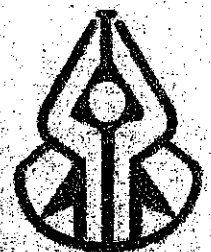


KENYA REINSURANCE  
CORPORATION  
LIMITED

ANNUAL REPORT  
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**KENYA REINSURANCE CORPORATION LIMITED  
DIRECTORS' REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2003**

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# Board of Directors



Charles N. Kebuchi  
Chairman



Johnson J. Githaka  
Managing Director



Ali Jacob Haji



Charles O. Ogalo



Dr. Irat Kallenda



Joseph M. Mwangi



Nellie Karuki



William Mayaka

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KENYA RE

**KENYA REINSURANCE CORPORATION LIMITED  
CORPORATE INFORMATION  
FOR THE YEAR ENDED 31 DECEMBER 2003**

**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  
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.

**LAWYERS**

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

**RACHIER & COMPANY**

Kenya Reinsurance Plaza  
P.O. Box 55645  
NAIROBI.

**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**

NBC Kenya Limited  
Victoria Towers  
Kilimanjaro Avenue, Upper Hill  
P.O. Box 10472  
NAIROBI.

**SUBSIDIARIES**

Kenya Re Properties Limited  
P.O. Box 30271  
NAIROBI.

**WEDCO LIMITED,**

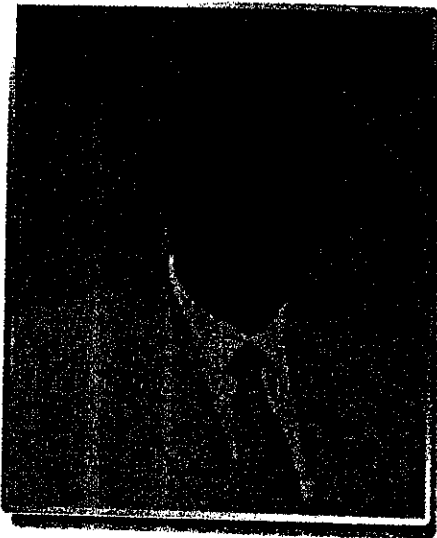
P.O. Box 30271  
NAIROBI.

## Management Team

• Managing Director	Johnson J. Githaka
• Chief Underwriter	Evans A. Jumba
• Company Secretary	Margaret A. Otega
• Financial Controller	John F. Kinyua
• Manager (International Business)	Erastus Muchiri
• Manager (Claims)	Mark O. Okeyo
• Manager (Property)	Michael J. Mbeshi
• Manager (Local Business)	Samuel C. Mweni
• Manager (Admin & HR)	Esther N. Kimanzi
• Manager (Internal Audit)	Michael K. Wamathai
• Assistant Chief Accountant	John K. Mbugua
• Deputy Manager (Property)	Consolata W. Kihara
• Deputy Manager (Marketing & Business Dev.)	Jadiah M. Mwarania
• Deputy Manager (Legal)	Jane F. Otieno
• Deputy Manager (ICT)	Peter W. Wakwabubi
• Assistant Manager (ICT)	Charles O. Abebe
• Assistant Manager (ICT)	George K. Njuguna
• Assistant Manager (Life & Pension)	Nancy Njakai
• Assistant Manager (Finance)	Nyakundi Mogere
• Assistant Manager (Finance)	William K. Cheruiyot
• Assistant Manager (Corporate Affairs)	Mary Mwendwa
• Assistant Manager (Admin & HR)	David Kipchoge
• Assistant Manager (Property)	John K. Rika
• Assistant Manager (Property)	Simeon K. Rono

## TO OUR CLIENTS AND SHAREHOLDERS

### Chairman's Message



Charles N. Kebuchi  
Chairman

2003 was an eventful year. Not only did the national economy register growth, posting a growth rate of 1.4% and bilateral relations restored, the new Government commenced to undertake numerous reform measures to improve the fundamentals of Kenyan social political environment.

We at Kenya Re achieved good trading results through continued efforts to enhance the value of the reinsurance business amid fierce competition from local and foreign reinsurance companies.

Kenya Re continues to strive to realize its vision positioning itself for the major development security of being a world-class reinsurer through the provision of value-adding reinsurance services to our business partners.

We continue to expand our involvement in the world reinsurance market and at the same time advance into new sectors in the domestic reinsurance market. We have reinforced our business foundation in the market through the best services to domestic insurers.

As a result of the multi-faceted approach, gross premiums written grew to Kshs.2.1 billion showing a

remarkable 23% increase from the previous year. This was the first time that the Corporation's gross reinsurance premiums exceeded the landmark of Kshs.2.0 billion since the phasing out of compulsory cessions in 1999.

The Profit after tax was Kshs.554.5 million another record figure compared to Kshs.251.6 million in 2002, proving that current profit-oriented management approach is in the right direction. Our shareholders' funds also increased by more than 50% in 2003.

Believing that Kenya Re's success is only possible with support from our clients and shareholders, we understand that future success hinges on our commitment to excellence upon which our reputation has been built.

We shall continue with our endeavour to discover new opportunities for continuation of growth and success. Please join us.

Thank you.

Charles N. Kebuchi

Chairman

A breakdown of earned premiums for the years ended 31 December 2003 is as follows:

	2003 KShs.(000)	2002 KShs.(000)
Motor	160,140	168,694
Fire	549,807	559,079
Accident	557,068	484,876
Marine	98,047	104,492
Aviation	15,688	13,180
Life	238,257	238,928
<b>Total</b>	<b>1,561,803</b>	<b>1,569,149</b>

During the year 2003 net earned premiums registered a growth of 18.6% which is a considerable achievement. This is an indication that notwithstanding the growing challenges of the business environment, the domestic reinsurance market can be expected to post healthy growth.

#### Combined Ratio

In 2003 the Corporation's incurred losses reflected a decrease of 47.7% whereas the net operating expenses, consisting of reinsurance commissions and management expenses increased by 12%.

After peaking at 107% in 2001, Kenya Re's total combined ratio has declined overall within recent years. In year 2003 the combined ratio has decreased by 35% from the previous year to 67%.

This lower loss ratio is expected to be maintained in the future considering that substantial compulsory cessions run-off claims have already been settled.

#### Non Funded General Business

		2002 (KShs'000)	2001 (KShs'000)	2000 (KShs'000)	1999 (KShs'000)
Net Premium earned		1,212,649	1,193,734	1,501,597	1,763,987
Net operating Expenses		588,348	577,130	422,053	830,626
Net Incurred Claims		647,998	696,855	1,140,905	970,426
Claims Ratio		53.4%	58.4%	76%	55%
Combined Ratio		102%	107%	104%	102%

The combined ratio is the ratio of incurred claims and net operating expenses to the net premium earned.

#### Solvency margin

Kenya Re has continued to maintain a stable solvency margin ratio way above the statutory requirement reflecting a strong financial status that befits a leader in the Kenya insurance market.

## Underwriting results

Underwriting profits of KShs.487.2 million in 2003 resulted from selective underwriting activities, a diversified portfolio and anticipated lower claims from compulsory cession run-offs. Kenya Re's underwriting profits were especially significant considering the earning structure of reinsurance and insurance companies.

## Operating Income on Investment

The decrease in the corporation's income on investment was mainly attributed to lower returns on fixed income securities recording at KShs.222 million in year 2003 compared to KShs.343 million in year 2002.

Total interest income and dividends amounted to KShs.198.9 million down from KShs.221.1 million in 2002.

In the light of lower interest rates, return on fixed-income securities and deposits would continue to decline. However, an increase in the corporation's invested assets is expected to compensate for the projected lower return on invested assets.

## Net Income

Kenya Re posted a net income after tax of KShs.554.5 million in 2003 up from KShs.251.6 million in 2002. Corporation's earnings per share increased from KShs.2.52 to KShs.5.54.

## Financial Condition

### Assets

Kenya Re's total assets stood at KShs.8,954 million at the end of year 2003 which is an 11% increase over the KShs.8,032 million recorded in the previous year. Total investment assets were KShs.7,568.3 million compared to KShs.6,374.4 million in year 2002.

The balance of cash and deposits increased to KShs.290.9 million from KShs.193.8 million for the previous year, while quoted equity securities surged up to KShs.1,394.8 million from KShs.674.6 million in the year under review. The government securities accounted for 19.8% share of total investment assets.

The Corporation has steadily curtailed its exposure to equities in order to maintain financial stability amid increased risk from the volatile stockmarket.

High-risk assets, such as lower-quality shares have been effectively reduced from Kenya Re's investment portfolio. The Corporation focused on high-grade government securities and is now much less vulnerable to both stock market and corporate credit risks.

(KShs in Million)

For the years ended 31 December	2003	2002
<b>Investment Assets</b>		
Term Deposit	157.5	157.5
Marketable Securities	674.5	674.5
Government Securities	1,183.8	1,183.8
Mortgages	152.7	152.7
Real Estate	4,205.9	4,205.9
<b>Total</b>	<b>7,568.3</b>	<b>6,374.4</b>



## Liabilities and Shareholder's Equity

Total liabilities were down by 16.1% at KShs.3,219.2million as of 31<sup>st</sup> December 2003 compared to KShs.3,838.2 in 2002. In order to absorb possible losses, insurance technical reserves were maintained at the previous years level of KShs.2,078 million for outstanding claims while unearned premium increased to KShs.444.6 million up from KShs.394.2 million in 2002.

Our capital base remains strong, well in excess of the statutory minimum capital requirements of Kshs.500 million.

Total shareholder's equity at the end of year 2003 amounted to KShs.4,030.5 million up 51% a year earlier. This increase is primarily attributable to a significant rise in the year-end retained earnings, from KShs.1,496.4 million in year 2002 to KShs.1,980 million in year 2003 together with revaluation and other reserves which increased by KShs.827.5 million from KShs.123 million in year 2002 to KShs.950.5 million in year 2003. The increase in revaluation and other reserves is mainly attributable to the fair value adjustments of quoted investments as required by International Financial Reporting Standards.

