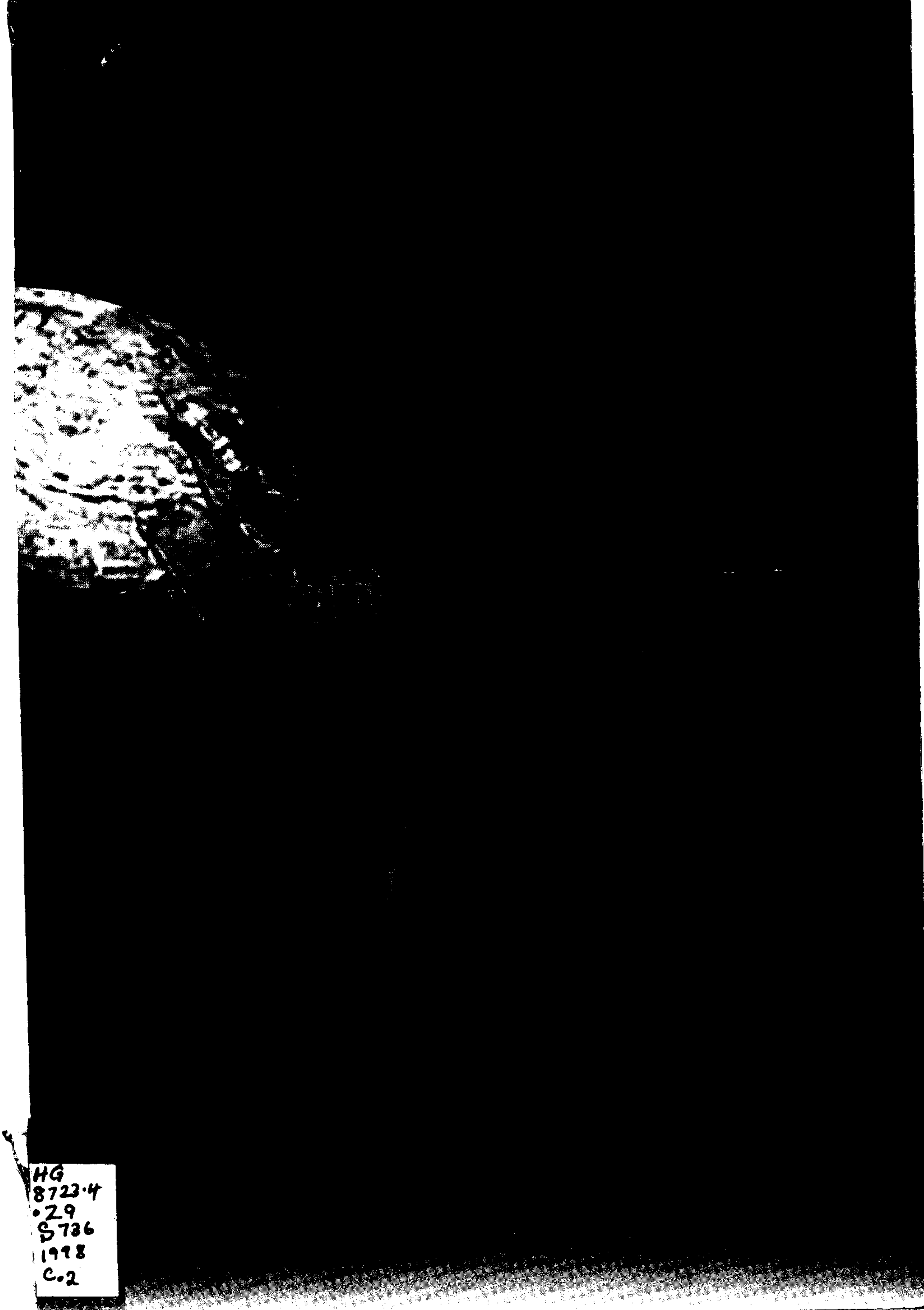


NOTES

Notes

Letter of Transmittal

Hon . Chrisanthus Okemo, EGH,MP
Minister for Finance
The Treasury
P.O.Box 30007
NAIROBI

Hon. Minister

I have the honour to submit the Twenty Eighth Annual Report and Audited Accounts of Kenya Reinsurance Corporation for the financial year ended 31st December, 1998, which have been certified by the Auditor in accordance with the Insurance Act.

Included in the reports are Revenue Accounts per class of business, Profit and Loss Account, Balance Sheet and Cash Flow Statement as approved by the Board.

Yours Sincerely,

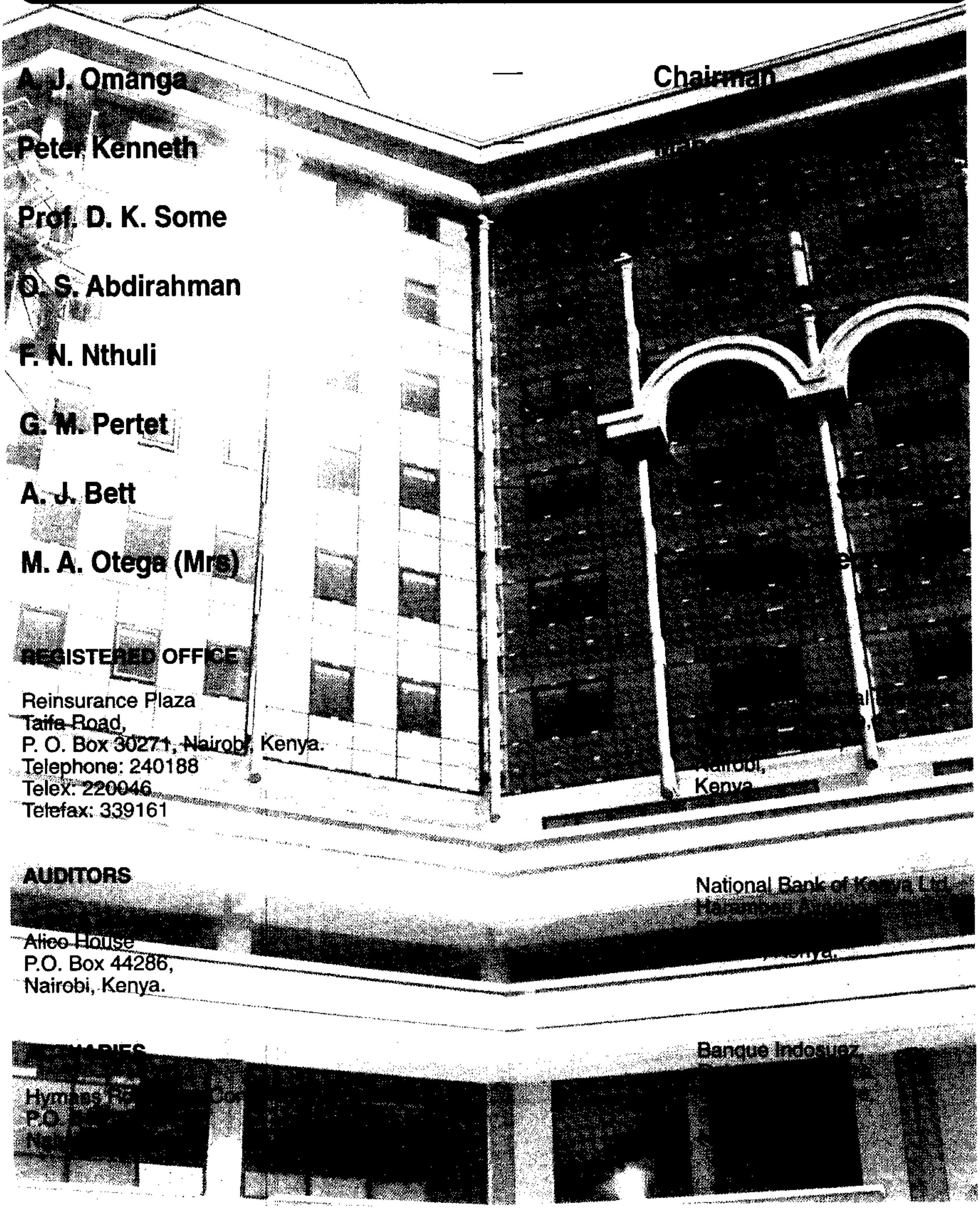
A. J. OMANGA, EGH
CHAIRMAN

"The Symbol of Reinsurance Service & Security Worldwide"

