
Kenya Re
The symbol of Reinsurance service and security

Kenya Re

# 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 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
- Integrity
- Development of hu
- Social responsibili
- Concern for the en

Kenya Re

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# LETTER OF TRANSMITTAL

Kenya Re

Hon Amos Kimunya
Minister for Finance
The Treasury
P.O. Box 30007
Nairobi
Kenya

Hon Minister,

I have the honour to submit the Annual Report and Audited Financial Statements of Kenya Reinsurance Corporation Limited for the financial year ended 31st December 2005 which have been certified by the Auditor in accordance with the Insurance Act Cap 487.

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

Charles N. Kebuchi
Chairman

## Directors, Officers and Administration

Directors

| | |
|---|---|
| Charles N. Kebuchi | Chairman |
| Johnson J. Githaka | Managing Director |
| J. K. Kinyua | Permanent Secretary, Treasury |
| Esther Koimett | Alternate to J. K. Kinyua |
| Nelius Kariuki | |
| William P. Mayaka | |
| Charles O. Ogalo | |
| Jacob Haji Ali | |
| Dr. Iruki Kailemia | |

Corporation Secretary
J. F. Otieno (Mrs)
Reinsurance Plaza, Taifa Road
P.O. Box 30271
00100 Nairobi GPO

Auditors
KPMG Kenya
16th Floor, Lonrho House
Standard Street
P.O. Box 40612
00100 Nairobi GPO

Bankers
Kenya Commercial Bank Limited
Moi Avenue
P.O. Box 30081
Nairobi

National Bank of Kenya Limited
Harambee Avenue
P.O. Box 41862
00100 Nairobi GPO

Bank of Africa Kenya Limited
Reinsurance Plaza, Taifa Road
P.O. Box 69562 - 00400
Nairobi

Registered Office
Reinsurance Plaza
Taifa Road
P. O. Box 30271
00100 Nairobi GPO

Consulting Actuaries
Alexander Forbes Financial Services
(East Africa) Limited
9th Floor, Nation Centre
Kimathi Street
P.O. Box 52439
00200 Nairobi, City Square

Subsidiaries
Kenya Re Properties Limited
P.O. Box 30271
00100 Nairobi GPO

Wedco Limited
P.O. Box 30271
00100 Nairobi GPO

Citibank N. A
Citibank House
P. O. Box 30711
00100 Nairobi GPO

Lloyds TSB Bank PLC
72 Fenchurch Street
London
EC3P3EH
United Kingdom

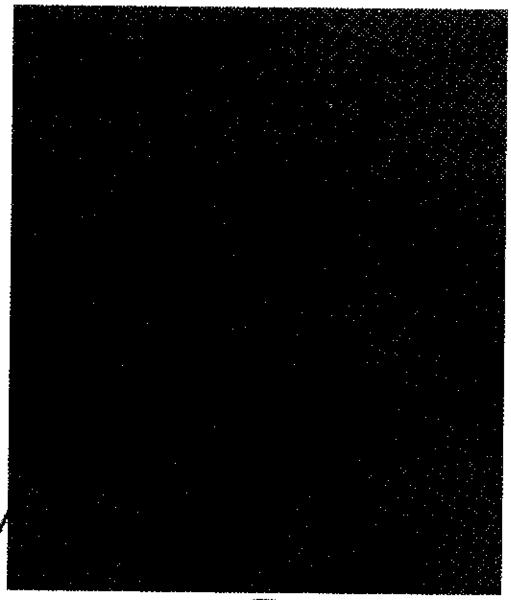
Solicitors
Hamilton Harrison and Mathews
ICEA Building, Kenyatta Avenue
P.O. Box 30333
Nairobi

Rachier & Amollo Advocates
Reinsurance Plaza, Taifa Road
P.O. Box 55645
00100 Nairobi GPO

Kenya Re

# BOARD OF DIRECTORS

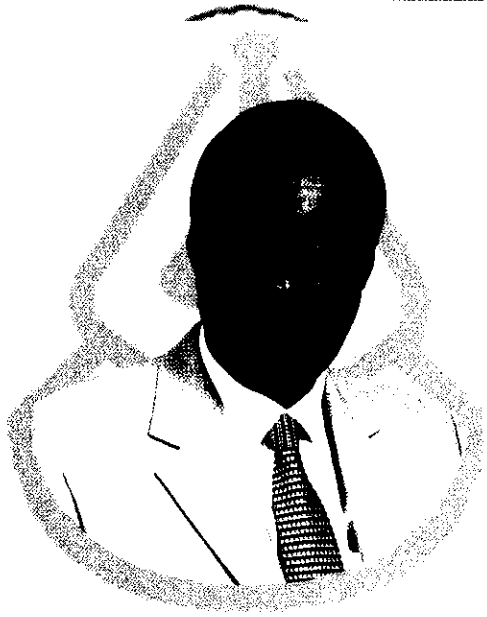
**Johnson J. Githaka**
**Managing Director**



