Annual Report
& Financial Statements
2008

The Co-operative Insurance
Company of Kenya Ltd.

"We keep our word"

OUR CORPORATE VISION

To be Kenya's most financially sound and Africa's leading co-operative insurer.

OUR CORPORATE MISSION

To provide financial security for the people through the Co-operative Spirit.

CUSTOMER VALUE PROPOSITION

To offer to its customers unparalleled service that will satisfy and delight them. CIC's customer value proposition is build along four pillars of:

- *Service of highest Quality*
- *Friendliest of Relationships*
- *Fairest Price and*
- *Fastest Speed*

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Financial Statements

Directors, Senior Management & Professional Advisers

DIRECTORS

J A Magomere	*Chairman*
Rev. P N Kagane	*Vice Chairman*
N C Kuria	*Managing Director*
P N Munuhe	
L Siele	
C Ashira	
G Owuor	
M O Wambia	
J Njoroge	
J M Mutuku	
J P Nyagah	
E O Joseph	

COMPANY SECRETARY

Mary Noel A Wanga
P O Box 59485 - 00100
Nairobi

REGISTERED OFFICE

CIC Plaza
Upper Hill, Mara Road
P O Box 59485-00200
Nairobi

SENIOR MANAGEMENT

N C Kuria	*Chief Executive Officer*
K Kimani	*General Manager – General Business*
P Mwaura	*Assistant General Manager – Finance*
D Ronoh	*General Manager - Life Business*
P Ngari	*General Manager - Marketing*
J Tomno	*Assistant General Manager – Branch Operations*
A Wambugu	*Human Resources Manager*
M Wanga	*Company Secretary/Legal Officer*
M Luvai	*Chief Internal Auditor*

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
"Kirungii" Ring Road, Westlands
P O Box 40092 - 00100
Nairobi

PRINCIPAL BANKERS

The Co-operative Bank of Kenya Limited
P O Box 67881 - 00100
Nairobi

CitiBank NA,
Upper Hill Road
P O Box 30711-00100
Nairobi

Equity Bank Limited
P.O Box 40092
Nairobi.

CONSULTING ACTUARIES

The Actuarial Services Company Limited
Victoria Towers
Upper Hill
P O Box 10472-00100
NAIROBI

ADVOCATES

Oraro & Company Advocates
ACK Garden House, 3rd Floor, Wing C
1st Ngong Avenue
P O Box 51236 - 00200
Nairobi

SHARES REGISTRARS

Co-operative Bank of Kenya Limited
Co-operative Bank House
P O Box 48231-00100
NAIROBI

Notice of Meeting

For the year ended 31 December 2008

NOTICE IS HEREBY GIVEN that the thirty first Annual General Meeting of the Company will be held on Friday the 8th day of May 2009 at 10.00 am at the Amphitheatre, KICC, Nairobi to transact the following business:

1. To receive the Chairman's Report

2. To confirm the Minutes of the Thirtieth Annual General Meeting held on the 23rd day of May 2008.

3. To consider and, if thought fit, to adopt the Report of the Directors, Report of the Auditors and Audited Accounts for the year ended 31st December 2008.

4. To authorize the directors to fix the Auditors fees for the ensuing year.

5. To declare a dividend. The Directors recommend a dividend of 7% for all the shareholders who were in the Register of Members as at 31st December 2008.

6. To elect Directors:
   (a) In accordance with the Company's Articles of Association, Messrs Gordon O. Owuor and Cornelius O. Ashira who are due to retire by rotation and being eligible for re-election offer themselves for re-election as directors of the Company. Mr Leonard Kipng'eno Siele will also retire but is not eligible for re-election.

   (b) To elect a Director from Rift Valley to fill a vacancy in the Board.

7. To transact any other business for which the 21 days notice has been given to the Company.

Delegates are requested to note the following:

On the day of the meeting, Delegates are requested to register at the Amphitheatre, KICC at 9.00 am in order to complete all formalities before the meeting.

By Order of the Board

Mary Noel A. Wanga
Company Secretary / Chief Legal Officer

Nairobi, Kenya

9th April, 2009

Directors' Profile

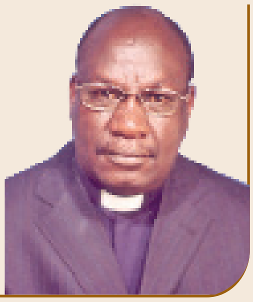
JAPHETH ANAVILA MAGOMERE

Japheth Anavila Magomere, aged 58, is the Chairman of the Board. He Joined the Board in 1988 and is the Director representing Nairobi Province Private Sector Based Societies. He has been the Chairman of Board since 2004. Mr. Magomere is also a Board Member of Bunyangu High School and Gamalenga Secondary School. He has been a Delegate to Co-operative Bank since 1986 and is a Member of the Institute of Directors of Kenya. He also serves as the Vice Chairman of Kenya National Federation of Co-operatives.

NELSON C KURIA, OGW

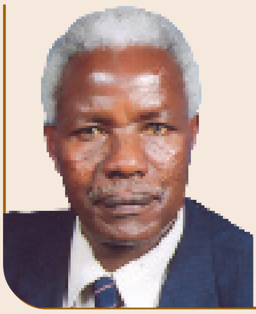
Mr. Kuria, aged 55, obtained a Bachelor of Arts degree in Economics from the University of Nairobi in 1979. Since then he has undergone extensive training in strategic management. Mr. Kuria has a total of 30 years working experience most of which have been in the insurance industry. He joined the insurance industry through the then Kenya national Assurance Company in 1982 where he worked for 12 years up to December 1993. For over 10 years since 1998 Mr. Kuria has been working for The Co-operative Insurance Company of Kenya (CIC) where he is currently the Managing Director and CEO. He became Chairman of AKI in March 2008. Mr. Kuria represents AKI in the Federation of Kenya Employers and East African Business Council. He is a member of the Institute of Directors of Kenya and is a member of other Boards and Committees as follows;

- Member- Finance & development committee of College of Insurance
- Trustee- Higher Education Loans Board Retirement Benefits Scheme
- Board Member- Hope FM Radio
- Member- Development Committee- International Co-operative & Mutual Insurance Federation (ICMIF)- UK
- Chairman- Board of Governors- Nyandarua High School
- State Honors- Order of the Grand Warrior of Kenya (OGW)



REV. PETERSON NJUE KAGANE

Rev. Peterson Njue Kagane, aged 50, joined the Board in 2007. He holds a BDiv, and a Dip, Theology. He is the Director Representing Eastern Province Based Societies. He is the Vicar General and the Provost of St. Paul's Cathedral and the ACK Diocese of Embu. Rev. Kagane is the Chairman of St. Agnes Girls Secondary School and the Scouts Centre Embu.



PETER NDERITU MUNUHE

Peter Nderitu Munuhe, aged 70, joined the Board in 1995. He is the Director Representing Central Province Based Societies and has been a Board member since 1995. He is a Retired General Manager of Nyeri District Co-operative Union. He is the Chairman of Thiriku Coffee Society and Tetu Coffee Growers Society. He is also Chairman of the supervisory committee of Taifa Sacco and a Member Institute of Directors of Kenya.

LEONARD KIPNG'ENO SIELE

Leonard Kipng'eno Siele, aged 54, joined the Board in 2006. He is the Director Representing Rift Valley Province Based Societies. He is a member of the Institute of Directors of Kenya. Mr. Siele previously worked with TSC and Braeburn Limited.

Directors' Profile

GORDON ONDIEK OWUOR

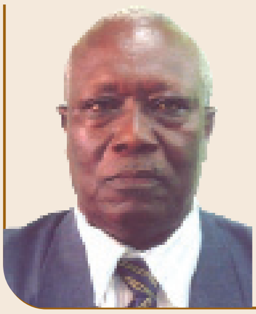
Gordon Ondiek Owuor, aged 53, joined the Board in 2006. He is the Director Representing Nyanza Based Societies. Mr. Owuor is the Chairman of Chemelil SACCO, a member of the Nyanza Provincial Co-operative Development Team and an Associate Member Institute of Directors of Kenya. Mr. Owuor previously worked with the East African Fresh Water Fisheries Research Organization and currently works at Chemelil Sugar Company.

JOSHUAH NJOGU NJOROGE

Joshuah Njogu Njoroge, aged 62, is trained in Executive International and Domestic Banking. He is a retired senior Central Bank official and a Director Representing Kiambu Unity Finance. He has been a Board Member since 2006 and is the Chairman Limuru Dairy FCS Limited. Mr. Njoroge is the Chairman Limuru Milk Processors Limited, the Chairman of Kiambu Unity Finance Limited and the Diocesan Treasurer ACK Diocese of Mt. Kenya South. Mr. Njoroge is also a Delegate in the Co-operative Bank and a Member of the Institute of Directors of Kenya.

JOSEPH PHILIP NYAGAH

Joseph Philip Nyagah, aged 68, joined the Board in 2007. He holds B.Com, CPS(K), a Diploma in Personnel Management & Industrial Relations, and a Diploma in Agriculture. Mr. Nyagah is a retired Diplomat. He is a Director Representing Embu Farmers Co-operative Society. He is a Board Member since May 2007 and the Chairman of Embu Farmers Co-operative Society Limited and also Nembure Farmers Co-operative Society. Mr Nyagah is also a delegate of the Co-operative Bank.



JONAH MAKAU MUTUKU

Jonah Makau Mutuku, aged 62, joined the Board in 2008. He is the Director representing Coast and North Eastern Province Based Societies and has been the Chairman of Mombasa teachers SACCO since 1980.

He is a retired teacher and also serves as the Vicar's Warden of ACK Miritini Church. Mr. Mutuku is also a delegate of the Co-operative Bank.

MICHAEL ONDINYA WAMBIA

Michael Ondinya Wambia, aged 41, joined the Board in 2008. He is the Director representing Western province Based Socieites and is the Treasurer of Busia and Teso Teachers SACCO. He is a teacher by profession.

Directors' Profile

CORNELIUS ODHIAMBO ASHIRA

Cornelius Odhiambo Ashira, aged 44, joined the Board in 2006. He is the Director Representing Nairobi Province Parastatal Based Societies and is a member of the Central Management Committee of Kumbu Kumbu SACCO. He is a Delegate of KUSCCO.

EDWIN OTIENO JOSEPH

Edwin Otieno Joseph, aged 51, joined the Board in 2008. He is a retired Assitant Director of Administration at the Starehe Boys Centre. He is the Chairman of Elimu SACCO. He also served previously in the armed forces. Mr. Otieno holds a Certificate and Diploma in Philosophy from the University of Nairobi. He is currently in his final year of his Degree Program at the same University. Mr. Otieno is also a delegate of the Co-operative Bank.

MRS. MARY NOEL A WANGA

Mrs. Mary Noel A Wanga is an Advocate of the High Court of Kenya with over 12 years experience as a practicing Advocate and has an LL.B and BSL Degree, diploma in Kenyan Law and, currently undertaking diploma in Insurance (AIIK). She is a Certified Public Secretary (CPS K) and a Commissioner for Oaths and Notary Public. She is a member of the Law Society of Kenya, Institute of Certified Secretaries of Kenya, Kituo Cha Sheria, Fida among others. She joined the company in November 2008.

| Management Team |

Standing (from left to Right):

Mr. A Wambugu *(Human Resource Manager)*, Mr. P Mwaura *(Assistant General Manager - Finance)*, Mr. M Luvai *(Chief Internal Auditor)*, Mr. J Tomno *(Assistant General Manager - Branch Operations)*, Mr. K Kimani *(General Manager - General Business)*, Mr. D Rono *(General Manager - Life and Medical)*

Sitted (from left to Right):

Mrs. M Wanga *(Company Secretary/Chief Legal Officer)*, Mr. N Kuria *(Managing Director/CEO)*, Ms. P Ngari *(General Manager - Marketing)*

Report of the Chairman

" Gross premium income increased by an impressive 26% from Kshs. 1.9 billion in 2007 to Kshs. 2.4 billion. "

Review of the economy

The year 2008 started off badly with a difficult economic environment initially triggered by the disputed presidential election of December 2007 and the situation was further compounded by the world economic recession in the second half of the year. Trading was adversely affected for the better part of the year leading to big loss in business opportunities. The Kenyan economy was badly affected by the post election violence leading to a major drop in Gross Domestic Product (GDP) to a low of 2.1% against a projection of 7% with economic activity in agriculture, tourism and construction industries being the most affected. The inflation rate rose to an all time high of 25% precipitated by increase in food prices, high fuel prices and low productivity in almost all the sectors of the economy. The Nairobi Stock Exchange followed the fall in other global markets in America, Europe and Asia losing 59% between January and December 2008 as a result of low investor confidence. Domestic borrowing by the Government increased steadily as the projected revenue collections by Kenya Revenue Authority were not met. The coalition Government formed early in the year did not live up to expectations in terms of turning round the economy leading to economic stagnation even as the business community awaited the full impact of world recession. This is expected to hit Africa and other developing economies much more seriously in 2009.

Company Results

In spite of the harsh economic environment the company continued to perform well in terms of accelerated improvement in revenue and profitability.

General Business

The general insurance business registered significant improvement in terms of overall underwriting results compared to the previous year.

