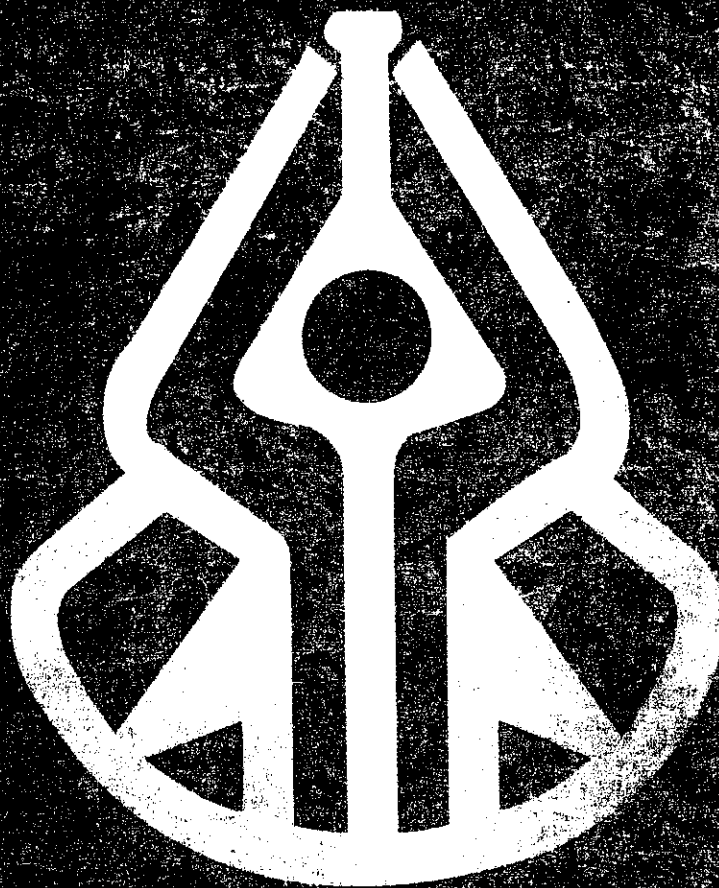


Kenya - Re



2 Annual Report & Accounts

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Contents

Corporation Information	3
Corporate Governance	6
Financial Review	8
Chairman's Report	10
Report of the Directors	12
Statement of Directors' Responsibilities	14
Report of the Independent Auditors	15
Balance Sheet	16
Profit and Loss Account	18
Statement of Changes in Equity	19
Cashflow Statement	20
General Insurance Revenue Account	21
Life Revenue Account	22
General Insurance Funded Revenue Account	23
Notes to the Financial Statements	24
Treaty and Facilitative Premiums	41

Letter of Transmittal

Hon. David Mwiraria
Minister for Finance
The Treasury
P.O. Box 30007
NAIROBI.

Hon. Minister,

I have the honour to submit the Annual Report and Audited Accounts of Kenya Reinsurance Corporation Limited for the financial year ended 31st December 2002 which have been certified by the Auditor in accordance with the Insurance Act.

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

Yours sincerely



Victor Pratt

Chairman

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Board of Directors



Right: Mr. Victor Pratt (Chairman, Board of Directors)
Left: Mr. J. J. Githaka (Managing Director)



Standing (Left to Right):
Mrs. Edna Sang
Mr. Charles O. Ogallo
Mr. Philip Singara
Mr. Philip Singara
Mr. Margaret Ogallo (Company Secretary)
Mr. Victor Pratt (Chairman)
Mr. J. J. Githaka (Managing Director)

**CORPORATION INFORMATION FOR THE YEAR ENDED
31 DECEMBER, 2002**

REGISTERED OFFICE

Reinsurance Plaza
Taifa Road
P.O. Box 30271
Telephone: 240188
Telefax 339161
NAIROBI

BANKERS

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

NATIONAL BANK OF KENYA LIMITED

Harambee Avenue
P.O. Box 77497
NAIROBI

CREDIT AGRICOLE INDOSUEZ

Reinsurance Plaza
P.O. Box 69562
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

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

CONSULTING ACTUARIES

Hymans Robertson Consulting Actuaries
P.O. Box 52439
NAIROBI

SUBSIDIARIES

Kenya Re Properties Limited
P.O. Box 30271
NAIROBI

WEDCO LIMITED,

P.O. Box 30271
NAIROBI

Management

- Managing Director
- Chief Underwriter
- Company Secretary
- Financial Controller
- Manager (International Business)
- Manager (Life & Pension)
- Manager (Claims)
- Manager (Property)
- Manager (Local Business)
- Manager (Admin & HR)
- Assistant Chief Accountant
- Deputy Manager (Property)
- Deputy Manager (Marketing & Business Dev.)
- Deputy Manager (Legal)
- Deputy Manager (Internal Audit)
- Deputy Manager (ICT)
- Assistant Manager (ICT)
- Assistant Manager (Life & Pension)
- Assistant Manager (Finance)
- Assistant Manager (Corporate Affairs)
- Assistant Manager (Finance)
- Assistant Manager (Admin & HR)
- Assistant Manager (ICT)
- Assistant Manager (Property)
- Assistant Manager (Property)

Johnson J. Githaka
Joseph M. Kebabe
Margaret A. Otega
John F. Kinyua
Evans E. Jumba
Erastus W. Muchiri
Mark O. Okayo
Michael J. Mbeshi
Samuel C. Mweni
Esther N. Kimanzi
John K. Mbugua
Consolata W. Kihara
Jadiah M. Mwarania
Jane F. Orieno
Michael K. Wamathai
Peter W. Wakwabubi
George K. Njuguna
Nancy Njakai
Nyakundi Mogere
Mary Mwendwa
William K. Cheruiyot
David Kipchoge
Charles O. Abebe
John K. Rika
Simeon K. Rono

OUR CORPORATE VISION

To be a world class reinsurer and market leader in Africa offering quality reinsurance and ancillary services.

OUR CORPORATE MISSION

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 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 for environment
- Concern for environment
- Integrity

CORPORATE GOVERNANCE

Corporate governance is the process and structure used to direct and manage business affairs of the corporation towards enhancing prosperity and corporate accounting with ultimate objective of realizing shareholders long-term value while taking into account the interest of other stakeholders. We at Kenya Re value Corporate governance as a way of promoting corporate fairness, transparency and accountability and as a structure through which our company objectives are set and the means of attaining those objectives and monitoring performance are outlined.

There is commitment to high standards of corporate governance throughout the corporation.

Directors

The Board's primary responsibility is to oversee a well qualified Chief Executive Officer who, together with the support of senior managers, conducts the day-to-day business of the Corporation. It however retains the responsibility for establishing and maintaining the internal controls of financial, operational and compliance issues and closely monitors on behalf of the shareholder.

The Board consists of a Chairman, Mr. Victor Pratt, six non-executive directors and one executive director who is also the Managing Director, Mr. J.J. Githaka. All the non-executive directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgment. The full Board meets at least once every two months and when issues necessitating a meeting arise.

Committee of the Board

The Board has in place an Audit committee as a step towards reinforcing the internal controls of the Corporation.

Audit Committee

The Audit Committee has been established with the mandate of providing assistance to the Board fulfilling its responsibility to the corporation and to the shareholder relating to its oversight management (internal audit) and its financial auditors (external audit). This is in regard to corporate accounting, financial reporting practices and the quality and integrity of the financial reports of the Corporation. It also includes the corporation compliance with legal and regulatory requirements, the

independent auditor's qualifications and independence, the performance of the internal audit function and that of independent auditors, and the preparation of the reports as required by the supervisory authority.

The Audit committee consists of three directors and is chaired by Mrs. Edna Sang an independent and non-executive director and includes the Head of Internal Audit. Other managers can attend upon request of the committee.

Its other responsibilities include review of interim financial information before their submission to the board; advice to the Board on the appointment of external auditors and on their remuneration both for audit and non audit work and also discussing the nature and scope of the audit with the external auditors.