**Nelius Kariuki**
**Director**

**Charles Ogalo**
**Director**

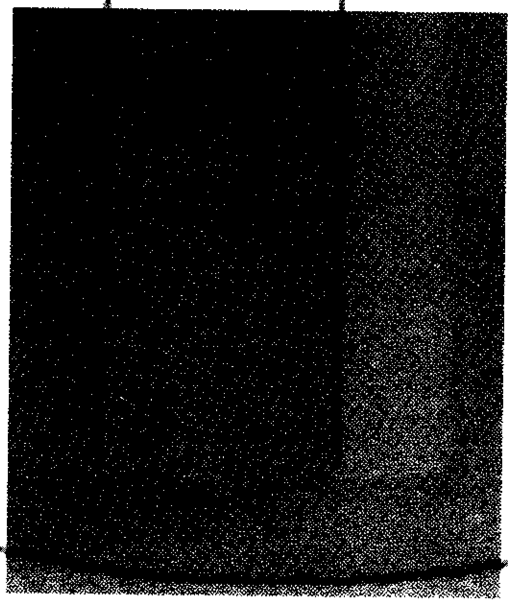
**Jacob Ali Haji**
**Director**



**Charles N. Kebuchi**
**Chairman**

**Dr. Iruki Kailemia**
**Director**

**William P. Mayaka**
**Director**



**Joseph K. Kinyua**
**Permanent Secretary (Treasury)**

**Esther Koimet**
**Alt. Permanent Secretary (Treasury)**

# MANAGEMENT TEAM

| | |
|---|---|
| Managing Director | Johnson J. Githaka |
| Director (Reinsurance Operations) | Evans A. Jumba |
| Director (Finance & Corporate Services) | John F. Kinyua |
| Director (Property & Investments) | Michael J. Mbeshi |
| Company Secretary | Jane F. Otieno |
| Assistant Director (Reinsurance Operations) | Jadiah M. Mwarania |
| Manager (International Business) | Erastus Muchiri |
| Manager (Strategy & Business Development) | Mark O. Okeyo |
| Manager (Local Business) | Samuel C. Mweni |
| Manager (Administration) | Esther N. Kimanzi |
| Manager (Human Resource) | Sally W. Kangethe |
| Manager (Risk & Compliance) | Michael K. Wamathai |
| Manager (Life Business) | Nancy Njakai |
| Chief Accountant | John K. Mbugua |
| Deputy Manager (Investment) | Nyakundi Mogere |
| Deputy Manager (Property) | Consolata W. Kihara |
| Deputy Manager (ICT) | Peter W. Wakwabubi |
| Deputy Manager (ICT) | George K. Njuguna |
| Assistant Manager (ICT | Charles O. Abebe |
| Assistant Manager (Investments) | William K. Cheruiyot |
| Assistant Manager (Corporate Affairs) | Mary Mwendwa |
| Assistant Manager (Human Resource) | David Kichoge |
| Assistant Manager (Property) | John K. Rika |
| Assistant Manager (Property) | Simeon K. Rono |

# OUR BUSINESS PRINCIPLES

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

**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:

**To Share Holder**

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

**To Employees**

To provide its employees with good 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.

**To Our Cedants & Retrocessionaries**

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

**To Society**

To carry out its 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.

**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 between their private financial activities and their part in the conduct of the Corporation's business. The Corporation, for both ethical and legal reasons, adheres to the strict principles of relating to the legality of payments and to the integrity and accuracy of all its records. Staff found indulging in improper practice relating to financial interests, collusion and malpractice are liable to severe disciplinary measures.

Kenya Re shall act commercially and operate within existing national laws in a social responsible manner but avoiding participation in any political matters. However, it is its legitimate right and responsibility to speak out publicly on matters that affect the interests of its employees, customers and shareholder, on matters of general interest where there are useful contributions to make.

# OUR BUSINESS PRINCIPLES

Where employees in their capacity as citizens wish to engage in activities in the community, including election to public office, Kenya Re will give consideration to each employee's wish to do so where it is appropriate and does not adversely affect the corporation operations and there is no conflict with the stated business principles.

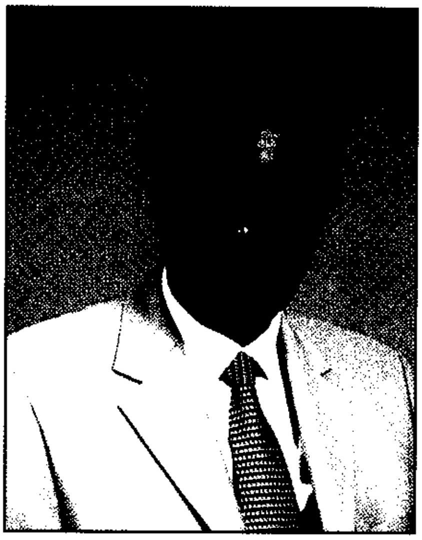
**Competition**

Business decisions are based essentially on commercial criteria where profitability and strong financial base are the key drivers. Kenya Re does not make payments to political parties, organizations or their representatives..

**Communication**

Kenya Re subscribes to the need for communications and provides relevant information about its activities to legitimately interested parties subject to any overriding consideration of confidentiality and cost.

# CHAIRMAN'S STATEMENT



Once again, I have the pleasure to present the Annual Report and Accounts of Kenya Reinsurance Corporation Ltd covering the year ended 31st December 2005. As the Corporation marked the 34th year of its existence, I am delighted to note that it has continued to maintain a track record of profitability and a consistent upward trend in the value of total assets.

**Business Environment**

Development in the different regions of the world was diverse with fairly mixed growth performance.

In the local scene, the economic reforms initiated by the government in 2003 continued in 2005, thus enhancing macro economic stability, boosting investment climate and restoring external competitiveness. As a result, the economy registered an impressive 5.2% growth rate compared to 4.3% in 2004.

The key sectors of the economy showed remarkable performance in terms of real GDP as exemplified by agriculture, tourism and financial sectors.