Gross premium income increased by an impressive 24% from Kshs. 1 billion in 2007 to Kshs. 1.3 billion. Net earned premium increased by 7% from Kshs. 916 million in 2007 to Kshs. 982 million.

The claims expenses decreased by 7% from Kshs. 613 million in 2007 to Kshs. 567 million in 2008. Net commission expenses decreased by 13% from Kshs. 76 million to Kshs. 66 million. Operating expenses increased by 13% from Kshs. 235 million to Kshs. 265 million. The underwriting profit improved impressively from a loss of Kshs. 25 million to a profit of Kshs. 62 million. This turn around in underwriting results is largely attributed to intensified scrutiny of the business underwritten for quality assurance and strict claims management.

Long-term Business

Gross premium income increased significantly by 19% from Kshs.918 million in 2007 to Kshs.1.1 billion. Net earned premium increased by 17% to stand at Kshs. 994 million. Investment income increased by an impressive 49% from Kshs. 74 million to Kshs. 109 million.

The life fund increased by 38% from Kshs. 543 million to Kshs. 748 million. In spite of the positive results registered in longterm business, the Actuary does not recommend transfer of any surplus to income statement in view of anticipated growth in ordinary life business that will raise the actuarial liability in 2009.

Profitability

Growth in premium income for both classes of insurance business was maintained with total gross earned premium increasing by 16% to Kshs. 2.2 billion from Kshs. 1.9 million underwritten in 2007. Net earned premium increased by 12% from Kshs. 1.7 billion in 2007 to Kshs. 1.9 billion. Profit/Surplus before tax increased by 56% from Kshs. 140 million to Kshs. 219 million. This increase is attributable to growth in business volume, better underwriting results and an improvement in investment return.

Dividend, Reserves and Share Capital

Share capital increased marginally by 6% from Kshs. 388 million to Kshs. 413 million. The class B shares continued to trade Over The Counter (OTC) with significant gain realized by those who participated in trading. Very few share holders of this class were however willing to sell their shares thus confirming the share holders confidence in the company.

In spite of the improved Company performance, the Directors recommend payment of a 7% dividend same as the preceding year so as to facilitate building of reserves for the future and strengthening of the company's financial base.

During the year under review, the share capital and reserves increased by 32% from Kshs. 572 million to Kshs. 757 million. The policy holders liabilities increased by 28% from Kshs. 457 million to Kshs. 587 million.

Future Outlook

The company celebrated 30 years of service to both the co-operative movement and the general public in December 2008 and this coincided with the end of the 2nd 5 years strategic plan. The 3rd 5 years strategic plan is under implementation from the beginning this year with the theme of 'Business Consolidation for growth and sustainability'. The rationale for the theme is to enable the company to take stock of its performance, integrate various systems and processes as well as put in place a new structure that will ensure profitability and sustainability of the company in the future.

Being aware that 2009 is the base year of the plan period, management has undertaken various strategic measures to be implemented to ensure success of the strategic plan. Among the measures undertaken is the strengthening of CIC brand and product sales through a four months advertisement campaign on new products that have been developed/repackaged in view of the growing competition in the insurance industry. We

expect to roll out more products in the foreseeable future as we await licensing of the CIC Asset Management Company by the CMA. Already an Individual pension plan has been rolled out and is expected to hit the market with a bang.

Capacity building will be given priority as we enter the second phase of re- structuring the company. The management will continue to take appropriate steps to improve Company performance through application of modern tools of business management.

The management has also been soliciting for the support of the share holders in raising the remaining balance of Kshs. 37 million in share capital (as at December 31st the share capital stood at Kshs. 413 million) to reach the required Kshs. 450 million before the end of this year.

Although 2008 was a reasonably successful year for the Company, we expect 2009 to be challenging because of famine and the impact of the global financial crisis which is expected to worsen this year. We hope that the coalition Government will put its act together with appropriate measures to ensure improvement in economic performance to alleviate the suffering of majority of Kenyans.

In conclusion, I take this opportunity to thank the staff and board members of the company, all our customers and intermediaries for the good performance in 2008. Keep up the good work to ensure better performance in 2009.

Japheth A. Magomere
CHAIRMAN

The Board of Directors of The Co-operative Insurance Company of Kenya Limited is committed to the development and implementation of policies and standards that entrench sound corporate governance practices in the Company. The Board is responsible for the governance of the company by setting the direction of the company through determination of strategic vision, objectives, and policies. The Board is also responsible for the long-term growth and profitability, whilst being accountable to the shareholders for ensuring that the company complies with the highest standards of corporate governance and business ethics. The Directors attach great importance to the need to conduct business and operations of the company with integrity and in accordance with generally accepted corporate practice and endorse the internationally developed principles of good governance. Directors strive to keep up to date with latest developments in corporate governance best practice. Directors are challenged to attend seminars on best practice in directorship. All the current serving Directors and the senior executive management team have, for example, attended a Five Day Training Course for Directors conducted by the Centre for Corporate Governance on behalf of the Commonwealth Fund for Technical Co-operation.

BOARD OF DIRECTORS

The Board is made up of a substantial majority of independent, non-executive Directors, including the Chairman. They are appointed by the shareholders on a three-year term and are bound by the Company's code of conduct.

The Directors maintain effective control over strategic, financial, operational, policy and compliance issues. Appropriate and timely information is provided to the Board to enable it fulfill this role. Except for direction and guidance on general policy, the Board has delegated authority for conduct of the day-to-day business to the Chief Executive Officer. The Board nonetheless retains responsibility for establishing and maintaining the company's overall internal control of financial, operational, and compliance issues so that its objectives for increased growth in profitability and shareholder value are realized.

The Company maintains a policy of open communication between the Board and management ensuring the Board is fully informed about all major matters concerning the company and the industry. The Board and management interact on a regular basis allowing the directors to contribute their knowledge particularly relating to the company's target market into the company's activities.

Board Meetings

The full Board meets at least four times a year to monitor the company's planned strategy and review in conjunction with its financial performance. The board has a formal schedule of matters reserved to it and in this regard all directors have access to the company secretary.

Board Committees

The Board is assisted in the discharge of its responsibilities by three standing committees listed below, that meet regularly under the terms of reference set by the Board.

Audit and Risk Committee

The Audit and Risk Committee meets four times a year or as necessary. The Committee comprises Mr. Joshuah N. Njoroge (Chairman), Mr. Leonard K. Siele, Mr. Gordon O. Owuor, Mr. Jonah Makau Mutuku and Mr. Joseph P. Nyagah. The Chief Internal Auditor is an ex-officio member while the Company Secretary is the secretary of the committee.The CEO attendes the meetings and other executives may attend as required.

The scope of this committee includes risk management, as well as compliance with the regulatory requirements. The main responsibilities of the committee include review and recommend to the Board, the company's financial information in particular quarterly and annual financial statements, as well as filing of regulatory requirements by IRA,CMA etc, compliance with accounting standards, liaison with the external auditors, remuneration of external auditors and maintaining oversight on internal control systems. The Committee is guided in its functions by a comprehensive Audit Committee Charter and Internal Audit Department Charter. These are designed to provide a comprehensive framework for the audit function within the company.

Finance and Investment Committee

The Finance and Investment Committee comprises Mr. Rev Peterson N. Kagane (Chairman), Mr. Peter N. Munuhe, Mr. Cornelius O. Ashira and Michael O. Wambia. The Chief Executive Officer, Assistant General Manager/Finance, General Manager/ Life and Medical, General Manager/General Business, and Company Secretary/Chief Legal Officer attend the meetings of the Committee.

The Committee's responsibilities include receiving and considering the Company's annual budget, reviewing the purchasing and tender regulations, disposal of major items and considering recommendations on capital expenditure. It also reviews proposals involving capital developments, financing and investment proposals.

Executive Committee

The Executive Committee comprises Mr. Japheth Magomere (Chairman), Mr.Rev Peterson N Kagane, Mr. Peter N. Munuhe, Mr. Edwin Otieno Joseph and Mr. Joshuah N. Njoroge. The Chief Executive Officer and Company Secretary/Chief Legal Officer attend the meetings of the Committee.

The Committee's responsibilities include recruitment of all senior positions, monitoring and appraisal of the performance of the senior management and reviewing all human resource policies.

Attendance at Meetings

Table 1 below is a summary of the attendance record of the directors at the full and the board committee meetings. A record of attendance is kept with the Company Secretary. The record of attendance at meetings is also noted in the minutes of the meetings.

Table 1: Summary of Meetings Attended By Directors for the Year Ended 31st December 2008

	Board Meeting		Executive Committee		Finance and Investment Committee		Audit Committee	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Japheth Magomere -Chairman	6	6	6	6	2	2		
Rev. Peterson N Kagane -Vice-Chairman	6	6	2	2	2	2		
Peter Munuhe	6	6	6	6	2	2		
Edwin J Otieno (c)	3	3	1	1				
Leonard Siele (d)	6	6					4	4
Cornelius Ashira	6	6			2	2		
Gordon Owuor	6	6					4	4
Joshuah Njoroge	6	6	6	6			4	4
Joseph P. Nyagah)	6	6					4	4
Michael O Wambia (e)	3	3			2	2		
Jonah M Mutuku (f)	3	3					2	2

Notes:
(a) Number of meetings convened during year when the director was a member
(b) Number of Meetings attended by the Director during the year
(c) Joined Board on 23rd May 2008
(d) To retire from Board on 8 May 2009
(e) Joined Board on 23rd May 2008
(f) Joined Board on 23rd May 2008

Internal Controls

The Board has collective responsibility for the Company's system of internal controls and for reviewing its effectiveness. The company has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems of obtaining authority for major transactions and ensuring compliance with laws and regulations that have significant financial implications.

The system of internal controls in place has defined operational procedures and financial controls to ensure that assets are safeguarded and that the company remains structured to ensure appropriate segregation of duties. In reviewing the effectiveness of the systems of internal controls and risk management, the Board takes into account the results of all the work carried out to audit and review the activities of the Company. A comprehensive management accounting system is in place providing financial and operational performance measurement indicators.

Weekly meetings are held by the Executive Management to give briefs on significant developments and to make major decisions collectively. Monthly meetings are held by the Management to monitor performance and to agree on measures for improvement.

Business Ethics

The company is committed to adherence to the highest standards of integrity, behavior and ethics in dealing with all its stakeholders. A formal code of ethics has been implemented to guide directors, management, employees and stakeholders on acceptable behavior in conducting business.

Communication with Shareholders

The company is committed to ensuring that shareholders are provided with full and timely information about its performance. This is usually done through distribution of the company's annual reports and release of notices in the press of the annual results. Company delegates are briefed at the regional level regularly.

Table 2: Top Ten Class A Shareholders as at 31.12.2008

NAME	BALANCE	%
Harambee Co-operative Savings and Credit Society Ltd	1,468,095	9.06
Aembu Farmers Co-operative Society Ltd	1,343,960	8.30
Kiambu Unity Finance Co-operative Union Ltd	1,319,824	8.15
CIC Staff Co-operative Savings and Credit Society Ltd	1,176,963	7.27
The Co-operative Bank of Kenya Ltd	992,064	6.13
Bandari Co-operative Savings and Credit Society Ltd	540,160	3.34
Mwalimu Co-operative Savings and Credit Society Ltd	257,269	1.59
Kipsigis Teachers Savings and Credit Society Ltd	214,251	1.32
Nacico Savings and Credit Co-operative Society	177,777	1.10
Stima Savings and Credit Co-operative Society Ltd	176,000	1.09
	7,666,363	**47.33**

Corporate Governance
continued

Table 3: Top Ten Class B shareholders as at 31.12.08

NAME	BALANCE	%
Emmanuel Kipkemoi Birech	46,500	1.30
Isaac Waithaka Kamunya	40,000	1.12
Teresa Wanjiru Thimba	39,500	1.10
Leonard Obura Aloo	32,000	0.89
Gerald Mbaabu M'ikunyua	30,000	0.84
Francis Kamau Ng'ang'a	23,000	0.64
Peter Simeon Nyorsok	22,222	0.62
Mrs. Weda Welton	22,200	0.62
James Mbugua Macharia	22,200	0.62
Joseph Elijahson Kimakia Mwangi	22,000	0.61
	299,622	**8.37**

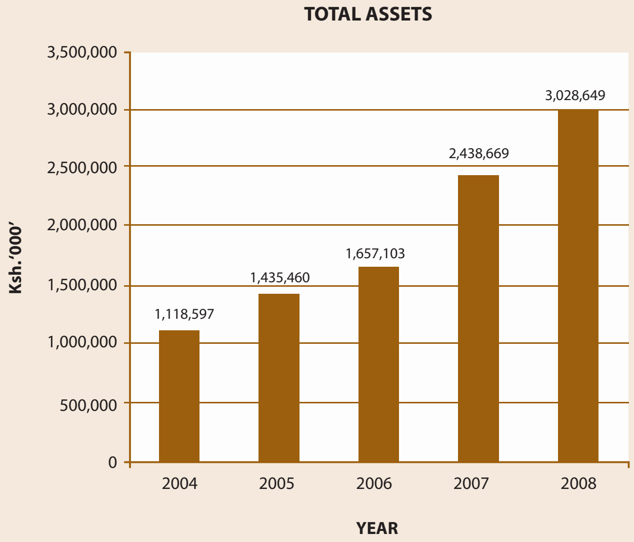
Corporate Social Responsibility (CSR)

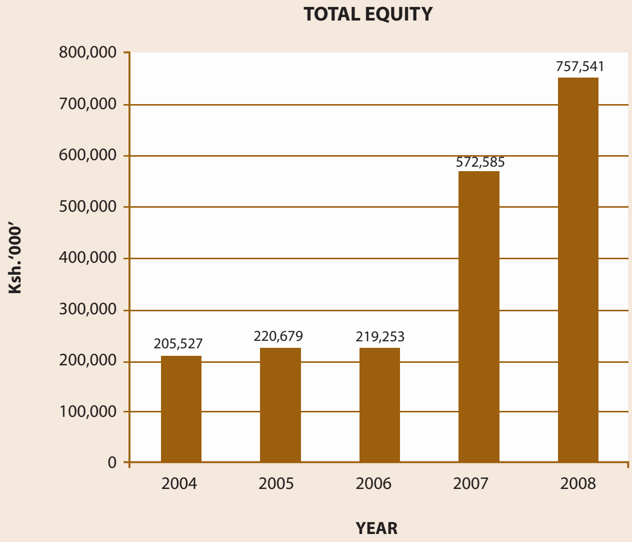
The Board is conscious of the Company's social responsibilities of achieving commercial success in ways that cherish ethical values, compliance, respect for the people, communities and natural environment. Every year the company supports activities involving all our staff across the country. We also donate money towards charitable causes.