Internal Controls

The Board is responsible for the systems of internal controls and for reviewing its effectiveness. The Corporation has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. The systems in place are designed to ensure that authority for transactions is obtained and that there is compliance with laws and regulations that govern sound financial management. Procedures are also in place to ensure that assets are subject to proper physical controls and that organization remains structured so that appropriate segregation of duties is maintained.

FINANCIAL REVIEW

Key Performance Indicators 1995 to 2002

	1995 KShs. 000's	1996 KShs. 000's	1997 KShs. 000's	1998 KShs. 000's	1999 KShs. 000's	2000 KShs. 000's	2001 KShs. 000's	2002 KShs. 000's
Premiums written	3,937,703	3,544,089	2,597,599	2,727,252	1,953,117	1,965,778	1,464,447	1,708,026
Investment Income (Net)	357,229	455,891	423,989	440,145	230,908	226,715	392,223	351,116
Management Expenses	221,137	391,149	195,640	291,180	285,562	126,243	257,476	200,229
Underwriting Profit/(Loss)	(241,048)	(282,931)	(430,865)	(319,933)	67,358	(61,362)	(80,252)	(23,696)
Net Profit/(Loss)	72,606	105,070	79,512	78,341	(224,625)	138,573	289,940	265,612
No. of employees	332	336	338	334	144	140	103	102
Total Investments	3,624,309	6,464,910	6,965,961,490	7,430,372	7,209,941	5,904,837	6,217,164	6,342,252
Equity	1,415,446	3,841,795	3,547,238	3,665,238	3,769,758	3,370,326	3,788,069	4,208,408

INVESTMENTS MIX

	1995	1996	1997	1998	1999	2000	2001	2002
Government Securities	50%	33%	27%	20%	14%	15.8%	17.6%	18.0%
Shares	5%	3%	3%	3%	4%	4.1%	8.1%	10.7%
Mortgage Loans	5.7%	4%	4%	6%	5%	5.4%	3.9%	2.5%
Fixed Deposits	0.3%	1%	1%	2%	1%	1.9%	2.8%	2.5%
Rental Properties & Land	39%	59%	65%	69%	76%	72.8%	67.6%	66.3%
	100%	100%	100%	100%	100%	100%	100%	100%

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Chairman's Report



It is my pleasure to present to you the 32nd Annual Report and Audited Accounts of Kenya Reinsurance Corporation Limited for the year ended 31st December 2002. This was a year that was marked by important political landmarks such as the smooth general elections and subsequent peaceful transition of political power from one Government to another.

THE ECONOMY

Year 2002 was a difficult time for the economy due to the political uncertainties and anxiety, the sluggish growth in world economy the impact of unresolved interpretation of Central Bank of Kenya (Amendment) Act 2000 popularly known as 'Dondé Bill', issues of governance, low investor confidence and lack of donor support.

The business environment in the country remained subdued during the year as a result of low purchasing power and adverse economic conditions attributable to lack of investor confidence and the uncertainties during the run up to the General Elections.

Major economic indicators showed mixed signals during the year. Inflation increased due to high international prices of petroleum and domestic prices of basic foods while the Kenya shilling depreciated against all major international currencies. The 91 day

Treasury Bill interest rates declined despite heavy domestic borrowing by the Government and Nairobi Stock Exchange price index marginally improved during the year.

RESULTS

The reverberations of the September 11th 2001 continued to be felt by both direct insurers and reinsurers and the global industry hardened due to reinsurance capacity shrinkage with many reinsurers reducing limits and also restricting coverage.

This hardening on one hand led to increased cost of protection, while on the other hand, it provided an opportunity to deal with insurers who had so much underutilized capacity.

The year under review was also characterised by low investment activity arising from the depressed economy and the political uncertainty. Despite operating under these unfavourable business conditions, the Corporation was still able to post improved results.

Year 2002 saw an encouraging progress in implementation of strategic growth with a focus on profitability and long term shareholder value.

It is pleasing to note that the Corporation recorded increased headline earnings with the main contributing factor to the results being new business growth. Gross Premium increased by 17% from KShs. 1,464,447,000 to KShs. 1,708,033,000 while premium written increased by KShs. 177,343,000 million and also showed an encouraging distribution with an increase of KShs. 49 million under facultative business. The general business result showed a reduced loss of KShs. 23,696,939 (2001 KShs. 80,252,318).

Total claims paid were KShs. 1,257,311,178 (2001 KShs. 712,016,028). The Corporation has continued to settle run-off claims under compulsory cession

Chairman's Report (continued)

Considerable investments continue to be made in claims management aimed at improving efficiency of claims handling.

The Corporation has continued to be prudent and maintained the outstanding claims at the actuarial amount of KShs. 2,078 Million with provision for incurred but not reported (IBNR) still being maintained at 5% of net premium written.

The management expense control initiatives now in place will increasingly benefit our profitability in future years.

Investment income decreased by 10% from KShs. 392,223,254 to KShs. 351,116,167 in 2002 due to losses realised under housing projects, lower levels of occupancy in some properties and expenses under repairs and maintenance to make the properties more marketable given the competition now obtaining in the market place.

Government securities and other fixed income instruments were the favourite investments for banks and financial institutions.

However, this was accompanied by a fall in interest rates which had an effect in the overall yield of the portfolio held by the Corporation.

During the year under review, changes occurred in the Directorship of the Corporation. Andrew Omanga, Peter Kenneth, Prof. David K. Some, Mwangazi Mwachofi (Permanent Secretary, Treasury) and Esther Koimett (alternate to PS Treasury) retired while Victor Pratt (Chairman), Johnson Githaka (Managing Director), Joseph K. Kinyua PS Treasury, Catherine Kimura (alternate to PS Treasury), and Edna Sang were appointed to the Board.

I would like to welcome those appointed and also take this opportunity to sincerely record my deep appreciation and gratitude to all the Directors who

served during the year for their dedication, commitment, foresight and unwavering support to the Corporation. I wish them every success in their future responsibilities and endeavours.

We are optimistic that following the peaceful and successful political transition, renewed investor confidence and the restoration of good relations with multi lateral and bilateral donors, economic recovery in the medium term appears promising.


We at Kenya Re shall continue with our value investing strategy and particularly endeavour to:

- (a) Strengthen and grow our local and international business premium income.
- (b) Further diversify our investment portfolio allocation to re-align with our business risk profile and liability and,
- (c) Maintain a lean cost base.

I wish to acknowledge the steadfast support and solidarity of our esteemed clients, the cedants, brokers, retrocessionaires and the Government during the hard and challenging year 2002.

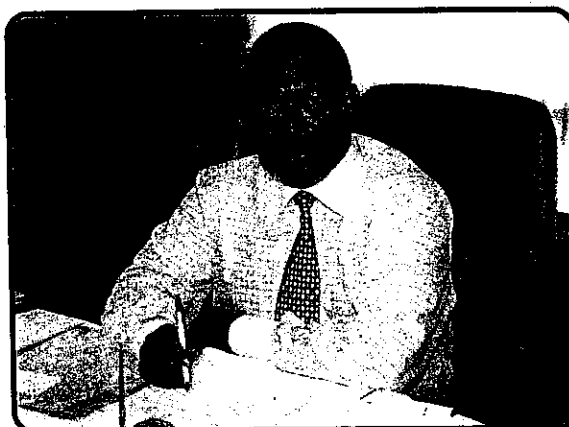
Finally I wish to record my appreciation and satisfaction with my colleagues in the Board, the management and staff for their continued dedication, hard work and positive approach in the management of Kenya Re affairs.

Thank you



VICTOR PRATT

Report of the Directors



J. J. Githaka
Managing Director

The directors submit their report together with the audited financial statements for the year ended 31st December 2002, which shows the state of affairs of the Corporation.

