

ANNUAL REPORT  
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ACCOUNTS 2001

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# Board of Directors



Left to Right:  
Charles Ogalo, Andrew J. Omanga and Peter Kenneth (Managing Director)



Left to Right:  
Esther Koimett and Osman Abdirahman

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# Board of Directors



Left to Right:  
Josiah Munuka and Charles Ogalo



Left to Right:  
Prof. Some, Margaret Otega (Corporation Secretary) and Philip Sing'aru

# Corporation Information

## REGISTERED OFFICE

Reinsurance Plaza  
Taifa Road  
P. O. Box 30271  
Telephone: 240188  
Telex 220046  
Telexfax 339161  
NAIROBI

## BANKERS

Kenya Commercial Bank Limited  
Moi Avenue  
P.O. Box 30081  
NAIROBI

National Bank of Kenya Limited  
Harambee Avenue  
Actuaries Limited  
P.O. Box 77497  
NAIROBI

Credit Agricole Indosuez  
Reinsurance Plaza  
P.O. Box 69562  
NAIROBI

Commercial Bank of Africa  
CBA Building  
P.O. Box 30437 NAIROBI

Lloyds TSB Bank PLC  
Fenchurch Street Branch  
72 Fenchurch Street  
London, EC3P3EH  
UNITED KINGDOM

## SOLICITORS

Hamilton Harrison and Mathews  
ICEA Building, Kenyatta Avenue  
P.O. Box 30333 NAIROBI

Rachier & Company  
7th Floor, Reinsurance Plaza  
P.O. Box 55645 NAIROBI

## COMPANY SECRETARY

M.A. Otega (Mrs)  
Reinsurance Plaza  
P.O. Box 30271  
NAIROBI

## AUDITORS

Ernst & Young  
Kenya-Re Towers Upperhill  
Off Ragati Road  
P.O. Box 44286 NAIROBI.

## ACTUARIES

Hymans Robertson Consulting  
Actuaries.  
Nation Centre  
P.O. Box 52439 NAIROBI

## SUBSIDIARIES

Kenya Re Properties Limited  
P.O. Box 30271  
NAIROBI

Wedco Limited  
P.O. Box 30271  
NAIROBI

# ANNUAL REPORT 2001

## OUR CORPORATE VISION

The corporate vision of Kenya Re is to be a world class reinsurer and market leader in Africa offering quality reinsurance and ancillary services.

## OUR CORPORATE MISSION

The corporate mission of Kenya-Re is to provide quality reinsurance and insurance services to our clients in Kenya, the rest of Africa, Middle East and Asia.

### We strive to:

- be customer - focused and committed to growth, profitability and satisfactory returns to our shareholders through professionalism and use of modern technology.
- continue to attract, develop and retain a pool of qualified and experienced staff so as to maintain our competitive edge.
- be socially responsible and environmentally conscious by observing high ethical standards in all our business practices.

## OUR CORE VALUES

Kenya Re pledges that all organizational activities and decisions will be based on and guided by the following values:

- Commitment to professionalism
- Customer satisfaction
- Quality service
- Development of human resource
- Social responsibility
- Concern for environment
- Integrity

# Chairman's Report



I am delighted to present to you the 31<sup>st</sup> Annual Report and Financial Statements of Kenya Reinsurance Corporation Limited for the year ended 31<sup>st</sup> December 2001. Against a backdrop of the looming year 2002 General Election, the Constitutional Review Process, confusion on the Central Bank of Kenya (Amendment) Act 2000, lack of donor support and uncertainty resulting from 11<sup>th</sup> September 2001 terrorist attacks in the United States of America, year 2001 was a challenging year for the Corporation, the Insurance industry and the Kenyan economy as a whole.

## THE ECONOMY

As a result of improved weather conditions during the year and enhanced security in various tourist destinations in the Country, Agriculture and Tourism sectors recorded positive growth as compared to manufacturing and construction sectors which were struggling to recover.

During the year 2001, the real Gross Domestic Product (GDP) is estimated to have grown by 0.8 % as a result of recovery in agricultural production, improved power supply, increased investment in communication and higher earnings from tourism.

Inflation remained below 5 % as a result of stable agricultural food prices following favourable weather conditions and the relative stability of the shilling exchange rate during the year.

The equities market performance deteriorated further during the year and this was particularly reflected in lower earnings of quoted companies, declining market capitalisation and a continuous downward trend in the 20 share price index.

Banking system Credit to the private and other public sectors other than to Government is estimated to have declined by 2 % in year 2001 due to subdued economic activities and the reluctance of the banks to lend following the uncertainty and confusion on the implementation of Central Bank of Kenya (Amendment) Act 2000 (Donde Bill) that sought to reintroduce interest rates control in the economy. The decline in credit to private sector was reflected in slow economic recovery.

Interest rates on the Treasury Bills declined during the year due to excess liquidity in the domestic market. The excess liquidity was attributable to low demand for commercial banks credit as a result of the slow pace of economic recovery and adverse effects of Central Bank of Kenya (Amendment) Act 2000 on bank lending operations. The excess liquidity was invested in Government securities.

Almost at the end of the year, there was a sharp contraction in the global economy as Insurance and Reinsurance businesses reacted to the devastation and dislocation caused by the events of 11<sup>th</sup> September 2001. This is expected to make insurance services and products world wide more expensive in an attempt to factor in increased risks.

## RESULTS

Looking at year 2001, the Insurance industry and the economy as a whole experienced a difficult and challenging year due to social and economic factors that characterised the period. This is the year when words of downsizing, restructuring and at worst closing down or relocating of big and small organisations undertook a social dimension where security of employment was no longer guaranteed.