Over 40 CIC staff and life agents attended the community service day during the celebrations of 5th Anniversary of the NPC Church.

CEO conducting the ground breaking ceremony for the basketball court in the company of the NPC Ngong Road Senior Pastors and Church Leaders after which he presented a cheque of KShs 350,000.

Hon. Prime Minister Raila Odinga during the official launch of the CIC Jipange Pension Plan during the 30th Anniversary celebrations last December.


TOTAL ASSETS
Ksh. '000'
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
1,118,597
1,435,460
1,657,103
2,438,669
3,028,649
2004
2005
2006
2007
2008
YEAR


TOTAL EQUITY
Ksh. '000'
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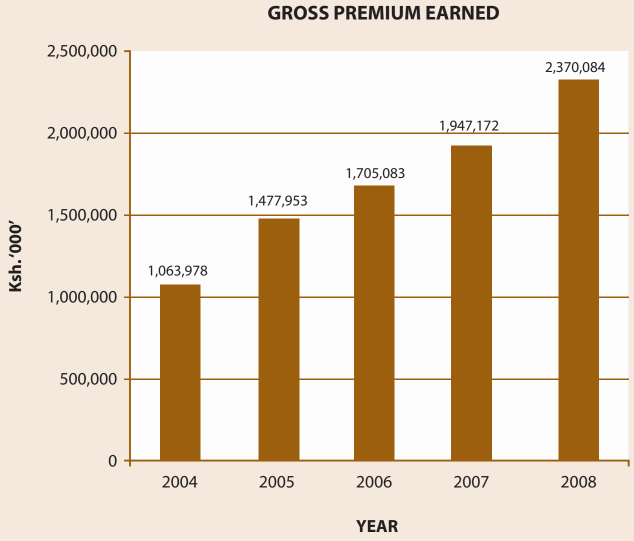
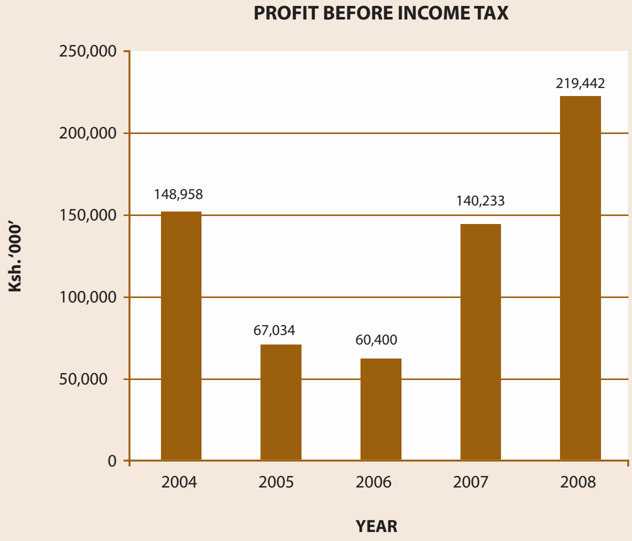
600,000
500,000
400,000
300,000
200,000
100,000
0
205,527
220,679
219,253
572,585
757,541
2004
2005
2006
2007
2008
YEAR


GROSS PREMIUM EARNED
Ksh. '000'
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
1,063,978
1,477,953
1,705,083
1,947,172
2,370,084
2004
2005
2006
2007
2008
YEAR


PROFIT BEFORE INCOME TAX
Ksh. '000'
250,000
200,000
150,000
100,000
50,000
0
148,958
67,034
60,400
140,233
219,442
2004
2005
2006
2007
2008
YEAR

Report of Directors

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activities of the company and its subsidiary is the transaction of general and life insurance and fund management. The company also invests in securities, properties, mortgages and loans.

This is the first year of consolidating the company's subsidiary, CIC investment Ltd, and thus the consolidated comparative figures represent the company figures. The subsidiary was incorporated in 2007 but was not licensed to operate by CMA until 2008. In 2007, it did not have any significant activities and thus it was not consolidated.

RESULTS	General Business Sh'000	Life business Sh'000	Total Sh'000
Profit before taxation	145,504	73,938	219,442
Taxation	(43,495)	-	(43,495)
Profit after taxation	102,009	73,938	175,947

DIVIDENDS

The directors recommend the payment of a first and final dividend of Sh 28,952,000 (2007: Sh 27,219,000).

DIRECTORS

The current directors are as shown on page 2. Messrs R Mwambura and F Ndala retired by rotation on 23 May 2008. J A Magomere was relected upon retirement by rotation on 23 May 2008 while R Mwambura was replaced by J M Mutuku and F Ndala was replaced by M O Wambia on 23 May 2008. Messrs L Siele, Gordon Owuor and C Ashira retire by rotation on 8 May 2009.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with Section 159(2) of the Companies Act (Cap 486).

By Order of the Board

MARY NOEL A WANGA
COMPANY SECRETARY/ CHIEF LEGAL OFFICER

20 March 2009

Statement of Directors' Responsibilities

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of the operating results of the group for that year. It also requires the directors to ensure that the parent company and its subsidiary 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.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenya Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of the company and of the group's operating results. The directors further accept responsibility for the maintenance of accounting records which 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 will not remain a going concern for at least the next twelve months from the date of this statement.

J A Magomere
Chairman

J N Njoroge
Director

20 March 2009

Report of the Consulting Actuary

I have conducted an actuarial valuation of the long term insurance business of The Co-operative Insurance Company of Kenya Limited as at 31 December 2008.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenya 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 insurance business of the company was financially sound and the actuarial value of the liabilities in respect of all classes of life insurance business did not exceed the amount of funds of the long term insurance business at 31 December 2008.

Abed Mureithi
Fellow of the Institute of Actuaries

21 April 2009

Deloitte.

Deloitte & Touche
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE
THE CO-OPERATIVE INSURANCE COMPANY OF KENYA LIMITED

Report on the financial statements

We have audited the accompanying financial statements of The Co-operative Insurance Company of Kenya Limited and its subsidiary, set out on pages 19 to 56 which comprise the consolidated and the company balance sheets as at 31 December 2008, and the consolidated and company income statement, consolidated and company statements of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' 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 from 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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 accompanying financial statements give a true and fair view of the state of financial affairs of the group and the company as at 31 December 2008 and of the group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on other legal requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

(i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were considered necessary for the purposes of our audit;

(ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and

(iii) the company's balance sheet and income statement are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)

22 April **2009**

Nairobi

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2008 Sh'000	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2007 Sh'000
Gross earned premiums	3	1,132,690	1,089,386	2,222,076	1,045,178	918,401	1,963,579
Less:							
Reinsurance premiums ceded		(150,571)	(94,787)	(245,358)	(129,048)	(70,502)	(199,550)
Net earned premiums		**982,119**	**994,599**	**1,976,718**	**916,130**	**847,899**	**1,764,029**
Commissions earned		35,983	15,154	51,137	33,766	-	33,766
Investment income	4	76,473	109,712	186,185	39,513	73,709	113,222
Other income	5	7,126	669	7,795	17,988	1,091	19,079
		119,582	125,535	245,117	91,267	74,800	166,067
Total income		**1,101,701**	**1,120,134**	**2,221,835**	**1,007,397**	**922,699**	**1,930,096**
Claims and policyholders benefits payable	6	(567,568)	(650,406)	(1,217,974)	(613,270)	(504,073)	(1,117,343)
Commissions payable		(102,229)	(107,689)	(209,918)	(109,845)	(66,918)	(176,763)
Operating and other expenses	7	(286,400)	(288,101)	(574,501)	(252,629)	(243,128)	(495,757)
		(956,197)	**(1,046,196)**	**(2,002,393)**	**(975,744)**	**(814,119)**	**(1,789,863)**
Profit before tax		145,504	73,938	219,442	31,653	108,580	140,233
Taxation charge	9	(43,495)	-	(43,495)	(15,797)	-	(15,797)
Profit for the year	10	**102,009**	**73,938**	**175,947**	**15,856**	**108,580**	**124,436**

Consolidated Balance Sheet

As at 31 December 2008

	Notes	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2008 Sh'000	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2007 Sh'000
ASSETS							
Property and equipment	11	41,060	145,859	186,919	45,810	127,907	173,717
Intangible assets	12	4,862	21,798	26,660	6,484	17,599	24,083
Investment property	13	-	226,050	226,050	-	205,500	205,500
Investment in subsidiary	14	-	-	-	10,000	-	10,000
Available - for- sale investments	15	1,268	-	1,268	1,268	-	1,268
Loans receivable - Mortgage loans	16	-	119,884	119,884	-	84,175	84,175
- Other loans	17	-	62,434	62,434	-	61,086	61,086
Equity investments at fair value through profit or loss	18	28,079	35,687	63,766	13,329	579	13,908
Taxation recoverable	9(c)	-	-	-	4,084	-	4,084
Deposits and commercial papers	20	65,180	25,000	90,180	20,000	20,000	40,000
Receivables arising out of reinsurance arrangements	33	299,155	12,684	311,839	206,018	11,819	217,837
Receivables arising out of direct insurance arrangements	33	198,442	12,138	210,580	193,511	55,001	248,512
Due from related party	21	-	-	-	-	11,228	11,228
Other receivables	22	103,218	129,449	232,667	61,163	93,904	155,067
Government securities held to maturity	23	461,013	409,689	870,702	258,715	254,348	513,063
Short term investments	24	-	15,295	15,295	-	2,254	2,254
Deposits with financial institutions	25	333,269	252,845	586,114	462,188	126,353	588,541
Cash and bank balances		24,291	-	24,291	65,816	18,530	84,346
Total assets		**1,559,837**	**1,468,812**	**3,028,649**	**1,348,386**	**1,090,283**	**2,438,669**
EQUITY							
Share capital	28	271,455	142,330	413,785	258,847	130,000	388,847
Share premium	29	24,628	1,491	26,119	23,002	-	23,002
Statutory reserve	30	-	160,832	160,832	-	86,631	86,631
Revaluation surplus	31	-	25,478	25,478	-	16,764	16,764
Retained earnings	32	131,327	-	131,327	56,841	-	56,841
Total equity		**427,410**	**330,131**	**757,541**	**338,690**	**233,395**	**572,085**
LIABILITIES							
Unearned premium provision	36	483,172	-	483,172	335,166	-	335,166
Actuarial value of policyholder liabilities	37	-	587,108	587,108	-	457,032	457,032
Insurance contracts liabilities	34	532,946	304,943	837,889	490,727	258,306	749,033
Deferred taxation	19	8,772	5,899	14,671	7,177	3,064	10,241
Payables arising from reinsurance arrangements and insurance bodies		17,701	29,387	47,088	8,485	34,131	42,616
Due to related party	21	-	-	-	10,000	-	10,000
Other payables	38	56,213	196,166	252,379	158,141	104,355	262,496
Taxation Payable	9(c)	33,623	-	33,623	-	-	-
Bank overdraft		-	15,178	15,178	-	-	-
Total liabilities		**1,132,427**	**1,138,681**	**2,271,108**	**1,009,696**	**856,888**	**1,866,584**
Total equity and liabilities		**1,559,837**	**1,468,812**	**3,028,649**	**1,348,386**	**1,090,283**	**2,438,669**

The financial statements on pages 19 to 56 were approved by the board of directors on 20 March 2009 and signed on its behalf by:

J A Magomere
Chairman

N C Kuria
Managing Director

J N Njoroge
Director

Company Balance Sheet

As at 31 December 2008

	Notes	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2008 Sh'000	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2007 Sh'000
ASSETS							
Property and equipment	11	41,060	145,859	186,919	45,810	127,907	173,717
Intangible assets	12	4,862	21,798	26,660	6,484	17,599	24,083
Investment property	13	-	226,050	226,050	-	205,500	205,500
Investment in subsidiary	14	11,000	-	11,000	10,000	-	10,000
Available - for- sale investments	15	1,268	-	1,268	1,268	-	1,268
Loans receivable - Mortgage loans	16	-	119,884	119,884	-	84,175	84,175
- Other loans	17	-	62,434	62,434	-	61,086	61,086
Equity investments at fair value through profit or loss	18	26,430	35,687	62,117	13,329	579	13,908
Taxation recoverable	9(c)	-	-	-	4,084	-	4,084
Deposits and commercial papers	20	65,180	25,000	90,180	20,000	20,000	40,000
Receivables arising out of reinsurance arrangements	33	299,155	12,684	311,839	206,018	11,819	217,837
Receivables arising out of direct insurance arrangements	33	198,443	12,138	210,581	193,511	55,001	248,512
Due from related party	21	658	-	658	-	11,228	11,228
Other receivables	22	103,012	129,449	232,461	61,163	93,904	155,067
Government securities held to maturity	23	461,013	409,689	870,702	258,715	254,348	513,063
Short term investments	24	-	15,295	15,295	-	2,254	2,254
Deposits with financial institutions	25	325,882	252,845	578,727	462,188	126,353	588,541
Cash and bank balances		21,938	-	21,938	65,816	18,530	84,346
Total assets		**1,559,901**	**1,468,812**	**3,028,713**	**1,348,386**	**1,090,283**	**2,438,669**
EQUITY							
Share capital	28	271,455	142,330	413,785	258,847	130,000	388,847
Share premium	29	24,628	1,491	26,119	23,002	-	23,002
Statutory reserve	30	-	160,832	160,832	-	86,631	86,631
Revaluation surplus	31	-	25,478	25,478	-	16,764	16,764
Retained earnings	32	131,319	-	131,319	56,841	-	56,841
Total equity		**427,402**	**330,131**	**757,533**	**338,690**	**233,395**	**572,085**
LIABILITIES							
Unearned premium provision	36	483,172	-	483,172	335,166	-	335,166
Actuarial value of policyholder liabilities	37	-	587,108	587,108	-	457,032	457,032
Insurance contracts liabilities	34	532,946	304,943	837,889	490,727	258,306	749,033
Deferred taxation	19	8,772	5,899	14,671	7,177	3,064	10,241
Payables arising from reinsurance arrangements and insurance bodies		17,701	29,387	47,088	8,485	34,131	42,616
Due to related party	21	122	-	122	10,000	-	10,000
Other payables	38	56,163	196,166	252,329	158,141	104,355	262,496
Taxation Payable	9(c)	33,623	-	33,623	-	-	-
Bank Overdraft		-	15,178	15,178	-	-	-
Total liabilities		**1,132,499**	**1,138,681**	**2,271,180**	**1,009,696**	**856,888**	**1,866,584**
Total equity and liabilities		**1,559,901**	**1,468,812**	**3,028,713**	**1,348,386**	**1,090,283**	**2,438,669**

The financial statements on pages 19 to 56 were approved by the board of directors on 20 March 2009 and signed on its behalf by:

J A Magomere
Chairman

N C Kuria
Managing Director

J N Njoroge
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital Sh'000	Share premium Sh'000	Revaluation surplus Sh'000	Statutory reserve Sh'000	Retained earnings Sh'000	Total Sh'000
At 1 January 2007	178,672	-	9,919	2,748	27,914	219,253
Shares issued (note 28)	210,175	23,002	-	-	-	233,177
Revaluation surplus on building	-	-	10,212	-	-	10,212
Deferred tax on revaluation	-	-	(3,064)	-	-	(3,064)
Transfer of excess depreciation	-	-	(433)	433	-	-
Deferred tax on transfer of excess depreciation	-	-	130	(130)	-	-
Surplus from long term insurance business	-	-	-	108,580	-	108,580
Transfer from statutory reserve	-	-	-	(25,000)	25,000	-
Profit for the year	-	-	-	-	15,856	15,856
Dividends paid	-	-	-	-	(11,929)	(11,929)
At 31 December 2007	**388,847**	**23,002**	**16,764**	**86,631**	**56,841**	**572,085**
At 1 January 2008	388,847	23,002	16,764	86,631	56,841	572,085
Shares issued (note 28)	24,938	3,117	-	-	-	28,055
Revaluation surplus on building	-	-	11,812	-	-	11,812
Deferred tax on revaluation	-	-	(2,835)	-	-	(2,835)
Transfer of excess depreciation	-	-	(376)	376	-	-
Deferred tax on transfer of excess depreciation	-	-	113	(113)	-	-
Surplus from long term insurance business	-	-	-	73,938	-	73,938
Transfer from statutory reserve	-	-	-	-	-	-
Profit for the year	-	-	-	-	102,009	102,009
Dividends paid	-	-	-	-	(27,523)	(27,523)
At 31 December 2008	**413,785**	**26,119**	**25,478**	**160,832**	**131,327**	**757,541**

Company Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital Sh'000	Share premium Sh'000	Revaluation surplus Sh'000	Statutory reserve Sh'000	Retained earnings Sh'000	Total Sh'000
At 1 January 2007	178,672	-	9,919	2,748	27,914	219,253
Shares issued (note 28)	210,175	23,002	-	-	-	233,177
Revaluation surplus on building	-	-	10,212	-	-	10,212
Deferred tax on revaluation	-	-	(3,064)	-	-	(3,064)
Transfer of excess depreciation	-	-	(433)	433	-	-
Deferred tax on transfer of excess depreciation	-	-	130	(130)	-	-
Surplus from long term insurance business	-	-	-	108,580	-	108,580
Transfer from statutory reserve	-	-	-	(25,000)	25,000	-
Profit for the year	-	-	-	-	15,856	15,856
Dividends paid	-	-	-	-	(11,929)	(11,929)
At 31 December 2007	**388,847**	**23,002**	**16,764**	**86,631**	**56,841**	**572,085**
At 1 January 2008	388,847	23,002	16,764	86,631	56,841	572,085
Shares issued (note 28)	24,938	3,117	-	-	-	28,055
Revaluation surplus on building	-	-	11,812	-	-	11,812
Deferred tax on revaluation	-	-	(2,835)	-	-	(2,835)
Transfer of excess depreciation	-	-	(376)	376	-	-
Deferred tax on transfer of excess depreciation	-	-	113	(113)	-	-
Surplus from long term insurance business	-	-	-	73,938	-	73,938
Transfer from statutory reserve	-	-	-	-	-	-
Profit for the year	-	-	-	-	102,001	102,001
Dividends paid	-	-	-	-	(27,523)	(27,523)
At 31 December 2008	**413,785**	**26,119**	**25,478**	**160,832**	**131,319**	**757,533**

Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 Sh'000	2007 Sh'000
OPERATING ACTIVITIES			
Cash generated from operations	41(a)	300,900	330,601
Tax paid	9(c)	(4,193)	-
		296,707	330,601
INVESTING ACTIVITIES			
Purchase of property and equipment	11	(21,420)	(6,136)
Purchase of intangible assets	12	(11,466)	(8,272)
Additions to investment property	13	-	(1,998)
Investment in subsidiary	14	-	(10,000)
Mortgage loans advanced	16	(48,983)	(19,898)
Mortgage loans repaid	16	13,274	8,857
Purchase of quoted shares	18	(140,538)	(14,588)
Net investment in government securities		(357,639)	(157,952)
Other loans advanced		(1,348)	(20,947)
Purchase of other investments		(13,041)	(2,254)
Proceeds from disposal of equipment		306	871
Investment income		177,068	95,249
Fixed deposits with financial institutions		81,242	(116,941)
Proceeds from disposal of quoted shares	18	79,068	21,670
Net cash used in investing activities		(243,477)	(232,339)
FINANCING ACTIVITIES			
Issue of shares		28,055	233,177
Dividends paid		(27,523)	(11,929)
Net cash generated from financing activities		532	221,248
INCREASE IN CASH AND CASH EQUIVALENTS		53,762	319,510
CASH AND CASH EQUIVALENTS AT JANUARY		498,246	178,736
CASH AND CASH EQUIVALENTS AT DECEMBER	**41(b)**	**552,008**	**498,246**

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Adoption of new and revised International Financial Reporting Standards (IFRS's)

Standards and Interpretations effective in the current period

The following new interpretations issued by the International Financial Reporting Interpretations Committee and revised standard are effective for the current period:

- IFRIC 12, Service Concession Arrangements (effective 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective 1 July 2008);
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective 1 January 2008);
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008).
- IAS 39, Financial Instruments: Recognition and Measurement: Reclassification of financial assets (effective for accounting periods beginning on or after 1 November 2008)

Adoption of these interpretations and the revised standard has not led to any changes in the group's accounting policies.

New and revised standards and interpretations in issue not yet effective

At the date of authorisation of these financial statements, the following revised standards and interpretations were in issue but not yet effective.

- IFRIC 15, Agreements for the construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009)
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for accounting periods on or after 1 January 2009)
- IFRIC 18, Transfer of Assets from customers (effective for accounting periods beginning on or after 1 July 2009)
- IFRS 1, First-Time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009)
- IFRS 3, Business Combinations – Comprehension revision on applying the acquisition method (effective for accounting periods beginning on or after 1 July 2009).
- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009)
- IAS 1 (Revised) Presentation of financial statements (effective for accounting periods on or after 1 January 2009)
- IAS 23 (Revised), Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009)
- IAS 27, Consolidated and Separate Financial Statements: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 28, Investments in Associates: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 31, Interests in Joint Ventures: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 32, Financial Instruments: Presentation: Amendments relating to puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009)
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009)
- "Improvements to IFRSs" was issued in May 2008 and its requirements are effective over a range of dates, with the earliest effective date being for annual periods beginning on or after 1 January 2009. This comprises a number of amendments to IFRSs, which resulted from the IASB's annual improvements project. However this is not expected to have an impact on group's financial position.

  The directors are currently assessing the impact and expected timing of adoption of new and revised standards on the company's results and financial position

1 ACCOUNTING POLICIES (continued)

Basis of preparation
The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain property, the carrying value of investment property and investments in shares at fair value, impaired assets at the recoverable amounts and actuarially determined liabilities at their present value.

Income recognition
Premium income is recognised on the assumption of risks, and includes estimates of premium due but not yet received less an allowance for cancellations and less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date which relate to the unexpired terms of policies in force at the balance sheet date, and are calculated using the 1/24ths method on net written premiums. For Marine business, unearned premiums at the balance sheet date are calculated on the 6th basis of written premiums in the last quarter of the year.

Commissions receivable are recognised as income in the period in which they are earned. To achieve this, a proportion of reinsurance commissions receivable is deferred and recognised as income over the term of the policy.

Investment income is recognised on a time proportion basis that takes into account the effective interest yield on the asset. Dividends are recognised as income in the period in which the right to receive payment is established. Rental income is recognised as income in the period in which it is earned.

Deferred acquisition costs
Deferred acquisition costs represents the proportion of commission expense in the periods up to the accounting date which relates to the unexpired terms of policies in force at the balance sheet date, and are calculated on the 1/24th method on net commissions.

Claims incurred
Claims incurred comprise claims paid and related expenses in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the balance sheet date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include additional provisions for claims incurred but not reported ("IBNR") at the balance sheet date based on the company's experience but subject to the minimum percentages set by the Commissioner of Insurance. Outstanding claims are not discounted.

Claims liability is determined through actuarial valuation which is done annually.

Receivables and payables related to insurance contracts and investment contracts
Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement.

Reinsurance contracts held
Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

1 ACCOUNTING POLICIES (continued)

Reinsurance contracts held (continued)

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables), as well longer term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement.

Property and equipment

Property and equipment is stated at cost or revaluation less accumulated depreciation and any impairement losses.

Increases in the carrying amount of land and buildings arising on revaluation are credited to a revaluation surplus. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

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

Buildings	40 years
Computer equipment	4 years
Motor vehicles	4 years
Furniture, fittings and equipment	8 years

Property and equipment are periodically reviewed for impairment.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The impairment loss is recognised in the income statement.

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

Investment properties

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

On the disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

Revaluation surplus

The revaluation surplus represents the surplus on the revaluation of buildings and freehold land (included within property and equipment), net of deferred tax. Movements in the revaluation reserve are shown in the statement of changes in equity.

1 ACCOUNTING POLICIES (continued)

Financial instruments

A financial asset or liability is recognised when the group becomes party to the contractual provisions of the instrument. The group classifies its financial instruments into the following categories: Financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. Management determines the appropriate classification of its investments at initial recognition and re-evaluates this at every reporting date.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling it in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the company intends to sell in the short term or those that it has designated as at fair value through profit or loss or available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables that the group's management has the positive intention and ability to hold to maturity.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Purchases and sales of investments are recognised on trade date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the company has also transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets 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. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as net realised gains/losses on financial assets.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, 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, and discounted cash flow analysis.