- (a) The principal activity of the corporation is the transaction of all classes of reinsurance business and investment activities.
- (b) Premium written and accounted for per class of business transacted:

	2002 KShs.	2001 KShs.	Premium Increase/ (decrease) KShs.	Growth rate %
Fire	356,354,727	371,045,962	85,308,765	23
Accident	182,957,600	459,959,511	22,098,089	5
Marine	83,174,515	67,702,229	20,472,286	30
Aviation	1,782,672	4,206,564	(384,892)	-9
Motor	156,339,219	145,286,309	11,072,910	8
Life	238,023,197	251,092,144	(12,163,947)	-5
International business	282,337,096	165,154,283	117,182,813	71
TOTAL	1,708,033,026	1,464,447,002	243,586,024	17

(c) Summary of profit for the year:

	2002 KShs.	2001 KShs.
(i) Investment income	343,067,510	392,223,254
(ii) Underwriting loss	(23,696,939)	(80,252,318)
Profit before Tax	319,370,571	311,970,936
Provision for Tax	(67,707,259)	(22,030,843)
Profit after Tax	251,663,312	289,940,093

Report of the Directors (continued)

(d) Corporation's Results

The Corporation's results are set out on page 18.

(e) Dividends

The directors propose the payment of dividends of KShs. 50,000,000 for the year ended 31st December 2002.

(f) Reserves

The reserves of the Corporation are set out on page 33.

(g) Directors

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

Victor Pratt	(Chairman) - Appointed on 22nd November 2002
J.J. Githaka	(Managing Director) - Appointed on 22nd November 2002
Mrs. Edna Sang	(Appointed on 22nd November 2002)
O.S. Abdirahman	
Josiah M. Munuka	
Philip Lampat Sing'aru	
Charles .O. Ogalo	
Joseph Magari	Permanent Secretary-Treasury (Appointed on 6th January 2003)
Catherine Kimura	Alternate to Permanent Secretary-Treasury
Peter Kenneth	(Ceased on 22nd November 2002)
Andrew J. Omanga	(Ceased on 22nd November 2002)
Prof. D.K. Some	(Ceased on 22nd November 2002)
Joseph .K. Kinyua	Permanent Secretary-Treasury (Ceased on 6th January 2003)

(h) Auditors

Ernst & Young, have expressed their willingness to continue in office in accordance with Section 159(2) of the Companies Act.

By order of the Board,

MAOtega

M.A. OTEGA (MRS.)

CORPORATION SECRETARY

DIRECTOR

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 International Financial Reporting Standards 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 the next twelve months from the date of this statement.


Victor Pratt

DIRECTOR


Josiah M. Muntika

DIRECTOR

DATE 28th March, 2003

Report of the Independent Auditors
to the members of Kenya Reinsurance Corporation Limited

We have audited the financial statements on pages 16 to 40, which have been prepared on the basis of the accounting policies set out on pages 24 to 28. 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 14, 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 supporting 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, 2002 and of the results and cash flows for the year then ended and comply with International Financial Reporting 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

 **ERNST & YOUNG**

29th March, 2003

NAIROBI

Consolidated Balance Sheet
as at 31 December 2002


	Note	General insurance business KShs.	Long-term insurance business KShs.	Total 2002 KShs.	Total 2001 KShs.
ASSETS:					
NON-CURRENT ASSETS:					
Property, Plant & Equipment	2	332,260,865	-	332,260,865	390,832,460
Prepaid Lease	3	13,105,263	-	13,105,263	13,263,158
Government securities Available for Sale - financial assets	4	315,451,834	835,893,268	1,151,345,102	1,063,495,576
Loans secured by mortgages on real property	5	674,551,002	-	674,551,002	521,839,467
Investment properties	6	152,784,225	-	152,784,225	248,525,002
	7	3,781,448,284	424,543,189	4,205,991,473	4,205,991,473
		5,269,601,473	1,260,436,457	6,530,037,930	6,443,947,136
CURRENT ASSETS:					
Cash & bank balances		40,315,717	30,667	40,346,384	114,649,169
Short term deposits		107,970,561	49,610,000	157,580,561	177,312,400
Inventories	8	602,782,593	-	602,782,593	708,821,688
Amounts due from cedants & reinsurers	9	14,986,992	76,112,442	91,099,434	393,484,496
Sundry debtors	10	365,225,102	1,821,402	367,046,504	276,186,331
Interest Receivable	11	7,378,668	27,248,501	34,627,169	30,793,451
		1,138,659,633	154,823,012	1,293,482,645	1,701,247,535
TOTAL ASSETS		6,408,261,106	1,415,259,469	7,823,520,575	8,145,194,671
EQUITY, LIFE FUNDS & LIABILITIES:					
Capital & Reserves:					
Ordinary share capital	12	1,000,000,000	-	1,000,000,000	500,000,000
Revaluation & other reserves	13	123,006,881	-	123,006,881	162,620,399
Retained earnings		1,496,448,386	-	1,496,448,386	1,767,327,738
Proposed dividends	19	50,000,000	-	50,000,000	-
Shareholders' funds		2,669,455,267	-	2,669,455,267	2,429,948,137
Life Funds	14(a)	-	1,363,115,545	1,363,115,545	1,211,874,200
General funds	14(b)	161,888,522	-	161,888,522	146,246,828
		161,888,522	1,363,115,545	1,525,004,067	1,358,121,028
TOTAL CAPITAL RESERVES AND LONGTERM FUNDS		2,831,343,789	1,363,115,545	4,194,459,334	3,788,069,166

Consolidated Balance Sheet (continued)
as at 31 December 2002

LIABILITIES:

	Note	General insurance business KShs.	Long-term insurance business KShs.	2002 Total KShs.	2001 Total KShs.
NON-CURRENT LIABILITIES:					
Underwriting provisions:					
Outstanding claims:	15	2,078,125,933	-	2,078,125,933	2,691,719,286
Earned premiums	16	394,224,116	-	394,224,116	376,304,841
Deferred tax	17	46,567,373	-	46,567,373	33,739,137
		<u>2,518,917,422</u>	<u>-</u>	<u>2,518,917,422</u>	<u>3,101,763,264</u>
CURRENT LIABILITIES					
Bank overdraft	18	4,073,779	-	4,073,779	165,291,191
Dividends payable	19	120,000,000	-	120,000,000	120,000,000
Amounts due to reinsurers & cedants	20	607,148,478	34,268,240	641,416,718	648,602,937
Tax payable	21	48,862,621	17,875,684	66,738,305	22,928,858
Sundry creditors	22	277,915,017	-	277,915,017	298,539,256
		<u>1,057,999,895</u>	<u>52,143,924</u>	<u>1,110,143,819</u>	<u>1,255,362,242</u>
TOTAL LIABILITIES		3,576,917,317	52,143,924	3,629,061,241	4,357,125,506
TOTAL EQUITY, LIFE FUNDS AND LIABILITIES		6,408,261,106	1,415,259,469	7,823,520,575	8,145,194,671

The financial statements were approved by the Board of Directors on 28th March, 2003 and signed on its behalf by:


Victor Pratt
.....)