The overall growth in the Nairobi Stock Exchange was lower than 2004 when both the activity and share price reached unexpected peak levels.

**Trading Results**

I am happy to report that the Corporation continued to make profits notwithstanding substantial charges occasioned by the strengthening of the Kenya Shilling.

Profits before tax were Sh.681 million compared with Sh.564 million in 2004 representing a 21% growth. After providing Sh.212 million as Corporation Tax payable, net profit for the year was Sh. 469 million compared to Sh452.5 million previous year.

The movement in profitability is represented by investment income and underwriting performances. Domestic interest rates tended to edge downwards during 2005 in line with the movement in the yield on Treasury Bills. Against this background, the Corporation recorded satisfactory performance in investment income, registering Sh.273 million as compared to Sh.217 million the previous year. It is important to note that after considering the circumstances of some investments, the Board decided to write them off in year 2004.

**Investment Portfolio**

Besides pursuit of profits, our other objective is to maintain quality assets in our balance sheet.

The investment portfolio closed at Sh.7,765 million which represents a 6% upward movement in investments during the year.

It is notable that Properties continued to form a significant portion of our total investment, constituting 42% down from 50% in 2004.

The balancing of the investment portfolio underlines our commitment to continue offering a solid and dependable security.

The Board has therefore taken the decision to significantly disinvest in this category and consequently a number of attractive properties have been put in the market. These include residential flats located in South C and South B of Nairobi popularly known as 'Plainsview', Mombasa Reinsurance Plaza and the Kenya Re Sports Complex.

Interesting offers have already been received and it is expected that the sale will have been concluded by end of July 2006.

### Dividend, Reserves and Shareholders Fund

The Corporation has been able to weather the various challenges inherent in the reinsurance business. This has been possible because of sound policies and sensitivity in dealing with our cedants, reinsurers and the shareholder.

In line with the foregoing, the Board of Directors has recommended a dividend of Sh.150 million to be paid out of the 2005 profits. Consequently the shareholder's equity increased to Sh. 5,694 compared to Sh.4,366 million at the close of year 2004.

### Future Prospects

Looking ahead, the potential for continued fast growth in Kenya remains strong. The momentum now in place to sustain the reform agenda and maintain the macro economic stability is all that we need.

The impetus of liberalization in the various economic areas will result in a new global economic order. However, the likely resultant policy anomalies must be addressed to avoid encouraging importation of reinsurance cover as opposed to increased local retention coupled with reasonable exportation of these services.

Individual choices are expected to encourage increased premium inflows from outside the country while retaining premium share of the business generated from within.

We at Kenya Re will continue to emphasize quality and profitability over volume of business in order to enhance returns to the shareholder.

In the midst of the challenging future, our clients, shareholders and employees remain central to the overall strategy. It is our intention that we enhance the initiatives relating to our client satisfaction by emphasizing on efficiency. We shall continue to work together with the cedants and the office of the Commissioner of Insurance for the benefit of the insurance fraternity and policy holders.

### Human Resources

We lay great stress on our human resources as we appreciate that success largely depends on the quality and organization of our personnel.

### Employee Involvement and Training

Management and staff relations remain very good. The Corporation's employees are not affiliated to any Industrial Union. The Corporation maintains continuous communications with, employees through circulars and regular divisional and sectional meetings.

Staff training and development have been pursued through enhanced job scope and responsibilities as well as relevant functional and management course and seminars.

### Staff Welfare

The Corporation maintains a panel of doctors and hospitals from where staff and their immediate families access health care services.

All our staff are covered for under various insurance policies and are members of the company's retirement benefit scheme.

Kenya Re

## Disabled Employees

There were no disabled persons in the employment of the company during the year. The Corporation however, continues to maintain a non-discriminatory policy in respect of employment of otherwise qualified but disabled persons.

## Appreciation

Let me take this opportunity to thank most sincerely the Government, Cedants, Brokers and Retrocessionaires for their unwavering support. We do not take this for granted and assure you of our commitment to improve continuously the quality of our service levels.

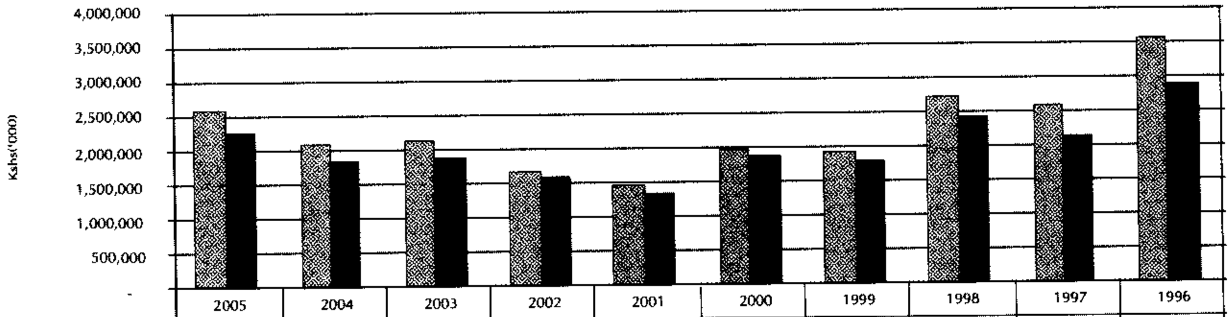
The commitment, loyalty and efficiency exhibited by our staff in the performance of their duties is exemplary. I thank them all.

