATEMENTS

1. 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 business Shs'000	Sale of plots Shs'000	2006 Shs'000
Year ended 31 December 2006				
Gross premium income	1,396,908	-	-	1,396,908
Net premium income	1,248,195	-	-	1,248,195
Other income	464,708	303,139	86,415	854,262
Investment income	424,326	(20,314)	-	404,012
Other income	40,382	2,745	86,149	129,276
Share of associate's profit	-	320,708	266	320,974
Audited account				
Segment inflows	1,712,903	303,139	86,415	2,102,457
Segment outflows	(1,438,500)	(121,021)	(57,782)	(1,617,303)
Profit before income tax	274,403	182,118	28,632	485,153
Income tax expense	-	(3,672)	-	(3,672)
Net profit for the year	274,403	178,446	28,632	481,481
Segment assets	3,521,179	1,055,080	176,326	4,752,585
Segment liabilities	3,075,011	240,541	109,709	3,425,261
Capital expenditure	32,754	-	-	32,754
Depreciation	21,438	-	-	21,438
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	537,989
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
Net 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
Depreciation	15,750	474	43	16,267

NOTES TO THE FINANCIAL STATEMENTS *cont.*

	2006 Shs'000	2005 Shs'000
2 Premium income		
The principal activity of the Group is the underwriting of long-term insurance business as defined by the Insurance Act. Premium income can be analysed between the two main classes as follows:		
New business		
Recurring		
Individual life	158,141	148,354
Group business	55,777	43,463
Single premiums		
Individual life	21,439	1,608
Group business	199,065	129,538
Total new business	434,422	322,963
Renewal recurring		
Individual Life	837,180	681,328
Group business	125,306	164,291
Total renewal premium income	962,486	845,619
Total premium income	1,396,908	1,168,582
	2006 Shs'000	2005 Shs'000
3 Investment return		
Interest from Government Securities	119,726	98,977
Interest from bank deposit	19,290	16,774
Interest from loan	30,645	31,622
Dividends from listed entities	19,555	10,352
Rental income from investment properties	48,415	39,799
Investment expenses	(42,572)	(21,089)
Realised loss on disposal of investment property	-	(25,000)
Investment properties fair value loss (Note 15)	(38,000)	(37,000)
Quoted shares (Note 18)	246,953	104,691
	404,012	219,126
	2006 Shs'000	2005 Shs'000
4 Other income		
Sale of plots	72,450	57,426
Debt recovery	198	400
Profit commission	4,140	16,119
Miscellaneous income	2,899	10,742
Impairment of car loans/debtors	(5,440)	-
Fees on services and deposit administration contracts	4,795	373
Gain on disposal	13,347	531
	92,389	85,591

	2006 Shs'000	2005 Shs'000
5 Operating expenses		
Other expenses include:		
Staff costs	191,296	157,146
Amortisation and depreciation (Notes 13 and 14)	21,227	16,267
Fees for managerial and administrative services	9,971	20,831
Auditor's remuneration	2,250	2,773
Tax audit	268	-
Legal	1,378	-
Actuarial	6,075	18,058
Repairs and maintenance expenditure	1,903	1,212
Impairment provision on mortgage loans	677	-
Premium tax and stamp duty	16,606	17,904
	2006 Shs'000	2005 Shs'000
6 Discontinued operations		
On 31 December 2003, the group transferred its general insurance to APA insurance Limited. For comparative purposes during 2006, this has been accounted for as the cost of discontinued operations and is comprised of:		
Provisions for outstanding claims on discontinued operations	53,561	2,891
Provisions on commissions of discontinued operations	-	12,000
Warranties	-	12,512
Provision for expenses on discontinued operations	3,973	-
Provision for guarantees on discontinued operations	43,904	-
Impairment charge on reinsurance receivables	10,393	-
	111,831	27,403
	2006 Shs'000	2005 Shs'000
7 Policyholder benefits		
Gross death and disability claims	190,123	213,085
Maturity and survival benefits	161,166	150,339
Policy surrenders	89,235	54,294
Interest declared to deposit administration funds	31,086	21,721
Change in actuarial value of insurance contract liabilities	479,342	405,636
	950,952	845,075
	2006 Shs'000	2005 Shs'000
8 Staff costs		
Staff costs include the following:		
Retirement benefit costs	9,699	12,351
Social security benefit costs	455	565
	2006 Shs'000	2005 Shs'000
9 Income tax (charge)/credit		
Current income tax	-	(12,890)
Deferred income tax (Note 25)	-	16,428
Current year tax credit	-	3,538
Share of Associates' tax (Note 17)	(3,672)	(2,278)
	(3,672)	1,260