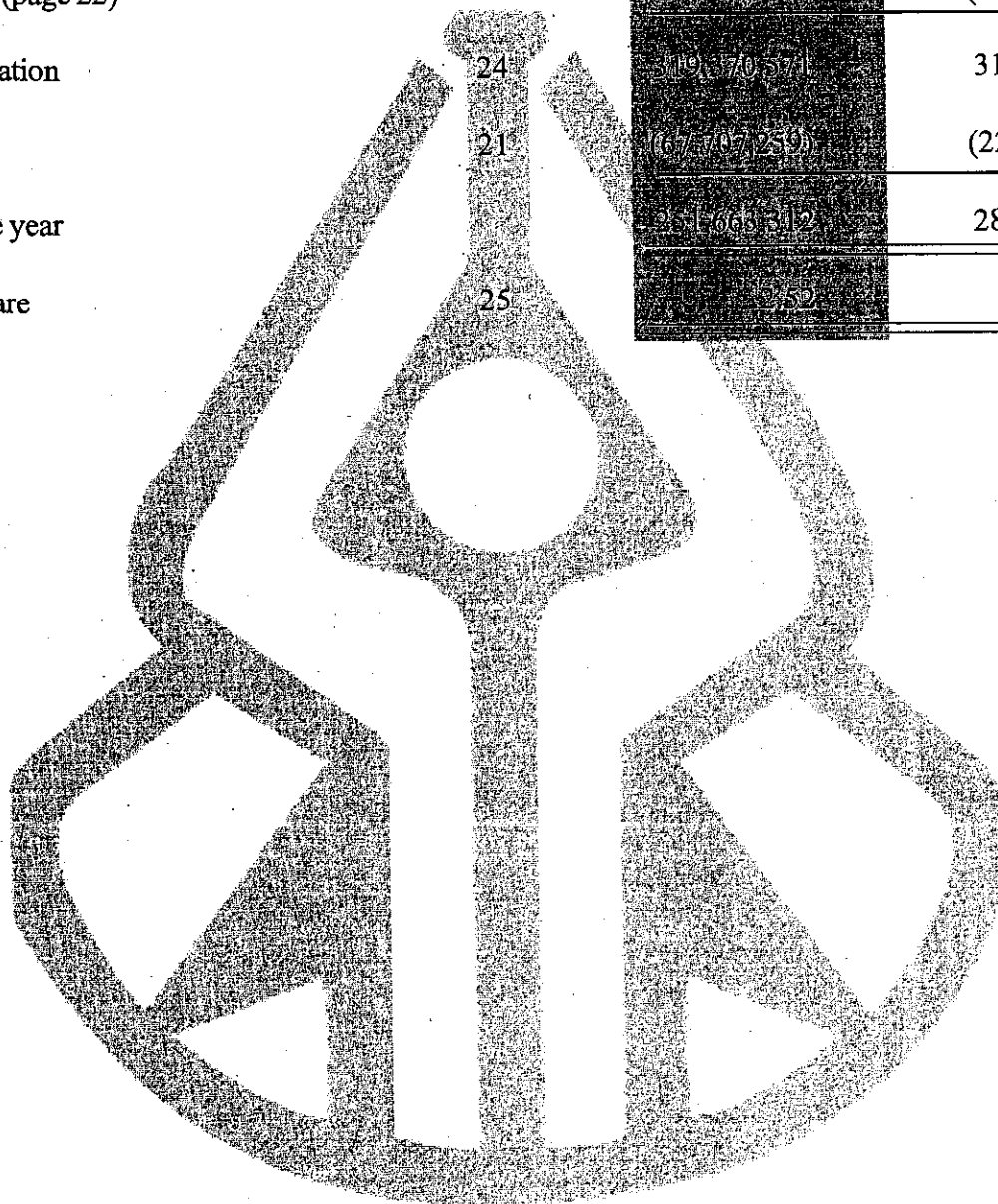
DIRECTOR


Josiah Munuka
.....)

DIRECTOR

Consolidated Profit and Loss Account (continued)
for the year ended 31 December 2002

	Note	2002 KShs.	2001 KShs.
INCOME			
Investment income	23(a)	343,067,510	392,223,254
Loss transferred from the underwriting revenue account (page 22)		(2,369,919)	(80,252,318)
Profit before Taxation	24	319,370,571	311,970,936
Taxation	21	(67,407,259)	(22,030,843)
Net profit for the year		251,963,312	289,940,093
Earnings Per Share	25	5.52	5.80



Statement of Changes in Equity

	Note	Share Capital KShs.	Capital & Contingency reserves KShs.	Revaluation reserves KShs.	Retained earnings KShs.	Proposed dividends KShs.	Total KShs.
As previously stated At 1 January 2001		500,000,000	60,405,772	2,125,476,890	(526,075,201)	-	2,159,807,461
Prior Year Adjustment	30 (i)	-	-	(26,400,000)	(1,578,947)	-	(27,978,947)
Prior Year Adjustment Restated balance	30 (ii)	-	-	(1,969,392,204)	1,969,392,204	-	-
		500,000,000	60,405,772	129,684,686	1,441,738,056	-	2,131,828,514
Net profit for the year		-	-	-	289,940,093	-	289,940,093
Deferred tax		-	-	-	8,179,530	-	8,179,530
Transfer from revaluation reserves		-	-	(27,470,059)	27,470,059	-	-
At 31 December 2001		500,000,000	60,405,772	102,214,627	1,767,327,738	-	2,429,948,137
At 1 January 2002		500,000,000	60,405,772	102,214,627	1,767,327,738	-	2,429,948,137
Net profit for the year		-	-	-	251,663,312	-	251,663,312
Issuance of new shares		500,000,000	-	-	(500,000,000)	-	-
Proposed dividends		-	-	-	(50,000,000)	50,000,000	-
Transfer from revaluation reserves		-	-	(39,613,518)	27,457,336	-	(12,156,182)
At 31 December 2002		1,000,000,000	60,405,772	62,601,109	1,496,448,386	50,000,000	2,669,455,267

Consolidated Cashflow Statement

for the year ended 31 December 2002

	2002 KShs	2001 KShs.
Cash flow from operating activities:-		
Net profit before tax	319,370,571	311,970,936
Adjustment for:-		
Change in fair value of quoted shares	(173,350,322)	(225,997,272)
Depreciation	55,956,946	59,035,597
Amortisation of lease	157,895	157,895
Profit on sale of shares	(1,294,941)	-
Gain on sale of property, plant & equipment	(12,551)	(997,050)
Movement in provisions:-		
Decrease) in unearned premiums	17,919,275	(140,508,599)
Decrease in outstanding claims	(613,593,353)	(15,160,595)
Movement in funded business:-		
Increase in life fund	169,117,029	169,761,949
Increase/(decrease) in general fund	15,641,694	(12,065,303)
Operating (loss) / profit before working capital changes	(210,087,757)	146,197,558
Decrease in amounts due from cedants & reinsurers	302,385,062	88,233,214
Increase in sundry debtors	(90,860,173)	(41,939,783)
Increase in interest receivable	(6,837,181)	(4,454,500)
Decrease in amounts due to reinsurers & cedants	(7,136,219)	(153,731,541)
Decrease/ (increase) in inventories	106,039,095	(708,821,688)
(Decrease) / increase in sundry creditors	(20,624,239)	20,311,705
Cash generated from operations	75,882,051	(654,205,035)
Tax paid	(28,013,260)	-
Net cash from operating activities	46,868,791	(654,205,035)
Cash flows from investing activities:-		
Purchase of property, plant & equipment	(12,153,754)	(7,099,809)
Proceeds on sale of property, plant & equipment	2,624,772	997,050
Net sale/(purchase) of shares	21,933,728	(19,898,133)
Purchase of government securities	(37,849,526)	(19,482,221)
Mortgage loans redeemed	95,740,777	103,315,039
Investment properties	606,462,623	606,462,623
Net cash flow from investing activities	620,295,997	664,294,549
Net increase in cash & cash equivalents	67,182,788	10,089,514
Cash & cash equivalents at the beginning of the year	116,670,378	116,580,864
Cash & cash equivalents at the end of the year (Note 26)	193,853,166	126,670,378