For the years ended 31 December	(KShs in Million)	
	2003 KShs	2002 KShs
Reserve for outstanding claims	2,078.1	2,078.1
Unearned Premium Reserve	444.6	394.2
Unpaid payables	1,319.2	1,319.2
Total Liabilities	3,838.2	3,838.2
Total Shareholders Funds	4,030.5	2,669.4

### The future

We have reason to believe that the economy will grow more so considering the reform measures that the Government has initiated.

However the Government should focus more on strategic growth sectors such as building and construction, manufacturing, information communication and Technology and Tourism.

### Conclusion

I would like to thank our staff for their continuing commitment, my colleagues in the management team and the Board for their guidance. I would also like to thank our clients for their support without which the results could not have been achieved.

Let us look forward to greater achievements in 2004.

J.J. GITHAKA

MANAGING DIRECTOR

**KENYA REINSURANCE CORPORATION LIMITED**  
**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

The directors submit their report together with the audited financial statements for the year ended 31 December 2003, 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:

	2003 KShs.	2002 KShs.	Premium Increase/ (Decrease)	Growth rate %
Fire	456,354,727	221,944,700		49
Accident	482,057,600	13,953,145		3
Marine	88,174,515	(17,040,239)		(19)
Aviation	3,821,672	(164,695)		(4)
Motor	156,359,219	23,479,995		15
Life	238,928,197	85,563,870		36
International business	282,337,096	100,881,435		36
<b>TOTAL</b>	<b>1,708,033,026</b>	<b>428,618,211</b>		<b>25</b>

- c) Summary of profit for the year:

i) Investment income	343,067,510
ii) Underwriting profit/ (loss)	(23,696,939)
Profit before taxation	319,370,571
Taxation	(67,707,259)
Profit after tax	251,663,312

**KENYA REINSURANCE CORPORATION LIMITED**  
**REPORT OF THE DIRECTORS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

d) Corporation's Results

The results of the corporation are set out on page 28

e) Dividends

The directors propose the payment of dividends of KShs. 100,000,000 for the year ended 31 December 2003.

f) Reserves

The reserves of the corporation are set out on page 42

g) Directors

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

Charles N. Kebuchi	(Chairman - Appointed on 19 <sup>th</sup> December 2003)
Johnson J. Githaka	(Managing Director)
Joseph Magari	(Permanent Secretary Treasury- Appointed on 6 <sup>th</sup> January 2003)
Catherine Kimura	Alternate to J Magari
Charles O. Ogalo	
Nellius Kariuki	(Appointed on 19 <sup>th</sup> December 2003)
William P. Mayaka	(Appointed on 19 <sup>th</sup> December 2003)
Jacob Haji Ali	(Appointed on 19 <sup>th</sup> December 2003)
Dr. Iruki Kailemia	(Appointed on 19 <sup>th</sup> December 2003)
Josiah M. Munuka	(Retired on 19 <sup>th</sup> December 2003)
Philip Singaru	(Retired on 19 <sup>th</sup> December 2003)
Victor Pratt	(Retired on 19 <sup>th</sup> December 2003)
Edna Sang	(Retired on 19 <sup>th</sup> December 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,

M.A. Otega (Mrs)

*MA Otega*

SECRETARY

**KENYA REINSURANCE CORPORATION LIMITED  
STATEMENT OF DIRECTORS' RESPONSIBILITIES  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2003**

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 at least the next twelve months from the date of this statement.



Nellius Kariuki  
DIRECTOR



William P. Mayaka  
DIRECTOR

18<sup>th</sup> March, 2004.....  
Date

## **CORPORATE GOVERNANCE STATEMENT**

Corporate governance is the process by which companies are directed and controlled with the objective of increasing shareholders' value. The corporation confirms its commitment to the principle of openness, integrity and accountability as advocated by the principles of corporate governance. Our corporate governance structure is flexible enough to adopt to changes in the internal and external environment. The Corporation regularly reviews its processes, rules, regulations and structure with a view to ensuring best performance of the Board, Board Committees and overall management of the business.

Key aspects of our approach to corporate governance are outlined below.

### **BOARD OF DIRECTORS**

The composition of the Board is set out on page ten (10 ). The Board is chaired by a non-executive Chairman and includes a Managing Director and six other non executive directors. All non-executive directors are independent of management. The Board provides overall strategic direction, ensures that the Corporation meets its responsibilities to its shareholder and that the control environment adequately protects the Corporation assets against major risks and also gives guidance on general policy. The Board has also delegated the authority for implementing strategy and day to day management of the Corporation to the Managing Director. It however, retains the overall responsibility for financial and operating decisions and monitoring performance of senior management. The Board meets every two months and has a formal schedule of Board meetings.

The directors believe the Corporation has adequate resources to continue in it's operations in the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. A statement of directors responsibilities in relation to the financial statements appears on page 11. We have also fully adopted International Financial Reporting Standards (IFRS) in line with the requirements of the Institute of Certified Public Accountants of Kenya. This enhances the readership and understanding of the published financial statements to the shareholder and other stakeholders.

### **COMMITTEES OF THE BOARD**

The Board has appointed five sub-committees which meet regularly under the terms of reference set by the Board to which it has delegated certain responsibilities with the chairmen of the sub committees reporting to the Board. The composition of the sub-committees is as set out on page fifteen (15 ).

#### **AUDIT COMMITTEE**

The committee comprises four non-executive directors and meets on a quarterly basis or as when necessary.

The functions of the committee include:

- Monitoring and strengthening the effectiveness of management information and internal control systems.
- Review of financial information and improving the quality of financial reporting.

- Strengthening the effectiveness of internal and external audits.

A corporate risk assessment is underway and shall be documented before the end of year 2004.

#### **STAFF COMMITTEE**

The committee which meets regularly is responsible for monitoring and appraising the performance of staff, review of all human resources policies, advising on the remuneration of staff and making recommendations to the Board.

#### **TENDER COMMITTEE**

The committee meets regularly as required and is headed by a non-executive director. It receives and considers all tenders of the corporation including insurance and reinsurance renewals and purchases in line with the procurement policies and the exchequer and audit (public procurement) regulations 2001 and amendment regulations 2002.

#### **INVESTMENT COMMITTEE**

The committee, chaired by the Managing Director, is responsible for planning investment strategy and continuously monitoring the performance of the Corporation's Investments.

#### **EXECUTIVE MANAGEMENT COMMITTEE**

The Managing Director chairs this Committee, which comprises of the executive managers. The Committee meets on a monthly basis or as required and its purpose is to deal with operational issues and to improve communication, teamwork and co-ordination across the various functional areas of the corporation.

The Board appoints other committees as and when required.

#### **INTERNAL CONTROLS**

The corporation has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical control and that the organization remains structured to ensure appropriate segregation of duties. A comprehensive management accounting system is in place which provides financial and operational performance assessment indicators.

Monthly management meetings are held by the executive management to monitor performance and to agree on measures for improvement.

#### **CODE OF ETHICS**

The corporation is committed to the highest standards of professional integrity, and ethics in dealing with its stakeholders. A formal code of Ethics is being developed for approval by the Board. When fully implemented it will guide the management, employees and stakeholders on the acceptable

## BOARD COMMITTEES

The Board committees as at the date of this report were:

Audit Committee	Tender Committee	Staff Committee	Executive Management Committee	Investment Committee
		<b>COMPOSITION</b>		
<ul style="list-style-type: none"> <li>• Three non-executive directors,</li> <li>• Manager Internal (Audit)</li> </ul>	<ul style="list-style-type: none"> <li>• Three non-executive directors</li> <li>• Managing Director</li> <li>• Manager Internal (Audit)</li> <li>• Manager (Property)</li> <li>• Financial Controller</li> <li>• Manager (HR &amp; Admin.)</li> <li>• Chief underwriter</li> <li>• Corporation Secretary</li> </ul>	<ul style="list-style-type: none"> <li>• Managing Director</li> <li>• Corporation Secretary</li> <li>• Chief underwriter</li> <li>• Manager (Property)</li> <li>• Financial Controller</li> <li>• Manager (Human Resources &amp; Admin.)</li> <li>• Manager (Property)</li> </ul>	<ul style="list-style-type: none"> <li>• Managing Director</li> <li>• General Managers</li> <li>• Senior Managers</li> </ul>	<ul style="list-style-type: none"> <li>• Managing Director</li> <li>• Corporation Secretary</li> <li>• Financial Controller</li> <li>• Chief underwriter</li> <li>• Manager (Property)</li> </ul>
	<b>FREQUENCY OF MEETINGS PER ANNUM</b>			
Six and as when necessary	As and when necessary	As and when necessary	Monthly	As and when necessary
		<b>CHAIRMAN</b>		
Nellius Kariuki	Jacob Haji	J.J. Githaka	J.J. Githaka	J.J. Githaka
		<b>MEMBERS</b>		
Charles Ogalo Dr. Iraki Kailemia Catherine Kimura	William Mayaka Catherine Kimura	M. Otega E. Jumba J. Kinyua E. Kimanzi	(See Page 3)	Charles Ogalo Catherine Kimura

## OUR BUSINESS PRINCIPLES

The Board, the management, and staff of Kenya Reinsurance Corporation Ltd, pledge to always respect the corporation's General Business Principles.

### I RESPONSIBILITY

The aim of Kenya Reinsurance Corporation Ltd (Kenya Re) is to engage itself in an efficient, responsible, dependable and reliable service to the clients. It will endeavor to demonstrate a high standard of performance with unquestionable integrity and honesty.

The most important contribution Kenya Re can make to the social and material progress of the country is to give protection and efficient services to its clients. It recognizes the need to take a constructive interest and participate in the social matters that may relate directly or indirectly to the business it is engaged with e.g. in community education, donation programs, etc.

#### Main areas of responsibility:

1. To Share Holder

To protect shareholder's investment and provide an acceptable rate of return.

2. To Employees

To provide its employees with good and safe working environment, competitive terms and conditions of service; to promote the development of human talent, to encourage the participation of employees in the planning and direction of their respective works, recognizing that success depend on the full contribution of all employees.

To encourage and use available talents and recognize performance achievements and reward on merit.

3. To Our Cedants & Retrocessionaires

To give full confidence and assurance that risk protection is fully guaranteed, to develop and provide efficient service relevant to Cedants and Retrocessionaires.

4. To Society

To carry out its business operations as a responsible corporate member of the society, observing applicable law of the country giving due regard to and participation in safety, health, and environmental standards and social aspirations.