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

1 ACCOUNTING POLICIES (continued)

Impairment of financial assets

The group assesses at each balance sheet date whether there is objective evidence that a financial asset (or group of financial assets) is impaired. Impairment losses are recognised if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and that those events have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The impairment loss so recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities in the balance sheet.

Translation of foreign currencies

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

Employee entitlements

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

Taxation

Income tax expense represents the sum of the current tax payable and the deferred taxation.

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred taxation.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised.

Retirement benefit obligations

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

The group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute and are currently limited to Sh 200 per employee per month.

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

1 ACCOUNTING POLICIES (continued)

Dividends

Dividends on ordinary shares are charged to equity in the period in which they are paid. Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the year in which the dividends are approved by the shareholders.

Accounting for leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to one of the companies in the group as a lessee. All other leases 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.
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.
The consolidated comparatives represents the company balances being the first year of consolidation.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.
The key areas of judgment in applying the entity's accounting policies are dealt with below:

The ultimate liability arising from claims made under insurance contracts

The main assumption underlying techniques applied in the estimation of this liability is that a company's past claims experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include additional provisions for claims incurred but not reported ("IBNR") at the balance sheet date based on the company's experience but subject to the minimum percentages set by the Commissioner of Insurance.

Impairment losses

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Property and equipment

Critical estimates are made by the group's management, in determining depreciation rates for property and equipment.

3 GROSS EARNED PREMIUMS

The company is organised in two main divisions, general insurance and long term insurance. Long term insurance business comprises the underwriting of risks relating to death of an insured person, and includes contracts subject to the payment of premiums for a long term dependent on the termination of continuance of the life of an insured person. General insurance relates to all other categories of insurance business written by the company and is analysed into several sub-classes of business based on the nature of the assumed risks.

The premium income of the company can be analysed between the main classes of business as shown below:

	2008 Sh'000	2007 Sh'000
General insurance business		
Motor	601,223	612,967
Fire	102,718	80,693
Personal accident	119,309	56,052
Other	309,440	295,466
	1,132,690	1,045,178
Long term insurance business		
Ordinary life	88,744	72,694
Group life	1,000,642	845,707
	1,089,386	918,401
Total gross earned premium	**2,222,076**	**1,963,579**

4 INVESTMENT INCOME

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2008 Sh'000	Total 2007 Sh'000
Interest from government securities held to maturity	61,287	32,991	94,278	43,898
Bank deposit interest	20,824	40,649	61,473	28,241
Interest on staff loan receivables	1,721	5,172	6,893	6,313
Other interest income	-	441	441	1,453
Rental income from investment property	-	14,162	14,162	15,344
Fair value gains on investment property (note 13)	-	20,550	20,550	11,002
Fair value (loss)/gain on equity investments at fair value through profit or loss (note 18)	(7,359)	(4,253)	(11,612)	6,971
Total investment income	76,473	109,712	186,185	113,222

4 INVESTMENT INCOME (continued)

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2008 Sh'000	Total 2007 Sh'000
Investment revenue earned on financial assets, analysed by category of asset is as follows:				
Held to maturity investments	61,287	32,991	94,278	43,898
Loans and receivables	22,545	45,821	68,366	34,554
Fair value through profit or loss	(7,359)	(4,253)	(11,612)	6,971
	76,473	74,559	151,032	85,423
Investment income earned on non-financial assets	-	35,153	35,153	27,799
Total investment income	**76,473**	**109,712**	**186,185**	**113,222**

5 OTHER INCOME

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2008 Sh'000	Total 2007 Sh'000
(loss)/Gain on disposal of property and equipment	(232)	-	(232)	436
Miscellaneous income	7,358	669	8,027	18,643
	7,126	**669**	**7,795**	**19,079**

6 CLAIMS AND POLICYHOLDERS BENEFITS PAYABLE

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2008 Sh'000	Total 2007 Sh'000
Claims and policyholders benefits payable:				
- Gross	770,180	586,136	1,356,316	1,211,475
- Reinsurers' share	(202,612)	(65,806)	(268,418)	(234,398)
Actuarial adjustment of policy holders liability	-	130,076	130,076	140,266
	567,568	**650,406**	**1,217,974**	**1,117,343**

7 OPERATING AND OTHER EXPENSES

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2008 Sh'000	Total 2007 Sh'000
The following items have been charged in arriving at profit before tax:				
Staff costs (note 8)	73,698	96,408	170,106	141,760
Auditors' remuneration	1,018	1,011	2,029	1,725
Directors fees	4,864	-	4,864	3,401
Directors emoluments	13,690	-	13,690	20,388
Depreciation (note 11)	7,471	12,020	19,491	16,348
Amortisation (note 12)	1,622	7,267	8,889	8,027
Impairment charge for doubtful premium receivables	31,170	-	31,170	19,365
Premium tax	17,859	1,470	19,329	18,005
Other	135,008	169,925	304,933	266,738
Operating and other expenses	**286,400**	**288,101**	**574,501**	**495,757**

8 STAFF COSTS

GROUP AND COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2008 Sh'000	Total 2007 Sh'000
Staff costs include the following:				
- Salaries	65,350	81,730	147,080	125,801
- Pension costs	6,944	13,196	20,140	13,013
- leave pay	1,404	1,482	2,886	2,946
	73,698	**96,408**	**170,106**	**141,760**

9 TAXATION

	Total 2008 Sh'000	Total 2007 Sh'000
a) Taxation charge		
Current tax at 30%	41,900	7,745
Prior year current tax underprovision	-	859
	41,900	8,604
Deferred tax charge (note19)	1,595	7,193
	43,495	**15,797**

Current taxation relates to general business only. No taxation has been charged on long term business as the business line did not report a taxable surplus.

b) Reconciliation of taxation expense to expected tax based on accounting profit.

Profit before taxation	219,442	140,233
Tax calculated at a tax rate of 30%	65,833	42,070
Tax effect of:		
- Expenses not deductible for tax	3,468	3,642
- Income not subject to tax	(25,806)	(30,774)
Prior year current tax underprovision	-	859
Taxation charge for the year	**43,495**	**15,797**

c) Taxation recoverable/(payable) – Group and Company

At 1 January	4,084	12,688
Charge for the year	(41,900)	(8,604)
Tax Paid	4,193	-
At 31 December	**(33,623)**	**4,084**

10 PROFIT/(LOSS) FOR THE YEAR

A profit for the year of Shs 175,939,000 (2007 –Shs 124,436,000) has been dealt with in the books of the company.

11 PROPERTY AND EQUIPMENT – GROUP AND COMPANY

	Building Sh'000	Motor vehicles Sh'000	Computers Sh'000	Furniture fittings & equipment Sh'000	Total Sh'000
COST OR VALUATION					
At 1 January 2007	87,500	24,146	54,033	93,978	259,657
Additions	1,076	-	3,511	1,549	6,136
Disposals	-	(3,020)	-	-	(3,020)
Revaluation	5,924	-	-	-	5,924
At 31 December 2007	94,500	21,126	57,544	95,527	268,697
At 1 January 2008	94,500	21,126	57,544	95,527	268,697
Additions	-	2,350	8,333	10,737	21,420
Disposals	-	-	-	(703)	(703)
Revaluation	9,450	-	-	-	9,450
At 31 December 2008	103,950	23,476	65,877	105,561	298,864
COMPRISING:					
Cost	77,176	23,476	65,877	105,561	272,090
Valuation- 2008	26,774	-	-	-	26,774
	103,950	23,476	65,877	105,561	298,864
DEPRECIATION					
At 1 January 2007	4,287	12,430	33,619	35,169	85,505
Charge for the year	-	2,820	5,983	7,545	16,348
Reversal of accumulated depreciation on revaluation	(4,287)	-	-	-	(4,287)
Eliminated on disposals	-	(2,585)	-	-	(2,585)
At 31 December 2007	-	12,665	39,602	42,714	94,981
At 1 January 2008	-	12,665	39,602	42,714	94,981
Charge for the year	2,362	2,703	6,571	7,943	19,491
Reversal of accumulated depreciation on revaluation	(2,362)	-	-	-	(2,362)
Eliminated on disposals	-	-	-	(165)	(165)
At 31 December 2008	-	15,368	46,173	50,404	111,945
NET BOOK VALUE					
At 31 December 2008	**103,950**	**8,108**	**19,704**	**55,157**	**186,919**
At 31 December 2007	**94,500**	**8,461**	**17,942**	**52,813**	**173,717**
NET BOOK VALUE- COST BASIS					
At 31 December 2008	**79,464**	**8,108**	**19,705**	**55,156**	**162,433**
At 31 December 2007	**79,464**	**8,461**	**17,942**	**52,813**	**158,680**

The building was revalued in December 2008 by Lloyd Masika Limited, registered valuers, on the basis of the market value for existing use. The resultant revaluation surplus was credited to the revaluation surplus.

12 INTANGIBLE ASSETS – GROUP AND COMPANY

	General business Sh'000	Life business Sh'000	Total Sh'000
COST		-	-
At 1 January 2007	56,796	-	56,796
Additions	-	8,272	8,272
Transfer from general to life business	(23,408)	23,408	-
At 31 December 2007	33,388	31,680	65,068
At 1 January 2008	33,388	31,680	65,068
Additions	-	11,466	11,466
At 31 December 2008	33,388	43,146	76,534
AMORTISATION			
At 1 January 2007	32,958	-	32,958
Amortisation	2,161	5,866	8,027
Transfer from general to life business	(8,215)	8,215	-
At 31 December 2007	26,904	14,081	40,985
At 1 January 2008	26,904	14,081	40,985
Amortisation	1,622	7,267	8,889
At 31 December 2008	28,526	21,348	49,874
NET BOOK VALUE			
As at 31 December 2008	**4,862**	**21,798**	**26,660**
As at 31 December 2007	**6,484**	**17,599**	**24,083**

13 INVESTMENT PROPERTY – GROUP AND COMPANY

	2008 Sh'000	2007 Sh'000
At 1 January 2008	205,500	192,500
Additions	-	1,998
Fair value gains (note 4)	20,550	11,002
	226,050	**205,500**

The investment property was revalued on 31 December 2008 by Lloyd Masika Limited, registered valuers, on the basis of the market value existing use. The resultant net balance of the revaluation surplus was credited to the income statement (note 4).

14 INVESTMENT IN SUBSIDIARY - COMPANY

550,000 shares @ Shs 20 (2007 - 500,000 shares @ Shs 20)

The subsidiary was incorporated in 2007 but was not licensed by CMA to operate until 2008. In 2007 it did not have any significant activities and thus it was not consolidated.

Company	*Percentage Holding*	*Country of Incorporation*	*Principal activity*
CIC Asset Management Limited	100%	Kenya	Funds and assets management as regulated by the Capital Markets Authority.

15 AVAILABLE -FOR - SALE INVESTMENTS – GROUP AND COMPANY

Unquoted shares	2008 Sh'000	2007 Sh'000
Shares held in The Co-operative Bank of Kenya Limited, at cost	**1,268**	**1,268**

These are shares held in The Co-operative Bank of Kenya Limited before the initial public offer (IPO). Though The Co-operative Bank of Kenya Limited shares are currently listed in the Nairobi Stock Exchange, there was an agreement for the shares held by corporations pre IPO not to be traded for the first 5 years. These shares are therefore valued at cost.

16 LOANS RECEIVABLE - GROUP AND COMPANY

	2008 Sh'000	2007 Sh'000
Mortgage loans		
At start of the year	84,175	73,134
Loans advanced	48,983	19,898
Loan repayments	(13,274)	(8,857)
At end of year	**119,884**	**84,175**
Maturity profile of mortgage loans:		
Within 1 year	8,552	8,270
In 1-5 years	42,760	41,354
In over 5 years	68,572	34,551
	119,884	**84,175**

17 LOANS RECEIVABLE -GROUP AND COMPANY

Oth Other loans		
Staff loans	56,118	57,557
Policy loans	6,316	3,529
	62,434	**61,086**

18 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

GROUP

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2008 Sh'000	Total 2007 Sh'000
At 1 January	13,329	579	13,908	14,019
Additions	50,157	90,381	140,538	14,588
Disposals	(28,048)	(51,020)	(79,068)	(21,670)
Fair value (loss)/gains (note 4)	(7,359)	(4,253)	(11,612)	6,971
At 31 December	**28,079**	**35,687**	**63,766**	**13,908**

EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2008 Sh'000	Total 2007 Sh'000
Quoted investments:				
At 1 January	13,329	579	13,908	14,019
Additions	48,508	90,381	138,889	14,588
Disposals	(28,048)	(51,020)	(76,068)	(21,670)
Fair value (loss)/gains (note 4)	(7,359)	(4,253)	(11,612)	6,971
At 31 December	**26,430**	**35,687**	**62,117**	**13,908**

19 DEFERRED TAXATION – GROUP AND COMPANY

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2007: 30%).
The movement on the deferred income tax account is as follows:
The deferred tax asset/ liability is attributable to the following items:

	2008 Sh'000	2007 Sh'000
Accelerated capital allowances on motor vehicles and equipment	8,354	6,687
Leave pay provision	(1,029)	(957)
Revaluation surplus	7,346	4,511
	14,671	**10,241**

The movement in the deferred tax account is as follows:		
At 1 January	10,241	(16)
Income statement charge - note 9(a)	1,595	7,193
Charged to equity	2,835	3,064
At 31 December	**14,671**	**10,241**

20 DEPOSITS AND COMMERCIAL PAPERS – GROUP AND COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2008 Sh'000	Total 2007 Sh'000
Embu Farmers Co-operative Society Limited	-	20,000	20,000	20,000
Kiambu Unity Finance Limited	20,000	-	20,000	20,000
COMMERCIAL PAPERS				
Nakumat Holdings Ltd	35,180	5,000	40,180	-
Car and General (Kenya) Ltd	10,000	-	10,000	-
Total deposits	**65,180**	**25,000**	**90,180**	**40,000**

The deposits with Embu Farmers Co-operative Society Limited and Kiambu Unity Finance Limited are for a period of four years each commencing in 2003 and 2005 respectively. Interest was earned on the deposits at 6% per annum. Deposits with Embu Farmers Co-operative Society Limited were renewed for a period of two years in 2007.