KENYA REINSURANCE CORPORATION LIMITED

GENERAL INSURANCE REVENUE ACCOUNT

For the year ended 31 December 2002

	Motor Private KShs.	Motor Commercial KShs.	Fire Domestic KShs.	Fire Industrial KShs.	Personal Accident KShs.	Theft KShs.	Misc. KShs.	Liability KShs.	Engineering KShs.	Workmen Compensation KShs.	Total 2002 KShs.	Total 2001 KShs.
Gross Premium	5,470,033	169,968,061	2,898,682	657,302,194	66,601,425	162,732,663	137,329,031	57,506,658	79,210,391	187,453	1,121,789,832	(68,564,321)
Less: Reinsurance	-	-	(410,870)	(93,168,429)	(1,991,580)	(4,866,189)	(4,106,545)	(1,719,619)	(2,368,625)	(5,605)	(1,053,225,511)	
Net written Premium	5,470,033	169,968,061	2,487,812	564,133,765	64,609,845	157,866,474	133,222,486	55,787,039	76,841,766	181,848		
Unearned Premium												
Brought forward	3,432,369	52,368,078	10,770,437	126,797,710	40,868,286	41,960,563	13,078,286	62,253,715	18,490,118	6,285,281	516,813,440	
Unearned Premium												
Carried forward	1,950,067	60,593,620	637,122	144,473,049	24,675,623	60,291,952	50,879,986	21,306,040	29,347,206	69,451	376,304,841	
Net earned Premium	6,952,335	161,742,519	12,621,127	546,458,426	80,802,506	159,535,085	95,420,786	96,734,714	65,984,678	6,397,678	1,193,734,110	
Claims paid	11,444,495	355,609,959	1,846,025	418,602,726	62,702,541	153,206,203	129,289,711	34,140,186	74,573,371	176,479	712,016,028	
Claims Outstanding												
At Year End	26,316,874	817,733,087	1,309,533	296,948,467	146,731,080	97,164,470	82,123,530	517,178,339	90,805,972	1,814,661	2,691,719,286	
Claims Outstanding												
Beginning of Year	295,898,438	1,081,867,470	14,495,169	313,325,198	180,612,772	148,387,092	28,230,808	258,139,187	101,676,289	269,066,863	2,706,879,881	
Total Claims												
Incurred	(258,137,069)	91,475,576	(11,339,611)	402,225,995	28,820,769	101,983,581	183,162,433	313,179,338	63,703,034	(267,075,723)	696,855,433	
Commissions	929,449	4,672,599	521,591	228,211,785	26,794,208	43,992,868	39,137,102	14,478,385	29,382,578	(1,194)	319,654,600	
Management Expenses	817,842	25,412,471	433,391	98,275,363	9,957,793	24,330,683	20,532,505	8,598,005	11,843,000	28,026	257,476,395	
Total Expenses	(256,389,778)	121,560,646	(10,384,629)	728,713,143	65,572,770	170,307,132	242,832,040	336,255,728	104,928,632	(267,048,891)	1,273,986,428	
Underwriting Profit (Loss)	23,005,756	(182,254,717)	15,229,736	(30,254,717)	15,229,736	(30,254,717)	(38,943,534)	273,446,569	(80,252,318)			

Life Revenue Account
for the year ended 31 December 2002

	Note	Ordinary KShs.	Super Annuation KShs.	Total 2002 KShs.	Total 2001 KShs.
Gross premium		32,841,069	206,087,128	238,928,197	251,092,144
Less: Reinsurance		-	-	-	(41,874,345)
Net premium		32,841,069	206,087,128	238,928,197	209,217,799
Claims incurred:-					
Death		(36,381,878)	(92,099,402)	(128,481,280)	(58,745,352)
Maturity		-	-	-	-
Total claims		(36,381,878)	(92,099,402)	(128,481,280)	(58,745,352)
commission		(2,241,370)	(45,406,220)	(47,647,590)	(27,313,933)
Total claims & commission		(38,623,248)	(137,505,622)	(176,128,870)	(86,059,285)
Management expenses		(2,175,662)	(13,652,872)	(15,828,534)	(67,062,927)
Investment Income	23(b)	16,789,198	105,357,038	122,146,236	113,666,360
Provision for taxation	21	(3,986,302)	(13,889,382)	(17,875,684)	(10,095,102)
		(27,996,014)	(59,690,838)	(87,686,852)	(49,550,954)
Increase in life funds		4,845,055	146,396,290	151,241,345	159,666,845
Funds at the beginning of the year		438,870,104	773,004,096	1,211,874,200	1,052,207,355
Funds at the end of the year		443,715,159	919,400,386	1,363,115,545	1,211,874,200

General Insurance - Funded Revenue Account
for the year ended 31 December 2002

	Marine KShs.	Aviation KShs.	Total 2002 KShs.	Total 2001 KShs.
Gross premium written	116,717,467	13,180,771	129,898,238	91,565,026
Less: Reinsurance	(12,225,003)	-	(12,225,003)	(3,742,389)
Net premium written	104,492,464	13,180,771	117,673,235	87,822,637
Claims paid	(43,875,785)	(4,383,841)	(48,259,626)	(51,700,439)
Commission	(33,825,280)	(1,843,045)	(35,668,325)	(24,547,117)
Management expenses	(16,266,619)	(1,836,971)	(18,103,590)	(23,640,334)
	(93,967,684)	(8,063,857)	(102,031,541)	(99,887,890)
Increase/(Decrease) in funds	10,524,780	5,116,914	15,641,694	(12,065,253)
Funds balance at the beginning of the year	120,217,109	26,029,719	146,246,828	158,312,081
Funds balance at the end of the year	130,741,889	31,146,633	161,888,522	146,246,828

Notes to the Financial Statements

for the year ended 31 December 2002

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect. The financial statements have been prepared on an historical cost basis, except for the measurement at fair value of investment properties and available for sale financial 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 drawn up to 31 December 2002. These subsidiaries have been dormant since 1995 and their assets and liabilities are not material.

(c) Underwriting Results

(i) General Insurance Business

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. 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:-

- 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.
- 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 actuarial 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.
- Acquisition costs representing commissions (net of commission receivable) are allocated to the value accounts as incurred in each class of business.

Notes to the Financial Statements (continued)
for the year ended 31 December 2002

- Management expenses are allocated in the ratio of premium written for each class of business.

(ii) Long Term Insurance Business

- The full annual premium income is recognised in respect of both individual and group life after making provisions for policy lapses and other terminations on policy anniversary dates.
- Claims arising are recognised on notification.
- Expenses and commission are allocated to the Life Funds as incurred in the management of long term insurance business.
- The Life fund is assessed annually by the Corporation's consulting actuaries. Surpluses arising are, on the advice of the actuaries, either transferred to the profit and loss or carried forward in the life fund.

(iii) Funded accounts - Marine and Aviation

The results for the marine and aviation classes of business have continued to be retained in the respective insurance fund. 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. Hymans Robertson's report show that there is adequate funding for outstanding claims.

(d) Property, Plant and Equipment

Property, plant and equipment is stated at cost less depreciation and any impairment in value. Increases in carrying amounts arising from revaluation are credited to revaluation reserve. Decreases that offset previous increases of the same asset are charged against revaluation reserve and all other decreases are charged to the profit and loss account.

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:-

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

Notes to the Financial Statements (continued)
for the year ended 31 December 2002

Plant & machinery relating to investment properties are classified as fixed assets and depreciated accordingly. The carrying value of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

(e) **Prepaid Lease**

Leasehold land is amortised over the lease period.

(f) **Financial Assets**

All purchases and sales of financial assets are recognised on the trade date, which is the date the company commits to purchase or sell the asset. The cost of purchase includes transaction costs. Management subsequently determines the appropriate classification of its financial assets and re-evaluates such designation on a regular basis as follows:

Financial assets with fixed maturity that management has the intent and ability to hold to maturity are classified as held to maturity and are carried at amortised costs. Non-equity financial assets purchased in the primary market (i.e. directly from the issuer) are classified as originated loans, and are carried at amortised cost. Financial assets intended to be held for an indefinite period of time, which may be sold in response to need for liquidity or changes in interest rates, are classified as available for sale and are carried at fair value.

Investments are classified and carried at values as follows:-

- (i) Quoted shares are classified as available-for-sale investments and are carried at fair value. Their value is calculated by reference to the stock exchange quoted bid prices at the close of business on the balance sheet date.
- (ii) Unquoted investments are classified as available-for-sale investments. They are carried at fair value which is determined on the basis of net assets unless their value cannot be reliably measured, in which case they are carried at cost less provision for impairment.
- (iii) Securities issued by the Kenya Government are classified as originated loans. They are carried at amortised cost (i.e. cost plus accrued discount or interest) and any premium or discount is amortised through income, using the effective yield method.
- (iv) Fixed deposits are classified as originated loans. These are carried at amortised (i.e. cost plus accrued interest), using the effective yield method.