The above four areas of responsibilities are seen as inseparable and it is the duty of the management to continuously assess the priorities and discharge its responsibility as best as it can on the basis of that assessment.

### II. INTEGRITY

Kenya Re insists on honesty and integrity in all aspects of its business operations and expects same from its business partners. All employees are required to avoid conflict of interest

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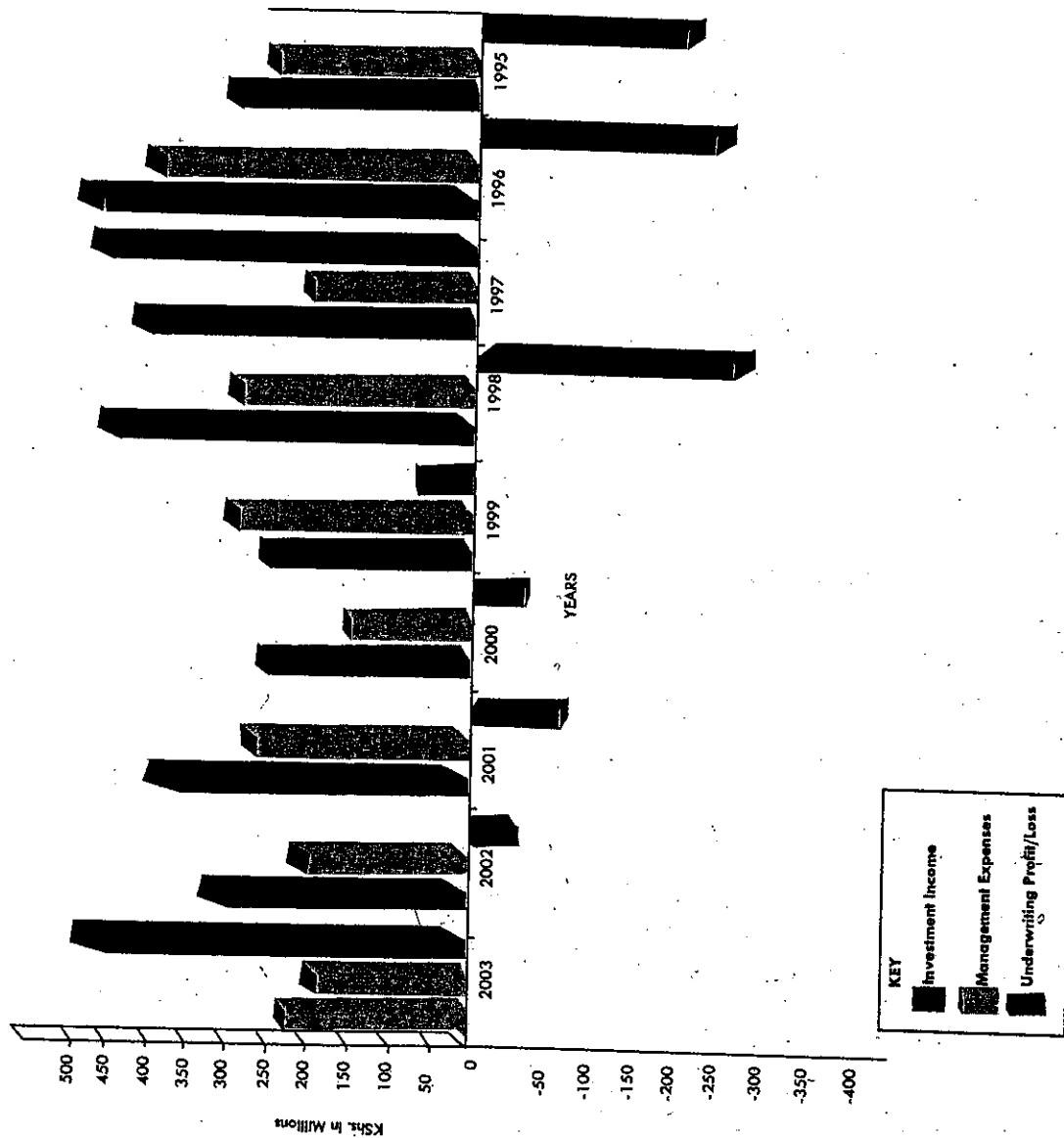


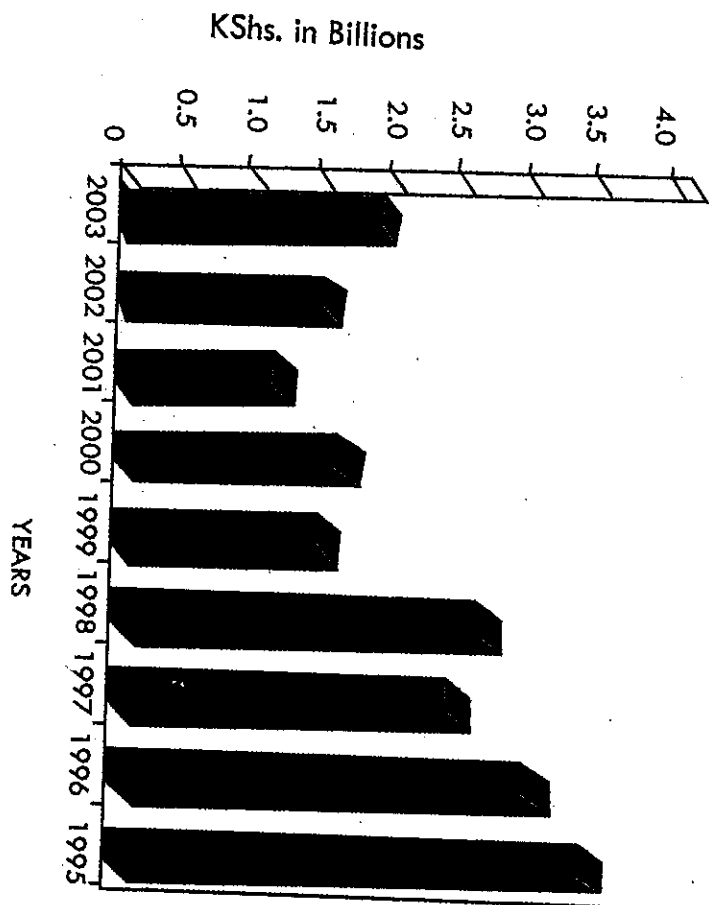
# FINANCIAL HIGHLIGHTS

	2003 KSHS 000'S	2002 KSHS 000'S	2001 KSHS 000'S	2000 KSHS 000'S	1999 KSHS 000'S	1998 KSHS 000'S	1997 KSHS 000'S	1996 KSHS 000'S	1995 KSHS 000'S
Premiums written	2,136,651	1,708,033	1,464,447	1,965,778	1,953,117	2,727,252	2,597,599	3,544,089	3,937,703
Investment Income (Net)	222,019	343,067	392,223	226,715	230,908	440,145	423,989	455,891	357,229
Management Expenses	195,866	200,229	257,476	126,243	285,562	291,180	195,640	391,749	221,137
Underwriting Profit/(Loss)	487,201	(23,696)	(80,252)	(61,362)	67,358	(319,933)	430,865	(282,931)	(241,048)
Net Profit/(Loss)	554,458	251,663	289,940	138,573	(224,625)	78,341	79,512	105,070	72,606
Total Assets	8,954,923	8,032,663	8,173,331	7,849,059	9,095,293	9,495,144	9,173,206	8,745,246	5,957,619
Shareholder's Equity	5,735,711	4,194,459	2,458,084	2,159,807	2,783,261	2,818,581	2,703,130	3,011,505	798,964
No. of Employees	101	102	103	140	144	334	338	336	332

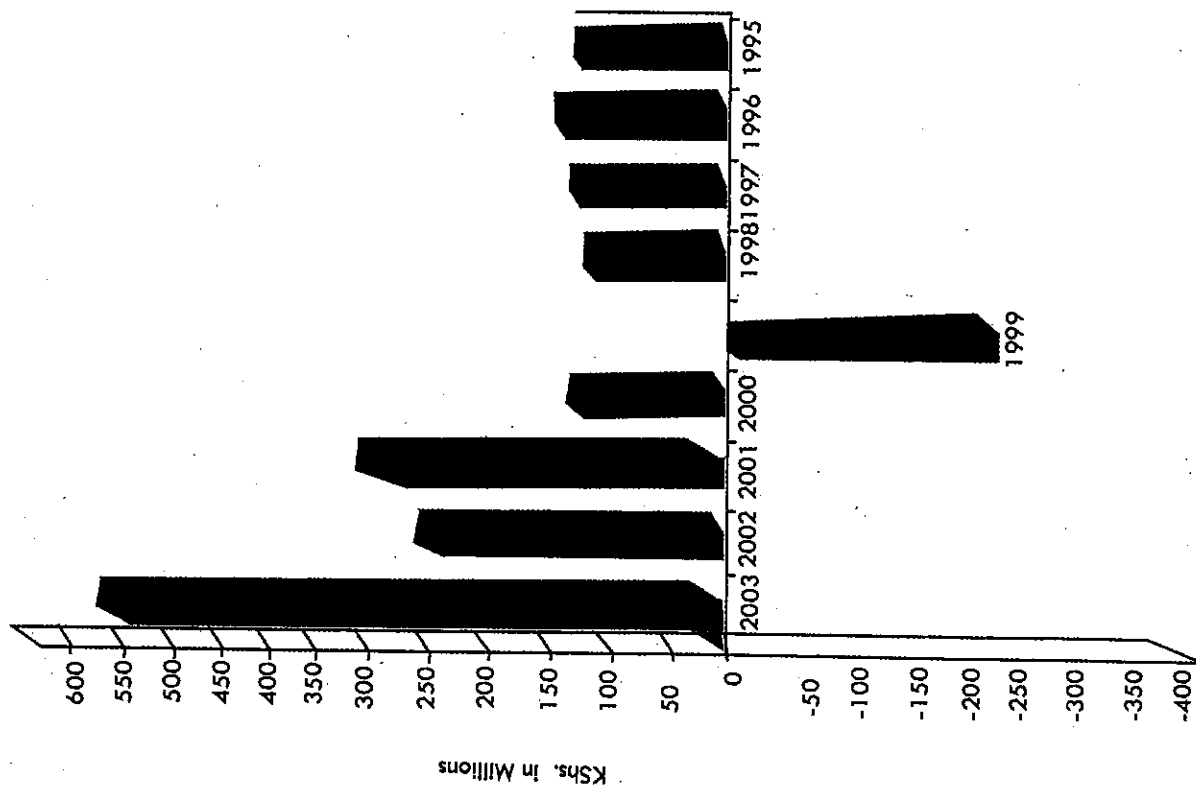
NOTE: The shareholder's fund has not been adjusted with the Life Fund Actuarial Valuation Surplus