Contents

Kenya Re

BOARD OF DIRECTORS



A. J. Omanga — Chairman

Peter Kenneth

Prof. D. K. Some

O. S. Abdirahman

F. N. Nthuli

G. M. Pertet

A. J. Bett

M. A. Otega (Mrs)

REGISTERED OFFICE

Reinsurance Plaza
Taifa Road,
P. O. Box 30271, Nairobi, Kenya.
Telephone: 240188
Telex: 220946
Telefax: 339161

Nairobi,
Kenya.

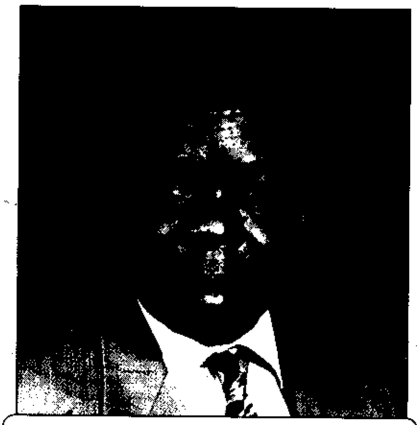
AUDITORS

Alico House
P.O. Box 44286,
Nairobi, Kenya.

National Bank of Kenya Ltd.
Harambee Av
Kenya.

Hymans R Co
P.O.
Nai

Banque Indosuez



A. J. OMANGA EGH
CHAIRMAN

Chairman's Report

I am pleased to present the 28th Annual Report and Audited Accounts of Kenya Reinsurance Corporation Limited for the year ended 31st December, 1998. We continued with the corporate restructuring as an integral part of the privatisation strategy to ensure the Corporation maintains a competitive edge in the liberalized local and global reinsurance market.

BUSINESS ENVIRONMENT

The Global economy experienced unprecedented instability, especially South East Asia where financial markets collapsed and many institutions and hedge funds reported significant losses. The G-7 Countries responded to the global financial uncertainty by reducing interest rates and the IMF moderated severe policies it had advocated to the affected countries. However, the Bretton Woods institutions and the donor countries continued withholding the much needed aid funds to Kenya over issues of economic reforms and good governance.

The Year 1998 was an extremely difficult year for the Kenya economy. The first half of the year experienced severe floods in several parts of the country resulting from the EL-Nino weather phenomenon. This had devastating effects on the transport infrastructure and agriculture. Incidents of insecurity in some parts of the country undermined investors' confidence and discouraged tourism with considerable reduction in inflow of foreign currency. The August 7 terrorist bomb attack on the American Embassy further deterred prospective tourists to Kenya.

The above factors had the effect of depressing economic performance during the year. The growth in real Gross Domestic Product declined to 1.6% in 1998 as compared to 2.3% in 1997. Interest rates remained high for most of the year, but declined sharply in the last quarter of the year.

The prudent monetary and fiscal policies put in place by the Central Bank and the Treasury kept inflation within single digit and facilitated a reduction in interest rates towards the end of the year. On the Insurance sector, the over capacity resulted to severe competition and uneconomical premium rating. The deteroriation in economic environment, severe weather conditions and high incidents of industrial fires resulted to larger than expected claims and reported losses. These factors when taken together adversely affected the underwriting performance of the industry.

At Kenya Re, corporate restructuring continued, and the privatisation process gathered momentum with the launch of strategic sale on 31st August, 1998.

However, the strategic sale which was expected to be concluded by the end of November, 1998 was not successful because the bidders and the shareholder could not reach a consensus on the bid terms.

During the year the Corporation continued cementing relationships with the key business partners, both in the local and regional markets. The earlier contacts made with insurers in the African markets started bearing fruit as evidenced by over 140% increase in international premium income in 1998 as compared with 1997. The strategy of selective underwriting on preferred basis will be persued to ensure profitable growth for 1999 and beyond.

OPERATING RESULTS

Against the above background, the operating results show that the Corporation performed below expectations, recording a pre-tax profit of Sh. 120.2 million, compared to Sh. 170.7 million in 1997, a decrease of 30%. The core business of reinsurance recorded premium income of Sh. 2,727.2 million compared to Sh. 2,597.6 million in 1997, an increase of 5% The increase was attributable to growth of Aviation, Marine Life and International classes of business by 35%, 710%, 60% and 143% respectively. Consequently, the underwriting losses reduced to Sh. 319.9 million in 1998, an improvement of 26% compared to underwriting losses of Sh. 430.9 million in 1997. In 1998, the Corporation investment income increased to Sh. 440.0 million compared with Sh. 424.0 million in 1997. The relatively small increase in investment income is attributable to decrease in investable funds following substantial disbursements towards long - term assets and the decrease in treasury bills yield towards the end of the year.

INVESTMENT PORTFOLIO

The Corporation's investment policy continue to be based on maintaining quality assets in the Balance Sheet as well as maximization of returns.

Total invested assets increased by 6.7% to stand at Sh. 7,430.4 million as compared to Sh. 6,966.9 million in 1997. The increase was generated by income from short-term assets and other operations.

RESERVES & SHAREHOLDERS FUNDS

To cater for the cost of staff retrenchment in 1999, a provision of Sh. 126.3 million was made from Profit and Loss Account and Revenue Reserves in 1998.

Total Reserves increased by Sh. 18.5 million to Sh. 3,165.7 million in 1998 as compared with Sh. 3,047.2 million in 1997. Reserves together with paid up share capital increased to 3,665.7 million in 1998 as compared with Sh. 3,547.2 million in 1997. The Corporation has therefore adequately provided for future losses and is prepared to meet its liabilities as expected by its cedants.

FUTURE PROSPECTS

The depressed economic performance experienced in 1998 is expected to continue through 1999, mainly due to poor infrustructure. The slow down in economic growth is [illegible] in all sectors. The most affected are agriculture, manufacturing and service including the insurance sector in which Kenya Re is operating

However, we are confident that with firm foundation and the advanced organization rationalization measures in place, the Corporation is poised to exploit the market opportunities to improve its profitability.

I am pleased to report that arrangements are in place to acquire the latest information technology by mid -1999. This will not only ensure that our systems are "Year 2000" compliant, but also enhance the efficiency of our operations and the quality of our management information.

Our strategy of aggressive marketing shall be sustained, while the business relationships in place shall be consolidated with focus on profitable pricing and control of aggregate exposure. To maintain our competative edge both in the local and regional markets, the Corporation shall endeavour to provide our clients with quality services they expect and also promote activities that improved technical skills in the insurance sector.

To this end, the Corporation has planned to sponsor international reinsurance seminars for its clients in the region, in conjuction with our local and overseas business partners during 1999. The Corporation shall also explore opportunities for alternative sources of income through diversification of our business and investment portfolio.

CORPORATE GOVERNANCE

In preparation for privatisation of the Corporation, the Board of Directors appointed an Audit Committee of the Board in [illegible] view to enhancing corporate governance, [illegible] Capital [illegible] for [illegible] Comm[illegible]nsibl[illegible] in all [illegible] streng[illegible] the Company, and for overseeing the financial [illegible] process on behalf of the Board of Directors.