Fair value gains/(losses) arising on investments held by the general business are processed through the profit and loss account; gains/(losses) in respect of shares held by the long term business are dealt with in the

Notes to the Financial Statements (continued)
for the year ended 31 December 2002

(g) Revenue Recognition

Investment income is stated net of investment expenses and comprises of profit or loss on disposal of trading investments, interest, rents, and dividends. Income on investments held by the long term business is taken up in the long term revenue accounts. The revenue recognition criteria is as follows:-

(i) Interest Income

Revenue is recognised as the interest accrues (taking into account the effective yield on the asset).

(ii) Dividends

Revenue is recognised when the shareholder's right to receive the payment is established.

(iii) Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

(h) Translation of Foreign Currencies

Transaction 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 debts. An estimate is made for doubtful receivables based on 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

Notes to the Financial Statements (continued)
for the year ended 31 December 2002

temporary differences, unused tax losses and the unused tax credits can be utilised.

(k) Pension Obligations

The Corporation operates a defined benefits pension scheme for all its employees 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 per employee per month.

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

(l) Employee Entitlements

The monetary liability for employees accrued annual leave entitlement at the balance sheet date is recognized as an accrued expense.

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2002

2. PROPERTY, PLANT AND EQUIPMENT

Cost or Valuation	Freehold building KShs.	Motor Vehicles KShs.	Computer KShs.	Furniture and fixtures KShs.	Plant & Equipment KShs.	Total KShs.
At 1 January 2002	135,748,477	27,185,130	53,036,839	101,381,409	575,309,371	892,661,226
Additions	-	5,461,355	936,488	5,728,535	27,376	12,155,754
Disposals	-	(13,717,238)	-	(80,065,119)	-	(93,782,457)
At 31 December 2002	135,748,477	18,929,247	53,973,327	27,044,825	575,336,747	811,032,626
Cost	191,033,498	14,230,099	61,067,127	20,370,084	252,073,572	538,774,380
Valuation	(55,285,021)	4,699,148	(7,093,800)	6,674,741	323,263,175	212,158,244
At 31 December 2002	135,748,477	18,929,247	53,973,327	27,044,825	575,336,747	811,032,626
Depreciation	10,306,270	24,835,554	40,298,239	80,999,037	345,389,666	501,828,766
Charge for the year	2,714,970	2,540,126	6,983,721	1,413,637	42,304,492	55,956,946
Disposals	-	(13,717,238)	-	(65,296,716)	-	(79,013,954)
At 31 December 2002	13,021,240	13,658,442	47,281,960	17,115,958	387,694,158	248,770,758
Net Book Value						
At 31 December 2002	122,727,237	5,270,805	6,691,367	9,928,867	187,642,589	232,260,865
At 31 December 2002	125,442,207	2,349,576	12,738,600	20,382,372	229,919,705	390,822,460

The property, plant and equipment other than fixtures and fitting were revalued on 31 December 2000. The revaluation amounts have been incorporated in these financial statements. The valuation was undertaken by independent professional valuers, Thomas Ltd. The valuation surplus was credited to relevant reserves. The bases of valuation were:

Freehold building ☒ 3 ☐ 4

Notes to the Financial Statements (continued)
for the year ended 31 December 2002

3. PREPAID LEASE

	2002 KShs.	2001 KShs.
Balance brought forward	13,263,158	13,421,053
Amortization	(157,895)	(157,895)
	13,105,263	13,263,158

During the year the cost of leasehold land was reclassified under non-current assets as a prepayment and a revaluation surplus reversed to ensure compliance with International Accounting Standard No. 17.

4. GOVERNMENT SECURITIES

	2002 KShs.	2001 KShs.
Treasury Bills & Bonds:		
Maturing within 90 days from date of acquisition	322,433,174	485,682,012
Maturing after 90 days from date of acquisition	338,911,931	577,813,564
	1,151,345,102	1,063,495,576

Treasury bonds amounting to KShs. 433 million are held under lien by the Commissioner of Insurance.

5. AVAILABLE FOR SALE-FINANCIAL ASSETS

	2002 KShs.	2001 KShs.
(i) Quoted Ordinary Shares		
At 1 January 2002	370,856,837	350,402,709
Additions	-	-
Fair value gain	173,808,743	20,454,128
Disposal	(20,638,737)	-
	524,026,793	370,856,837

All quoted shares are stated at market value.

Notes to the Financial Statements (continued)
for the year ended 31 December 2002

(ii) Investment in Unquoted Shares.

These related to general business and the movements during the year is as follows:-

	2002 KShs.	2001 KShs.
At 1 January 2002	150,982,630	150,982,630
Fair value losses	(458,420)	-
End of Year	150,524,209	150,982,630

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

Total available for sale-financial instruments	674,551,002	521,839,467
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Available for sale financial assets consists of investments in ordinary shares and therefore have no fixed maturity date.

6. LOANS SECURED BY MORTGAGES ON REAL PROPERTY

	2002 KShs.	2001 KShs.
Staff mortgages	157,608,644	159,689,822
Commercial mortgages	50,803,090	118,322,374
	208,411,734	278,012,196
Less: Maturing within one year	(63,162,509)	(29,487,194)
	152,784,225	248,525,002

7. INVESTMENT PROPERTIES

At 1 January	4,205,991,473	4,812,454,096
Additions during the year		102,359,065
Transfer to inventory		(708,821,688)
	4,205,991,473	4,205,991,473

- (i) These comprise of office building held to earn rentals and capital appreciation and land acquired for development of office property and housing projects. They are treated as long term investments and are stated at fair value. In determining the fair value, the directors have considered current prices of property in similar location and condition of the investment property. Changes in their carrying value between balance sheet dates are adjusted through the profit and loss account for assets attributable to general business and through the Long term account revenue for assets attributable to long term business.

Notes to the Financial Statements (continued)
for the year ended 31 December 2002

Previously, changes in carrying value were credited to revaluation reserves in the shareholders equity. On disposal of an investment property, the difference between the proceeds and the carrying value was charged or credited to the profit and loss account for investments property held by general business and to the Life fund for investment property held by the long term business.

The directors are of the opinion that if sold the investment properties would realise a value not less than the amount at which they are carried.

The valuation of investment properties was last carried out by Tysons Ltd., professional independent valuers, as at 31 December 2000. The basis of valuation was open market value. The fair value loss arising from the revaluation were charged to the profit and loss account. Gains previously credited to the revaluation reserves have been transferred to retained earnings as required by IAS 40.

- (ii) Included in Land for Development is an amount of KShs. 200,000,000 representing the value of 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 of the property in any manner until the third parties case is concluded. Legal opinion indicates that at least 25% of the property may have to be surrendered should the court rule against one of the third parties.

8. INVENTORIES

	2002 KShs	2001 KShs
Houses available for sale	602,782,593	708,821,688

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

9. AMOUNTS DUE FROM CEDANTS & REINSURERS

	2002 KShs	2001 KShs
Local companies	73,472,874	380,187,871
International companies	201,461,810	197,130,581
	274,934,684	577,318,452
Less: provision for bad & doubtful debts	(183,835,250)	(183,833,961)
	91,099,434	393,484,491

Notes to the Financial Statements (continued)
for the year ended 31 December 2002

10. SUNDRY DEBTORS

Mortgage arrears	105,034,610	99,724,118
Rent arrears	31,536,728	29,689,901
Privatisation costs	128,617,856	94,763,875
Other debtors	46,232,801	22,521,243
Mortgage Loans maturing within one year	55,627,509	29,487,194
	367,046,504	276,186,331

11. INTEREST RECEIVABLE

Accrued Investment Income	34,627,169	30,793,451
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Interest is earned at the weighted average rate of 9.5% per annum.