The reduced purchasing power resulting from the redundancies and retrenchments in both public and private sectors adversely affected demand in all sectors of the economy and the worst hit being the Insurance sector where Insurance cover of whatever type was no longer a priority.

Due to the above factors, the profit before tax and exceptional item in year 2001 declined to KSh. 86 Million (KSh.165 Million in 2000). However an exceptional item of Ksh. 225.9 Million relating to surplus arising from change in the valuation of quoted shares from cost to market value as required by International Accounting Standard No.38 improved overall performance to a profit before tax of KSh.312 Million (KSh.165 Million in 2000).



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The Corporation downsized the workforce by 34 members of staff through a Voluntary Early Retirement Scheme at a cost of Sh.112 Million. This impacted on the profitability of the Corporation during the year under review. However, it is expected that future savings will more than compensate the current cost.

While the impact of the phasing out of Compulsory Cessions resulted in an overall reduction of premiums, it is encouraging to note that the general line of treaty business increased to Sh.1,285 Million from Sh.1,184 Million in year 2000. Life line of business recorded a decrease of premiums to Sh. 251 Million from Sh.313 Million achieved in year 2000. However the life treaty business recorded an increase of Sh. 26.2 Million, from Sh. 214.6 Million in year 2000 to Sh. 240.8 Million in current year.

During the period under review, total claims decreased by KSh. 453 Million when compared to previous similar period. This is attributed to management's deliberate effort to underwrite selectively thus capturing profitable treaty business coupled with the decreased run off claims on compulsory cessions.

Investment income decreased from Sh. 226.7 Million achieved in year 2000 to Sh. 166.4 Million realised in the period under review. The major sources of investment income are the Government securities, rental income and interest from fixed deposits and mortgage loans advanced. The rate of interest on Government securities and fixed deposits have continued to decline over time due to the slowdown in the economy.

#### **CORPORATE GOVERNANCE**

In line with the guidelines on Corporate Governance issued by the Capital Markets Authority, the Board has in place an Audit Committee which monitors the Corporation's operational performance of established internal controls and reviews the financial statements and results of the Corporation, the Information and Communication Technology Committee charged with the responsibility of ensuring that operational service delivery within and to our clients is enhanced, and the Tender Committee responsible for guiding the Corporation in procurement matters.

#### **THE BOARD**

It is my sad duty to inform you of the demise of two long serving and dedicated Directors Messrs. G.M. Pertet and F.M. Nthuli who passed away in year 2001. We will miss them as friends and colleagues.

## *Chairman's Report*

May good God rest their Souls in eternal peace. May I also take this opportunity to welcome to the Board the newly appointed Directors, Messrs. Charles O. Ogalo, Phillip L. Singaru and Josiah M. Munuka. These three gentlemen bring a wide wealth of experience to the Corporation which will be of enormous benefit in our endeavours to be the leading and preferred Reinsurer.

#### **THE FUTURE**

Inflation is expected to increase to over 5 % as a result of the escalating tensions in the middle east which may force increases in international prices of crude oil. Economic recovery is expected at a slower pace of about 1.4 % on GDP. The projection is based on continued high cost of production, the general slow down in the global economy and the persistent low investor confidence on account of delayed restoration of external financial support and uncertainties characterising the run up to the general election and successful completion of the on going Constitutional Review process.

#### **CONCLUSION**

Finally, it gives me pleasure to acknowledge and thank all our esteemed clients, the cedants, brokers and retrocessionaires for their continued support despite the difficult and challenging economic environment in which all of us operated in during the year.

On my behalf and that of the Board I would also wish to sincerely thank the management and staff at all levels who showed exemplary level of dedication and commitment in their work and faced and accepted challenges throughout a demanding year.

To my fellow Directors of the Board, I feel indebted and privileged to have worked with you for your invaluable guidance, tireless efforts and assistance during the year.

Finally, I wish to thank the Government for the continued support and guidance shown during the year and particularly as pertains to the privatisation process.

Thank You  
A. J. OMANGA EGH CHAIRMAN





# Report of the Directors

For the year ended 31<sup>st</sup> December, 2001

The directors have the pleasure in presenting the financial statements for the year ended 31<sup>st</sup> December 2001, which shows the state of the corporation's affairs.

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:**

	2001 KShs.	2000 KShs.	Premium increase (decrease) KShs.	Growth rate %
Fire	371,045,962	439,604,733	(68,558,771)	(16)
Accident	459,959,511	622,642,047	(162,682,536)	(26)
Marine	67,702,229	63,354,571	4,347,658	7
Aviation	4,206,564	35,916	4,170,648	1162
Motor	145,286,309	282,164,976	(136,878,667)	(49)
Life	251,092,144	313,524,016	(62,431,872)	(20)
International business	165,154,283	244,451,482	(79,297,199)	(32)
<b>TOTAL</b>	<b>1,464,447,002</b>	<b>1,965,777,741</b>	<b>(501,330,739)</b>	<b>(26)</b>

c) **Summary of profit for the year:**

	2001	2000 KShs.	Increase (decrease) KShs.	Growth rate% KShs.
i) Investment income	166,383,877	226,715,007 ✓	(60,331,130)	(27)
ii) Underwriting profit (loss)	(80,252,318)	(61,362,213)	(18,890,105)	(30)
iii) Exceptional item	225,997,272	-	225,997,272	100
Profit before tax	312,128,831	165,352,794	146,776,037	89
Corporation tax	(22,030,843)	(26,779,318)	(4,748,475)	(18)
Profit after tax	290,097,988	138,573,476	151,524,512	109

# Report of the Directors

For the year ended 31<sup>st</sup> December, 2001

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## d) Corporation's Results

The Corporation's results are set out on page 15.

## e) Dividends

The Directors do not recommend the payment of dividends.