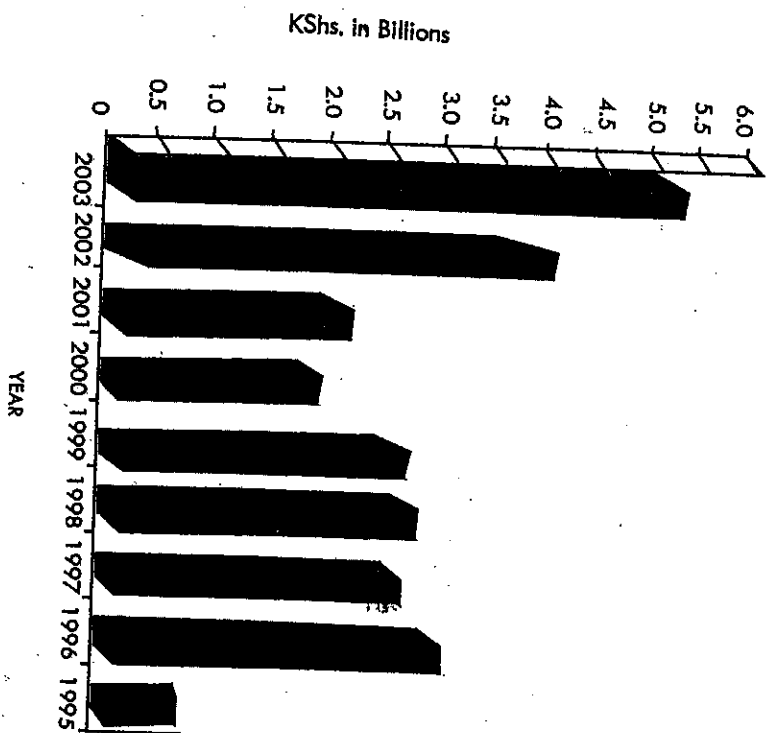
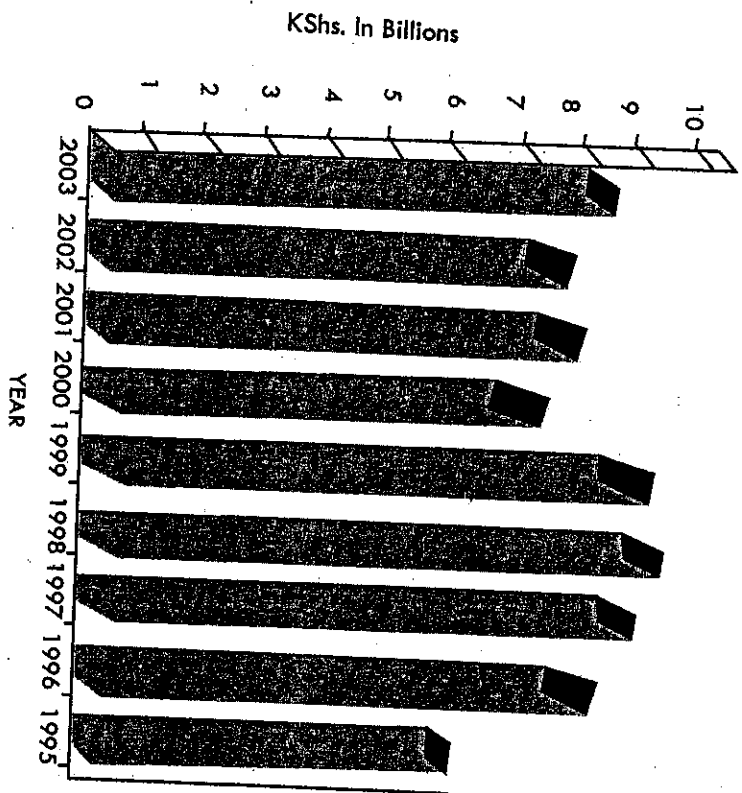
# INVESTMENT INCOME, MANAGEMENT EXPENSES & UNDERWRITING PROFIT/LOSS (1995 - 2003)





# NET PROFIT (LOSS)





## KENYA REINSURANCE CORPORATION

## INVESTMENT MIX

	2003	2002	2001	2000	1999	1998
Government Securities	19.8%	18.0%	17.6%	15.8%	14%	20%
Shares	18.4%	10.7%	8.1%	4.1%	4%	3%
Mortgage Loans	2.9%	2.5%	3.9%	5.4%	5%	6%
Fixed Deposits	3.3%	2.5%	2.8%	1.9%	1%	2%
Rental Properties & Land	55.6%	66.3%	67.6%	72.8%	76%	69%
Total	100%	100%	100%	100%	100%	100%

**ACTUARY'S CERTIFICATE  
FOR THE YEAR ENDED 31 DECEMBER 2003**

I, Pieter Johannes Hansen of NBC Kenya Limited, 6<sup>th</sup> floor, Victoria Towers, Upper Hill, P O Box 10471-0100 Nairobi, being an Actuary duly qualified in terms of Section 2 of the Insurance Act having conducted an investigation in terms of Sections 57 and 58 of the Act do hereby certify as under that as at 31 December 2003:

- (a) That in my opinion the value placed upon the aggregate liabilities relating to the Statutory Funds of Kenya Reinsurance Corporation Limited in respect of policies on the basis of valuation adopted by me is not less than what is would have been if the aggregate value had been calculated on the minimum basis prescribed;
- (b) That necessary steps as required under Section 58(5) (a) were taken; and
- (c) That I am satisfied that the value of assets adopted by me are, on the basis of the auditor's certificate appended to the balance sheet, fully of the value so adopted.



**Pieter J. Hansen (FIA)**

**Date: 19/03/2004**

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

We have audited the financial statements on pages 26 to 52, which have been prepared on the basis of the accounting policies set out on pages 34 to 38. 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**

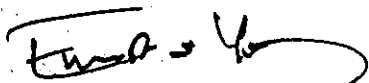
We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit so as to obtain a reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting 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, 2003 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 8 (ii) to the financial statements relating to one of the properties held for development.

**Ernst & Young**  
Certified Public Accountants

 **ERNST & YOUNG**

19<sup>th</sup> March, 2004  
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**NAIROBI**



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**KENYA REINSURANCE CORPORATION LIMITED**  
**BALANCE SHEET**  
**AS AT 31 DECEMBER 2003**

	Note	General insurance business KShs.	Long-term insurance business KShs.	18/12/2003 KShs.	Total 2002 KShs.
<b>ASSETS:</b>					
<b>NON-CURRENT ASSETS:</b>					
Property and equipment	2	283,007,611	-	283,007,611	332,260,865
Prepaid lease rentals	3	12,947,368	-	12,947,368	13,105,263
Intangible assets	4	4,988,214	-	4,988,214	-
Government securities Available for sale:	5	621,846,044	874,743,404	1,496,589,448	1,183,865,975
Financial assets	6	1,394,813,659	-	1,394,813,659	674,551,002
Loans secured by mortgages on real property	7	219,799,954	-	219,799,954	152,784,225
Investment properties	8	3,781,448,284	424,543,189	4,205,991,473	4,205,991,473
		<u>6,318,851,134</u>	<u>1,299,286,593</u>	<u>7,618,137,727</u>	<u>6,562,558,803</u>
<b>CURRENT ASSETS</b>					
Cash & bank balances		39,435,415	245,885	40,346,384	40,346,384
Short term deposits		248,831,445	2,378,984	251,210,429	157,580,561
Inventories	9	446,703,259	-	446,703,259	602,782,593
Amounts due from cedants & reinsurers	10	81,988,087	270,330,440	352,318,527	300,242,245
Sundry debtors	11	246,624,404	247,996	247,142,400	369,152,800
		<u>1,063,582,610</u>	<u>273,203,305</u>	<u>1,336,785,915</u>	<u>1,470,104,583</u>
<b>TOTAL ASSETS</b>		<u>7,382,433,744</u>	<u>1,572,489,898</u>	<u>9,211,927,642</u>	<u>8,032,663,386</u>
<b>EQUITY, LONG-TERM FUNDS &amp; LIABILITIES:</b>					
<b>Capital &amp; reserves: -</b>					
Ordinary share capital	12	1,000,000,000	-	1,000,000,000	1,000,000,000
Revaluation & other reserves	13	950,510,368	-	950,510,368	123,006,881
Retained earnings		1,980,027,664	-	1,980,027,664	1,496,448,386
Proposed dividends	19	100,000,000	-	100,000,000	50,000,000
Shareholders' funds		<u>4,030,538,032</u>	-	<u>4,030,538,032</u>	<u>2,669,455,267</u>
Life Funds	14(a)	-	1,533,816,990	1,533,816,990	1,363,115,545
General funds	14(b)	171,356,815	-	171,356,815	161,888,522
		<u>171,356,815</u>	<u>1,533,816,990</u>	<u>1,705,173,805</u>	<u>1,525,004,067</u>
<b>TOTAL EQUITY AND LONG-TERM FUNDS</b>		<u>4,201,894,847</u>	<u>1,533,816,990</u>	<u>5,735,711,842</u>	<u>4,194,459,334</u>