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:

NOTES TO THE FINANCIAL STATEMENTS *cont.*

13 (b) Company property and equipment

Year ended 31 December 2006:

	Fittings & Equipment Shs'000	Total Shs'000
Cost or valuation		
At start of year	-	-
Transfer from Mae Properties Ltd	182	182
Additions	378	378
At end of year	560	560
Depreciation		
At start of year	-	-
Transfer from Mae Properties Ltd	175	175
Charge for the year	44	44
At end of year	219	219
Net book amount:		
At 31 December 2006	341	341

	2006 Shs'000	2005 Shs'000
14 Intangible Assets (Software)		
Cost		
At start of the year	4,864	-
Additions	2,573	4,864
At end of year	7,437	4,864
Amortisation		
At start of the year	1,216	-
Charge for the year	1,859	1,216
At end of year	3,075	1,216
Net carrying amount	4,362	3,648

	Company		Group	
	2006 Shs'000	2005 Shs'000	2006 Shs'000	2005 Shs'000
15 Investment property				
At start of year	-	-	471,000	774,000
Transfer from Mae Properties	6,000	-	-	-
Reclassification from property and equipment (note 13)	-	-	6,000	-
Fair value loss	-	-	(38,000)	(37,000)
Disposals	-	-	-	(266,000)
At end of year	6,000	-	439,000	471,000

	Shareholding	2006 Shs'000	2005 Shs'000
16 Investment in subsidiary companies - Company			
Pan Africa Life Assurance Limited	100%	331,203	331,203
PA Securities Limited	100%	679,009	679,009
		1,010,212	1,010,212

	Company		Group	
	2006 Shs'000	2005 Shs'000	2006 Shs'000	2005 Shs'000
17 Investment in associated company				
At start of year	-	-	363,895	169,078
Transfer from Mae Properties Ltd	8,089	-	-	-
Share of results before tax	267	-	320,974	199,500
Share of revaluation surplus	-	-	1,819	3,590
Share of tax	-	-	(3,672)	(2,278)
Dividends received	-	-	(7,195)	(5,995)
At end of period	8,356	-	675,821	363,895

		2006 Shareholding	2005 Shareholding
Associated companies comprise	Principal activity		
APA Insurance Limited	General insurance	39.97%	39.97%
Runda Water Limited	Water distribution	24.90%	24.90%

APA Insurance and Runda water limited are incorporated in Kenya.

	2006 Shs'000	2005 Shs'000
18 Financial assets at fair value through profit or loss		
At start of year	490,082	231,433
Additions	292,339	265,666
Fair value gains	211,321	104,691
Disposals	(68,596)	(111,708)
At end of year	925,146	490,082

	2006 Shs'000	2005 Shs'000
19 Mortgage loans		
At start of year	94,964	80,190
Accrued interest	1,502	7,623
Loans advanced	24,291	24,735
Loan repayments	(16,635)	(17,584)
At end of year	104,122	94,964

Impairment:

At start of year	5,075	1,000
Reclassified from other payables	-	1,288
Charge for the year	677	2,787
	5,752	5,075
	98,370	89,889

Maturity profile of mortgage loans:

Loans maturing:

Within 1 year	15,222	18,611
In 1-5 years	36,848	44,082
In over 5 years	52,052	32,271
	104,122	94,964

Loans at:

Market rate	15,017	16,990
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Included in mortgage loans is KShs. 49,623,744 to employees.

NOTES TO THE FINANCIAL STATEMENTS *cont.*

	Company		Group	
	2006 Shs'000	2005 Shs'000	2006 Shs'000	2005 Shs'000
20 Other receivables				
Debtors and prepayments	1,687	1,404	58,396	76,639
Amounts due from related parties (Note 31)	27,927	14,122	12,870	10,618
Rent outstanding	-	-	33,581	16,521
Plot debtors	83,026	-	83,026	-
Other non-current assets	-	-	8,940	9,153
	112,640	15,526	196,813	112,931
			2006 Shs'000	2005 Shs'000
21 Government securities				
Treasury bills and bonds maturing:				
- Within 1 year			317,377	263,485
- In 1-5 years			685,627	622,057
- After 5 years			389,815	228,200
			1,392,819	1,113,742
			2006 %	2005 %
22 Weighted average effective interest rates				
The following table summarises the weighted average effective interest rates at the year end on the principal interest-bearing investments:				
Government securities			8	10
Mortgage loans and commercial paper			12	8
Deposits with financial institutions			6	8
Policy loans			14	14
			2006 Shs'000	2005 Shs'000
23 Insurance contract liabilities				
As at 1 January			1,922,646	1,717,046
Prior year adjustment			-	(200,036)
Change in policyholder liabilities			479,342	392,755
Surplus not available for distribution			-	12,881
			2,401,988	1,922,646