HUMAN RESOURCES

At the close of the year, the Corporation's staff strength was 334. With the phasing out of compulsory and treaty cessions by 1999 and 2002 respectively, the Corporation shall depend on leaner but highly skilled and motivated staff. Plans are at an advanced stage for the second phase of staff retrenchment aimed at downsizing the staff by 50%-60% in early 1999.

The Corporation will continue to lay emphas[illegible] resources development and capa[illegible] in order to improve its competativ[illegible] face th[illegible] the next mill[illegible] this end, [illegible]ent [illegible] Reinsurance and Info[illegible] will be given deliberate [illegible] staff are well motivated [illegible]

APPRECIATION

Finally, on behalf of the Board of Directors, I take this opportunity to thank the Management and Staff of Kenya Re for the reported results, inspite of the difficu[illegible] conditions experienced du[illegible] year. Their [illegible] work and commitment [illegible]ll enable the Company to improve on last ye[illegible] performa[illegible]

I also wish to record our [illegible] to our esteemed clients, the [illegible], brokers and retrocessionaires for their continued support during the year, and to assure the[illegible] our firm commitment to serve [illegible] more efficien[illegible] future.

We are also greatful to the shareholder, the Government for the trust and confidence they have shown in us and pr[illegible] that we in the Board and [illegible] shall endevour to work [illegible] to ensure that the Corporation remains the market leader and preferred reinsurer.

A. J. [illegible]
CHAIRMAN

PETER KENNETH
MANAGING DIRECTOR

Report of the Directors

The Directors have the pleasure of presenting the Twenty Eighth statement of accounts for the year ended December 31st 1998.

(a) The principal activity of the Corporation is the transaction of all classes of reinsurance business.

(b) Premium written and accounted for per class of business transacted.

	1998 Kshs	1997 Kshs	PREMIUM INCREASE (DECREASE) Kshs	GROWTH RATE%
Fire	650,155,200	656,904,645	(6,749,445)	(1)
Accident	710,658,873	745,689,110	(35,030,237)	(5)
Marine	197,454,107	146,750,142	50,703,965	35
Aviation	40,253,613	4,971,516	35,282,097	710
Motor	785,189,295	857,277,448	(72,088,153)	(8)
Life	209,572,565	130,829,284	78,743,281	60
International Business	133,968,673	55,177,048	78,791,625	143
TOTAL	**2,727,252,326**	**2,597,599,193**	**129,653,133**	**5**

(c) Summary of profit for the year

	1998 Kshs	1997 Kshs	PREMIUM INCREASE (DECREASE) Kshs	GROWTH RATE%
(i) Investment income	440,145,496	423,989,158	16,156,338	4
(ii) Underwriting deficit ...	(319,933,174)	(430,864,771)	110,931,597	26
(iii) Surplus from life A/C	—	177,531,815	(177,531,815)	(100)
Profit before tax	120,212,322	170,656,202	(50,443,880)	(30)
Corporation tax	(41,871,160)	(91,143,449)	49,272,289	(54)
Profit after tax	**78,341,162**	**79,512,753**	**(1,171,591)**	**(1)**

(d) The accumulated profits for the year under review were appropriated as follows:-

	1998 Kshs	1997 Kshs
General Reserves	—	31,000,000
Dividend Payable	—	50,000,000
Retained profit for the year	2,542,626	538,808
TOTAL	**2,542,626**	**81,538,808**

e) Year 2000 Compliance
The Corporation is scheduled to replace all existing computer hardware and software that is not year 2000 compliant by 30th October 1999. Adequate funds have been provided for the replacement.

(f) Auditors,
The Auditors, Ernst & Young, have expressed their willingness to continue in office and do so in accordance with section 159(2) of the Companies Act.

By Order of the Board,

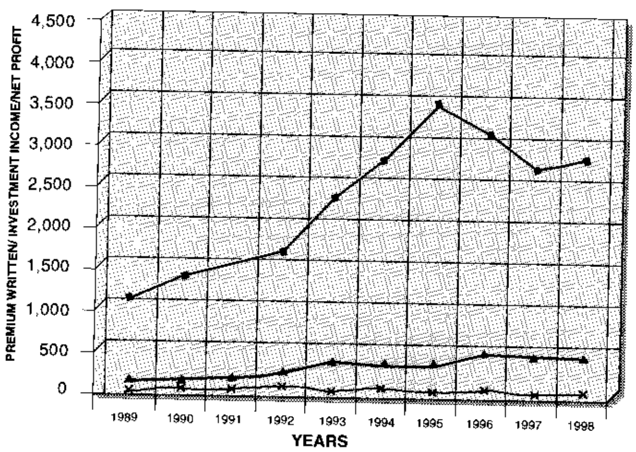
M.A. Otega (Mrs)

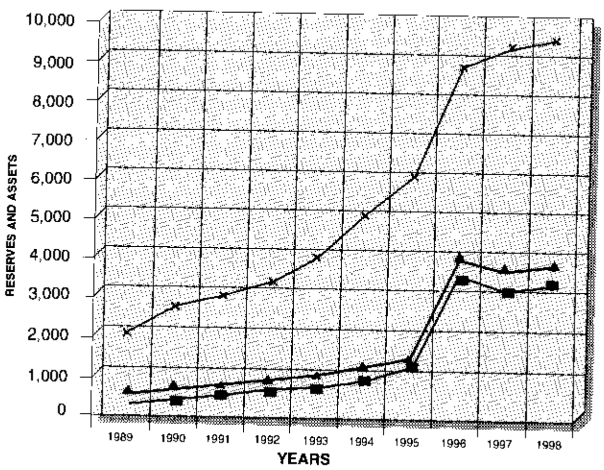
CORPORATION SECRETARY.

Ten Years' Financial Highlights

YEARS	PREMIUM WRITTEN Kshs	INVESTMENT INCOME Kshs	NET PROFIT Kshs	RESERVES Kshs	NET ASSETS Kshs	TOTAL ASSETS Kshs
1989	1,089,683,626	125,394,852	51,328,493	438,829,903	538,829,903	1,907,593,538
1990	1,347,358,355	158,021,348	95,457,010	485,024,640	635,024,640	2,405,618,339
1991	1,504,245,205	196,697,449	83,919,944	560,325,728	710,325,728	2,762,663,503
1992	1,652,601,724	223,859,514	94,498,147	669,857,125	819,857,125	3,154,613,651
1993	2,277,482,575	367,617,239	56,001,485	802,072,767	952,072,767	3,819,758,230
1994	3,159,776,180	355,774,431	101,856,926	891,777,551	1,171,777,551	4,850,316,980
1995	3,937,703,023	357,229,811	72,606,475	1,123,415,429	1,403,415,429	5,957,619,215
1996	3,544,089,444	455,891,534	105,070,649	3,561,794,965	3,841,794,865	8,745,246,876
1997	2,597,599,193	423,989,158	79,512,752	3,047,237,864	3,547,237,864	9,173,226,867
1998	**2,727,252,326**	**440,145,496**	**78,341,162**	**3,165,736,492**	**3,665,736,492**	**9,495,144,134**

FIGURES ARE IN MILLIONS





KEY

- ▲ PREMIUM WRITTEN
- ■ INVESTMENT INCOME
- × NET PROFIT

KEY

- ■ RESERVES
- ▲ NET ASSETS
- × TOTAL ASSETS

Kenya Re

Report of the Auditors

to the members of

KENYA REINSURANCE CORPORATION

We have audited the accounts on pages 10 to 27 which have been prepared on the basis of accounting policies set out on pages 15 to 16. We obtained all the information and explanations which we considered necessary for our audit.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND INDEPENDENT AUDITORS

The directors are responsible for the preparations of accounts which give a true and a fair view of the state of affairs of the Corporation and the operating results of the Corporation. Our respponibility is to express an independent opinion on the accounts based on our audit and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with generally accepted auditing standards. We planned and performed our audit so as to obtain a reasonable assurance that the accounts are free from material misstatement. An Audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of significant estimates and judgements made by the Directors in the preparation of the accounts and whether the accounting policies are appropriate in the Corporation's circumstances, consistently applied and adequately disclosed.