**KENYA REINSURANCE CORPORATION LIMITED**  
**BALANCE SHEET (Continued)**  
**AS AT 31 DECEMBER 2003**

<b>LIABILITIES:</b>			<b>General insurance business KShs.</b>	<b>Long-term insurance business KShs.</b>		<b>2002 Total KShs.</b>
	<b>Note</b>					
<b>NON-CURRENT LIABILITIES:</b>						
<b>Underwriting provisions:</b>						
Outstanding claims	15	2,078,125,933	-			2,078,125,933
Unearned premiums	16	444,670,857	-			394,224,116
Deferred tax	17	4,555,968	-			46,567,373
		<u>2,527,352,758</u>	-			<u>2,518,917,422</u>
<b>CURRENT LIABILITIES</b>						
Bank overdraft	18	-	-			4,073,779
Dividends payable	19	120,000,000	-			120,000,000
Amounts due to reinsurers & cedants	20	186,196,317	27,142,767			850,559,529
Tax payable	21	123,488,469	11,530,141			66,738,305
Sundry creditors	22	223,501,353	-			277,915,017
		<u>653,186,139</u>	<u>38,672,908</u>			<u>1,319,286,630</u>
<b>TOTAL LIABILITIES</b>		<u>3,180,538,897</u>	<u>38,672,908</u>			<u>3,838,204,052</u>
<b>TOTAL EQUITY, LONG-TERM FUNDS AND LIABILITIES</b>						
		<u>7,382,433,744</u>	<u>1,572,489,898</u>			<u>8,032,663,386</u>

The financial statements were approved by the Board of Directors on 18<sup>th</sup> March 2004 and signed on its behalf

*Nellius Kariuki*

Nellius Kariuki

Director

*William P. Mayaka*

William P. Mayaka

Director

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**KENYA REINSURANCE CORPORATION LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

<b>INCOME</b>			2002 KShs.
Investment income	Note 23(a)		343,067,510
Profit/(loss) transferred from the underwriting revenue account (page 31)			(23,696,939)
Profit before taxation	24		319,370,571
Taxation	21		(67,707,259)
Profit for the year			251,663,312
Earnings Per Share	25		2.52

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2003**

	Note	Share capital KShs.	Capital & Contingency reserves KShs.	Revaluation reserves KShs.	Fair value adjustments	Retained earnings KShs.	Proposed dividends KShs.	Total KShs.
At 1 January 2002		500,000,000	60,405,772	102,214,627	-	1,767,327,738	-	2,429,948,137
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	-
Realisation of 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
At 1 January 2003		1,000,000,000	60,405,772	62,601,109	-	1,496,448,386	50,000,000	2,669,455,267
Profit for the year	19	-	-	-	-	554,458,978	-	554,458,978
Final dividend for 2002	19	-	-	-	-	(50,000,000)	-	(50,000,000)
Proposed dividends 2003	19	-	-	-	-	(100,000,000)	100,000,000	-
Fair value adjustment of quoted investments	13	-	-	-	856,623,787	-	-	856,623,787
Realisation of revaluation reserves	13	-	-	(29,120,300)	-	29,120,300	-	-

**KENYA REINSURANCE CORPORATION LIMITED**  
**CASHFLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

	2003 KShs	2002 KShs
Cash flow from operating activities: -		
Net profit before tax	319,370,571	
Adjustments for: -		
Change in fair value of quoted shares	(173,350,322)	
Depreciation	55,956,946	
Amortisation of lease	157,895	
Amortisation of software	-	
Gain on sale of shares	(1,294,941)	
Gain on sale of property & equipment	(12,551)	
Movement in provisions: -		
Increase in unearned premiums	17,919,275	
Decrease in outstanding claims	(613,593,353)	
Movement in funded business:-		
Increase in life fund	169,117,029	
Increase in general fund	15,641,694	
Operating profit/ (loss) before working capital changes	(210,087,757)	
(Increase)/ decrease in amounts due from cedants & reinsurers	93,242,251	
Decrease/ (increase) in sundry debtors	(62,173,018)	
Decrease in amounts due to reinsurers & cedants	201,956,592	
Decrease in inventories	106,039,095	
Decrease in sundry creditors	(20,624,239)	
Cash generated from operations	108,352,924	
Tax paid	(28,945,260)	
Net cash from operating activities	79,407,654	
Cash flows from investing activities:-		
Purchase of property & equipment	(12,153,754)	
Purchase of intangible assets	-	
Proceeds on sale of property & equipment	2,624,772	
Net sale/ (purchase) of shares	21,933,728	
Purchase of government securities	(120,370,399)	
Mortgage loans redeemed	95,740,777	
Net cash used in investing activities	(12,224,876)	
Cash flows from financing activities		
Dividends paid on ordinary shares	(69,000,000)	
Net increase in cash & cash equivalents	67,182,788	
Cash & cash equivalents at the beginning of the year	126,670,378	
Cash & cash equivalents at the end of the year (Note 26)	193,853,166	

**KENYA REINSURANCE CORPORATION LIMITED**  
**GENERAL INSURANCE REVENUE ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

	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.
Gross Premium	17,203,809	182,627,831	3,443,723	899,059,504	62,516,307	217,635,909	176,250,838	14,314,574	106,549,240	100,800	1,339,206,591
Less: Reinsurance				127,872,688	1,576,167	5,487,056	4,443,652	360,900	2,686,329	2,541	(108,637,462)
Net Written Premium	17,203,809	182,627,831	3,443,723	771,186,816	60,940,140	212,148,853	171,807,186	13,953,673	103,862,911	98,259	1,230,569,129
Unearned Premium Brought forward	1,950,067	60,593,620	637,122	144,473,049	24,675,623	60,291,952	50,879,984	21,306,040	29,347,206	69,451	376,304,841
Unearned Premium Carried forward	6,193,052	65,742,634	666,282	179,740,667	20,824,946	72,497,179	58,711,307	4,768,359	35,492,853	33,578	394,224,114
Net Earned Premium	12,960,824	117,478,818	3,392,458	735,941,303	64,790,818	199,943,626	163,975,865	30,491,354	97,717,264	134,132	1,212,649,856
Claims Paid	4,460,016	47,345,507	90,102	23,522,984	28,480,975	99,149,856	80,295,781	6,521,387	48,541,354	45,922	1,261,591,698
Claims Outstanding At Year End	26,316,874	817,733,087	1,309,533	296,948,467	146,731,000	97,164,470	82,123,530	517,178,339	90,805,972	1,814,661	2,078,125,933
Claims Outstanding Beginning of Year	26,316,874	817,733,087	1,309,533	296,948,467	146,731,000	97,164,470	82,123,530	517,178,339	90,805,972	1,814,661	2,691,719,286
Total Claims Incurred	4,460,016	47,345,507	90,102	23,522,984	28,480,975	99,149,856	80,295,781	6,521,387	48,541,354	45,922	647,998,345
Commissions Management Expenses	4,823,586	18,985,188	900,850	263,118,981	14,087,653	78,080,231	43,234,263	3,010,100	39,053,846	10,080	388,119,371
	2,006,101	21,295,860	401,566	104,837,500	7,289,899	25,378,081	20,552,252	1,669,193	12,424,490	11,754	200,229,079
Total Expenses	11,289,703	87,626,555	1,392,517	391,479,465	49,858,527	202,608,168	144,082,295	11,200,680	100,019,690	67,756	1,236,346,795
Underwriting Profit/ (Loss)	1,671,121	89,852,262	1,999,941	344,461,837	14,932,290	(2,664,542)	19,893,570	19,290,674	(2,302,427)	66,376	(23,696,939)

**KENYA REINSURANCE CORPORATION LIMITED**  
**LIFE REVENUE ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

	Note	Ordinary KShs.	Super annuation KShs.	2002 KShs.	Total 2002 KShs.
Gross premium		34,381,534	290,110,533		238,928,197
Less: Reinsurance		-	(63,234,148)		-
Net premium		34,381,534	226,876,385		238,928,197
Claims incurred		(12,450,746)	(105,009,391)		(128,481,280)
Commission		(7,469,989)	(63,001,770)		(47,647,590)
Management expenses		(1,106,990)	(9,340,752)		(15,828,534)
		(21,027,725)	(177,351,913)		(191,957,404)
Underwriting profit		13,353,809	49,524,472		46,970,793
Investment income	23(b)	12,651,421	106,701,883		122,146,236
Provision for taxation	21	26,005,230	156,226,355		169,117,029
		(1,221,675)	(10,308,465)		(17,875,684)
Increase in life funds		24,783,555	145,917,890		151,241,345
Funds at the beginning of the year		443,715,159	919,400,386		1,211,874,200
Funds at the end of the year		468,498,714	1,065,318,276		1,363,115,545

**KENYA REINSURANCE CORPORATION LIMITED**  
**GENERAL INSURANCE - FUNDED REVENUE ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

	<b>Marine KShs.</b>	<b>Aviation KShs.</b>	<b>Total 2003 KShs.</b>	<b>Total 2002 KShs.</b>
Gross premium	116,823,568	15,633,067	132,456,635	129,898,635
Reinsurance	(18,735,919)	-	(18,735,919)	(12,225,000)
Net premium written	98,087,649	15,633,067	113,720,716	117,673,635
Claims paid	(42,388,741)	(4,086,777)	(46,475,518)	(48,259,635)
Commission	(40,482,310)	(2,240,886)	(42,723,196)	(35,668,310)
Management expenses	(12,690,989)	(2,362,720)	(15,053,709)	(18,103,510)
	(95,562,040)	(8,690,383)	(104,252,423)	(102,031,510)
Increase in funds	2,525,609	6,942,684	9,468,293	15,641,635
Funds balance at beginning of the year	130,741,889	31,146,633	161,888,522	146,246,835
Funds balance at end of the year	133,267,498	38,089,317	171,356,815	161,888,522



**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**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 investment properties and available for sale financial assets measured at fair value and held-to-maturity investments measured at amortised cost.

**b) Change in Accounting Policy**

The Corporation adopted IAS 39 (financial instruments; recognition and measurement). Adoption of IAS 39 involved the following change in accounting policy as detailed in that Standard. Changes in fair value of available for sale financial assets are recorded as a separate component of equity. Any impairment is transferred to profit and loss account. Previously, fair value gains (losses) arising on investments held by the general business were processed through the profit and loss account and that in respect of long term business dealt with in the life fund. Comparative amounts have not been restated.

**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 year after accounting for unearned premium. Unearned premiums represent that proportion of net premiums written in the year that are attributable to future risks and are determined on the basis of 40% of net premiums written.
- Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated cost of settling all claims arising from incidents occurring prior to the balance sheet date but not settled at that date. Outstanding claims are computed on the basis of the information available at the time the records for the period are closed and include provision for claims incurred but not reported (IBNR) in respect of Motor, Fire and Accident business calculated at 5% of gross premium written less reinsurances.
- Acquisition costs representing commissions (net of commission receivable) are allocated to the revenue accounts as incurred in each class of business.