## f) Directors

The directors who held office during the year and to the date of this report were: -

Andrew J. Omanga

(Chairman)

Peter Kenneth

(Managing Director)

Prof. D.K. Some

O.S. Abdirahman

G. Pertet

(ceased on 28 April 2001)

F. N. Nthuli

(ceased on 20 June 2001)

Charles M. Munuka

(Appointed on 17 July 2001)

Philip Lampat Singaru

(Appointed on 17 July 2001)

Charles O. Ogalo

(Appointed on 17 July 2001)

Mwangazi Mwachofi

Permanent Secretary Treasury

## g) 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

**KENYA REINSURANCE CORPORATION LIMITED**

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# Statement of Directors' Responsibilities

The 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 corporation as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the corporation keeps proper accounting records, which disclose with reasonable accuracy the financial position of the corporation. They are also responsible for safeguarding the assets of the corporation.

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 generally accepted accounting practice and in the manner required by the 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 corporation and of its 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 corporation will not remain a going concern for at least the next twelve months from the date of this statement.



AJ Omanga EGH

DIRECTOR

3<sup>rd</sup> May, 2002

Date



Prof. D. K. Some

DIRECTOR

3<sup>rd</sup> May, 2002

Date

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# Report of the Independent Auditors -

For the year ended 31<sup>st</sup> December, 2001

## TO THE MEMBERS OF KENYA REINSURANCE CORPORATION LIMITED

We have audited the financial statements on pages 13 to 32, which have been prepared on the basis of the accounting policies set out on pages 21 to 23. We obtained all the information and explanations, which we considered necessary for our audit.

### RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE INDEPENDENT AUDITORS

As stated on page 11, the directors are responsible for the preparation of financial statements, which give a true and fair view of the state of the affairs of the Corporation and of its operating results. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

### BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit so as to obtain a reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and the significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

### OPINION

In our opinion, proper books of account have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the financial affairs of the corporation at 31 December 2001 and of the results and cash flows for the year then ended and comply with International Accounting Standards and the Companies Act.

Without qualifying our opinion, we draw attention to Note 7 (ii) to the financial statements relating to one of the properties held for development.

ERNST & YOUNG  
Certified Public Accountants

7th May, 2002  
Nairobi

KENYA REINSURANCE CORPORATION LIMITED

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# Consolidated Balance Sheet

As at 31<sup>st</sup> December, 2001

	Note	General insurance business KShs.	Long-term insurance business KShs.	Total 2001 KShs.	Total 2000 KShs.
<b>ASSETS:</b>					
<b>NON-CURRENT ASSETS:</b>					
Fixed assets	2	432,232,460	-	432,232,460	484,168,248
Government securities	3	344,807,704	718,687,872	1,063,495,576	1,044,013,355
Ordinary shares quoted on the Nairobi Stock Exchange	4	370,856,837	-	370,856,837	125,166,273
Ordinary shares (unquoted)	5	150,791,587	-	150,791,587	150,586,746
Preference shares quoted		191,043	-	191,043	191,043
Loans secured by mortgages on real property	6	248,525,002	-	248,525,002	351,840,041
Investment properties and land for development	7	3,781,448,698	424,542,775	4,205,991,473	4,812,454,096
		5,328,853,331	1,143,230,647	6,472,083,978	6,968,419,802
<b>CURRENT ASSETS:</b>					
Cash & bank balances		114,649,169	-	114,649,169	332,359
Short term deposits		145,258,946	32,053,454	177,312,400	128,806,901
Inventories	8	708,821,688	-	708,821,688	-
Amounts due from cedants & reinsurers	9	357,005,078	36,479,418	393,484,496	481,717,710
Tax recoverable	10	-	-	-	9,197,089
Sundry debtors	11	275,850,829	335,502	276,186,331	234,246,548
Accrued investment income		6,561,745	24,231,706	30,793,451	26,338,951
		1,608,147,455	93,100,080	1,701,247,535	880,639,558
<b>TOTAL ASSETS</b>		<b>6,937,000,786</b>	<b>1,236,330,727</b>	<b>8,173,331,513</b>	<b>7,849,059,360</b>
<b>EQUITY, LIFE FUNDS &amp; LIABILITIES:</b>					
<b>Capital &amp; Reserves: -</b>					
Ordinary share capital	12	500,000,000	-	500,000,000	500,000,000
Revaluation & other reserves	13	2,158,412,603 (200,327,624)	-	2,158,412,603 (200,327,624)	2,185,882,662 (526,075,201)
Retained earnings					
Shareholders' funds		2,458,084,979	-	2,458,084,979	2,159,807,461
Life Funds	14(a)	-	1,211,874,200	1,211,874,200	1,052,207,355
General funds	14(b)	146,246,828	-	146,246,828	158,312,131
		146,246,828	1,211,874,200	1,358,121,028	1,210,519,486
<b>TOTAL CAPITAL, RESERVES AND LONG TERM FUNDS</b>		<b>2,604,331,807</b>	<b>1,211,874,200</b>	<b>3,816,206,007</b>	<b>3,370,326,947</b>

## Consolidated Balance Sheet

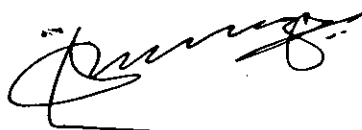
As at 31<sup>st</sup> December, 2001

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## LIABILITIES:

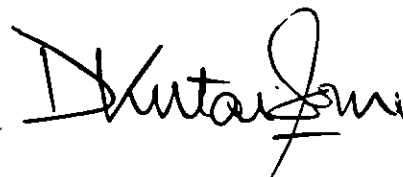
	Note	General insurance business KShs.	Long-term insurance business KShs.	Total 2001 KShs.	Total 2000 KShs.
Non-current liabilities:					
Underwriting provisions:					
Outstanding claims		2,691,719,286	-	2,691,719,286	2,706,879,881
Unearned premiums		376,304,841	-	376,304,841	516,813,440
		3,068,024,127	-	3,068,024,127	3,223,693,321
OTHER LIABILITIES					
Bank overdraft	15	164,913,756	377,435	165,291,191	12,558,396
Dividends payable		120,000,000	-	120,000,000	120,000,000
Amounts due to reinsurers & cedants	16	618,086,342	30,516,595	648,602,937	802,334,478
Deferred tax	17	33,739,137	-	33,739,137	41,918,667
Tax payable		12,833,755	10,095,103	22,928,858	-
Sundry creditors	18	298,539,256	-	298,539,256	278,227,551
		1,248,112,246	40,989,133	1,289,101,379	1,255,039,092
TOTAL LIABILITIES		4,316,136,373	40,989,133	4,357,125,506	4,478,732,413
TOTAL EQUITY, LIFE FUNDS AND LIABILITIES		6,920,468,180	1,252,863,333	8,173,331,513	7,849,059,360

The financial statements were approved by the Board of Directors on 3 May 2002 and signed on its behalf by:



AJ Omanga EGH

DIRECTOR



Prof. D. K. Some

DIRECTOR

# Consolidated Profit and Loss Account

For the year ended 31<sup>st</sup> December, 2001

	Note	2001 KShs.	2000 KShs.
INCOME			
Investment income	19	166,383,877	226,715,007
Loss transferred from the underwriting revenue account		(80,252,318)	(61,362,213)
Profit before tax and exceptional item	20	86,131,559	165,352,794
Exceptional item	26	225,997,272	-
Profit before tax		312,128,831	165,352,794
Taxation	10	(22,030,843)	(26,779,318)
Net profit for the year		290,097,988	138,573,476
Earnings Per Share	21	5.798	2.77

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# Statement of Changes in Equity -

For the year ended 31<sup>st</sup> December, 2001

	Share capital KShs.	Capital & Contingency reserves KShs.	Revaluation reserves KShs.	Retained earnings KShs.	Total KShs.
As previously stated					
At 1 January 2000	500,000,000	60,405,772	2,169,365,188	(138,184,554)	2,591,586,406
Prior year adjustment (Note 27)	-	-	-	(583,471,102)	(583,471,102)
Restated balance	500,000,000	60,405,772	2,169,365,188	(721,655,656)	2,008,115,304
Net profit for the year				138,573,476	138,573,476
Proposed Dividends				(10,000,000)	(10,000,000)
Deferred tax	-	-	-	15,685,481	15,685,481
Surplus/(deficit) arising from revaluation of: -					
land for development	-	-	7,433,200	-	7,433,200
Transfer from revaluation reserves	-	-	(51,321,498)	51,321,498	-
At 31 December 2000	500,000,000	60,405,772	2,125,476,890	(526,075,201)	2,159,807,461
At 1 January 2001	500,000,000	60,405,772	2,125,476,890	(526,075,201)	2,159,807,461
Deferred Tax	-	-	-	8,179,530	8,179,530
Net profit for the year	-	-	-	290,097,988	290,097,988
Transfer from revaluation reserves	-	-	(27,470,059)	27,470,059	-
At 31 December 2001	500,000,000	60,405,772	2,098,006,831	(200,327,624)	2,458,084,979





# Consolidated Cashflow Statement

For the year ended 31<sup>st</sup> December, 2001

	Note	2001 Note	2000 KShs.
Cash flow from operating activities: -			
Net profit before tax		312,128,831	165,352,794
Adjustment for: -			
Exceptional item		(225,997,272)	-
Depreciation		59,035,597	83,447,751
Profit on sale of shares		-	(59,851,837)
Gain on sale of fixed assets		(997,050)	380,808
Movement in provisions: -			
(decrease)/Increase in unearned premiums		(140,508,599)	23,287,703
(decrease)/Increase in outstanding claims		(15,160,595)	2,644,881
Movement in funded business: -			
Increase in life fund		169,761,949	71,733,450
Decrease in general fund		(12,065,303)	(33,362,320)
Operating profit before working capital changes		146,197,558	253,633,230
Decrease in amounts due from cedants & reinsurers		88,233,214	662,302,320
(Increase)/Decrease in sundry debtors		(41,939,783)	58,794,512
(Increase)/Decrease in accrued investment income		(4,454,500)	7,389,792
(Decrease) in amounts due to reinsurers & cedants		(153,731,541)	(942,095,967)
Increase in inventories		(708,821,688)	-
Increase/(Decrease) in sundry creditors		20,311,705	(70,065,510)
Cash generated from operations		(654,205,035)	(30,041,623)
Tax paid		-	-
Net cash from operating activities		(654,205,035)	(30,041,623)
Return on investments and servicing of finance			
Dividends paid		-	-
Net cash flow from investments & servicing of finance		-	-
Cash flows from investing activities-			
Purchase of property, plant & equipment		(7,099,809)	(147,743,936)
Proceeds on sale of property, plant & equipment		997,050	628,104
Net sale/(purchase) of shares		(19,898,133)	65,399,504
Purchase of Government securities		(19,482,221)	(24,952,520)
Mortgage loans redeemed		103,315,039	26,067,742
Investment properties		606,462,623	170,915,199
Net cash flow from investing activities		664,294,549	90,314,093
Net increase in cash & cash equivalents		10,089,514	60,272,470
Cash & cash equivalents at the beginning of the year		116,580,864	56,308,394
Cash & cash equivalents at the end of the year	22	126,670,378	116,580,864