OPINION

In our opinion, proper books of account have been kept and the accounts, which are in agreement therewith, give a true and fair view of the state of the financial affairs of the Corporation as at 31st December 1998 and the profit and cash flows for the year then ended and comply with the Companies Act.

Ernst & Young

Ernst & Young

7th August, 1999

Consolidated Balance Sheet

As at 31st December, 1998

SHARE CAPITAL AND RESERVES	Note	Kshs	Short-term Business Kshs	Long-term Business Kshs	31.12.1999 Kshs	Kshs	31.12.1997 Kshs
Share capital issued	2		500,000,000		500,000,000		500,000,000
and paid up Reserves:							
General			—				31,000,000
Unappropriated Profit ...			2,542,626		2,542,626		538,808
Revaluation	4(c)	2,043,552,679				1,809,669,852	
Others:							
- Capital		10,784,528				10,784,528	
- Contingency	9	49,621,244			49,621,244	139,180,499	
- Life Fund				847,155,016		844,107,332	
- Non Life Fund		212,080,399				211,956,845	
			2,316,038,850	847,155,016	3,163,193,866		3,015,699,056
Total Reserves			2,318,581,476	847,155,016	3,165,736,492		3,047,237,864
TOTAL PAID UP CAPITAL AND RESERVES			**2,818,581,476**	**847,155,016**	**3,665,736,492**		**3,547,237,864**

Consolidated Balance Sheet (....continued)

As at 31st December, 1998

REPRESENTED BY: ASSETS	NOTE	Kshs	Short-term Business Kshs	Long-term Business Kshs	31.12.1998 Kshs	Kshs	31.12.1997 Kshs
FIXED ASSETS	3						
Land & Building		274,063,283				251,424,651	
Less accumulated depreciation		4,481,266	269,582,017		269,582,017	—	251,424,651
Motor Vehicles		34,605,234				35,823,674	
Less accumulated depreciation		24,114,607	10,490,627		10,490,627	26,995,403	8,828,271
Computer Equipment		28,645,322				28,373,858	
Less accumulated depreciation		24,562,117	4,083,205		4,083,205	20,882,032	7,491,826
Furniture, Fixtures & Office Equipment		101,016,019				98,525,445	
Less accumulated depreciation		56,527,052	44,488,967		44,488,967	48,307,524	50,217,921
Other Plant Equipment ..		456,318,706				456,207,373	
Less accumulated depreciation		196,665,189	259,653,517		259,653,517	251,424,651	311,917,247
Total Fixed Assets			**588,298,333**		**588,298,333**		**629,879,916**

Consolidated Balance Sheet *(....continued)*

As at 31st December, 1998

	NOTE	Short-term Business	Long-term Business	31.12.1998	31.12.1997	
INVESTMENT		Kshs	Kshs	Kshs	Kshs	Kshs
(i) Securities issued by:	4(a)					
Government of Kenya						
(Government Stocks,						
Treasury Bills & Bonds)		878,698,972	632,567,367	1,511,266,339	1,807,984,856	
State Corporations		136,791,445		136,791,445	136,791,445	
		1,015,490,417	632,567,367	1,648,057,784		1,944,776,301
(ii) Other:						
Ordinary shares(quoted on						
Kenyan Stock Exchange)		97,592,599		97,592,599	71,386,990	
Ordinary shares(unquoted)		11,806,668		11,806,668	11,806,668	
Preference Shares(quoted on						
Kenyan Stock Exchange)		191,043		191,043	613,765	
Loan secured by mortages						
on real property	4(b)	435,883,624		435,883,624	312,210,160	
Deposits with non-bank						
financial institutions...................		71,662,500	68,600,000	140,262,500	90,000,000	
Others- rental properties						
and land for development		5,096,578,241		5,096,578,241	4,535,167,606	
		5,713,714,675	68,600,000	5,782,314,675		5,021,185,189
Total investments		**6,729,205,092**	**701,167,367**	**7,430,372,459**		**6,965,961,490**

Consolidated Balance Sheet (....continued)

As at 31st December, 1998

	NOTE	Short-term Business Kshs	Long-term Business Kshs	30.12.1998 Kshs	31.12.1997 Kshs
CURRENT ASSETS					
Cash in Hand & at Bank		37,901,287	3,649,453	41,550,740	(59,416,884)
Amounts retained under Reinsurance contracts- due from reinsurers		273,639,107	2,323,855	275,962,962	226,853,598
Amounts due from bodies engaged in insurance business		659,543,738	123,111,574	782,655,312	992,112,067
Sundry debtors		320,769,404		320,769,404	347,173,481
Other Accrued investment income		22,311,681	33,223,243	55,534,924	70,663,199
Total current assets		1,314,165,217	162,308,125	1,476,473,342	1,577,385,461
TOTAL ASSETS		**8,631,668,642**	**863,475,942**	**9,495,144,134**	**9,173,226,867**

Consolidated Balance Sheet *(....continued)*

As at 31st December, 1998

LIABILITIES	NOTE	Short-term Business Kshs	Long-term Business Kshs	30.12.1998 Kshs	Kshs	31.12.1997 Kshs
UNDERWRITING PROVISION						
Unearned premium provisions ...		751,682,457		751,682,457		736,503,926
Outstanding claims provision		3,217,256,649		3,217,256,649		3,373,919,000
Total reinsurance provisions	1(g)	3,968,939,106		3,968,939,106		4,110,422,926
CURRENT LIABILITIES						
Dividends		110,000,000		110,000,000		160,000,000
Amounts due to insurers						
(Not being related bodies)		902,773,478	6,027,196	909,000,674	599,427,630	
Ceding Companies		497,383,542	2,328,762	499,712,304	431,307,500	
Due to reinsurers		1,400,357,020	8,355,958	1,408,712,978		1,030,735,130
Sundry creditors & accruals	5	333,791,040	7,964,518	341,755,558		324,830,947
		1,734,148,060	16,320,476	1,750,468,536		1,355,566,077
TOTAL LIABILITIES		5,813,087,166	16,320,476	5,829,407,642		5,625,989,003
NET ASSETS		**2,818,581,476**	**847,155,016**	**3,665,736,492**		**3,547,237,864**

The accounts for the year were approved by the Board of Directors on 22nd July 1999 and signed on its behalf by:-

A. J. Omanga
Director

P. Kenneth
Director

Consolidated Profit and Loss Account

As at 31st December, 1998

	NOTE	Kshs	1998 Kshs	1997 Kshs
Investment Income			440,145,496	423,989,158
Loss transferred from Revenue Accounts			(319,933,174)	(430,864,772)
Surplus from life fund	6		—	177,531,815
Profit before taxation			120,212,322	170,656,201
Provision before taxation			(41,871,160)	(91,143,449)
Profit after taxation..................			78,341,162	79,512,752
APPROPRIATION				
Unappropriated profit brought forward	7	538,808		2,026,056
Prior year adjustment		(267,363,243)		
			(266,824,435)	—
Profit for the year after tax......			78,341,162	79,512,752
Transfer from revaluation Reserves	8		70,466,644	—
Transfer from Contigency Reserve	9		89,559,255	—
Transfer from General Reserve			31,000,000	—
			2,542,626	81,538,808
Transfer to reserves				
- General Reserve			—	31,000,000
Proposed Dividend			—	50,000,000
Total Appropriation			—	81,000,000
Unappropriated Profit			**2,542,626**	**538,808**