Charles N. Kebuchi

Chairman

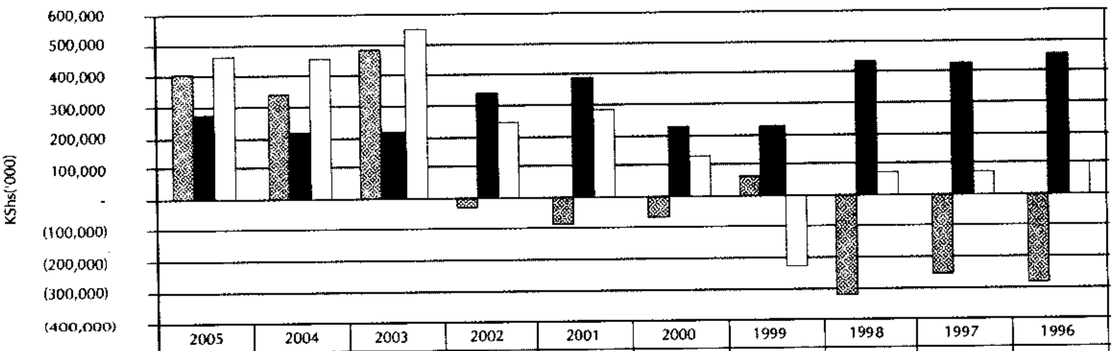
Kenya Re

## Gross / Net Premiums Written



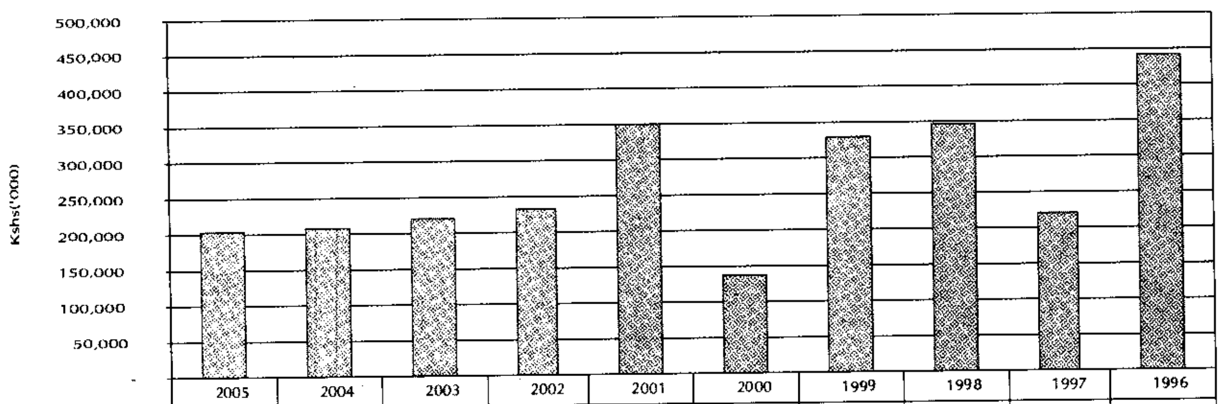

| | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross Premium Written | 2,590,222 | 2,084,289 | 2,136,651 | 1,708,033 | 1,464,447 | 1,965,778 | 1,953,117 | 2,727,252 | 2,597,599 | 3,544,089 |
| Net Premium | 2,288,843 | 1,870,187 | 1,912,250 | 1,587,170 | 1,350,264 | 1,909,838 | 1,806,637 | 2,421,021 | 2,154,082 | 2,900,747 |

## Underwriting / Investments Performance



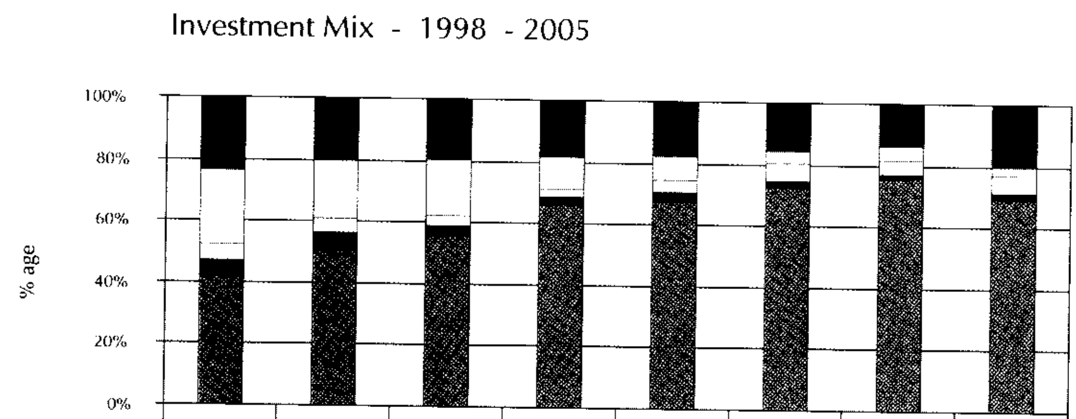

| | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|---|---|---|---|---|
| Underwriting Profit | 408,707 | 347,010 | 487,201 | (23,696) | (80,252) | (61,362) | 67,358 | (319,93 | (253,33 | (282,93 |
| Investment Income | 272,657 | 216,628 | 222,019 | 343,067 | 392,223 | 226,715 | 230,908 | 440,145 | 423,989 | 455,891 |
| Net Profit (Loss) - After Tax | 469,058 | 452,503 | 554,458 | 251,663 | 289,940 | 138,573 | (224,62 | 78,341 | 79,512 | 105,070 |