	2006 Shs'000	2005 Shs'000
24 Amounts payable under deposit administration contracts		
The liabilities of the company in respect of funds managed under deposit administration contracts are shown inclusive of interest accumulated to 31 December. Interest was declared and credited to the customer accounts at a weighted average rate of 12.5% for the year (2005: 11%).		
As at 1 January	163,211	157,470
Contributions received	41,911	25,403
Benefits paid	(19,533)	(41,383)
Interest credited to the fund	31,086	21,721
At 31 December	216,675	163,211

	2006 Shs'000	2005 Shs'000
25 Deferred income tax		
Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2005: 30%). The movement on the deferred income tax account is as follows:		
At start of year	(6,068)	10,360
Profit and loss account (Note 9)	-	(16,428)
At end of year	(6,068)	(6,068)

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 2006 Shs'000	Over/(Under) provision in prior years Shs'000	Charged/ (credited) to profit & loss Shs'000	31 Dec 2006 Shs'000
Property and equipment	34,220	(40,607)	535	(5,852)
Investment property fair value gains	(4,500)	-	600	(3,900)
Quoted shares - fair value gain	29,178	209	73,559	102,946
Provisions	(68,686)	1,082	(43,760)	(111,364)
Tax losses carried forward	(210,739)	(247,879)	(178,583)	(637,201)
	(220,527)	(287,195)	(147,649)	(655,371)
Deferred income tax not recognised	251,359	250,295	147,649	649,303
Pan Africa Life Assurance Limited	171,038	204,037	133,651	508,726
PA Securities Limited	-	6,339	21,846	28,185
Mae Properties Limited	-	(1,082)	4,316	3,234
Pan Africa Insurance Holdings Limited	80,321	41,001	(12,164)	109,158
Deferred income tax on the balance sheet	30,832	(36,900)	-	(6,068)

	Company		Group	
	2006 Shs'000	2005 Shs'000	2006 Shs'000	2005 Shs'000
26 Other payables				
Rent deposits	-	-	25,136	5,655
Amounts due to related parties (Note 31)	93,170	18,196	3,304	4,050
Warranties	-	-	28,018	28,018
Unclaimed dividends	23,328	17,402	23,328	17,402
Provision for outstanding claims on discontinued operations	-	-	53,561	-
Provision for guarantees on discontinued operations	-	-	43,904	-
Other creditors and accruals	72,140	30,520	459,966	393,044
	188,638	66,118	637,217	448,169

NOTES TO THE FINANCIAL STATEMENTS *cont.*

(f) Key management compensation

2006

2005

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PAN AFRICA LIFE'S BRANCH DETAILS

Head Office

Pan Africa Life Assurance Limited
 Pan Africa House, Kenyatta Avenue
 P.O.Box 44041, Nairobi 00100
 Tel: 020-247600/253041/2781000
 0722 206900/1
 0733 418807
 SMS helpline number: 0720 632000

Branch	Details		
Eldoret	KVDA Plaza, Oloo/Utalili Street P.O.Box 596, 30100 Tel: 053-2061447 eldoret@pan-africa.com	Mombasa	Ambalal House, Nkurumah Road P.O.Box 90383, 80100 Mombasa Tel: 041-2223316 mombasa@pan-africa.com
Embu	Barclays Bank Building, Kenyatta Highway P.O.Box 1804, 60100 Embu Tel: 068-30789 embu@pan-africa.com	Nairobi City Centre	Pan Africa House, Kenyatta Avenue P.O.Box 44041, 00100 Tel: 020-247600 palalcitycentre@pan-africa.com
Kisii	Shabana Building P.O.Box 288, 40200 Kisii Tel: 058-30946 kisii@pan-africa.com	Nairobi Mega	Uniafric House, Koinange Street P.O.Box 44041, 00100 Nairobi Tel: 020 210680/676 mega@pan-africa.com
Kisumu	Al-Imran Plaza, Oginga Odinga Road P.O.Box 1884, 40100 Kisumu Tel: 057-2020780 kisumu@pan-africa.com	Nakuru	Gidde Plaza, Nairobi/Eldoret Highway P.O.Box 15163, 20100 Nakuru Tel: 051-2215858 nakuru@pan-africa.com
Machakos	Red Cross Building P.O.Box 1852, 90100 Tel: 044-21484 machakos@pan-africa.com	Nyeri	NDCU House P.O.Box 618, 10100 Tel: 061-2030204 nyeri@pan-africa.com
Meru	Meru Mwalimu Plaza, Moi Avenue P.O.Box 1329, 60200 Tel: 064-30658 meru@pan-africa.com	Thika	Thika Arcade, Kenyatta Highway P.O.Box 1144, 01000 Tel: 067-221123 thika@pan-africa.com