General Insurance - Revenue Account

for the year ended 31st December, 1998

	Engineering Kshs.	Fire Domestic Kshs.	Fire Industrial Kshs.	Liability Kshs.	Motor Private Kshs.
Net premium written	51,506,678	82,526,921	470,432,276	71,820,178	316,358,943
Unearned premium brought forward	37,079,789	26,283,784	121,017,081	11,375,541	138,168,553
Unearned premium carried forward	(19,876,355)	(33,010,768)	(159,430,657)	(21,028,595)	(126,543,577)
	68,710,113	75,799,936	432,018,700	62,167,124	327,983,919
Claims Paid	26,201,642	25,345,746	334,198,707	60,940,064	270,966,863
Claims outstanding at the end of the year	(59,580,669)	13,086,560	357,406,510	106,789,207	491,888,448
Claims outstanding at the beginning of the year	(34,364,000)	(23,683,605)	(297,612,395)	(40,765,217)	(907,015,347)
Total Claims incurred	(67,746,027)	14,748,701	393,992,823	126,964,054	(144,160.036)
Commissions	17,799,741	35,674,278	204,753,505	17,418,253	45,185,643
Management expenses	7,503,107	14,250,739	78,739,900	10,341,335	41,664,484
Total expenses	(42,443,179)	64,673,719	677,486,228	154,723,642	(57,309,910)
Underwritting profit (loss)	**111,153,291**	**11,126,218**	**(245,467,528)**	**(92,556,518)**	**385,293,829**

General Insurance-Revenue Account

for the year ended 31st December, 1998

Motor Commercial Kshs.	Personal Accident Kshs.	Theft Kshs.	Workmen's Compensation Kshs.	Miscellaneous Kshs.	1998 Total Kshs.	1997 Total Kshs.
449,807,916	214,492,334	194,196,502	111,357,619	46,172,595	2,008,671,963	1,905,901,881
188,576,730	81,178,652	73,378,200	42,040,699	17,404,899	736,503,928	989,651,548
(172,942,878)	(82,772,290)	(74,950,157)	(42,972,749)	(17,817,940)	(750,885,967)	(736,503,928)
465,891,768	212,898,696	192,634,545	110,425,569	45,759,555	1,994,289,924	2,159,049,500
437,409,103	171,882,775	170,834,709	131,008,212	8,384,526	1,637,172,347	1,249,676,806
1,500,082,694	213,577,024	195,016,846	320,345,267	81,731,621	3,220,343,507	3,373,919,000
(1,433,094,651)	(105,204,916)	(433,048,217)	(80,066,084)	(19,061,568)	(3,373,919,000)	(2,692,519,922)
504,397,146	280,254,882	(67,196,662)	371,287,395	71,054,578	1,483,596,855	1,931,075,884
63,037,073	58,831,881	53,415,613	30,629,982	12,700,216	539,446,185	463,198,465
58,972,458	30,191,776	27,339,079	15,676,980	6,500,201	291,180,059	195,640,354
626,406,678	369,278,539	13,558,029	417,594,358	90,254,995	2,314,223,099	2,589,914,703
(160,514,909)	**(156,379,843)**	**179,076,516**	**(307,168,788)**	**(44,495,440)**	**(319,933,174)**	**(430,864,772)**

Life Revenue Account

for the year ended 31st December, 1998

	Ordinary Kshs.	Superannuation Kshs.	1998 Total Kshs.	1997 Total Kshs.
Net Premium	66,571,716	141,464,895	208,036,611	127,324,973
Claims paid & outstanding				
Death	(11,376,083)	(92,042,851)	(103,418,934)	(48,096,576)
Maturity	—	—	—	—
Total Claims	(11,376,083)	(92,042,851)	(103,418,934)	(48,096,576)
Commission	(7,998,448)	(13,446,367)	21,444,815	(14,473,185)
Total Claims, Surrenders and Commissions	(19,374,531)	(105,489,218)	(124,863,479)	(62,569,761)
Management expenses	(5,161,290)	(11,387,202)	(16,548,492)	(10,963,580)
Investment Income	19,955,149	42,404,691	62,359,840	137,558,241
Provision for Tax	(2,187,406)	(5,777,113)	(7,964,519)	—
	(6,768,078)	(80,248,842)	(87,016,920)	64,024,900
Increase in Fund	59,803,638	61,216,053	121,019,691	191,349,873
Fund at beginning of year			844,107,332	830,289,274
Prior Year Adjustment (see note 7)			(117,972,007)	—
			847,155,016	1,021,639,147
Transfer of actuarial surplus to profit and loss			—	(177,531,815)
Fund balance at end of Year			**847,155,016**	**844,107,332**

General Insurance-Funded Revenue Account

for the year ended 31st December, 1998

	MARINE Kshs.	AVIATION Kshs.	1998 TOTAL Kshs.	1997 TOTAL Kshs.
Net premium written	**197,211,162**	**7,103,687**	**204,314,849**	**120,857,205**
Claims Paid	(113,134,533)	(5,118,832)	(118,253,365)	(74,532,207)
Commission	(50,313,546)	(427,444)	(50,740,990)	(28,717,866)
Management expenses	(29,422,715)	(5,774,225)	(35,196,940)	(14,175,497)
Total expenses	(192,870,794)	(11,320,501)	(204,191,295)	(117,425,570)
Investment income	—	—	—	10,306,379
	(192,870,794)	**(11,320,501)**	**(204,191,295)**	**(107,119,191)**
Increase (decrease) In funds	4,340,368	(4,216,814)	123,554	13,738,014
Fund balance at begining of the year	167,782,933	44,173,912	211,956,845	198,218,831
Fund balance at end of the year ...	**172,123,301**	**39,957,098**	**212,080,399**	**211,956,845**

Consolidated Cash Flow

for the year ended 31st December, 1998

		1998		1997
	Kshs.	Kshs.	Kshs.	Kshs.
Net Profit Before Tax		**120,212,322**		**170,656,201**
Adjustment for:-				
Depreciation	73,711,831		73,093,144	
Profit on sale of shares	(16,613,682)		(8,981,642)	
Gain on sale of Fixed Assets	(2,445,776)		(1,238,479)	
Prior Year Adjustment	(119,978,924)		—	
Movement in Provisions:-				
Unearned Premium	15,178,531		(253,147,622)	
Outstanding claims	(156,662,351)		681,399,083	
Amortisation of Discount:				
Government Stocks	(33,486)		(39,960)	
Treasury Bonds	—		(32,805)	
Movement in Funded Business				
Increase in Life Fund	3,047,682		13,818,059	
Increase in Non Life Fund	123,552	(203,672,623)	13,738,014	518,607,790
Operating profit before working Capital Changes		(83,460,301)		689,263,991
Movement in Working Capital				
Increase in Amounts due from Reinsurers	(49,109,364)		(30,633,362)	
Decrease/(increase) in Amounts due from Insurers				
Decrease in Accrued Investment Income	209,456,755		(57,276,208)	
Increase in Amounts due to Reinsurers	15,128,276		20,297,320	
Increase in Amounts due to Insurers	309,573,043		100,039,327	
Increase in Sundry creditors	68,404,806		2,021,138	
Decrease in Sundry Debtors	137,412,293		132,616,169	
Cash generated from operations	26,404,077	717,269,886	10,519,654	177,584,038
		633,809,585		866,848,029
Tax Paid		(131,330,207)		(81,534,455)

Consolidated Cash Flow (....continued)

for the year ended 31st December, 1998

		1998		1997
	Kshs.	Kshs.	Kshs.	Kshs.
Returns on Investing Activities				
Dividends Paid		(50,000,000)		—
		452,479,378		785,313,574
Cash flow from Investing Activities				
Maturity of Loan Stock			36,000	
Investment in Rental and Land for Development	(432,173,009)		(1,047,444,597)	
Sale of other Investments	296,718,517		270,397,991	
Sale of Assets	4,192,930		1,589,437	
Loan & Advances	(123,673,464)		(46,148,142)	
Purchase of Fixed Assets	66,487,327		(24,821,948)	
Sale of Shares	20,173,102	(301,249,251)	8,803,143	(837,588,116)
Increase/ (Decrease) in cash/cash equivalents		151,230,127		(52,274,542)
Cash Balance at Beginning of Year		30,583,113		82,857,655
Increase/ (Decrease) in cash/cash equivalents		151,230,127		(52,274,542)
Cash/Cash equivalents at Year end (Note 11)		**181,813,240**		**30,583,113**

1. ACCOUNTING POLICIES

(a) ACCOUNTING CONVENTION

The Corporation's financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets.