## Management Expenses

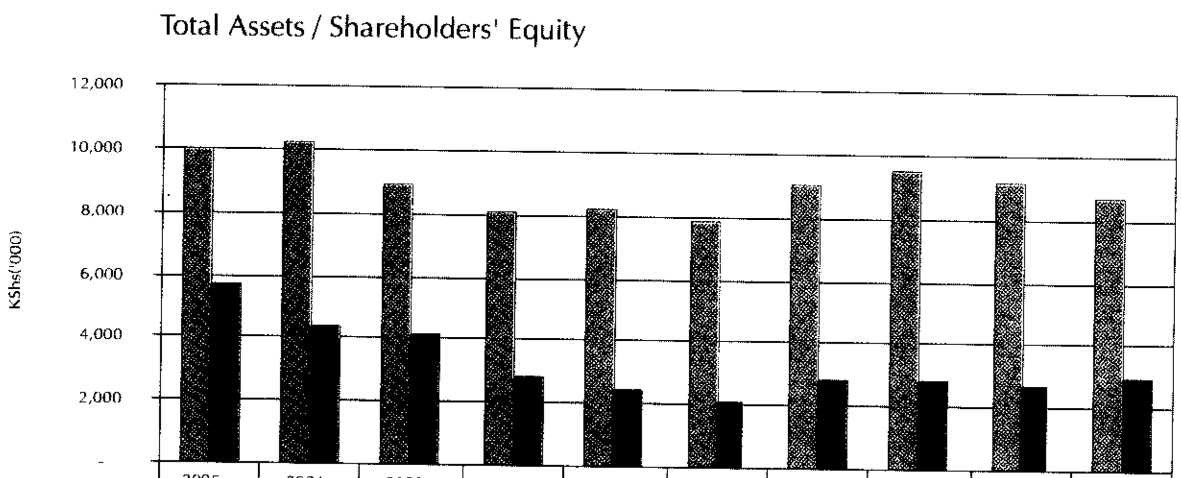



| | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|---|---|---|---|---|
| Management Expenses | 201,260 | 207,137 | 221,367 | 234,161 | 348,179 | 135,663 | 328,147 | 342,924 | 220,341 | 439,458 |

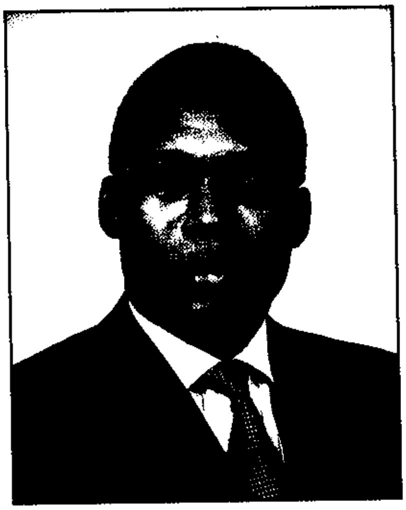
# GRAPHS




| | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|---|---|
| Government Securities | 23.68% | 20.10% | 19.80% | 18.00% | 17.60% | 15.80% | 14.00% | 20.00% |
| Marketable Securities | 24.04% | 19.20% | 18.40% | 10.70% | 8.10% | 4.10% | 4.00% | 3.00% |
| Mortgage Loans | 5.06% | 4.20% | 2.90% | 2.50% | 3.90% | 5.40% | 5.00% | 6.00% |
| Fixed Deposits | 5.12% | 6.10% | 3.30% | 2.50% | 2.80% | 1.90% | 1.00% | 2.00% |
| Rental Properties & Land | 42.10% | 50.40% | 55.60% | 66.30% | 67.60% | 72.80% | 76.00% | 69.00% |




| | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 10,041 | 10,293 | 8,954 | 8,032 | 8,173 | 7,849 | 9,095 | 9,495 | 9,173 | 8,745 |
| Shareholder's Equity | 5,694 | 4,366 | 4,201 | 2,831 | 2,458 | 2,159 | 2,783 | 2,818 | 2,703 | 3,011 |



## BUSINESS HIGHLIGHTS

The International Reinsurers all over the world had an unparalleled burden of natural catastrophe losses. The European and American reinsurers suffered the financial damage resulting from year 2005's continental European floods and Atlantic hurricane Katrina,Rita and Wilma, while the Middle East, Asia and African reinsurers suffered the Moonson, Skida Complex and Tsunami losses.

The above low frequency and unprecedented string of natural catastrophes and terrible human tragedies served to remind insurance and reinsurance companies that they are in the business of taking risks. It is expected that the renewal price of reinsurance treaties will remain stable while those affected by the catastrophes in Europe, America and Asia and earthquake tremor in East and Central Africa will have substantial price increases. Towards this end, a re-look at risk prices, terms and conditions may require attention by all concerned.

On the local scene, the economy grew by 5.2% during the year and the growth was attributed to improved performance in the various sectors of the economy. As a result of prudent monetary policy implementation during the year, domestic interest rates and inflation remained stable. The Nairobi Stock Exchange index increased by a significant 29% margin . The Kenya shilling appreciated against the US dollar and Sterling Pound by 7% and 15% respectively.

The Corporation will continue to dialogue and play a leading role on new product developments , emerging risks, discouraging unethical industry practices such as risk under pricing and under scoring the importance of full utilization of local reinsurance capacity before exporting risks.