21 RELATED PARTY BALANCES - COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2008 Sh'000	Total 2007 Sh'000
Due from related party				
CIC Asset Management Limited	658	-	658	11,228
Due to related party				
CIC Asset Management Limited	122	-	122	10,000

22 OTHER RECEIVABLES - GROUP

Accrued interest	31,308	24,052	55,360	27,752
Staff advances	6,403	-	6,403	4,840
Salvage recoveries	20,591	-	20,591	25,787
Deferred acquisition cost	24,830	-	24,830	-
Other receivables	20,086	105,397	125,483	96,688
Total receivables	103,218	129,449	232,667	155,067

OTHER RECEIVABLES - COMPANY

Accrued interest	31,308	24,052	55,360	27,752
Staff advances	6,403	-	6,403	4,840
Salvage recoveries	20,591	-	20,591	25,787
Deferred acquisition cost	24,830	-	24,830	-
Other receivables	19,880	105,397	125,277	96,688
Total receivables	103,012	129,449	232,461	155,067

23 GOVERNMENT SECURITIES HELD TO MATURITY
– GROUP AND COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2008 Sh'000	Total 2007 Sh'000
Treasury bills and bonds maturing				
- within 90 days	-	20,000	20,000	20,000
- after 90 days	461,013	389,689	850,702	493,063
	461,013	**409,689**	**870,702**	**513,063**

Treasury bonds amounting to Sh 105.3 million are held by the Central Bank of Kenya under lien to the Commissioner of Insurance in accordance with the Insurance Act.

24 SHORT TERM INVESTMENTS- GROUP AND COMPANY

Policy holder deposits	**-**	**15,295**	**15,295**	**2,254**

Short term investments relates to policy holders deposits held with Africa Alliance for Mavuno life product. This is a unit linked product whereby Co-operative Insurance gets funds from investors and has engaged Africa Alliance to invest and manage the funds.

25 DEPOSITS WITH FINANCIAL INSTITUTIONS - GROUP

The Co-operative Bank of Kenya Ltd	57,309	61,266	118,575	224,749
Housing Finance Limited	104,558	10,745	115,303	67,556
K-Rep Bank Ltd	-	20,000	20,000	76,133
Investment & Mortgages Bank Ltd	60,485	82,680	143,165	131,581
NIC Bank Ltd	73,317	42,238	115,555	88,522
Bank of Africa	20,000	-	20,000	-
Barclays Bank Ltd	7,600	7,600	15,200	-
PTA Bank Limited	10,000	-	10,000	-
Consolidated Bank Limited	-	10,000	10,000	-
Prime Bank Limited	-	18,316	18,316	-
	333,269	**252,845**	**586,114**	**588,541**
Maturing within three months	297,650	245,245	542,895	413,900
Maturing after 3 months	35,619	7,600	43,219	174,641
	333,269	**252,845**	**586,114**	**588,541**

25 DEPOSITS WITH FINANCIAL INSTITUTIONS

- COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2008 Sh'000	Total 2007 Sh'000
The Co-operative Bank of Kenya Ltd	57,309	61,266	118,575	224,749
Housing Finance Limited	97,171	10,745	107,916	67,556
K-Rep Bank Ltd	-	20,000	20,000	76,133
Investment & Mortgages Bank Ltd	60,485	82,680	143,165	131,581
NIC Bank Ltd	73,317	42,238	115,555	88,522
Bank of Africa	20,000	-	20,000	-
Barclays Bank Ltd	7,600	7,600	15,200	-
PTA Bank Limited	10,000	-	10,000	-
Consolidated Bank Limited	-	10,000	10,000	-
Prime Bank Limited	-	18,316	18,316	-
	325,882	**252,845**	**578,727**	**588,541**
Maturity analysis:				
Maturing within three months	290,263	245,245	535,508	413,900
Maturing after 3 months	35,619	7,600	43,219	174,641
	325,882	**252,845**	**578,727**	**588,541**

26 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:

	2008 %	2007 %
Government securities	10.93	9.25
Mortgage loans	4.81	5.23
Policy loans	4.17	11.67
Deposits with financial institutions	10.77	4.39

27 DIVIDENDS

In respect of the current year, the directors propose a first and final dividend of Sh 28,952,000 be paid to shareholders. This is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. Payment of dividends is subject to withholding tax at the rate of 5% or 10%, depending on the residence of the individual shareholders.

28 SHARE CAPITAL

	2008		2007	
	Number of shares Sh'000	Share capital Sh'000	Number of shares Sh'000	Share capital Sh'000
1 January	30,000	600,000	10,000	200,000
Additions	-	-	20,000	400,000
31 December	30,000	600,000	30,000	600,000
Issued and fully paid up share capital				
1 January	19,442	388,847	8,933	178,672
Additions	1,247	24,938	10,509	210,175
31 December	**20,689**	**413,785**	**19,442**	**388,847**

The movement in share capital was as a result of issue of 1,246,900 of sh 20 each which were issued and paid for in 2008.

29 SHARE PREMIUM

	2008 Sh'000	2007 Sh'000
Share premium	**26,119**	**23,002**

The share premium relates to the 1,246,900 additional shares issued through private placement at a cost of Shs 22.5 which is Shs 2.50 above the nominal cost of shs.20.

30 STATUTORY RESERVE

(a) Transfer from statutory reserve relates to surplus on the life assurance business which is distributable as dividends.

(b) The statutory reserve relates to the surplus on the life assurance business which is not distributable as dividends as per the requirements of the Insurance Act.

31 REVALUATION SURPLUS

The revaluation surplus represents the surpluses on the revaluation of buildings.

32 RETAINED EARNINGS

The retained earnings balance represents the amount available for dividend distribution to the shareholders of the company

33 DIRECT INSURANCE AND REINSURERS RECEIVABLES

Receivables arising out of direct insurance arrangements relate to premiums earned but not received as a result of risks underwritten but whose premium has not been received as at year end. Receivables arising out of reinsurance arrangements relate to reinsurers portion of claims incured which had not been recovered from reinsurers as at year end.

34 INSURANCE CONTRACTS LIABILITIES GROUP AND COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2008 Sh'000	Total 2007 Sh'000
Claims reported and claims handling expenses:				
At 1 January 2007	382,911	227,906	610,817	440,974
Claims incurred in the year	613,269	363,807	977,076	810,866
Payments for claims and claims handling expenses	(505,453)	(333,407)	(838,860)	(641,023)
At 31 December 2007	**490,727**	**258,306**	**749,033**	**610,817**
Claims reported and claims handling expenses:				
At 1 January 2008	490,727	258,306	749,033	610,817
Claims incurred in the year	567,385	566,967	1,134,352	977,076
Payments for claims and claims handling expenses	(525,166)	(520,330)	(1,045,496)	(838,860)
At 31 December 2008	**532,946**	**304,943**	**837,889**	**749,033**

Movement in general insurance business is shown in note 35.

35 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

GROUP AND COMPANY

General (short term) insurance business

	2008			2007		
	Gross Sh'000	Reinsurance Sh'000	Net Sh'000	Gross Sh'000	Reinsurance Sh'000	Net Sh'000
Notified claims	693,562	258,587	434,975	497,801	162,115	335,686
Incurred but not reported	55,752	-	55,752	47,225	-	47,225
Total at beginning of year	749,314	258,587	490,727	545,026	162,115	382,911
Cash paid for claims settled in year	(727,777)	(202,612)	(525,165)	(696,476)	(142,214)	(554,262)
Increase in liabilities arising from:						
Current year claims	567,385	319,815	247,570	593,608	169,970	423,638
Prior year claims	325,019	5,205	319,814	307,156	68,714	238,442
Total at end of year	**913,941**	**380,995**	**532,946**	**749,314**	**258,585**	**490,729**
Notified claims	848,934	380,995	467,939	693,562	258,585	434,977
Incurred but not reported	65,007	-	65,007	55,752	-	55,752
Total at the end of year	**913,941**	**380,995**	**532,946**	**749,315**	**258,585**	**490,730**

36 PROVISIONS FOR UNEARNED PREMIUM AND UNEXPIRED RISKS

GROUP AND COMPANY.

The unearned premium provisions represent the portion of the premium written in periods up to the accounting date which relates to the unexpired terms of policies in force at the balance sheet date. The movement in the reserve is shown below:

	2008 Gross Sh'000	2008 Reinsurance Sh'000	2008 Net Sh'000	2007 Gross Sh'000	2007 Reinsurance Sh'000	2007 Net Sh'000
At 1 January	335,166	28,865	306,301	351,572	28,865	322,707
Increase/(decrease) in the period (net)	148,006	-	148,006	(16,406)	-	(16,406)
At 31 December	**483,172**	**28,865**	**454,307**	**335,166**	**28,865**	**306,301**

37 ACTUARIAL VALUE OF POLICYHOLDER LIABILITIES

The annual actuarial valuation of the life fund was carried out by The Actuarial Services Company Limited, Actuaries and Consultants, as at 31 December 2008 and revealed an actuarial surplus of Shs 93,281,000 (2007 – surplus of Shs 115,906,000) before declaration of the interest and bonuses to policyholders. The Actuaries recommended Nil transfer (2007 - Shs 25,000,000) from the life fund to the general business.

38 OTHER PAYABLES - GROUP

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2008 Sh'000	Total 2007 Sh'000
Sundry payables	28,021	62,947	90,968	140,186
Advance premium	22,878	117,689	140,567	114,415
Leave pay provision	3,430	-	3,430	3,190
Rent deposits	1,884	235	2,119	2,450
Mavuno unit linked deposits	-	15,295	15,295	2,255
	56,213	196,166	252,379	262,496

OTHER PAYABLES - COMPANY

	General insurance business Sh'000	Long term insurance business Sh'000	Total 2008 Sh'000	Total 2007 Sh'000
Sundry payables	27,971	78,242	106,213	142,441
Advance premium	22,878	117,689	140,567	114,415
Leave pay provision	3,430	-	3,430	3,190
Rent deposits	1,884	235	2,119	2,450
	56,163	196,166	252,329	262,496

39 CONTINGENT LIABILITIES – GROUP AND COMPANY

	2008 Sh'000	2007 Sh'000
Bank guarantees	11,576	27,461

In common practice with the insurance industry in general, the group is subjected to litigation arising in the normal course of insurance business. The directors are of the opinion that this litigation will not have a material effect on the financial position or profits of the company.

40 CAPITAL COMMITMENTS- GROUP AND COMPANY

Capital expenditure committed for at the balance sheet date but not recognised in the financial statements is as follows:

	2008 Sh'000	2007 Sh'000
Committed but not contracted for	**81,211**	**50,380**

41 CASH GENERATED FROM OPERATIONS – GROUP AND COMPANY

a) Reconciliation of profit before tax to cash generated from operations:

	2008 Sh'000	2007 Sh'000
Profit before taxation	219,442	140,233
Adjustments for:		
Depreciation (note 11)	19,491	16,348
Amortisation of intangible assets (note 12)	8,889	8,027
Interest income receivables	(177,067)	(95,249)
Loss/(Surplus) on revaluation of quoted shares (note 18)	11,612	(6,971)
Gain on Revaluation on investment property (note 13)	(20,550)	(11,002)
Loss/ (gain) on disposal of property	232	(436)
Increase/(decrease) in provision for unearned premium (note 36)	148,006	(16,406)
Increase in outstanding claims provision	88,857	138,216
Operating income before working capital changes	298,912	172,760
Decrease in receivables arising out of direct insurance arrangements	37,931	49,491
ncrease in sundry receivables	(77,600)	(98,871)
(Decrease)/increase in other payables	(10,117)	197,901
Actuarial value of policyholders liabilities	130,076	140,266
Movement in amounts due to reinsurers and other insurance bodies (net)	(89,530)	(129,718)
Net movement in related party balances	11,228	(1,228)
Net cash generated from operations	**300,900**	**330,601**

b) Cash and cash equivalents

	2008 Sh'000	2007 Sh'000
Cash and cash balances	24,291	84,346
Bank overdraft	(15,178)	-
Deposits with banks	542,895	413,900
	552,008	**498,246**

42 OPERATING LEASE COMMITMENTS

Company as a lessee

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

	2008 Sh'000	2007 Sh'000
Not later one year	6,735	10,367
Later than 1 year but not later than 5 years	12,198	20,169
	18,933	**30,536**

Company as a lessor

Net rental income earned during the year was Shs 14,162,000 (2007: Shs 15,344,000). At the balance sheet date, the company had contracted with tenants for the following future lease receivables:

	2008 Sh'000	2007 Sh'000
Not later one year	22,801	23,443
Later than 1 year but not later than 5 years	128,911	93,772
	151,712	**117,215**

Leases are for a period of six years.