(b) CHANGE IN ACCOUNTING POLICY

For the year ended 31st December 1998 the underwriting results include operating performance from October 1997 to September 1998. Other revenues and expenses cover the period to 31st December, 1998 and is in line with the accounting policy adopted with effect from 1997.

(c) BASIS OF CONSOLIDATION

These accounts include assets, liabilities and results of Kenya Reinsurance Corporation Ltd. and wholly owned subsidiaries Kenya Re Properties Company Limited and Wedco Limited. These subsidiaries have been dormant since 1995 and their assets and liabilities are not material.

(d) DEPRECIATION

Depreciation is charged to write off the cost of fixed assets over their useful lives using straight line method at the following rates:-

	1998	1997
	%	%
Leasehold Development	**2**	—
Motor Vehicles	**25**	25
Office furniture,fittings and equipment	**12.5**	12.5
Household furniture fittings and eqipment	**25**	25
Initial cost of mechanization	**25**	25
Plant and Eqipment	**12.5**	12.5

(e) PREMIUM

Premium is recognised as revenue when due from insurers and in the accounting period to which the related risks refer while retroceded premium is accounted for when due to retrossionaires. Provision is made for unearned premium, being the proportion of the net premium income that relates to the risks that have not expired at the end of the financial period.

(f) FUNDED ACCOUNTS

The results from Marine, Aviation and Life Classes of business transacted in the local market have continued to be transferred to the insurance funds, until the Corporation has sufficient experience to declare profits (or losses) from these classes. The funds so created are subject to unsettled claims and unexpired risks and are reassessed annually to ensure that balances are adequate to meet these costs.

Actuarial valuation by Hymans Robertson Consulting Actuaries Limited in 1997 showed a surplus of Sh.720,159,073 in the Life Fund of which Sh.177,531,815 was transferred to the Consolidated Profit and Loss account in 1997 covering recommendation for 1995 and 1996. No transfer has been made in the current year.

The international treaties results include those for which the Corporation had received returns by 30th September 1998. These results have been incorporated in the revenue account for Fire, Motor and Accident. Those of Marine and Aviation have been included in the respective funds.

(g) OUTSTANDING CLAIMS

Claims are accounted for in the accounting period in which they occur. The provision of claims outstanding at the end of the year includes a amount relating to incurred but not reported claims in respect of Motor, Fire and Accident business. The amount is calculated at 5% of gross premiums written less reinsurances.

(h) PROVISION FOR UNEXPIRED RISKS

These are calculated at 40% of premiums written less reinurance in respect of annual contracts and for all other contracts are calculated on a basis consistent with the contracts.

(i) TAXATION

(I) DEFERED TAX

Provision for defered tax is made only when the directors consider that a tax benefit or charge is likely to crystallise in the forseeable future. No provision has been made in these accounts as it is considered that no tax benefit or charge is likely to crystallise.

(ii) CORPORATION TAX

The provision has been made at 32.5% on the profit for the year adjusted for tax purposes. The Corporation has submitted to the Income Tax Department self-assessment tax returns upto 31st December 1998 as required by law.

(j) FOREIGN CURRENCIES

Transactions during the year are converted into Kenya Shillings at the rate ruling at the transaction date. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shilling at the rate ruling at that date. The differences in conversion are dealt with in the profit and loss accounts in the year which they arise.

(k) HOUSING PROJECTS

Profit from sale of houses are recognised on units sold during the year.

(l) BAD AND DOUBTFUL DEBTS

The Corporation carries out an annual review of debtors and specific provisions are made against debts which are considered to be bad or doubtful.

(m) DEPRECIATION ON REVALUATION

An amount equal to depreciation charge on revaluation is transfered from the revaluation reserve to the revenue reserve in the year of charge.

2. CAPITAL

The authorised share capital of the Corporation is Shs. 500,000,000.00 which is issued and fully paid up.

3. FIXED ASSETS

a. COST OR VALUATION

	At 1.1.1998 Kshs.	Addition Kshs.	Disposal Kshs.	Reclassified Kshs.	At 31.12.1998 Kshs.
Land and Buildings	251,424,651	54,638,632	—	(32,000,000)	274,063,283
Motor Vehicles	35,823,674	8,768,744	(9,987,184)	—	34,605,234
Computer Equipment	28,373,858	271,464	—	—	28,645,322
Furniture, Fixtures, Fittings & Office Equipment	98,525,365	2,697,154	(206,500)	—	101,016,019
Other Plant & Equipment	456,207,373	111,333	—	—	456,318,706
	870,354,921	**66,487,327**	(10,193,684)	**(32,000,000)**	**894,648,564**

b. ACCUMULATED DEPRECIATION

	At 1.1.1998 Kshs.	On Disposal Kshs.	Charge for the Year Kshs.	Reclassified Kshs.	At 31.12.1998 Kshs.
Land and Buildings	—	—	4,481,266	—	4,481,266
Motor Vehicles	26,995,403	(7,836,732)	4,955,936	—	24,114,607
Computer Equipment...........	20,882,031	—	3,680,086	—	24,562,117
Furniture, Fixtures, Fittings & Office Equipment.............	48,307,316	—	8,219,536	—	56,527,052
Other Plant & Equipment	144,290,182	—	52,375,007	—	196,665,189
	240,475,132	**(7,836,732)**	**73,711,831**	—	**306,350,231**

C. NET BOOK VALUES

	31.12.1998 Kshs	31.12.1997 Kshs
Land and Buildings	269,582,017	251,424,651
Motor Vehicles	10,490,627	8,828,271
Computer Equipment	4,083,205	7,491,826
Furniture,Fixtures,Fittings & Office Equipment	44,488,967	50,217,921
Other Plant & Equipment	259,653,517	311,917,247
	588,298,333	**629,879,916**

Leasehold land, buildings,motor vehicles, computer equipment, furniture, fixtures, fittings and office equipment and other plant and equipment were revalued on 31st December 1996 by Loyd Masika Ltd and Tysons Ltd, registered valuers on depreciated replacement cost basis, except LR209/12922, LR209/12923 and LR 209/12146 which were valued at cost. The resultant revaluation reserve on fixed assets of Sh. 457,375,857 (total for all assets including investments was Sh. 2,161,295,777) was credited to the shareholders funds.

Land and Buildings with a value of KS. 32,000,000 (cost Kshs.27,236,767) were re-classified under investment to reflect its current and long - term revenue generation.

4. INVESTMENTS

(a) All quoted and unquoted investments are stated at cost. The market value of the quoted shares as at 31st December 1998 was Kshs. 590,046,269. (1997 Kshs. 463,215,518) while the value of the unquoted shares was in excess of cost.