# General Insurance - Revenue Account

Kenya Re	Engineering KShs.	Fire Domestic KShs.	Fire Industrial KShs.	Liability KShs.	Motor Private KShs.	Motor Commercial KShs.	Personal Accident KShs.	Theft KShs.	Workmen's Compensation KShs.	Misc. KShs.	Total 2001 KShs.	Total 2000 KShs.
Net written Premium	45,892,548	26,926,091	401,254,766	171,178,419	14,366,115	139,965,583	101,435,246	104,146,286	15,600,093	32,460,364	1,053,225,511	1,524,884,886
Unearned Prem. c/fwd	37,181,584	32,235,478	125,365,770	37,338,991	71,094,660	41,771,330	93,562,238	45,266,759	29,973,619	3,023,011	516,813,440	493,525,714
Unearned Prem. b/fwd	(18,490,118)	(10,770,437)	(126,797,710)	(62,253,715)	(3,432,369)	(52,368,078)	(40,868,284)	(41,960,563)	(6,285,281)	(13,078,286)	(376,304,841)	(516,813,440)
Net Earned Premium	64,584,014	48,391,132	399,822,826	146,263,695	82,028,406	129,368,835	154,129,200	107,452,482	39,288,431	22,405,089	1,193,734,110	1,501,597,160
Claims paid	32,339,109	6,828,906	114,473,885	98,170,731	57,547,508	200,116,385	79,376,565	71,216,905	33,104,780	18,841,254	712,016,028	1,138,260,587
Claims outst c/fwd	101,676,289	14,495,169	313,325,198	258,139,187	295,898,438	1,081,867,470	180,612,772	148,387,092	269,066,863	28,250,808	2,691,719,286	2,706,879,881
Claims outst. b/fwd	(105,004,541)	(18,418,498)	(309,401,869)	(265,378,229)	(275,331,146)	(1,109,278,695)	(185,219,791)	(157,933,254)	(252,126,762)	(28,787,096)	(2,706,879,881)	(2,704,235,000)
Total claims incurred	29,010,857	2,905,577	118,397,214	90,931,689	78,114,800	172,705,160	74,769,546	61,670,743	50,044,881	18,304,966	696,855,433	1,140,905,468
Commission	20,067,139	17,343,389	149,048,819	44,920,856	591,368	6,019,963	32,976,877	34,392,314	5,685,580	8,608,295	319,654,600	299,346,880
Management Expenses	10,783,057	6,373,977	103,448,980	40,752,633	3,198,939	31,212,593	23,930,578	25,756,750	4,291,865	7,727,023	257,476,395	122,707,025
Total Expenses	59,861,053	26,622,943	370,895,013	176,605,178	81,905,107	209,937,716	131,677,001	121,819,807	60,022,326	34,640,284	1,273,986,428	1,562,959,373
Underwriting Profit/(Loss)	4,722,961	21,768,189	28,927,813	(30,341,483)	123,299	(80,568,881)	22,452,199	(14,367,325)	(20,733,895)	(12,235,195)	(80,252,318)	(61,362,213)

# Life Revenue Account

For the year ended 31<sup>st</sup> December, 2001

	Ordinary KShs.	Super Annuation KShs.	Total 2001 KShs.	Total 2000 KShs.
Net premium	31,382,669	177,835,130	209,217,799	313,524,016
Claims incurred: -				
Death	(2,702,286)	(56,043,066)	(58,745,352)	(261,867,351)
Maturity	-	-	-	-
Total claims	(2,702,286)	(56,043,066)	(58,745,352)	(261,867,351)
Commission	(2,048,545)	(25,265,388)	(27,313,933)	(44,246,806)
Total claims & Commissions	(4,750,831)	(81,308,454)	(86,059,285)	(306,114,157)
Management expenses	(10,059,439)	(57,003,488)	(67,062,927)	(6,643,774)
Investment Income	42,112,295	71,554,065	113,666,360	70,967,365
Provision for taxation	(9,647,529)	(447,573)	(10,095,102)	(6,023,033)
	17,654,496	(67,205,450)	(49,550,954)	(247,813,599)
Increase in life funds	49,037,165	110,629,680	159,666,845	65,710,417
Funds at the beginning of the year	389,832,939	662,374,416	1,052,207,355	986,496,938
Funds at the end of the year	438,870,104	773,004,096	1,211,874,200	1,052,207,355

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## General Insurance - Funded Revenue Account

For the year ended 31<sup>st</sup> December, 2001

	Marine KShs.	Aviation KShs.	2001 KShs.	2000 KShs.
Net premium written	77,434,941	10,387,696	87,822,637	71,430,596
Claims paid	(45,135,870)	(6,564,569)	(51,700,439)	(71,197,885)
Commission	(23,068,909)	(1,478,208)	(24,547,117)	(27,282,922)
Management expenses	(20,423,700)	(3,216,634)	(23,640,334)	(6,312,112)
	(88,628,479)	(11,259,411)	(99,887,890)	(104,792,919)
Decrease in funds	(11,193,538)	(871,715)	(12,065,253)	(33,362,323)
Funds balance at beginning of the year	131,410,647	26,901,484	158,312,131	191,674,454
Funds balance at end of the year	120,217,109	26,029,769	146,246,878	158,312,131

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## 1. SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of accounting

The financial statements are prepared on the historical cost basis of accounting modified by the revaluation of certain assets.

### b) Basis of consolidation

These financial statements include assets, liabilities and results of Kenya Reinsurance Corporation Limited and its 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.