**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ii) Long Term Insurance Business**

- Management expenses are allocated in the ratio of premium written for each class of business.
- The full annual premium income is recognised in respect of both individual and group life insurance making provisions for policy lapses and other terminations on policy anniversary date.
- 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 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 their respective insurance fund. The funds so created are subject to unsettled claims and unexpired claims and are reassessed annually to ensure that balances are adequate to meet these costs.

**d) Computer Software Development Costs**

Costs associated with maintaining computer software programmes are recognised as an expense incurred. However expenditure that enhances or extends the benefits of computer software beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Software development costs recognised as assets are amortised using the straight-line method over a period of four years.

**e) Inventories**

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 less estimated costs necessary to make the sale.

**f) Investment Properties**

Investment properties are treated as long-term investments and are stated at fair value. The Corporation has considered current prices of property in similar locations 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 the general business, and through the Long term business revenue account for assets attributable to the Long term business. 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 is charged or credited to the profit and loss account for investments property held by short term business and to the Long term business for investment property held by the long term business.

**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**m) Foreign Currency Transactions**

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date, which are expressed in foreign currencies, are translated into Kenya Shillings at rates ruling at 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.

**n) 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.

**o) 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.

**p) 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 and loss account in the period to which they relate.

**q) Employee Entitlements**

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

**r) Dividends**

Dividends are charged to equity in the year in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**i) Financial Assets (continued)**

- 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 amortised cost.
- iii) Securities issued by the Kenya Government are classified as held-to-maturity investments. 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.

**j) Originated loans and provisions for loan impairment**

Mortgages originated by the corporation through provision of houses directly to the borrower are categorised as loans originated by the corporation and are carried at amortised cost. All mortgages are recognised when the house is sold to the borrower.

Specific provision is made against mortgages considered to be doubtful of recovery. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows including amounts recoverable from collateral discounted at the effective interest rates of the mortgages.

**k) 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.

**l) Cash and cash equivalents**

Cash and cash equivalents are defined as cash on hand, demand deposit and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**3. PREPAID LEASE RENTALS**

	2003 KShs.	2002 KShs.
Balance brought forward (net)	13,263,158	13,263,158
Amortisation	(157,895)	(157,895)
Net book value at 31 December	13,105,263	13,105,263

Prepaid lease rentals relate to the cost of leasehold land

**4. INTANGIBLE ASSETS**

Additions	-
Amortisation	-
Net amount at 31 December	-

**5. GOVERNMENT SECURITIES**

Securities maturing:	
Within 91 days	354,954,044
After 91 days	36,950,000
After one year - five years	791,961,931
	1,183,865,975

Treasury bonds amounting to KShs 428,050,000 are held under lien by the commissioner of insurance.

**6. AVAILABLE FOR SALE - FINANCIAL ASSETS**

	2003 KShs.	2002 KShs.
i) Quoted Ordinary Shares		
At 1 January 2003	370,856,837	370,856,837
Fair value gain	173,808,743	173,808,743
Additions	-	-
Disposal of shares	(20,638,787)	(20,638,787)
	524,026,793	524,026,793
ii) Investment in Unquoted Shares.		

These relate to general business and the movement during the year is as follows: -

At 1 January 2003	150,982,630
Fair value losses	(458,421)
End of Year	150,524,209

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
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**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**7. LOANS SECURED BY MORTGAGES ON REAL PROPERTY**

	2003 KShs.	2002 KShs.
Mortgages Maturing:		
Within 1 year	55,627,509	55,627,509
In 1-5 years	111,255,018	111,255,018
After 5 years	41,529,207	41,529,207
Gross mortgages	208,411,734	208,411,734
Classified into:		
Staff mortgages	157,608,644	157,608,644
Commercial mortgages	50,803,090	50,803,090
Less: Maturing within one year (Note 11)	208,411,734 (55,627,509)	208,411,734 (55,627,509)
	152,784,225	152,784,225

**8. INVESTMENT PROPERTIES**

Fair Value Amount	4,205,991,473
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- i) These comprise of office building held to earn rentals and capital appreciation and land acquired for development of office property and housing projects.

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 losses arising from the revaluation were charged to the profit and loss account.

- ii) Included in investment properties 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 owner 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.

**9. INVENTORIES**

Houses available for sale	602,782,593
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**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**10. AMOUNTS DUE FROM CEDANTS & REINSURERS**

Local companies  
 International companies

Less: provision for bad & doubtful debts

**11. SUNDRY DEBTORS**

Mortgage arrears  
 Rent arrears  
 Privatisation costs  
 Other debtors  
 Interest receivable on deposits  
 Mortgage Loans maturing within one year (Note 7)

**12. SHARE CAPITAL**

Authorised, issued and fully paid:  
 100,000,000 ordinary shares of KShs.10 each

**13. RESERVES**

Revaluation reserves  
 Fair value adjustment on quoted investments  
 Capital reserves  
 Contingency reserves

	2003 KShs.	2002 KShs.
Local companies	282,615,685	282,615,685
International companies	201,461,810	201,461,810
	484,077,495	484,077,495
Less: provision for bad & doubtful debts	(183,835,250)	(183,835,250)
	300,242,245	300,242,245
<b>11. SUNDRY DEBTORS</b>		
Mortgage arrears	105,034,610	105,034,610
Rent arrears	31,533,728	31,533,728
Privatisation costs	128,617,856	128,617,856
Other debtors	46,232,801	46,232,801
Interest receivable on deposits	2,106,296	2,106,296
Mortgage Loans maturing within one year (Note 7)	55,627,509	55,627,509
	369,152,800	369,152,800
<b>12. SHARE CAPITAL</b>		
Authorised, issued and fully paid: 100,000,000 ordinary shares of KShs.10 each	1,000,000,000	1,000,000,000
<b>13. RESERVES</b>		
Revaluation reserves	62,601,109	62,601,109
Fair value adjustment on quoted investments	-	-
Capital reserves	10,784,528	10,784,528
Contingency reserves	49,621,244	49,621,244
	123,006,881	123,006,881

**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**14. STATUTORY AND GENERAL FUNDS**

**a) i) Statutory funds**

Ordinary life fund  
 Super annuation  
 At 31 December 2003

2003 KShs.	2002 KShs.
443,715,159	443,715,159
919,400,386	919,400,386
<b>1,363,115,545</b>	<b>1,363,115,545</b>

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. The latest actuarial valuation of the life fund was carried out by NBC Kenya Consulting actuaries as at 31<sup>st</sup> December 2003 and according to the valuation, the fund had a surplus of KShs 680,148,382. No transfer has been made from life fund to the profit and loss account.

**ii) Actuarial liability**

Class of business	Sums at Risk KShs.	Annual office Premium KShs.	Actuarial Liability KShs.
Ordinary Life Business	5,501,000	24,144,000	12,072,055
Group Life Business	60,347,000	245,788,000	122,894,247
Treaty Business	1,986,000	16,279,000	8,139,372
Supplementary Benefits	6,663,000	14,675,000	7,337,279
AIDS Reserve	-	-	425,070,064
Claims Equalisation Reserve	-	-	18,298,273
Contingency Reserve	-	-	259,857,318
<b>Total</b>	<b>74,497,000</b>	<b>300,886,000</b>	<b>853,668,608</b>

**iii) Actuarial valuation**

Liabilities	KShs.	Assets	KShs.
Actuarial Liability	853,668,608	Life Fund	1,533,816,990
Surplus	680,148,382		-
	<b>1,533,816,990</b>		<b>1,533,816,990</b>

**b) General fund**

Marine  
 Aviation

2003 KShs.	2002 KShs.
130,741,889	130,741,889
31,146,633	31,146,633
<b>161,888,522</b>	<b>161,888,522</b>

The fund represents a reserve maintained within the short-term business and does not constitute a statutory fund.



**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**15. OUTSTANDING CLAIMS**

Provision for Outstanding Claims

2002  
KShs.

2,078,125,933

**16. UNEARNED PREMIUMS**

Unearned premiums

394,224,116

**17. DEFERRED TAX**

Excess of wear and tear tax allowance over depreciation  
Other temporary differences

17,784,896

28,782,477

46,567,373

**18. BANK OVERDRAFT**

The Corporation has an overdraft facility with Kenya Commercial Bank of KShs.15,000,000. The facility is secured by a lien over fixed deposits of KShs. 20 million. The weighted average interest rate during the year was 5%.

**19. DIVIDENDS PAYABLE**

At 1 January 2003  
Provision during the year

2002  
KShs.

120,000,000

At 31 December 2003

120,000,000

Proposed dividends

50,000,000

Dividend per share (KShs)

0.5

(i) A final dividend of KShs 1.00 per share (2002: KShs 0.50) has been proposed and the amount has been shown as a separate component of equity at 31 December 2003.

(ii) Dividend per share is arrived at by dividing the total dividends by the number of shares in issue at the balance sheet date.