(b) Loan secured by mortgages on real property comprise of:

	31.12.1998 Kshs	31.12.1997 Kshs
Staff mortgages and Loans	322,687,500	169,938,987
Other motgage Loans	172,884,790	150,380,642
Other long - term loans	—	19,409,766
	495,572,290	339,729,395
Less maturities within one year	(59,688,666)	(27,519,235)
	435,883,624	**312,210,160**

(c) Other investments being rental properties and land for development comprise the assets which were revalued in 1996 at market prices stated in note 3 above, except for properties acquired during that year which were not revalued and are stated at cost. Since these investments relate to short term business, gains or losses resulting from the revaluation are considered on portfolio basis.The resultant revaluation reserve of Sh. 1,703,919,920 (total for all revalued assets Sh. 2,161,295,777) was credited to the shareholders' funds.

for the year ended 31st December, 1998

5. SUNDRY CREDITORS & ACCRUALS

	31.12.1998 Kshs.	Kshs.	31.12.1997 Kshs.
Sundry creditors & accruals	409,229,784		271,817,490
Corporation Tax	(67,474,226)		53,013,457
	341,755,558		**324,830,947**

6. PROFIT BEFORE TAX

	31.12.1998 Kshs.	Kshs.	31.12.1997 Kshs.
Investment income	440,145,496		423,989,158
Underwriting Deficit	(319,933,174)	(430,864,772)	
Surplus from Life Fund	——	177,531,815	(253,332,957)
	120,212,322		**170,656,201**
After charging:			
Depreciation	73,711,831		73,093,144
Auditor's Fees	840,000		840,000
Director's Emoluments	425,320		425,320

7. PRIOR YEAR ADJUSTMENT

This relates to amounts as follows:

(i) Transfer of excess depreciation for 1997 on revalued assets from the revaluation reserve Sh. 47,276,450.
(ii) Tax paid on Life Fund of Sh. 117,972,077 for the years 1994 to 1997 which was charged to the profit and loss.
(iii) Write - Off of development costs of Sh. 351,625,925 in one project which amount had previously been charged to the revaluation Reserve.
(iv) Accrued restructuring costs of Sh. 119,978,924 attributed to prior years less tax at 32.5%.

8. TRANSFER FROM REVALUATION RESERVE

This amount comprises of excess depreciation on revalued assets Sh. 47,181,371 and balance on the revaluation reserve on disposed assets Sh. 23,285,273.

9. CONTIGENCY RESERVE

	1998 Kshs.	1997 Kshs.
Balance Brought Foward	139,180,499	139,180,499
Transfer to Profit and Loss	(89,599,255)	——
	49,581,244	**139,180,499**

10. INVESTMENT INCOME

All expenses incurred during the year on Rental Properties are charged to the profit and loss pending the apportionment of service charge expenses. The recoverable amount is recognized as revenue after finalization of audit and billing to tenants.

11. MANAGEMENT EXPENSES

The allocation of management expenses to investment income changed from 5% to 30% beginning the year ended 31st December 1997 to reflect the utilisation of resources but has no effect on the total operating results.

12. NOTE TO CASH FLOW STATEMENT

For the purpose of the cash flow, cash and cash equivalents comprise of Cash at Hand, Cash at Bank and Fixed Deposits.

13. CAPITAL COMMITMENTS

Capital commitments for the Corporation were as follows:-

	31.12.1998 Kshs.	31.12.1997 Kshs.
(a) Villa Franca	219,391,167	325,402,233
(b) Upper Hill Office Block	511,017,597	—
(c) Meru Housing Project	—	18,979,544
(d) Waiyaki Way Project	—	1,541,372
(e) South C Project	121,819,870	252,515,367
(f) Embakasi Transit Hotel	—	35,848,197
	852,228,634	**634,286,713**

All the capital commitments have been authorised and contracted.

The cost of on - going projects include only those amounts for which progress billings and other invoices had been received by the Corporation at 31st December 1998.

14. CONTINGENT LIABILITY

There is a guarantee of Shs. 365,000 with a margin of Shs. 10,000 issued by the National Bank of Kenya Ltd., Harambee Avenue Branch, on behalf of the Corporation, in favour of Kenya Posts & Telecommunications Corporation. In addition there is another guarantee of Shs. 450,000 issued by Kenya Commercial Bank Ltd on behalf of the Corporation and claim against the Corporation for Kshs. 18.5 million which is under arbitration.

15. CURRENCY

The accounts are expressed in Kenya Shillings.

16. INCORPORATION

The Corporation is incorporated in Kenya under the Companies Act (Cap486).

INTERNATIONAL SCENE

Overall growth in the Organisation of Economic Co-operation and Development (OECD) area slowed down to 2.2% in 1998 from 3.0% in 1997 as a result of the decline in aggregate domestic demand and declining business confidence. The financial crisis in Asia spread and deepened during the year. Russia, Japan and Brazil were hardest hit as their growth dampened considerably. In the United States the growth momentum slowed marginally due to decline in exports and weaker business investments. Africa's growth rate during the year is estimated to have fallen to 2.4% due to unfavourable weather phenomenon that hampered productive activities together with decline in prices of chief foreign exchange earning commodities in the international markets. The European economies, on the other hand, continued to exhibit a strong growth rate from 2.6% in 1997 to 2.8% in 1998. This was mainly due to strong domestic demand and consumer confidence, low interest rates and inflation as well as limited effects of the financial crisis in emerging market economies. Japan experienced one of the worst recession in recent times with its growth dropping sharply from a positive 0.5% in the 1997 to a negative 2.6% in 1998.

The year witnessed slower growth in world trade from 9.2% in 1997 to 6.1% in 1998. This was mainly attributed to sharp falls in the demand of most commodities brought about by the turbulence in Asia and other emerging market economies, fall in international prices of primary commodities and general decline in aggregate domestic demand in major economies of the world.

DOMESTIC ECONOMY

The year 1998 was characterized by a further slowdown in economic activities and stagnation in investment. Real economic growth in agriculture rose marginally from 1.0% in 1997 to 1.5% in 1998, while manufacturing declined from 1.9% to 1.4%. Financial and Trade, Restaurants and Hotels sector were some of the most adverserly affected.

Investments stagnated as a result of budgetary cuts, poor infrastructure, high interest rates, reduced donor funding and excess capacity. Per capital incomes dropped by 1.6 percentage points.

Inflationary pressures were contained within single digit at 6.6% in 1998 from 11.3% in 1997. A tight monetary policy aimed at controlling the growth of money supply and the availability of basic foodstuffs accounted for this development.

On the external front, the balance of payment surplus fell, due to a reduction in tourism earning and slower growth in exports. The terms of trade marginally deteriorated as a result of higher import prices of equipment.

Growth is expected to pick up from 1.8% in 1998 to 2.3%in 1999. Adequate and reliable rains , tight monetary policies, expected renewed donor funding, improvement in infrastructure and reduced interest rates are expected to stimulate investment and revive growth.

A REVIEW OF THE INSURANCE INDUSTRY

At the end of 1998, there were 37 registered insurance companies and 4 reinsurance companies operating in the Kenyan insurance market. The gross direct general business premium income for the market increased by 9.2% from Shs. 13,759.4 million in 1997 to Shs. 15,027.2 million in 1998. Claims paid increased by 12.6% from Shs.11,057.8 in 1997 to shs.12,448.3 million in 1998.

Outstanding losses increased by 8.04% from shs. 14,776.7 million in1997 to Shs. 15,965.4 million in 1998. Incurred claims on the other hand recorded an increase of 21.2% from Shs. 11,2503.0 million in 1997 to Shs. 13, 636.9 million in 1998.