The year 2005 results reflect a satisfactory underwriting performance . We are convinced that our business strategy is appropriate and coupled with our sound financial strength and strong service record together with the expertise from our dedicated team, we shall continue to serve our cedants and reinsurers better.

The consistent and improving results achieved is a testament and proof of our strong profitability and good portifolio diversification.

Coupled with the above , we have sufficient liquidity to meet all forseen needs, and have taken steps to further improve our liquidity inorder to meet contingencies and business opportunities that may arise.

The reinsurance market is expected to harden particularly in relation to catastrophes in the East and Central Africa following the earth tremor that rocked the region in year 2005. This means that the cost of catastrophe covers may increase.

## GENERAL BUSINESS PERFORMANCE

During the year under review, we continued the premium growth pattern momentum despite strong competition emanating from new reinsurance companies entrants within the region.

The growth in international business maintained the year 2004 momentum to contribute 31% of total written premiums in year 2005. During the year, we wrote business from 33 countries in Africa , Middle East and Asia where we participated in treaties from 116 companies outside Kenya.

In general business, the gross written premiums increased by 22% from Sh.1,823 Million realised in year 2004 to Sh.2,225 Million in year 2005. The major areas of growth were the optional portion and facultative offers which represented 48% and 11% of gross premiums written .

Total reinsurances increased from Sh.194 Million incurred in year 2004 to Sh.260 Million in year 2005.

In terms of profitability, the underwriting profit improved by 18% from Sh.347 Million achieved in year 2004 to Sh.409 Million in year 2005. The International business segment continued to improve and contribute significantly to the profitability.

Our overall general business results were heavily impacted by the losses from the Asian Tsunami, Maharash Moonson Floods in India and Skida Complex claims.

**LIFE BUSINESS**

In addition to Hiv/Aids threat which currently characterize the Life business, a new threat which insurance and reinsurance companies have to face is the bird flu though concerted efforts and control measures are being put in place by World Health Organisations and Governments.

Life insurers and their reinsurers having concentrations of mortality risk are most likely to be hardest hit by the H5N1 bird flu pandermic. Its important to note that apart from obvious heath risks associated with the bird flu outbreak, a pandermic may precipitate an economic crises in countries it occurs.

During the year, the Life Gross premiums increased by 48% from Sh.261 Million realised in year 2004 to Sh.388 Million in year 2005. The long term business realized an underwriting surplus and investment income of Sh.35.7 Million and Sh.123.1 Million respectively during the year.

The significant growth was attributable to local insurance companies support to which we are sincerely thankful and venturing into regional markets.

**INVESTMENTS PERFORMANCE**

Our Investments performance results including the capital gains realized amounted to Sh.278.8 Million in year 2005 compared to Sh.476.3 Million achieved in year 2004. The decline in results were attributable to lower participation in the Nairobi Stock Exchange as compared to year 2004. However, the returns on investments continue to show improvements year on year since 2001.

The investment portfolio grew by 6% from Sh.7,333.8 Million in year 2004 to Sh.7,765.5 Million in 2005. The major areas of growth were the Government Securities which increased by Sh.367.5 Million and Nairobi Stock Exchange quoted shares by Sh. 313.3 Million.

The optimal management of investments is geared to meeting all the obligations as they fall due and achieving an attractive return to the shareholder.

**FINANCIAL POSITION**

Kenya Re's assets increased by 15% from Sh. 10,293 Million in previous year to Sh.11,745 Million in year 2005.

Significant increases were noted in marketable securities, Government securities and mortgages which increased by 33%, 25% and 28% from Sh.1,403 Million, Sh,1,471.2 Million and Sh.306 Million in previous year to Sh.1,866.8 Million,Sh.1,838.7 Million and Sh.392.7 Million in year 2005 respectively. The increases were attributable to the vibrancy witnessed in the Nairobi Stock Exchange during the year and the conscious investment effort of matching the increasing business with liquid or near liquid assets.

Term deposits and real estate both declined by 11% to Sh.397.3 Million and Sh.3,270 Million respectively. The decrease resulted from realignment of investment where term deposits maturities were invested in Government securities and some selected real estate assets were identified for disposal and transferred to inventories.

Kenya Re

| Investment Assets | 2005 | 2004 | 2003 |
|---|---|---|---|
| **For the Years ending 31 December** | **Ksh(millions)** | **Ksh(millions)** | **Ksh(millions)** |
| Term Deposits | 397.3 | 447.9 | 251.2 |
| Marketable Securities | 1,866.8 | 1,403.0 | 1,394.8 |
| Government Securities | 1,838.7 | 1,471.2 | 1,496.6 |
| Mortgages | 392.7 | 306.0 | 276.9 |
| Real Estate | 3,270.0 | 3,682.5 | 4,205.9 |
| **TOTAL** | **7,765.5** | **7,310.6** | **7,625.4** |

## LIABILITIES AND SHAREHOLDERS' EQUITY

The total liabilities increased from Sh.4,247.1 Million to Sh.4,347.4 Million and which was primarily attributable to unearned premium reserves. This was in tandem with increased business recorded during the year.