**20. AMOUNTS DUE TO REINSURERS AND CEDANTS**

Due to cedants  
Due to Reinsurers

2002  
KShs.

315,695,669

534,863,860

850,559,529

**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**21. TAXATION**

a) Balance sheet

Balance brought forward	
Charge for the year - General Business	
- Life Business	
Paid during the year	

2003 KShs.	2002 KShs.
22,928,858	22,928,858
54,879,023	54,879,023
17,875,684	17,875,684
(28,945,260)	(28,945,260)
66,738,305	66,738,305
48,862,621	48,862,621
12,828,236	12,828,236
61,690,857	61,690,857
6,016,402	6,016,402
67,707,259	67,707,259
17,875,684	17,875,684

b) Profit & loss account

Current tax at 30% on the taxable profit for the year:-	
Revenue account	
Deferred tax (credit)/charge	
Under provision in prior years	

Life account

c) Reconciliation of the tax expense

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

Accounting profit before taxation

Tax applicable rate of 30%	
Tax effects of: -	
Tax effects on items not deducted for tax	
Originating and reversing temporary differences	
(Over)/under-provision in prior years	

2003 KShs.	2002 KShs.
319,370,571	319,370,571
95,811,171	95,811,171
26,704,411	26,704,411
(60,824,725)	(60,824,725)
6,016,402	6,016,402
67,707,259	67,707,259
98,471,174	98,471,174
9,874,917	9,874,917
169,568,926	169,568,926
277,915,017	277,915,017

**22. SUNDRY CREDITORS**

Investment creditors	
Accrued leave pay	
Other creditors and accruals	

**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**23. INVESTMENT INCOME**

**a) General Profit & Loss Account**

	2003 KShs.	2002 KShs.
Change in fair value of quoted shares		173,808,739
Loss on sale of houses	(61,505,490)	(61,505,490)
Rent	176,265,728	176,265,728
Interest	83,556,703	83,556,703
Dividends	45,954,108	45,954,108
Gain on sale of shares	1,294,941	1,294,941
Other Income	19,751,618	19,751,618
Apportioned Management Expenses	(96,058,837)	(96,058,837)

**343,067,510**

**b) Long Term Insurance Business Investment Income**

Rent	30,518,670	30,518,670
Interest	91,627,566	91,627,566

**122,146,236**

**24. PROFIT BEFORE TAXATION**

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

Depreciation	55,956,946	55,956,946
Amortisation of leasehold land	157,895	157,895
Amortisation of intangible assets	-	-
Salaries and wages	143,825,456	143,825,456
Pension costs-defined benefits plan	11,547,803	11,547,803
Social security costs	247,000	247,000
Auditors' remuneration	2,700,000	2,700,000
Directors' emoluments	6,307,000	6,307,000

And after crediting: -

Interest income	83,556,703	83,556,703
Dividend income	46,585,760	46,585,760
Gain on sale of equity shares	1,294,941	1,294,941
Gain on disposal of property & equipment	12,551	12,551

**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.

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**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**26 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:-

Cash and bank balances  
Short term deposits  
Bank overdraft

2003 KShs.	2002 KShs.
40,346,384	40,346,384
157,580,561	157,580,561
(4,073,779)	(4,073,779)
193,853,166	
	23,100,000
	11,210,000

**27. CAPITAL COMMITMENTS**

Authorised & contracted for  
Approved but not contracted for

**28. CONTINGENT LIABILITIES**

The Corporation has issued guarantees to various third parties amounting to KShs 1,497,000 (2002: KShs 620,000).

The Corporation is a defendant in legal suits relating to third parties and a former employee with an estimated potential liability of KShs 2,384,799. No provision has been made in these financial statements as the directors are of the opinion that the liability will not crystallise.

**29. 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:-

- a) Directors and staff
- i) Transactions with Directors

The executive members of the Board of Directors received remuneration totalling KShs. 6,279,000 (2002 - KShs. 4,675,000). The non -executive members received fees totalling KShs. 1,860,000 (2002 - KShs. 1,632,000).

- ii) Loans to staff

2003 KShs.	2002 KShs.
157,608,640	157,608,640

Interest income on these loans was KShs. 7,846,420 (2002- KShs. 8,838,814).

**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**30. RELATED PARTY TRANSACTIONS (Continued)**

iii) Loans to Directors	2003 KShs.	2002 KShs.
Loans to ex-directors	271,043	-
Loans to existing directors	5,420,867	5,420,867
	5,420,867	5,420,867

Interest earned on these loans was KShs. 608,116 (2002 – KShs. 271,043). Loans to staff and directors are secured by mortgage on real property and interest is charged as per the terms of contract.

b) Transaction with related companies	2003 KShs.	2002 KShs.
i) Net premium written	24,266,040	24,266,040
ii) Claims incurred	14,246,980	14,246,980

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: -

	2003 KShs.	2002 KShs.
Amounts due from related parties	3,817,924	3,817,924
Amounts due to related parties	-	-

**31. SEGMENT INFORMATION**

The core activity of the corporation is carrying out general and long-term reinsurance business. It also carries out investment business. Thus the corporation's activities could be organised into two business segments, namely reinsurance and investment business.

The information on reinsurance business i.e general and long-term is disclosed in the general business and funded business revenue accounts. The revenue accounts are part of the primary financial statements while information on the investing activities is shown in note 23 to the financial statements.

# LIQUIDITY RISK

The Corporation in its normal trading activities receives claims from ceding companies however it does not maintain cash resources to meet these needs since from experience, premium collections and investment maturities can be predicted to meet settlement requirements. The Corporation has undrawn borrowing facilities to cover unexpected settlements.

Assets	up to 1 Month KShs	1 - 3 Months KShs	3 -12 Months KShs	1 -5 Years KShs	Over 5 Years KShs	Total KShs
Property & Equipment	-	-	-	-	-	283,007,611
Prepaid Lease	-	-	-	-	12,947,368	12,947,368
Intangible Assets	-	-	-	4,988,214	-	4,988,214
Government Securities	-	429,986,111	162,031,194	904,572,143	-	1,496,589,448
Available for Sale	-	-	490,174,549	904,639,110	-	1,394,813,6
Financial Assets						
Loans Secured by						
Mortgages on Real						
Property	-	-	-	129,782,060	90,017,894	219,799,954
Investment Properties	-	-	-	-	4,205,991,473	4,205,991,473
Cash & Bank Balances	39,681,300	-	-	-	-	39,681,300
Short Term Deposits	-	251,210,429	-	-	-	251,210,429
Inventories	-	-	-	446,703,259	-	446,703,259
Amounts due from						
cedants & Reinsurers	-	-	352,318,527	-	-	352,318,527
Sundry Debtors	-	-	246,872,400	-	-	246,872,400
<b>Total Assets</b>	<b>39,681,300</b>	<b>681,196,540</b>	<b>1,251,396,670</b>	<b>2,390,684,786</b>	<b>4,308,956,735</b>	<b>8,954,923,642</b>
<b>Equity, Long-term</b>						
<b>Funds and liabilities</b>						
Shareholders Funds	-	-	-	-	4,030,538,032	4,030,538,032
Life Funds	-	-	-	-	1,533,816,990	1,533,816,990
General Funds	-	-	-	-	171,356,815	171,356,815
Outstanding Claims	-	-	-	762,048,845	1,316,077,088	2,078,125,933
Unearned Premiums	-	-	-	-	444,670,857	444,670,857
Deferred Tax	-	-	-	-	4,555,968	4,555,968
Dividends Payable	-	120,000,000	-	-	-	120,000,000
Amounts due to						
Reinsurers and Cedants	-	-	83,399,697	129,939,387	-	213,339,084
Tax Payable	-	135,018,610	-	-	-	135,018,610
Sundry Creditors	-	-	143,000,000	80,501,353	-	223,501,353
<b>Total Equity Long-term</b>						
<b>Funds and Liabilities</b>	<b>-</b>	<b>255,018,610</b>	<b>226,399,697</b>	<b>972,489,585</b>	<b>7,501,015,750</b>	<b>8,954,923,642</b>
<b>Net Liquidity Gap</b>	<b>39,681,300</b>	<b>426,177,930</b>	<b>1,024,996,973</b>	<b>1,418,195,201</b>	<b>(3,192,059,015)</b>	<b>0</b>

The matching and controlled mismatching of the assets and liabilities is fundamental to the management of the Corporation. It is unusual for reinsurance companies to be completely matched since business transacted is often of uncertain terms and of different types. Unmatched position potentially enhances profitability, but can also increase risk of losses. The maturities of assets and liabilities are important factors in assessing the liquidity of the Corporation and its exposure to changes in interest rates and exchange rates.

**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**33. INTEREST RATE RISK**

The Corporation is exposed to the effects of fluctuations in the prevailing levels of market interest rates. Any unexpected movements may result to gains or losses. The table below summarizes the exposure to interest rates on the Corporation's assets and liabilities (at carrying amounts), which are categorized by either contractual repricing or maturity dates.

	1 - 3 Months Kshs.	3 - 12 Months Kshs.	1 - 5 Years Kshs.	Over 5 Years Kshs.	Non Interest Bearing Kshs.	Total Kshs.
<b>Assets</b>						
Property & Equipment	-	-	-	-	283,007,611	283,007,611
Prepaid Lease	-	-	-	-	12,947,368	12,947,368
Intangible assets	-	-	-	-	4,988,214	4,988,214
Government Securities Available for Sale	429,986,111	162,031,194	904,572,143	-	-	1,496,589,448
Financial Assets	-	-	-	-	1,394,813,659	1,394,813,659
Loans secured by mortgages on Real Property	-	-	129,782,060	90,017,894	-	219,799,954
Investment Property	-	-	-	-	4,205,991,473	4,205,991,473
Cash & Book Balances	-	-	-	-	39,681,300	39,681,300
Short Term Deposits	251,210,429	-	-	-	-	251,210,429
Inventories	-	-	-	-	446,703,259	446,703,259
Amounts due from Cedants & Reinsurers	-	-	-	-	352,318,527	352,318,527
Debtors	-	-	-	-	246,872,400	246,872,400
<b>Total Assets</b>	<b>681,196,540</b>	<b>162,031,194</b>	<b>1,034,354,203</b>	<b>90,017,894</b>	<b>6,987,323,811</b>	<b>8,954,923,642</b>
<b>Equity, Long-term Funds &amp; Liabilities</b>						
Share Holders Funds	-	-	-	-	4,030,538,032	4,030,538,032
Life Funds	-	-	-	-	1,533,816,990	1,533,816,990
General Funds	-	-	-	-	171,356,815	171,356,815
Outstanding Claims	-	-	-	-	2,078,125,933	2,078,125,933
Unearned Premium	-	-	-	-	444,670,857	444,670,857
Deferred Tax	-	-	-	-	4,555,968	4,555,968
Dividends Payable	-	-	-	-	120,000,000	120,000,000
Amounts due to Reinsurers & Cedants	-	-	-	-	213,339,084	213,339,084
Tax Payable	-	135,018,610	-	-	-	135,018,610
Sundry Creditors	-	-	-	-	223,501,353	223,501,353
<b>Total equity, long-term funds and liabilities</b>	<b>-</b>	<b>135,018,610</b>	<b>-</b>	<b>-</b>	<b>8,819,905,032</b>	<b>8,954,923,642</b>
<b>Interest sensitivity gap</b>	<b>681,196,540</b>	<b>27,012,584</b>	<b>1,034,354,203</b>	<b>90,017,894</b>	<b>(1,832,581,221)</b>	

**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**CURRENCY RISK**

The Corporation operates within and outside Kenya and its transactions in foreign Currencies are converted into Kenya Shillings at rates ruling at the transactions dates while its assets and liabilities at the Balance Sheet date which are expressed in foreign currency are translated into Kenya Shillings at rates ruling at that date. The various currencies to which the Corporation was exposed at 31 December 2003 are summarized in the table below.