12. SHARE CAPITAL

	2002 KShs.	2001 KShs.
Authorised, issued and fully paid:		
100,000,000 ordinary shares of KShs. 10 each (2001 - 50,000,000 ordinary shares)	1,000,000,000	500,000,000

13. REVALUATION AND OTHER RESERVES

At 1 January 2002	102,214,627	2,125,476,890
Prior year adjustment (Note 30)		(1,995,792,204)
At 31 December 2002	102,214,627	129,684,686
Transfer to revenue reserve	(39,613,518)	(27,470,059)
Capital reserves	62,601,109	102,214,627
Contingency reserves	10,784,528	10,784,528
	49,621,244	49,621,244
	123,006,881	162,620,399

14. STATUTORY AND GENERAL FUNDS

(a) (i) Statutory funds		
Ordinary life fund	443,715,159	438,870,104
Superannuation	919,400,386	773,004,096
At 31 December 2002	1,363,115,545	1,211,874,200

The statutory funds, which comprise Ordinary Life Fund and Superannuation Fund, were established in respect of long term business required under Section 45 of the Insurance Act. Income arising from the investment of the

Notes to the Financial Statements (continued)
for the year ended 31 December 2002

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. The latest actuarial valuation of the life fund was carried out by the consulting actuaries as at 31st December, 2002.

(ii) ACTUARIAL LIABILITY

Class of business	Sums at Risk KShs.	Annual office Premium KShs.	Actuarial Liability KShs.
Ordinary Life Business	4,392,546,102	27,313,710	26,767,436
Group Life Business	66,443,078,397	224,015,764	219,535,449
Treaty Business	3,714,000,731	27,936,313	27,377,587
Supplementary Benefits	13,221,976,903	29,594,426	29,594,426
AIDS Reserve	-	-	437,341,636
Claims Equalisation Reserve	-	-	287,450,251
Contingency Reserve	-	-	55,000,000
Total	87,771,602,133	308,860,213	1,083,066,785

(iii) ACTUARIAL VALUATION

Liabilities	KShs.	Assets	KShs.
Actuarial Liability	1,083,066,785	Life Fund	1,363,115,545
Surplus	280,048,760		-
	1,363,115,545		1,363,115,545

(b) General fund

	2002 KShs.	2001 KShs.
Marine	130,741,889	120,217,109
Aviation	31,146,638	26,029,719
	161,888,527	146,246,828

The fund represents a reserve maintained within the General business and does not constitute a statutory fund

Notes to the Financial Statements (continued)
for the year ended 31 December 2002

15. OUTSTANDING CLAIMS

	2002 KShs	2001 KShs.
Provision for Outstanding Claims	2,078,123,936	2,691,719,286

These are based on actuarial valuation as at 30 June 2002 which was performed by the consulting actuaries Hymans Robertson.

16. UNEARNED PREMIUMS

	2002 KShs	2001 KShs.
Unearned premiums	394,224,006	376,304,841

These are determined based on 40% of net premiums written.

17. DEFERRED TAX

	2002 KShs	2001 KShs.
Excess of tax wear and tear allowance over depreciation	17,784,896	20,985,139
Other temporary differences	25,732,477	12,753,998
	43,517,373	33,739,137

18. BANK OVERDRAFT

The bank overdraft is secured to the extent of KShs. 30 million by a lien over fixed deposit of KShs. 40 million. The weighted average interest rate during the year is 12.5%.

19. DIVIDENDS PAYABLE

	2002 KShs	2001 KShs.
At 1 January 2002	120,000,000	120,000,000
Provision during the year	-	-
At 31 December 2002	120,000,000	120,000,000
Proposed dividends	50,000,000	-

The proposed dividends on the ordinary shares are calculated on dividends of KShs. 0.50 (2001 : Nil) and on the number of ordinary shares in issue at the respective balance sheet dates.

Payment of the dividends is subject to withholding tax at the rate of 5%.

Notes to the Financial Statements (continued)
for the year ended 31 December 2002

20. AMOUNTS DUE TO REINSURERS AND CEDANTS

	2002 KShs.	2001 KShs.
Due to Cedants	106,552,858	248,534,279
Due to Reinsurers	534,863,860	400,068,658

641,416,718	648,602,937
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21. TAXATION

BALANCE SHEET

	2002 KShs.	2001 KShs.
Balance brought forward	22,928,858	(9,197,089)
Charge for the year - General Business	52,879,023	22,030,843
- Life Business	17,875,684	10,095,104
Paid during the year	(28,945,260)	-
	66,738,305	22,928,858

PROFIT & LOSS ACCOUNT

Current tax at 30% (2001 - 30%) on the taxable profit for the year:-
Revenue account
Deferred Tax

	48,862,621	22,030,843
	12,828,236	-
	61,690,857	22,030,843
Underprovision in prior years	6,016,402	-
	67,707,259	22,030,843
Tax on Life business	17,875,684	10,095,104

The tax on the general profit before tax differs from the theoretical amount that would arise using the basic tax as follows:-

	2002 KShs.	2001 KShs.
Profit before tax	319,370,571	311,970,936
Corporation tax charge at 30%	95,811,171	93,591,281
Tax effect of:-		
Expenses not deductible for tax purposes	26,704,411	21,445,657
Expenses allowable for tax	(6,761,454)	(7,882,739)
Non taxable income	(66,891,507)	(85,123,356)
	48,862,621	22,030,843

Notes to the Financial Statements (continued)
for the year ended 31 December 2002

22. SUNDRY CREDITORS

	2002 KShs.	2001 KShs.
Investment creditors	98,474,174	179,098,165
Accrued leave pay	9,872,017	3,999,367
Other creditors and accruals	169,568,926	115,441,724
	<u>277,915,017</u>	<u>298,539,256</u>

23. INVESTMENT INCOME

	2002 KShs.	2001 KShs.
(a) General Profit & Loss Account		
Change in fair value of quoted shares	173,808,749	225,997,272
Loss on sale of houses	(61,505,490)	-
Rent	176,266,728	164,586,690
Interest	83,556,703	83,354,011
Dividends	46,585,760	40,724,286
Other Income	20,412,907	-
Apportioned Management Expenses	(96,058,837)	(122,439,005)
	<u>248,067,510</u>	<u>392,223,254</u>
(b) Long Term Insurance Business Investment Income		
Rent	20,518,670	27,647,500
Interest	91,627,560	86,018,860
	<u>112,146,230</u>	<u>113,666,360</u>

24. PROFIT BEFORE TAXATION

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

Depreciation	55,956,946	59,035,597
Amortisation of lease hold	157,895	157,895
Auditors' remuneration	2,300,000	2,500,000
Directors' emoluments	6,307,000	5,526,000
And after crediting:-		
Interest	83,556,703	83,354,011
Dividends	46,585,760	40,724,286
Profit on disposal of shares	1,294,941	-
Gain on disposal of property, plant & equipment	12,551	997,050

25. EARNINGS PER SHARE

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

Notes to the Financial Statements (continued)
for the year ended 31 December 2002

26. CASH & CASH EQUIVALENTS

	2002 KShs.	2001 KShs.
Cash and bank balances	10,246,384	114,649,169
Short term deposits	157,589,561	177,312,400
Bank Overdraft	(4,073,779)	(165,291,191)
	163,762,166	126,670,378

Cash and cash equivalents comprise cash at bank and in hand and short-term deposit with an original maturity of three months or less. For the purposes of the cash flow statements, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

At 31 December 2002, the Corporation had available KShs. 26 Million of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

27. CAPITAL COMMITMENTS

	2002 KShs.	2001 KShs.
Authorised & contracted for	25,400,000	34,921,619
Approved but not contracted for	1,250,000	-

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

28. CONTINGENT LIABILITIES

The National Bank of Kenya Limited has issued guarantees to various third parties amounting to KShs. 620,000 (2001: KShs. 620,000) on behalf of the corporation.