43 RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of key management during the year were as follows:

	2008 Sh'000	2007 Sh'000
Directors'emoluments - fees	4,864	3,401
- others	13,690	20,388
Key management salaries and other short-term employment benefits	52,049	33,952
	70,603	**57,741**

44 RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's activities expose it to a variety of financial risks, including insurance risk, financial risk, credit risk, and the effects of changes in property values, debt and equity market prices, foreign currency exchange rates and interest rates. The group's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place, which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

The disclosures below summarise the way the group manages key risks:

Insurance risk

The risk under any one insurance contract arises from the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical, local and type of industry covered and geographical areas. Various measures have been put into place to diversify the company's business mix which currently indicates a balance between long term and short term businesses. The group draws its business from the various geographical areas in the country.

Life insurance contracts sensitivity analysis

The actuarial assumptions used as at 31 December 2008 are unlikely to change significantly to result in material variation in actuarial liabilities.

Financial risk

The group is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. It manages these positions with an Asset Liability Management (ALM) framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The group produces regular reports at portfolio and asset and liability class level that are circulated to the group's key management personnel. The principal technique of the group's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. The group does not use hedge accounting.

44 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The group has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed using the categories utilised in the company's ALM framework.

Short-term insurance contracts

The group engages in short term insurance contracts and funds the insurance liabilities with a portfolio of equity and debt securities exposed to market risk. During the year, the group increased the portion of financial assets invested in debt securities to mitigate the impact of the volatility of equity prices experienced in recent years. An analysis of the group's financial assets and its short term insurance liabilities is presented below;

	2008 Sh'000	2007 Sh'000
General insurance business		
Financial assets		
Debt securities:		
Held to maturity:		
- Government bonds and treasury bills	461,013	258,715
Equity securities:		
At fair value through profit or loss:		
- Listed securities	28,079	13,329
Loans and receivables from insurance and reinsurance contracts	497,597	385,491
Cash and cash equivalents	357,560	538,734
Total	**1,344,249**	**1,196,269**
Short – term insurance liabilities		
Insurance contracts- short term	532,946	490,727
Less assets arising from reinsurance contracts held-short term	(282,269)	(11,447)
Total	**250,677**	**479,280**
Long term insurance business		
Financial assets		
Debt securities:		
Held to maturity:		
- Government bonds and treasury bills	409,689	254,348
Equity securities:		
At fair value through profit or loss:		
- Listed securities	35,687	579
Loans and receivables from insurance and reinsurance contracts	12,684	61,106
Cash and cash equivalents	237,667	189,142
Total	**695,727**	**505,175**
Long– term insurance liabilities		
Insurance contracts- short term	304,943	258,306
Less assets arising from reinsurance contracts held-short term	(16,703)	(22,312)
Total	**288,240**	**235,994**

44 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non interest bearing. However, due to the time value of money and the impact of interest rates on the level of bodily injury incurred by the company's policyholders (where a reduction of interest rate would normally produce a higher insurance liability), the group matches the cash flows of assets and liabilities in this portfolio by estimating their mean duration.

The mean duration of liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from the insurance contracts in force at the balance sheet date (both incurred claims and future claims arising from the unexpired risks at the balance sheet date). The mean durations are:

	2008	2007
Net short term insurance liabilities- life risk	0.2 years	0.2 years
Net short term insurance liabilities-property risk	2.0 years	2.0 years
Net short term insurance liabilities-casualty risk	5.0 years	5.0 years
Financial assets (excluding equity securities)	3.0 years	3.0 years

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the company's ALM framework for management of short term insurance contracts as of 31 December 2008:

General insurance business

Financial assets	Carrying Amount 31.12.2008 Sh'000	No stated Maturity Sh'000	Contractual cash flows (undiscounted) 0-1 yr Sh'000	1-2 yrs Sh'000	2-3 yrs Sh'000	3-4 yrs Sh'000	>5 yrs Sh'000
Debt securities:							
Held to maturity:							
-Government bonds and treasury bills-fixed rate	461,013	-	-	1,463	96,250	108,300	255,000
-Listed securities-fixed rate	-	-	-	-	-	-	-
Equity securities:							
At fair value through profit or loss:							
-Listed securities	28,079	28,079	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	497,597	-	497,597	-	-	-	-
Cash and cash equivalent	522,740	-	522,740	-	-	-	-
Total	**1,509,429**	**28,079**	**1,020,337**	**1,463**	**96,250**	**108,300**	**255,000**
Short term insurance liabilities:							
Insurance contracts-short term	532,946	-	532,946	-	-	-	-
Payables arising from reinsurance arrangements	786	-	786	-	-	-	-
Less assets arising from reinsurance contracts	(282,269)	-	(282,269)	-	-	-	-
Total	**251,463**	**-**	**251,463**	**-**	**-**	**-**	**-**
Difference in contractual cash flows	**1,257,966**	**28,079**	**768,874**	**1,463**	**96,250**	**108,300**	**255,000**

44 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the group's ALM framework for management of short-term insurance contracts as of 31 December 2007:

General insurance business

Financial assets	Carrying Amount 31.12.2007 Sh'000	No stated Maturity Sh'000	Contractual cash flows (undiscounted) 0-1 yr Sh'000	1-2 yrs Sh'000	2-3 yrs Sh'000	3-4 yrs Sh'000	>5 yrs Sh'000
Debt securities:							
Held to maturity:							
-Government bonds and treasury bills-fixed rate	258,715	-	26,000	-	-	20,000	212,715
-Listed securities-fixed rate	-	-	-	-	-	-	-
Equity securities:							
At fair value through profit or loss:							
-Listed securities	13,329	13,329	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	385,491	-	385,491	-	-	-	-
Cash and cash equivalent	538,734	-	538,734	-	-	-	-
Total	**1,196,269**	**13,329**	**950,225**	**-**	**-**	**20,000**	**212,715**
Short term insurance liabilities:							
Insurance contracts-short term	490,727	-	490,727	-	-	-	-
Payables arising from reinsurance arrangements	11,447	-	11,447	-	-	-	-
Less assets arising from reinsurance contracts	(192,412)	-	(192,412)	-	-	-	-
Total	**309,762**	**-**	**309,762**	**-**	**-**	**-**	**-**
Difference in contractual cash flows	**886,507**	**13,329**	**640,463**	**-**	**-**	**20,000**	**212,715**

44 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the group's ALM framework for management of short-term insurance contracts as of 31 December 2008:

Life insurance business

Financial assets	Carrying Amount 31.12.2008 Sh'000	No stated Maturity Sh'000	Contractual cash flows (undiscounted) 0-1 yr Sh'000	1-2 yrs Sh'000	2-3 yrs Sh'000	3-4 yrs Sh'000	>5 yrs Sh'000
Debt securities:							
Held to maturity:							
-Government bonds and treasury bills-fixed rate	409,689	-	52,105	55,900	53,626	19,000	229,058
-Listed securities-fixed rate	-	-	-	-	-	-	-
Equity securities:							
At fair value through profit or loss:							
-Listed securities	35,687	35,687	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	12,684	-	12,684	-	-	-	-
Cash and cash equivalent	234,348	-	234,348	-	-	-	-
Total	**692,408**	**35,687**	**299,137**	**55,900**	**53,626**	**19,000**	**229,058**
Long- term insurance liabilities:							
Insurance contracts-Long term	304,943	-	304,943	-	-	-	-
Payables arising from reinsurance arrangements	16,703	-	16,703	-	-	-	-
Less assets arising from reinsurance contracts	-	-	-	-	-	-	-
Total	**321,646**	**-**	**321,646**	**-**	**-**	**-**	**-**
Difference in contractual cash flows	**370,762**	**35,687**	**(22,509)**	**55,900**	**53,626**	**19,000**	**229,058**

44 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the group's ALM framework for management of short-term insurance contracts as of 31 December 2007:

Financial assets	Carrying Amount 31.12.2007 Sh'000	No stated Maturity Sh'000	Contractual cash flows (undiscounted) 0-1 yr Sh'000	1-2 yrs Sh'000	2-3 yrs Sh'000	3-4 yrs Sh'000	>5 yrs Sh'000
Debt securities:							
Held to maturity:							
-Government bonds and treasury bills-fixed rate	254,348	-	49,348	43,000	40,000	50,000	72,000
-Listed securities-fixed rate	-	-	-	-	-	-	-
Equity securities:							
At fair value through profit or loss:							
-Listed securities	579	579	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	61,106	-	61,106	-	-	-	-
Cash and cash equivalent	189,142	-	189,142	-	-	-	-
Total	**505,175**	**579**	**299,596**	**43,000**	**40,000**	**50,000**	**72,000**
Long- term insurance liabilities:							
Insurance contracts-Long term	258,306	-	258,306	-	-	-	-
Payables arising from reinsurance arrangements	22,312	-	22,312	-	-	-	-
Less assets arising from reinsurance contracts	-	-	-	-	-	-	-
Total	280,618	-	280,618	-	-	-	-
Difference in contractual cash flows	**224,557**	**579**	**18,978**	**43,000**	**40,000**	**50,000**	**72,000**

The sensitivity analyses below are based on a change in one assumption while holding all other assumptions constant:

(a) Market risk

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

The group's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 10 basis points in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the company's overall exposure to interest rate sensitivities included in the group's ALM framework and its impact in the company's profit or loss by business.

An increase/decrease of 5 % in interest yields the profit for the year would increase/decrease by Sh 8,132,200 (2007: Sh 25,653,000)

44 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) Equity price risk

The group is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit or loss. Exposure to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the Nairobi Stock Exchange.

The group has a defined investment policy which sets limits on the company's exposure to equities both in aggregate terms and by industry. This policy of diversification is used to manage the group's price risk arising from its investments in equity securities.

Investment management meetings are held monthly. At these meetings, senior managers meet to discuss investment return and concentration of the equity investments.

Listed equity securities represent 96% (2007: 91.64%) of total equity investments. If equity market indices had increased/ decreased by 5%, with all other variables held constant, and all the group's equity investments moving according to the historical correlation with the index, the profit for the year would increase/ decrease by Sh 580,600 (2007: Sh 695,400).

(iii) Currency risk

Foreign currency exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The group primarily transacts in Kenya shilling and its assets and liabilities are denominated in the same currency. The group is therefore not exposed to currency risk.

(b) Credit risk

The group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the group is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- amounts due from corporate bond issuers
- Cash and cash equivalents (including fixed deposits)

The group manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty and to geographical and industry segments. Such risks are subject to regular review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the group's liability as primary insurer. If a reinsurer fails to pay a claim, the group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on annual basis by reviewing their financial strength prior to finalisation of any contract.

In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. In certain circumstances, deposits from reinsurers are also held as collateral.

44 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The table below indicates the carrying amounts of assets bearing credit risk

	2008 Sh'000	2007 Sh'000
General insurance business		
Financial assets		
Debt securities:		
Held to maturity:		
- Government bonds and treasury bills	461,013	258,715
Equity securities:		
At fair value through profit or loss:		
- Listed securities	28,079	13,329
Loans and receivables from insurance and reinsurance contracts	497,597	385,491
Cash and cash equivalents (including fixed deposits)	422,740	538,734
Total	**1,409,429**	**1,196,269**
Long term insurance business		
Financial assets		
Debt securities:		
Held to maturity:		
- Government bonds and treasury bills	409,689	254,348
Equity securities:		
At fair value through profit or loss:		
- Listed securities	35,687	579
Loans and receivables from insurance and reinsurance contracts	12,684	61,106
Cash and cash equivalents (including fixed deposits)	234,348	189,142
Total	**692,408**	**505,175**

The exposure to individual counterparties is also managed through other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the company. Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs.

The amount that best represents the group's maximum exposure to credit risk as at 31 December 2008 is made up as follows:

	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000
General insurance business			
Agents	54,410	18,978	15,060
Brokers	51,378	32,769	12,341
Direct	22,240	36,269	3,852
Total	**128,028**	**88,016**	**31,253**
Long term insurance business	**12,138**	**-**	**-**

44 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The amount that best represents the group's maximum exposure to credit risk as at 31 December 2007 is made up as follows:

	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000
General insurance business			
Agents	36,412	22,321	3,313
Brokers	36,723	40,037	951
Direct	21,254	49,815	13,896
Total	**94,389**	**112,173**	**18,160**
Long term insurance business	**55,001**	**-**	**-**

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The debt that is overdue is not impaired and continues to be paid. The credit control department is actively following this debt. In addition, the group also owes most of the reinsurance debtors hence any default would be offset from the payables arising from reinsurance contracts.

The debt that is impaired has been fully provided for. However, debt collectors as well as the are following up on the impaired debt.