<b>ASSETS</b>	<b>KShs.</b>	<b>US\$.</b>	<b>OTHER</b>	<b>TOTAL (KShs.)</b>
Property & Equipment	283,007,611	-	-	283,007,611
Prepaid Lease	12,947,368	-	-	12,947,368
Intangible Assets	4,988,214	-	-	4,988,214
Government Securities	1,496,589,488	-	-	1,496,589,488
Available-for-Sale financial Assets	1,394,813,659	-	-	1,394,813,659
Loans Secured by Mortgages on Real Property	219,799,954	-	-	219,799,954
Investment Properties	4,205,991,473	-	-	4,205,991,473
Cash & Bank Balances	11,867,841	23,695,941	4,117,518	39,681,300
Short Term Deposits	28,087,758	147,489,366	75,633,305	251,210,429
Inventories	446,703,259	-	-	446,703,259
Amounts Due from cedants & Reinsurers	226,695,695	125,622,832	-	352,318,527
Sundry Debtors	246,872,400	-	-	246,872,400
<b>Total Assets</b>	<b>8,578,364,720</b>	<b>296,808,139</b>	<b>79,750,823</b>	<b>8,954,923,642</b>
<b>Equity, Long-term Funds &amp; Liabilities</b>				
Shareholders Funds	4,030,538,032	-	-	4,030,538,032
Life Funds	1,533,816,990	-	-	1,533,816,990
General Funds	171,356,815	-	-	171,356,815
Outstanding Claims	1,612,028,440	466,097,493	-	2,078,125,933
Unearned Premiums	344,936,780	99,734,077	-	444,670,857
Deferred Tax	4,555,968	-	-	4,555,968
Dividends payable	120,000,000	-	-	120,000,000
Amounts due to Reinsurers & Cedants	151,271,274	53,538,896	8,528,914	213,339,084
Tax Payable	135,018,610	-	-	135,018,610
Sundry Creditors	223,501,353	-	-	223,501,353
<b>Total Equity, Long-term Funds &amp; Liabilities</b>	<b>8,327,024,262</b>	<b>619,370,466</b>	<b>8,528,914</b>	<b>8,954,923,642</b>
<b>Sensitivity Gap</b>	<b>251,340,458</b>	<b>(322,562,327)</b>	<b>71,221,909</b>	<b>0</b>

In the opinion of the Directors, the Corporation's foreign currency exposure has been adequately managed to minimize its adverse effects and there is no risk arising from foreign currency transactions.



**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**34. CURRENCY RISK**

The Corporation operates within and outside Kenya and its transactions in foreign Currencies are converted into Kenya Shillings at rates ruling at the transactions dates while its assets and liabilities at the Balance Sheet date expressed in foreign currency are translated into Kenya Shillings at rates ruling at that date. The various currencies in which the Corporation was exposed at 31 December 2003 are summarized in the table below.

<b>ASSETS</b>	<b>KShs.</b>	<b>US\$.</b>	<b>OTHER</b>	<b>TOTAL</b>
Property & Equipment	283,007,611	-	-	283,007,611
Prepaid Lease	12,947,368	-	-	12,947,368
Intangible Assets	4,988,214	-	-	4,988,214
Government Securities	1,496,589,488	-	-	1,496,589,488
Available-for-Sale financial Assets	1,394,813,659	-	-	1,394,813,659
Loans Secured by Mortgages on Real Property	219,799,954	-	-	219,799,954
Investment Properties	4,205,991,473	-	-	4,205,991,473
Cash & Bank Balances	11,867,841	23,695,941	4,117,518	39,681,299
Short Term Deposits	28,087,758	147,489,366	75,633,305	251,210,429
Inventories	446,703,259	-	-	446,703,259
Amounts Due from cedants & Reinsurers	226,695,695	125,622,832	-	352,318,527
Sundry Debtors	246,872,400	-	-	246,872,400
<b>Total Assets</b>	<b>8,578,364,720</b>	<b>296,808,139</b>	<b>79,750,823</b>	<b>8,954,923,682</b>
<b>Equity, Long-term Funds &amp; Liabilities</b>				
Shareholders Funds	4,030,538,032	-	-	4,030,538,032
Life Funds	1,533,816,990	-	-	1,533,816,990
General Funds	171,356,815	-	-	171,356,815
Outstanding Claims	1,612,028,440	466,097,493	-	2,078,125,933
Unearned Premiums	344,936,780	99,734,077	-	444,670,857
Deferred Tax	4,555,968	-	-	4,555,968
Dividends payable	120,000,000	-	-	120,000,000
Amounts due to Reinsurers & Cedants	151,271,274	53,538,896	8,528,914	213,339,084
Tax Payable	135,018,610	-	-	135,018,610
Sundry Creditors	223,501,353	-	-	223,501,353
<b>Total Equity, Long-term Funds &amp; Liabilities</b>	<b>8,327,024,262</b>	<b>619,370,466</b>	<b>8,528,914</b>	<b>8,954,923,642</b>
<b>Sensitivity Gap</b>	<b>251,340,458</b>	<b>(322,562,327)</b>	<b>71,221,909</b>	

In the opinion of the Directors, the Corporation's foreign currency exposure has been adequately managed to minimize its adverse effects and there is no risk arising from foreign currency transactions.

**KENYA REINSURANCE CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**35. COMPARATIVES**

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

**36. CURRENCY**

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

**37. EMPLOYEES**

The number of employees for the Corporation during the year was 101 (2002: 102)

**38. INCORPORATION**

The Corporation is incorporated in Kenya under the Companies Act.

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**TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 2002**

DETAILS	FIRE	ACCIDENT	MARINE	AVIATION	MOTOR	LIFE	TOTAL
	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
Facultative	32,592,926	15,672,196		-	-	-	48,262,122
Local Inward Treaties	425,167,239	466,385,405	85,532,107	3,821,672	156,359,219	236,052,654	1,373,318,296
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

**TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 2003**

DETAILS	FIRE	ACCIDENT	MARINE	AVIATION	MOTOR	LIFE	TOTAL
	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
Facultative	35,447,591	25,865,109	3,560,858	-	-	-	64,873,558
Local Inward Treaties	641,524,228	469,512,348	67,573,473	3,656,977	179,839,214	321,546,526	1,683,652,766
Direct Ins/Mortgages	1,327,298	633,543	-	-	-	2,945,541	4,906,382
International Inward Treaties	224,204,110	81,356,924	45,689,292	11,976,090	19,992,426	5,575,277	383,218,531
<b>Total</b>	<b>902,503,227</b>	<b>577,367,613</b>	<b>116,823,623</b>	<b>15,633,067</b>	<b>199,831,640</b>	<b>324,492,067</b>	<b>2,366,651,737</b>

**TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 2001**

DETAILS	FIRE	ACCIDENT	MARINE	AVIATION	MOTOR	LIFE	TOTAL
	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
Facultative	17,977,459	12,241,795	2,387,155		-	-	32,606,409
Local Inward Treaties	351,348,796	452,473,314	65,315,074	4,206,564	145,286,309	249,358,079	1,262,492,794
Direct Ins/ Mortgages	1,719,707	613,601	-	-	126,223	1,734,065	4,193,596
International Inward Treaties	115,855,603	16,664,447	17,407,712	6,781,132	9,045,389	-	165,154,283
<b>Total</b>	<b>486,901,565</b>	<b>601,393,157</b>	<b>85,109,941</b>	<b>10,987,698</b>	<b>154,457,921</b>	<b>251,092,144</b>	<b>1,461,447,009</b>

**TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 1999**

DETAILS	FIRE	ACCIDENT	MARINE	AVIATION	MOTOR	LIFE	TOTAL
	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	1,214,150,615
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	-	244,451,482
<b>Total</b>	<b>510,465,907</b>	<b>614,870,108</b>	<b>74,407,849</b>	<b>35,916</b>	<b>150,511,104</b>	<b>214,685,193</b>	<b>1,507,833,108</b>

**TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 2000**

DETAILS	FIRE	ACCIDENT	MARINE	AVIATION	MOTOR	LIFE	TOTAL
	KSHS	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	921,426,338
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
<b>Total</b>	<b>1,294,725,494</b>	<b>903,066,201</b>	<b>79,601,317</b>	<b>3,570,858</b>	<b>60,774,098</b>	<b>227,639,736</b>	<b>1,708,538,704</b>

**TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 1998**

DETAILS	FIRE	ACCIDENT	MARINE	AVIATION	MOTOR	LIFE	TOTAL
	KSHS	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	9,918,794
International Inward Treaties	71,855,634	17,327,636	22,150,564	4,059,119	18,575,721	-	133,968,673
<b>Total</b>	<b>445,653,002</b>	<b>16,156,307</b>	<b>141,768,702</b>	<b>42,155,489</b>	<b>102,639,688</b>	<b>209,572,565</b>	<b>1,130,882,572</b>



# TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 1997

DETAILS	FIRE	ACCIDENT	MARINE	AVIATION	MOTOR	LIFE	TOTAL
	KSHS	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	-	55,177,047
<b>Total</b>	<b>2,418,983,106</b>	<b>2,865,981,690</b>	<b>57,498,573</b>	<b>2,805,386</b>	<b>99,019,555</b>	<b>130,829,284</b>	<b>3,107,769,996</b>

# TREATY AND FACULTATIVE PREMIUM INCOME FOR THE YEAR 1996

DETAILS	FIRE	ACCIDENT	MARINE	AVIATION	MOTOR	LIFE	TOTAL
	KSHS	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	887,625,953
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
<b>Total</b>	<b>518,250,807</b>	<b>412,099,254</b>	<b>354,206,184</b>	<b>15,751,554</b>	<b>92,105,554</b>	<b>195,473,377</b>	<b>982,057,440</b>