29. RELATED PARTY TRANSACTIONS

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

(a) Transactions with Directors

- (i) The executive members of the Board of Directors received remuneration totalling KShs. 4,675,000 (2001 - KShs. 4,200,000). The non-executive members received fees totalling KShs. 1,632,000 (2001 - KShs. 1,326,000).

Notes to the Financial Statements (continued)
for the year ended 31 December 2002

	2002 KShs.	2001 KShs.
(ii) Loans to staff	157,608,614	159,689,822

Interest income on these loans was KShs. 8,838,814 (2001 - KShs. 8,462,414).

	2002 KShs.	2001 KShs.
(iii) Loans to Directors	5,420,867	2,735,028

Interest earned on these loans was KShs. 271,043 (2001 - KShs. 136,751). Loans to staff and directors are secured by mortgage on real property and interest is charged at 5% p.a.

(b) Transaction with related companies

	2002 KShs.	2001 KShs.
(i) Net premium written	14,266,040	18,763,018
(ii) Claims incurred	14,246,980	3,342,564

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:-

	2002 KShs.	2001 KShs.
Amounts due from related parties	3,817,224	2,197,078
Amounts due to related parties	-	-

30. PRIOR YEAR ADJUSTMENTS

(i) Adoption of International Accounting Standards (IAS) Number 17

In adopting the requirements of IAS number 17, net revaluation reserve amounting to KShs. 26,400,000 on leasehold land has been reversed. Amortisation expense on the leasehold land relating to prior periods amounting to KShs. 1,578,947 has been debited against retained earnings as at 1 January 2001.

(ii) Adoption of International Accounting Standards Number 40

Revaluation surplus amounting to KShs. 1,969,392,204 on investment properties in 2001 had been credited to

Notes to the Financial Statements (continued)
for the year ended 31 December 2002

revaluation reserves. In order to comply with the requirements of IAS number 40, this has been transferred revenue reserves at the beginning of 2001.

31. 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 adjustments described in note 30 above.

32. CURRENCY

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

33. EMPLOYEES

The number of employees for the Corporation during the year was 102 (2001: 103)

34. INCORPORATION

The Corporation is incorporated in Kenya under the Companies Act.

TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 2002

Details	Fire	Accident	Marine	Aviation	Motor	Life	Total 2002
	KShs.	KShs.	KShs.	KShs.	KShs.		KShs.
Facultative	32,592,926	15,672,196	2,642,407	-	-	-	48,265,122
Local Inward Treaties	425,167,239	466,385,405	85,532,107	3,821,672	156,359,219	236,052,654	1,377,531,896
Direct ins/ mortgages	1,236,969	-	-	-	-	2,875,543	4,112,512
International Inward Treaties	203,657,590	21,698,581	28,542,949	9,359,100	19,078,876	-	282,337,096
Total	662,654,724	503,756,182	114,075,056	13,180,772	175,438,095	238,928,197	1,708,033,026

TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 2000

Details	Fire	Accident	Marine	Aviation	Motor	Life	Total 2000 KShs.
	KShs.	KShs.	KShs.	KShs.	KShs.		
Facultative	20,783,482	18,977,675	4,883,053	-	-	-	4,644,210
Local Inward Treaties	379,325,216	415,658,918	58,471,518	35,916	145,973,854	214,685,193	1,241,040,619
Direct ins/ mortgages	1,522,029	497,322	-	-	50,619	2,516,831	4,586,801
International Inward Treaties	209,235,180	19,736,193	11,053,278	-	4,426,831	-	244,451,482
	610,865,907	454,870,108	74,407,849	35,916	150,451,304	217,202,024	1,507,823,108

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TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 1999

Details	Fire	Accident	Marine	Aviation	Motor	Life	Total 1999
	KShs.	KShs.	KShs.	KShs.	KShs.		KShs.
Facultative	1,266,623	(23,344)	-	-	-	-	1,243,279
Local Inward Treaties	307,698,748	254,130,423	56,934,817	-	79,902,170	222,760,180	991,426,338
Direct ins/ mortgages	583,417	384,180	-	-	(18,092)	4,879,556	5,829,061
International Inward Treaties	125,427,646	65,577,444	22,666,500	3,570,858	60,890,320	-	278,132,768
Total	434,976,434	320,068,703	79,601,317	3,570,858	140,774,398	227,639,736	1,216,640,446

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TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 2000

Details	Fire	Accident	Marine	Aviation	Motor	Life	Total 2000 KShs.
	KShs.	KShs.	KShs.	KShs.	KShs.		KShs.
Facultative	20,783,482	18,977,675	4,883,053	-	-	-	44,644,210
Local Inward Treaties	379,325,216	415,658,918	58,471,518	35,916	145,973,854	214,685,193	1,214,410,615
Direct ins/ mortgages	1,522,029	497,322	-	-	50,619	2,516,831	4,586,801
International Inward Treaties	209,235,180	19,736,193	11,053,278	-	4,426,831	-	241,451,482
	610,865,907	454,870,108	74,407,849	35,916	150,451,304	217,202,024	1,507,823,108

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TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 1998

Details	Fire	Accident	Marine	Aviation	Motor	Life	Total 1998
	KShs.	KShs.	KShs.	KShs.	KShs.		KShs.
Facultative	6,338,967	5,167,199	4,321,990	38,096,370	-	-	53,924,526
Local Inward Treaties	365,467,176	339,436,893	115,296,148	-	81,260,730	205,052,811	1,106,513,758
Direct ins/ mortgages	1,991,225	604,579	-	-	2,803,237	4,519,754	9,913,794
International Inward Treaties	71,855,634	17,327,636	22,150,564	4,059,119	18,575,721	-	133,968,673
	445,653,002	362,536,307	141,768,702	42,155,489	102,639,688	209,572,565	1,304,325,752

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TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 1997

Details	Fire	Accident	Marine	Aviation	Motor	Life	Total 1997
	KShs.	KShs.	KShs.	KShs.	KShs.		KShs.
Facultative	2,270,551	4,080,114	288,750	-	-	-	6,639,415
Local Inward Treaties	339,083,926	222,757,743	56,184,520	-	95,382,656	127,402,034	840,810,879
Direct ins/ mortgages	1,597,409	687,797	-	-	2,437,199	3,427,250	8,149,655
International Inward Treaties	31,941,422	7,873,036	11,323,403	2,805,386	1,233,800	-	35,177,017
Total	374,893,308	234,398,690	67,796,672	2,805,386	99,053,655	130,829,284	910,776,996

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TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 1996

Details	Fire	Accident	Marine	Aviation	Motor	Life	Total 1996
	KShs.	KShs.	KShs.	KShs.	KShs.		KShs.
Facultative	24,619,911	2,525,274	2,496,386	11,234,191	-	-	40,875,761
Local Inward Treaties	330,350,863	202,064,033	72,827,746	-	89,384,794	192,998,517	885,625,943
Direct ins/ mortgages	1,345,014	427,247	-	-	1,512,956	2,474,860	5,760,077
International Inward Treaties	26,915,819	8,083,000	10,071,652	4,517,363	1,207,814	-	50,795,648
	383,231,607	213,099,554	85,395,784	15,751,554	92,105,564	195,473,376	985,057,439

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TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 1995

Details	Fire	Accident	Marine	Aviation	Motor	Life	Total 1995
	KShs.	KShs.	KShs.	KShs.	KShs.		KShs.
Facultative	23,975,027	1,272,824	1,315,319	984,768	-	-	27,547,837
Local Inward Treaties	353,337,521	140,551,595	100,417,328	-	68,607,218	177,440,759	680,324,411
Direct ins/ mortgages	3,048,689	452,826	-	-	1,246,700	353,360	5,101,575
International Inward Treaties	21,487,501	6,559,309	11,432,114	4,016,328	653,901	-	44,149,153
	401,848,738	148,836,554	113,184,761	5,001,096	70,507,819	177,794,119	917,173,086

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NOTES