The shareholders' funds rose from Sh.4,366.1 Million in previous year to stand at Sh.5,694.1 Million . The increase was occasioned by the improved performance and the transfer of Marine and Aviation funded business accounts to shareholders' equity inorder to comply with the International Financial Reporting Standard.

| Liabilities and Equity | 2005 | 2004 | 2003 |
|---|---|---|---|
| **For the Years ending 31 December** | **Ksh(millions)** | **Ksh(millions)** | **Ksh(millions)** |
| Reserves for Outstanding Claims | 1,916.7 | 1,989.9 | 2,078.1 |
| Unearned Premium Reserves | 532.6 | 355.3 | 444.6 |
| Unpaid Payables | 1,898.1 | 1,901.9 | 691.8 |
| Total Liabilities | 4,347.4 | 4,247.1 | 3,219.2 |
| **Total Shareholder's Funds** | **5,694.1** | **4,366.1** | **4,030.5** |

## SOCIAL RESPONSIBILITY

Our social responsibility program is an integral part of the business planning process guided by the principles of sustainability, community empowerment and capacity building.

## HUMAN RESOURCE

At the heart of our continuing success is a team of highly competent and committed people whose motivation is drawn by unrelenting focus on our vision and mission as well as targeted business and personal growth.

We are committed to providing an environment in which each employee is given the opportunity to fully realize their potential to achieve individual, team and Corporate growth objectives.

We have put in place a performance management and appraisal system as a basis of identifying and supporting talent within the Corporation. Our training programme, both local and overseas are competency based.

We have continued to retain motivated and performance focused employees who are always willing to take on stretched performance target in order to increase shareholder value.

Kenya Re

## EMPLOYMENT EQUITY

We are committed to the philosophy that supports equality of all employees. Any form of discrimination in the workplace is strongly discouraged.

## GLOBAL RATING

An interactive rating exericise was done by A.M. Best who confirmed the Corporation's B+ (very good) rating.

## OUR CLIENTS

During the year, the Corporation in partnership with our brokers and cedants, organized a number of insurance forums and seminars both locally and regionally on a variety of insurance issues. The seminars which dealt with emerging insurance challenges, developments, and opportunities ensured continued sharing and transfer of insurance knowledge within the region.

We do sincerely thank our cedants and reinsurers for business support and cooperation accorded to us and which enabled the Corporation achieve the impressive year 2005 results.

To our members of staff, the Corporation is much aware that the successful performance achieved has depended entirely on the skills, competence and commitment of its employees. Let us continue with the same spirit of hard work , dedication and team spirit.

**J.J GITHAKA**

Date: 15th March 2006

# REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2005 which disclose the state of affairs of the Corporation.

**Principal activities**

The principal activities of the Corporation are the transaction of all classes of reinsurance business and investment activities.

**Results for the year**

The results of the company for the year are set out on Page 5.

**Dividends**

The directors recommend the payment of a dividend of KShs 150 million (2004 – KShs 150 million).

**Directors**

The directors of the Corporation who served since 1 January 2005 are set out on Page 1.

**Auditors**

The auditors, KPMG Kenya, who were appointed during the year in place of Ernst & Young, have indicated their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap 486).

Approval of financial statements

The financial statements were approved at a meeting of the Directors held on

BY ORDER OF THE BOARD

Jane Otieno (Mrs)
Corporation Secretary

Date: 15th March 2006

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the 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 company 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 Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the 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.

Charles Ogalo

Director

WMayaka

William Mayaka

Director

Date: 15th March 2006

## Role of Non-Executive Board Directors

The non-executive members of the Board are not involved in the day to day operations of the company. They are independent of management and free of relationships and other interests which could be perceived to interfere materially with the exercise of judgment in the best interest of the company and are able to bring objective judgment to the assessment of management and the merits of their initiatives. The primary role of non-executives is to make a positive contribution to the leadership of the company as equal Board members, their distinctive role lies in reviewing the performance of the executive and taking the lead where conflicts of interest arise.

The Board met at least once every two months during the year 2005.

## Responsibilities of the Board Committees

### Audit Committee

The Committee reviews the compliance reports and evaluates the effectiveness of the internal control systems.

In performing its duties, the committee maintains an effective working relationship with the Board of Directors, Management, the Risk and Compliance function and the external auditors.

The Committee assists the Board to fulfill its corporate governance responsibilities and in particular to;

- Improve the quality of financial reporting,
- Strengthen the effectiveness of the risk and compliance function,
- Strengthen the control environment,
- Increase the stakeholders' confidence in the credibility and standing of the company.

### Risk Management and Internal Controls

The Board recognizes that managing risks to ensure the optimal mix between risk and return is an integral part of achieving corporate goals. A risk management programme is in place to assist the Board in understanding business risk issues and key performance indicators affecting the ability of the Corporation to achieve its objectives.

The Board is satisfied that the risk management programme is adequate to effectively mitigate the significant risks faced by the Corporation to an acceptable level.

The directors have also defined procedures and financial controls to ensure that the Corporation's system of internal controls proves reasonable assurance that the assets are safeguarded, transactions are authorized and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time.

### Directors' Conflict of Interest

Directors are required to disclose all conflicts of interest to the Board and are excluded from voting on such areas.

They are all sensitized on the corporate governance issues.

### Creating and Maximising Shareholders Value

Creating shareholder value is the key function of the Board, management and staff of Kenya Re.

The Corporation recognizes that while protecting longer term interest of shareholders there should also be consideration on an effect this has on other stakeholders such as employees, clients, creditors.

In order to assure the shareholder of the commitment to activities that create and enhance shareholder value, the

Board signed a performance contract and continue to perform an annual evaluation exercise to review and audit its role and success or otherwise to meet the challenge committed to at the beginning of each year.