Management makes regular reviews to assess the degree of compliance with the group's procedures on credit. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the management.

(c) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the group is the obligation to pay claims to policyholders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

44 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The table below provides a contractual maturity analysis of the group's financial liabilities:

General insurance business

	31 December 2008				31 December 2007			
	6 months or on demand Sh'000	Between 6 months and 1 year Sh'000	More than 1 year Sh'000	Total Sh'000	6 months or on demand Sh'000	Between 6 months and 1 year Sh'000	More than 1 year Sh'000	Total Sh'000
Insurance contract liabilities	532,946	-	-	532,946	490,727	-	-	490,727
Payables arising from reinsurance arrangements	17,701	-	-	17,701	8,485	-	-	8,485
Other payables	56,213	-	-	56,213	158,141	-	-	158,141

Long term insurance business

	31 December 2008				31 December 2007			
	6 months or on demand Sh'000	Between 6 months and 1 year Sh'000	More than 1 year Sh'000	Total Sh'000	6 months or on demand Sh'000	Between 6 months and 1 year Sh'000	More than 1 year Sh'000	Total Sh'000
Insurance contract liabilities	304,943	-	-	304,943	258,306	-	-	258,306
Payables arising from reinsurance arrangements	29,387	-	-	29,387	34,131	-	-	34,131
Other payables	196,166	-	-	196,166	104,355	-	-	104,355

45 CAPITAL MANAGEMENT

The group maintains an efficient capital structure from a combination of equity shareholders' funds and borrowings, consistent with the company's risk profile and the regulatory and market requirements of its business.

The group's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth;
- to safeguard the group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

An important aspect of the group's overall capital management process is the setting of target risk-adjusted rate of return which is aligned to performance objectives and ensures that the group is focused on the creation of value for shareholders.

45 CAPITAL MANAGEMENT (continued)

The group has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. The group considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital. The group manages as capital all items that are eligible to be treated as capital for regulatory purposes.

The group is regulated by the Kenya Insurance Regulatory Authority and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. The group manages capital in accordance with these rules and has embedded in its ALM framework the necessary tests to ensure continuous and full compliance with such regulations. The group has complied with all externally imposed capital requirements throughout the year.

The constitution of capital managed by the group is as shown below:

	2008 Sh'000	2007 Sh'000
General insurance business		
Share capital	271,455	258,847
Share premium	24,628	23,002
Retained earnings	131,327	50,201
Equity	**427,410**	**332,050**
Total borrowings	-	-
Less: cash and cash equivalents	**357,560**	**65,816**
Net debt	-	-
Gearing	0%	0%

Long term insurance business

	2008 Sh'000	2007 Sh'000
Share capital	142,330	130,000
Share premium	1,491	-
Statutory reserve	162,931	86,631
Revaluation surplus	23,379	16,764
Equity	**330,131**	**233,395**
Total borrowings	-	-
Less: cash and cash equivalents	**237,667**	**18,530**
Net debt	-	-
Gearing	%	0%

46 INCORPORATION

The company is incorporated in Kenya under the companies Act and is domiciled in Kenya.

47 CURRENCY

The financial statements are presented in Kenya shillings thousands (Sh '000').

Appendix I
Company Income Statement
For the year ended 31 December 2008

	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2008 Sh'000	General Insurance Business Sh'000	Long-Term Insurance Business Sh'000	Total 2007 Sh'000
Gross earned premiums	1,132,690	1,089,386	2,222,076	1,045,178	918,401	1,963,579
Less:						
Reinsurance premiums ceded	(150,571)	(94,787)	(245,358)	(129,048)	(70,502)	(199,550)
Net earned premiums	**982,119**	**994,599**	**1,976,718**	**916,130**	**847,899**	**1,764,029**
Commissions earned	35,983	15,154	51,137	33,766	-	33,766
Investment income	76,410	109,712	186,122	39,513	73,709	113,222
Other income	7,126	669	7,795	17,988	1,091	19,079
	119,519	**125,535**	**245,054**	**91,267**	**74,800**	**166,067**
Total income	**1,101,638**	**1,120,134**	**2,221,772**	**1,007,397**	**922,699**	**1,930,096**
Claims and policyholders benefits payable	(567,568)	(650,406)	(1,217,974)	(613,270)	(504,073)	(1,117,343)
Commissions payable	(102,229)	(107,689)	(209,918)	(109,845)	(66,918)	(176,763)
Operating and other expenses	(286,345)	(288,101)	(574,446)	(252,629)	(243,128)	(495,757)
	(956,142)	**(1,046,196)**	**(2,002,338)**	**(975,744)**	**(814,119)**	**(1,789,863)**
Profit before tax	145,496	73,938	219,434	31,653	108,580	140,233
Taxation charge	(43,495)	-	(43,495)	(15,797)	-	(15,797)
Profit for the year	**102,001**	**73,938**	**175,939**	**15,856**	**108,580**	**124,436**

Appendix II
Long Term Business Revenue Account
For the year ended 31 December 2008

	Ordinary life Sh '000	Group life Sh '000	Total 2008 Sh '000	Total 2007 Sh '000
Gross premium written	88,744	1,000,642	1,089,386	918,401
Less: Reinsurance payable	(7,081)	(87,706)	(94,787)	(70,502)
Net premium income	**81,663**	**912,936**	**994,599**	**847,899**
Policyholders' benefits:				
Life and health claims	8,041	499,124	507,165	359,183
Maturities	11,313	-	11,313	3,641
Surrenders	1,292	-	1,292	983
Actuarial adjustment of policy holders liability	95,932	34,704	130,636	140,266
Net policyholders' benefits	**116,578**	**533,828**	**650,406**	**504,073**
Commissions paid	51,222	56,467	107,689	66,919
Expenses of management	40,329	246,002	286,331	242,103
Premium tax	1,770	-	1,770	1,025
Total expenses and commissions	**93,321**	**302,469**	**395,790**	**310,047**
Investment income	**45,394**	**80,141**	**125,535**	**74,801**
Increase in life fund before tax	(82,842)	156,780	73,938	108,580
Tax charge	-	-	-	-
Increase in life fund after tax	**(82,842)**	**156,780**	**73,938**	**108,580**
Increase in life fund for the year	**(82,842)**	**156,780**	**73,938**	**108,580**

Appendix III
General Business Revenue Accounts
For the year ended 31 December 2008

	C.A.R & Engin-eering Shs.'000	Fire Domestic Shs.'000	Fire Industrial Shs.'000	Liability Insurance Shs.'000	Marine & Transit Shs.'000	Motor Private Shs.'000	Motor Comm-ercial Shs.'000	Motor Pool Shs.'000	Medical Insurance Shs.'000	Personal Accident Shs.'000	Theft Insurance Shs.'000	Workmen's Compen-sation Shs.'000	Misc. Accident Shs.'000	Total 2008 Shs.'000	Total 2007 Shs.'000
Gross premium written	16,177	19,565	93,932	6,573	2,039	370,814	306,167	-	65,722	156,028	191,862	46,936	4,883	1,280,698	1,028,771
Unearned premium b/f	2,082	5,659	8,888	1,965	90	119,049	112,397	-	12,710	18,117	44,878	9,166	165	335,166	351,573
Unearned premium c/f	(3,047)	(6,899)	(18,427)	(2,782)	(92)	(164,980)	(142,224)	-	(11,267)	(54,837)	(56,074)	(22,248)	(297)	(483,174)	(335,166)
Gross earned premium	15,212	18,325	84,393	5,756	2,037	324,883	276,340	-	67,165	119,308	180,666	33,854	4,751	1,132,690	1,045,178
Reinsurance premium	(8,034)	(2,420)	(55,385)	(258)	(1,819)	(14,029)	(11,834)	-	(30,109)	(13,964)	(8,358)	(1,827)	(2,533)	(150,570)	(129,048)
Net Earned Premium	**7,178**	**15,905**	**29,008**	**5,498**	**218**	**310,854**	**264,506**	**-**	**37,056**	**105,344**	**172,308**	**32,027**	**2,218**	**982,120**	**916,130**
Gross claims Paid	672	9,153	(2,132)	25,623	-	289,252	101,824	30	30,994	24,885	35,344	8,137	1,567	525,350	505,452
Outstanding claims c/f	7,802	5,492	19,336	33,710	6	191,872	152,604	2,092	6,363	22,999	64,525	22,233	3,913	532,946	490,728
Outstanding claims b/f	(876)	(610)	(11,314)	(75,449)	(5)	(179,461)	(127,555)	(2,040)	(10,308)	(15,596)	(35,805)	(28,018)	(3,691)	(490,728)	(382,911)
Net claims incurred	**7,598**	**14,035**	**5,890**	**(16,116)**	**1**	**301,663**	**126,873**	**82**	**27,049**	**32,288**	**64,064**	**2,352**	**1,789**	**567,568**	**613,269**
Commission receivable	(2,810)	(758)	(21,779)	-	(675)	-	-	-	(7,158)	(1,708)	(77)	-	(1,018)	(35,983)	(33,766)
Commissions payable	2,780	2,659	13,517	956	244	23,771	21,716	-	668	17,650	14,342	3,761	165	102,229	109,845
Net commission	**(30)**	**1,901**	**(8,262)**	**956**	**(431)**	**23,771**	**21,716**	**-**	**(6,489)**	**15,942**	**14,265**	**3,761**	**(853)**	**66,247**	**76,079**
Management Expenses	3,353	4,055	19,469	1,362	422	76,857	63,370	-	13,621	32,340	39,767	9,729	1,012	265,357	235,650
Premium Tax	266	322	1,546	108	34	6,104	5,040	-	1,042	2,569	3,158	773	80	21,043	16,980
Total	**3,619**	**4,377**	**21,015**	**1,470**	**456**	**82,961**	**68,410**	**-**	**14,664**	**34,909**	**42,925**	**10,502**	**1,092**	**286,400**	**252,630**
Total claims expenses and commissions	**11,187**	**20,313**	**18,643**	**(13,690)**	**25**	**408,296**	**216,999**	**82**	**35,224**	**83,137**	**121,254**	**16,615**	**2,028**	**920,215**	**941,978**
Underwriting (loss)/profit	**(4,009)**	**(4,408)**	**10,365**	**19,188**	**193**	**(97,442)**	**47,507**	**(82)**	**1,832**	**22,207**	**51,054**	**15,412**	**190**	**61,905**	**(25,848)**

Administration

Executive Committee

N. Kuria (OGW)	B.A. Econ	Chief Executive officer
D. Ronoh	MSc in Population Studies, B.Ed Statistics, Post Graduate Dip in Actuarial Science	General Manager - Life Business
K Kimani	MBA, BSc Business Administration, ACII	General Manager - General Business
P. Ngari	MBA, BCom Marketing, Diploma in Coop-Mgt	General Manager - Marketing
P. Mwaura	BSc Int. Bus Admin, Diploma in Coop-Mgt	Assistant General Manager - Finance
J. Tomno	MBA, BCom, ACII Diploma	Assistant General Manager - Branch Operations
A. Njoki	BA Management, Dip in HR Mgt	Human Resources Manager
M. Wanga	LLB, CPS (K), Dip in Law	Company Secretary/Chief Legal Officer
M. Luvai	BCom Marketing, CPA (K)	Chief Internal Auditor

Heads of Departments:

S. Kitur	BComm-Accounting, Post Graduate Dip in Computer Science	IT Manager
D. Ireri	MBA, BComm, IIK Diploma	Claims Manager - General
J. Otwori	BA Econ, ACII Diploma	Underwriting Manager - Life Business
H. Njerenga	Advanced Dip in Business Management	Underwriting Manager - Town Office
S. Ochieng	Diploma - Co-operative Management	Claims Manager - Life Business
M. Kimani	BEd Arts, ACII Diploma	Underwriting Manager - General Business
J Kionga	B B Administration, ACII	Operations & Training Manager - Individual Life
E. Mutai	B Comm Business Admin	Communications Manager
A. Madara	B A, Dip in Business Administration	Manager, Medical Business
F. Munyao	Dip in Co-op Management	Manager, CIC Foundation

Business Development Managers

S. Muia	B.A. Economics, Diploma in Mgt	Business Development Manager - Religious Organizations
J. Njoroge	B.A. Econ, ACII Diploma	Business Development Manager - Group Life & Medical
N. Marambu	BCom, ACII Diploma	Business Development Manager - General Business

Sales/Area Managers

M. Mugo	B.A. Ed, COP	National Sales Manager - Individual Life
F. Munyao	Diploma in Co-operative Management	Public Relations Manager
R. Nyakenogo	BCom, Dip in Co-operative Management	Area Manager - Nyanza / Western
S Rono	B.A.Econ	Area Manager - Rift Valley
F. Olouch	BA Admin	Area Manager - Coast
J. Nyachwaya	BComm	Sales Manager
Z. Wambugu	BCom Insurance	Area Manager - Central
M. Karani	BCom Insurance, ACII	Area Manager - Eastern

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Notes

OUR CORPORATE VALUES

Integrity

•

Teamwork

•

Fairness

•

Dynamism

•

Productivity

The Co-operative Insurance
Company of Kenya Ltd.

"We keep our word"

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