### c) Underwriting business

The underwriting results for general business are determined on an annual basis. The incurred cost of claims, acquisition costs and expenses of management are charged against the earned proportion of premiums, net of reinsurance as follows: -

- (i) Earned premiums are net written premium for the period after accounting for unearned premium. Unearned premiums represent that proportion of net premiums written in the period that are attributable to the subsequent accounting period and are determined on the basis of 40% of net premiums written.
- (ii) Claims incurred comprise claims paid in the period and changes in the provision for outstanding claims. Claims paid represent all payments made during the period, 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 based on actual valuation and include provisions for claims incurred but not reported ("IBNR") in respect of Motor, Fire and Accident. The amount is calculated at 5% of gross premiums written less reinsurance.
- (iii) Acquisition costs representing commissions (net of commission receivable) are allocated to the revenue accounts as incurred in each class of business.
- (iv) Management expenses are allocated in the ratio of premium written for each class of business. Provision for diminution in value of investments is not allocated to the revenue account but are charged directly to the profit and loss account.

For the year ended 31<sup>st</sup> December, 2001

... continue ...

**SIGNIFICANT ACCOUNTING POLICIES****d) Fixed asset and depreciation**

Fixed assets are stated at cost less depreciation.

Depreciation is calculated on the straight-line basis, at annual rates estimated to write off carrying values of the assets over their estimated useful lives.

The annual depreciation rates in use are: -

Leasehold Land & Buildings	2%
Motor vehicles	25%
Computer hardware and software	25%
Office furniture, fixtures, fittings & equipment	12.5%
Household furniture & equipments	25%
Plant & Equipment	12.5%

Plant & machinery relating to investment properties are classified as fixed assets and depreciated accordingly.

**e) Funded accounts**

The results from Marine, Aviation and Life classes of business 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.

No transfer to the profit and loss account has been made in the current year.

The international treaties results include those for which the corporation had received returns by 30 September 2001. 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.

**f) Investments**

Treasury Bills and Bonds bills are stated at cost.

Investment properties and land for development are stated at fair value.

Investment in quoted shares are stated at market value and other investments are carried at cost in the balance sheet.

**g) Investment income**

Investment income is stated net of investment expenses and comprises of profit or loss on disposal of trading investments, interest, rents and dividends receivable accounted for on an accrual basis.

# Notes to the Financial Statements

... continue ...

For the year ended 31<sup>st</sup> December, 2001

## SIGNIFICANT ACCOUNTING POLICIES

### h) Translation of foreign currencies

Transactions in foreign currencies during the period 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 the balance sheet date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise

### i) Bad and doubtful debts

Specific provision is made for all known bad debts. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year-end. Bad debts are written off in the year in which they are identified.

### j) Taxation

Current taxation is provided for 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. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilised.

### k) Pension obligations

The Corporation operates a defined benefits pension scheme the assets of which are held in trustee administered funds. The retirement plans are funded by payments from both employees and the Corporation.

The corporation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by the local statute and are currently limited to Kshs 200, (Kshs 80 upto 30 November 2001) per employee per month.

The corporation's contributions to the defined benefits pension scheme are charged to the profit and loss account in the period to which they relate.

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# Notes to the Financial Statements -

For the year ended 31<sup>st</sup> December, 2001

... continue ...

## 2. FIXED ASSETS

	Land & buildings KShs.	Motor vehicles KShs.	Computer equipment KShs.	Furniture, fixtures & fittings & office equipment KShs.	Other plant & equipment KShs.	Total KShs.
<b>COST OR VALUATION</b>						
At 1 January 2001	180,748,477	31,017,625	50,586,647	97,312,896	574,758,267	934,423,912
Additions	-	-	2,450,192	4,098,513	551,104	7,099,809
Disposals	-	(3,832,495)	-	(30,000)	-	(3,862,495)
At 31 December 2001	180,748,477	27,185,130	53,036,839	101,381,409	575,309,371	937,661,226
Comprising: -						
Cost	206,033,498	19,881,075	60,130,639	62,327,805	252,046,605	600,419,622
Valuation	(25,285,021)	7,304,055	(7,093,800)	39,053,604	323,262,766	337,241,604
At 31 December 2001	180,748,477	27,185,130	53,036,839	101,381,409	575,309,371	937,661,226
<b>DEPRECIATION</b>						
At 1 January 2001	10,291,300	25,301,075	36,725,421	72,875,313	305,062,555	450,255,664
Charge for the year	3,614,970	3,366,974	3,572,818	8,153,724	40,327,111	59,035,597
Disposals	-	(3,832,495)	-	(30,000)	-	(3,862,495)
At 31 December 2001	13,906,270	24,835,554	40,298,239	80,999,037	345,389,666	505,428,766
<b>NET BOOK VALUE</b>						
At 31 December 2001	166,842,207	2,349,576	12,738,600	20,382,372	229,919,705	432,232,460
At 31 December 2000	170,457,177	5,716,550	13,861,226	24,437,583	269,695,712	484,168,248



# Notes to the Financial Statements

... continue ...

For the year ended 31<sup>st</sup> December, 2001

## 3. GOVERNMENT SECURITIES

Treasury Bills & Bonds:

Maturing within 90 days

Maturing after 90 days

2001

KShs.

2000

KShs.

485,682,012

534,423,355

577,813,564

509,590,000

1,063,495,576

1,044,013,355

## 4. QUOTED ORDINARY SHARES

At 1 January 2001

Additions

Disposals

350,402,709

132,702,573

20,454,128

4,280,108

-

(11,816,408)

370,856,837

125,166,273

All quoted shares are stated at market value (in year 2000 at cost).

## 5. INVESTMENT IN UNQUOTED SHARES

KShs.

KShs.

Industrial Development Bank

25,500,000

25,500,000

P.T.A. Reinsurance Company

111,291,445

111,291,445

Africa Reinsurance Corporation

12,157,667

11,806,668

Consolidated Bank Limited

11,000,000

11,000,000

African Insurance Organization

1,842,475

1,988,633

161,791,587

161,586,746

Diminution in value of Investment

(11,000,000)

(11,000,000)

150,791,587

150,586,746

The directors are of the opinion that the above shares would if sold, realise not less than the amounts at which they are stated.