The loss ratio was 90% in 1998 as compared to 81.9% in 1997. The breakdown of premiums written by class of business in 1997 is as shown below :-

FIGURES IN KSHS (MILLIONS)

BUSINESS PREMIUMS	PREMIUMS 1997	PREMIUMS 1998	INCREASE/ (DECREASE)%	INCURRED CLAIMS 1998	INCURRED CLAIMS AS %OF PREMIUMS
FIRE	2,723.2	2,954.2	8.5	2,809.4	95.0
ACCIDENT	3,880.7	4,251.8	9.6	3,844.6	90.4
MOTOR	6,349.8	7,021.3	10.6	6,542.3	93.2
MARINE	777.1	778.4	0.2	419.6	53.9
AVIATION	28.6	21.6	(24.5)	21.0	97.5
TOTAL	13,759.4	15,027.2	9.2	13,636.9	90.7

MOTOR
Gross premium income for motor class of business increased by 10.6% from Shs.6,349.8 million in1997 to Shs 7,021.3 million in 1998. Incurred claims stood at Shs 6,542.3 million in 1998 as compared to Shs. 5,424.0 million in 1997 and the loss was 93.2%.

FIRE
Gross premium income for fire business increased from Shs. 2,723.2 million in 1997 to Shs. 2,954.2 million in 1998 an increase of 8.5%. Incurred claims were Shs.2,809.4 million and the loss ratio was 90%.

ACCIDENT
The total premium written in this class increased from Shs. 3,880.7 million in 1997 to Shs. 4,251.8 million in 1998, an increase of 9.6%. Incurred claims were Shs. 3,844.6 million and the loss ratio was 95%.

AVIATION
The total premium written in this class of business was Shs. 21.6 million compared to Shs.28.6 million in the previous year. This represents a decrease of (24.5%). The incurred claims were Shs. 419.6 million in 1998 compared to Shs. 370.4 million in 1997.

MARINE
The total premium written in this class of business was Shs. 778.4 million compared to shs.777.1 million in the previous year. This represents an increase of 0.2% . The incurred claims were Shs. 419.6 million in 1998 compared to Shs.370.4 million in 1997.

OUT LOOK FOR 1999
The general outlook for the Kenyan economy is one of mixed performance in 1999. The onset of ample and widespread rains is expected to boost production of cereal and cash crops especially coffee and tea. However, coffee and tea production may be hampered by declining world prices in tandem with lack of good management of coffee crop and rising costs of farm inputs.

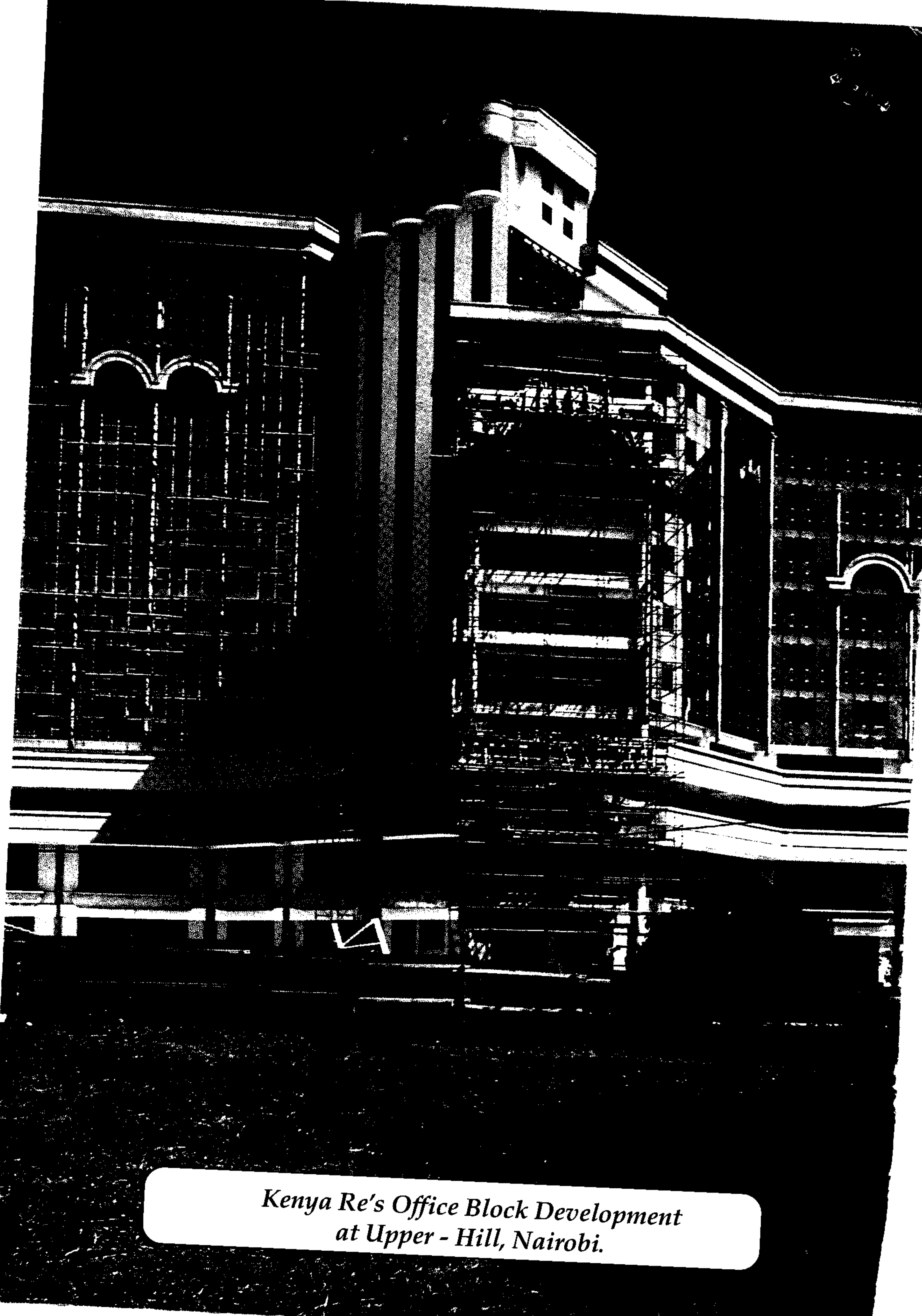
Agro-based manufacturing industries will benefit from the expected increase in agricultural production. However, other industries such as beverages, tobacco, clothing, textiles and leather will continue to be plagued stiff competition from imports. Improvements in infrastructure will revamp the sector's activities.

The economic growth slowdown in industrialized countries, the aftermath of the Nairobi bombing , poor roads, increasing insecurity and fears of the further attack will combine to stem the flow of tourists. This , unless checked, will affect the growth prospects for trade, restaurants and hotels.

On the international scene, the slowdown in the economic growth of industrialised countries in the face of the backlash of the Asian financial crisis, and the birth of the Euro currency are expected to lower the demand for exports of developing countries, Kenya included. Coffee prices are expected to fall further, while those of tea will remain unchanged. The failure of the European Union to upgrade Kenya's fish experts category of list one and the fixing of textile quotas to the United States of America are other factors that will adversely affect domestic production. The prevailing low interest rates in the OECD region are expected to push down the cost of borrowing and consequently increase the inflow of foreign capital investments.

The average increase in consumer price was 6.6% in 1998 and the rate of inflation is expected to remain within the single digit level mainly due to the downward trend in interest rates, tight control on money supply and favourable weather conditions expected to boost food production.

The expected rise in the import of petroleum products as a result of the weakening shilling against major international currencies put pressure on domestic prices through increase transport costs.
In addition, the continuing fall of the Kenya shilling is expected to put pressure on the inflation rate due to general increase in the prices of imports, may however, be partly offset the growth in export earnings.
Due to these expected developments, the economy will not be able to exploit its growth potential to the full. The project growth is expected to be around 2.3% in 1999.



Kenya Re's Office Block Development
at Upper - Hill, Nairobi.