31 Related party transactions**(a) Mortgage loans to former Directors and companies related to them****i) Loans at concessionary rates**

	2006 Shs'000	2005 Shs'000
Principal amount	8,195	8,551
Interest on loans	864	1,998
	9,059	10,549

ii) Loans at market rates

	2006 Shs.'000	2005 Shs'000
Principal amount	10,661	10,661
Interest on loans	3,258	3,258
	13,919	13,919

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

(b) Mortgage loans to current directors at concessionary rate

	2006 Shs'000	2005 Shs'000
Principal amount	3,279	3,386
	3,279	3,386

(c) Insurance transactions with related parties

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

	2006 Shs.'000	2005 Shs'000
African Life Assurance Company Limited - Reassurance recoveries	-	16,869

(d) Amounts due from related parties

	Company		Group	
	2006 Shs'000	2005 Shs'000	2006 Shs'000	2005 Shs'000
African Life Assurance Company Limited	-	-	4,130	6,338
APA Insurance Limited	-	-	2,941	2,941
Sanlam Limited	-	-	2,319	-
Runda Water Limited	16	-	16	16
PA Securities Limited	27,307	14,122	-	-
Staff	-	-	660	-
Hubris Holdings Limited	-	-	2,200	-
Former directors and staff	604	-	604	1,323
	27,927	14,122	12,870	10,618

(e) Amounts due to related parties

	Company		Group	
	2006 Shs'000	2005 Shs'000	2006 Shs'000	2005 Shs'000
APA Insurance Limited	-	-	1,391	1,676
Pan Africa Life Assurance Limited	30,543	18,196	-	-
Mae Properties Limited	62,627	-	-	-
Runda Water Limited	-	-	1,913	-
Former directors and staff	2,374	-	2,374	2,374
	95,544	18,196	5,678	4,050

NOTES TO THE FINANCIAL STATEMENTS *cont.***(f) Key management compensation**

	2006 Shs.'000	2005 Shs.'000
-Salaries and other short-term employment benefits	41,112	55,509
-Post-employment benefits	6,492	9,075
	47,604	64,584

(g) Directors' remuneration

	2006 Shs.'000	2005 Shs.'000
	27,832	25,960

**Executive Committee**

Andrew Greenwood

CA (SA), CA (AUS)

Chief Executive

Stephen Kamanda

MBA, BA, FCCA (UK), ICISA (UK)

General Manager – Finance

James Muiruri

BSc, ACII, AIK, ACI Arb, ACS

General Manager – Corporate Business

Sharon Maviata

LLB, Dip (KSL), CPS (K)

Company Secretary

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

Jane Ntutu

BSc

Regional Sales Manager – Eastern

Francis Ogwel

BA

Regional Sales Manager – Western

Marlin Nzomo

MBA, FCII, FIIC, ACI Arb

Corporate Business Manager

Linda Were

BSc Actuarial

Actuarial

Jack Kionga

B Admin, ACII

Operations

Lucy Munjuga

BSc & CPA (K)

Head of Operations (PA Securities)

Unit Leaders

Samson Mwangi

Premium Administration – Banks

David Njuguna

BSc, CPA (K), CFA - 1

Finance

Priscilla Thuo

BEd

Customer Service – Back Office

Gwen Njiru

IBA (Marketing)

Commercial Pay Point Manager

Shifrine Simwa

BA, FLMI, ACS, UND

Premium Administration - TSC

Rita Waweru

Dip CS

IST

Ibrahim Ololo

BSc

Corporate Business

Samuel Kuyoh

LLB

Policy Administration – Government

Kennedy Miriti

BEd

Training

Sales Managers

N Andhoga

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 Swangoh

BBM, Dip Banking

Kisumu

H Mudamba

MBA, BEd

Kisii

J Mbindyo

Nairobi Mega

J Tsimbiri

BEd

Nairobi City Centre

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