ANNUAL REPORT 2001

# Notes to the Financial Statements -

For the year ended 31<sup>st</sup> December, 2001

... continue ...

## 6. LOANS SECURED BY MORTGAGES ON REAL PROPERTY

	2001 KShs.	2000 KShs.
Staff mortgages	159,689,822	244,606,807
Other mortgages	118,322,374	135,700,018
	278,012,196	380,306,825
Less: Maturing within one year	(29,487,194)	(28,466,784)
	248,525,002	351,840,041

## 7. INVESTMENT PROPERTIES AND LAND FOR DEVELOPMENT

At 1 January	4,812,454,096	4,943,870,802
Additions/(disposals)	102,359,065	(138,849,906)
Revaluation surplus	-	7,433,200
Transfer to inventory	(708,821,688)	-
	4,205,991,473	4,812,454,096

- (i) These include office building for letting and land for development of office property and housing projects. The investment properties and land for development are stated at fair value which has been determined by the directors. In determining the fair value, the directors have considered current prices of similar property in similar location and condition of the investment property. The fair value of investment property is largely based on a valuation carried out by Tyson Limited, professional independent valuer in May 2000. The directors are of the opinion that if sold the investment properties would realise a value not less the amount at which they are carried.
- (ii) Included in Land for Development is an amount of KShs.200,000,000 representing the value of LR. No.12236. This property is currently the subject of a court case by third parties, arising from which the court has ruled that the corporation remains the registered owners but is restrained from disposing the property in any manner until the third parties case is concluded. Legal opinion indicates that about 25% of the property may have to be surrendered should the court rule against one of the third parties.

## 8. INVENTORIES

	2001 KShs.	2000 KShs.
	708,821,688	-

These are investments in properties held for resale.

# Notes to the Financial Statements

... continue ...

For the year ended 31<sup>st</sup> December, 2001

## 9. AMOUNTS DUE FROM CEDANTS & REINSURERS

	2001 KShs.	2000 KShs.
Local companies	380,187,876	437,797,431
International companies	197,130,588	227,754,247
	577,318,464	665,551,678
Less: provision for bad & doubtful debts	(183,833,968)	(183,833,968)
	393,484,496	481,717,710

## 10. TAXATION

### BALANCE SHEET

Balance brought forward	(9,197,089)	(74,948,648)
Charge for the year	32,125,945	32,802,351
Paid during the year	-	-
Overpayment recovered during the year	-	32,949,208
	22,928,858	(9,197,089)

### PROFIT & LOSS ACCOUNT

Current tax at 30% (2000 - 30%) on the taxable profit for the year: -

Revenue account	22,030,843	26,779,318
Life account	10,095,102	6,023,033
	32,125,945	32,802,351

## 11. SUNDRY DEBTORS

Rent outstanding	151,935,262	118,194,714
Privatisation costs	94,763,875	87,585,050
Mortgage Loans maturing within one year	29,487,194	28,466,784
	276,186,331	234,246,548

## 12. SHARE CAPITAL

Authorised, Issued and fully paid: 50,000,000 ordinary shares of KShs.10 each	500,000,000	500,000,000
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# Notes to the Financial Statements

For the year ended 31<sup>st</sup> December, 2001

... continue ...

	2001 KShs.	2000 KShs.
<b>13. REVALUATION AND OTHER RESERVES</b>		
Revaluation reserves: -		
At 1 January 2001	2,125,476,890	2,169,365,188
Surplus arising from revaluation of: -		
Investment properties and land for development	-	7,433,200
Transfer to Revenue Reserve	(27,470,059)	(51,321,498)
At 31 December 2001	2,098,006,831	2,125,476,890
Capital reserves	10,784,528	10,784,528
Contingency reserves	49,621,244	49,621,244
	<u>2,158,412,603</u>	<u>2,185,882,662</u>

## 14. STATUTORY AND GENERAL FUNDS

(a) (i) Statutory funds	Ordinary life Funds KShs.	Superannuation Funds KShs.	Total KShs.
At 1 January 2001	389,832,939	662,374,416	1,052,207,355
Increase during the year	49,037,165	110,629,680	159,666,845
At 31 December 2001	<u>438,870,104</u>	<u>773,004,096</u>	<u>1,211,874,200</u>

The statutory funds, which comprise ordinary life fund and superannuation fund, were established in respect of its long-term business as required under section 45 of the Insurance Act. Income arising from the investment of the assets of the statutory funds is credited to and forms part of these funds.

Transfers from the statutory funds to the profit & loss account are made on the recommendation of the Actuary.



# Notes to the Financial Statements

... continue ...

For the year ended 31<sup>st</sup> December, 2001

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## (ii) ACTUARIAL LIABILITY

Class of business	Sums at Risk KShs.	Annual office Premium KShs.	Actuarial liability KShs.
Ordinary Life Business	9,402,045,452	58,512,530	57,342,279
Group Life Business	44,232,850,165	196,298,355	192,372,388
Treaty Business	2,466,631,292	22,569,133	22,117,750
Supplementary Benefits	14,383,348,405	31,866,715	31,866,715
AIDS Reserve	-	-	350,905,881
Claims Equalisation Reserve	-	-	230,638,877
Contingency Reserve	-	-	55,000,000
<b>Total</b>	<b>70,484,875,314</b>	<b>309,246,733</b>	<b>940,243,890</b>

## (iii) ACTUARIAL VALUATION

Liabilities	KShs.	Assets	KShs.
Actuarial Liability	940,243,890	Life Fund	1,211,874,200
Surplus	296,086,237	Management Expenses	24,455,927
	<b>1,236,330,127</b>		<b>1,236,330,127</b>

The management expenses relates to accrued tax liabilities for the year.

## (b) General fund – Marine and Aviation

The fund represents a reserve maintained within the Short Term business and does not constitute a statutory fund.

## 15. BANK OVERDRAFT

The bank overdraft is secured to the extent of KShs 20 million by a lien over fixed deposit of Kshs 20 million. The weighted average interest rate at year end is 12.5%

# Notes to the Financial Statements

For the year ended 31<sup>st</sup> December, 2001

... continue ...

## 16. AMOUNTS DUE TO REINSURERS AND CEDANTS

	2001 KShs.	2000 KShs.
Due to cedants	248,534,279	516,428,958
Due to Reinsurers	400,068,658	285,905,520
	<u>648,602,937</u>	<u>802,334,478</u>

## 17. DEFERRED TAX

Excess of tax wear and tear allowance over depreciation	<u>33,739,137</u>	<u>41,918,667</u>
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## 18. SUNDRY CREDITORS

Investment creditors	179,098,165	71,616,283
Accrued leave pay	3,999,367	240,800
Other creditors and accruals	115,441,724	206,370,468
	<u>298,539,256</u>	<u>278,227,551</u>

## 19. INVESTMENT INCOME

Rent	164,586,690	134,286,804
Interest	83,354,011	114,837,358
Dividends	40,724,286	34,542,390
Apportionment of management expenses	(122,281,110)	(56,951,545)
	<u>166,383,877</u>	<u>226,715,007</u>

## 20. PROFIT BEFORE TAXATION

The following items have been charged in arriving at profit before tax:

Depreciation	59,035,597	83,447,751
Auditors' remuneration	2,500,000	2,500,000
Directors' emoluments	1,326,571	1,032,000
And after crediting: -		
Interest	83,354,011	114,837,358
Dividends	40,724,286	34,542,390
Profit on disposal of shares	-	59,851,837
Gain/(loss) on disposal of fixed assets	997,050	(380,808)

## 21. EARNINGS PER SHARE

Earnings per share is calculated on the profit after tax and on the average number of ordinary shares in issue during the year.



# Notes to the Financial Statements

... continue ...

For the year ended 31<sup>st</sup> December, 2001

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## 22. CASH & CASH EQUIVALENTS

	2001 KShs.	2000 KShs.
Cash and bank balances	114,649,169	332,359
Short term deposits	177,312,400	128,806,901
Bank Overdraft	(165,291,191)	(12,558,396)
	<u>126,670,378</u>	<u>116,580,864</u>

## 23. CAPITAL COMMITMENTS

Authorised & contracted for	<u>34,921,619</u>	<u>134,981,800</u>
Approved but not contracted for	<u>-</u>	<u>-</u>

The directors are confident that future cash inflows will be sufficient to cover these commitments.

## 24. CONTINGENT LIABILITIES

### i) Guarantess

The National Bank of Kenya Limited has issued guarantees to various third parties amounting to KShs 620,000 (2000: KShs 620,000) on behalf of the corporation.

### ii) Pension fund

There is a potential shortfall in the Pension Fund. No provision has been made in these financial statements as the deficit is yet to be determined upon the Actuarial Valuation of the Pension Fund.

## 25. RELATED PARTY TRANSACTIONS

The corporation has various related parties, most of who are by virtue of being shareholders and partly common directorships. The other related parties include staff of the corporation. The following transactions were carried out with related parties: -

	2001 KShs.	2000 KShs.
(i) Net premium written	18,763,018	13,817,516
(ii) Claims incurred	3,342,564	7,540,979

General insurance policies taken out by related parties are at arm's length and in the ordinary course of business at terms and conditions similar to those offered to other clients.

### (iii) Outstanding balances with related parties in respect of underwriting business: -

	2001 KShs.	2000 KShs.
(a) Amounts due from related parties	2,197,078	9,863,792
(b) Amounts due to related parties		

# Notes to the Financial Statements -

For the year ended 31<sup>st</sup> December, 2001

... continue ...

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## 26. EXCEPTIONAL ITEM

This relates to the surplus arising from change in the valuation of quoted shares from cost to market value as required by International Accounting Standards No. 38

## 27. PRIOR YEAR ADJUSTMENTS

The prior year adjustment of KShs 583,471,102 comprises of:

### a) Deferred Tax

In the year 2000, the corporation changed its accounting policy on deferred taxation to comply with International Accounting Standards No. 12 (Revised)

In restating the results for year 1999 on the basis of the new policy, the balance for deferred tax liability in the current year has decreased by KShs 15,685,481 out of the balance carried forward at the end of 1999. The remainder of KShs 57,604,148 relating to 1999 and earlier years has been charged against retained profit at the beginning of 1999.

### b) Revaluation Deficit

In May 2000, the Corporation commissioned a professional valuation of its fixed assets and investment properties as of 31<sup>st</sup> December 1999. In the 1999 financial statements a significant portion of the results of the valuation were incorporated. The remaining results, being provision for possible permanent diminution in value and write-off of costs incurred on some projects amounting to KShs 525,866,954, has been adjusted against retained earnings brought forward from 1999.

## 28. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. In particular, the comparative figures have been adjusted to take into account the effect of the prior year adjustment.

## 29. CURRENCY

These financial statements are presented in Kenya Shillings (KShs.)

## 30. EMPLOYEES

The number of employees for the Corporation during the year was 103 (2000: 140)

## 31. INCORPORATION

The Corporation is incorporated in Kenya under the Companies Act.



KENYA REINSURANCE CORPORATION LIMITED



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