# BOARD COMMITTEES

The Committees as at the date of this report were:

| Audit Committee | Tender Committee | Staff Committee | Executive Management Committee |
|---|---|---|---|
| **Composition** | | | |
| - Three non-Executive directors,<br>- Manager (Risk & Compliance ) | - Three non-executive directors<br>- Managing Director<br>- Manager (Risk & Compliance)<br>- Director (Property & Investments)<br>- Director (Finance & Corporate Services)<br>- Director (Reinsurance perations)<br>- Manager (Admin. & Supplies)<br>- Corporation Secretary | - Two non-executive directors<br>- Corporation Secretary<br>- Director (Reinsurance Operations)<br>- Director (Property & Investment)<br>- Director (Finance & Corporate Services)<br>- Manager (Human Resources )<br>- Manager (Risk & Compliance ) | - Managing Director<br>- General Managers<br>- Managers |
| **Frequency Of Meetings Per Annum** | | | |
| Six and as when necessary | As and when necessary | As and when necessary | Monthly |
| Chairman | | | |
| Nelius Kariuki | Jacob A. Haji | J.F. Kinyua | J.J. Githaka |
| **Members** | | | |
| Catherine Kimura<br>Charles Ogalo<br>Esther Koimett | William Mayaka<br>Esther Koimett<br>Catherine Kimura<br>J. J. Githaka<br>J. F. Otieno<br>E. A. Jumba<br>M. Wamathai<br>M. Mbeshi<br>E. Kimanzi<br>J. F. Kinyua | Charles Ogalo<br>Jacob A. Haji<br>J. F. Otieno<br>E. Jumba<br>M. Wamathai<br>M. Mbeshi<br>E. Kimanzi | (See Page 5) |

Alexander Forbes

## Actuary's Certificate

I, James Israel Omanyala Olubayi of Alexander Forbes Financial Services (EA) Ltd, Nation Centre, 9th Floor, Kimathi Street, P. O. Box 52439 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 that Act as at 31 December 2005 do hereby certify as under:-

(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 it 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 valuation of assets adopted by me are, on the basis of the Auditor's certificates appended to the balance sheet, fully of the value so adopted.

..............................................

**James I. O. Olubayi**
**Fellow of the Institute of Actuaries**

KPMG

**KPMG Kenya**
**Certified Public Accountants**
16th Floor, Lonrho House, Standard Street
P. O. Box 40612 00100 GPO
Nairobi, Kenya

Tel: +254-20-2806000
Fax: +254-20-215695
Email: info@kpmg.co.ke

We have audited the financial statements set out on pages 27 to 54 for the year ended 31 December 2005. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. The financial statements are in agreement with the books of account.

**Respective responsibilities of directors and independent auditors**

As stated on page 21, the directors are responsible for the preparation of financial statements that give a true and fair view of the state of affairs of the Corporation and its operating results. Our responsibility is to express an opinion on the financial statements based on our audit.

**Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance as to whether 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. An audit also includes assessing the accounting policies used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. 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 give a true and fair view of the state of the Corporation's financial position at 31 December 2005 and of its operating results and cash flows for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act.

KPMG Kenya

Date: 15th March 2006

## PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 31 DECEMBER 2005

| Income | Note | 2005<br>KShs | 2004<br>Restated<br>Shs |
|---|---|---|---|
| Investment income | 2(a) | 278,798,520 | 476,332,391 |
| Profit transferred from the underwriting revenue account (Page 6) | | 408,707,214 | 47,010,607 |
| **Profit before taxation** | **3** | **687,505,734** | 5 **23,342,998** |
| Write off of Inventory | 4 | (6,141,698) | (259,704,327) |
| **Profit before tax** | | **681,364,036** | **63,638,671** |
| Income tax expense | 5 | (212,306,167) | (111,135,405) |
| Net profit for the year | | 469,057,869 | 52,503,266 |
| **Earnings per share** | **6** | **3.13** | **3.02** |

The notes set out on pages 13 to 32 form an integral part of the financial statements.

## GENERAL INSURANCE REVENUE ACCOUNT
## FOR THE YEAR ENDED 31 DECEMBER 2005

| | Motor private KShs | Motor commercial KShs | Fire domestic KShs | Fire industrial KShs | Personal accident KShs | Theft KShs | Miscellaneous KShs | Liability KShs | Engineering KShs | Workmen compensation KShs | Marine KShs | Aviation KShs | Total 2005 KShs | Total Restated 2004 KShs |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross premium | 3,850,799 | 160,740,725 | 17,647,483 | 1,003,449,894 | 61,707,071 | 284,254,682 | 166,217,580 | 76,484,625 | 135,683,770 | 1,030,314 | 299,577,964 | 14,502,269 | 2,225,147,176 | 1,823,379,801 |
| Less: reinsurances | - | - | - | 205,857,652 | 1,217,516 | 5,608,507 | 3,279,568 | 1,509,085 | 2,677,118 | 20,329 | 40,351,203 | - | 260,520,978 | 194,546,874 |
| Net written premium | 3,850,799 | 160,740,725 | 17,647,483 | 797,592,242 | 60,489,556 | 278,646,175 | 162,938,012 | 74,975,540 | 133,006,652 | 1,009,985 | 259,226,761 | 14,502,269 | 1,964,626,199 | 1,628,832,927 |
| Unearned premium b/f | 738,084 | 47,414,132 | 78,124 | 129,065,078 | 15,692,805 | 70,735,244 | 40,114,861 | 17,138,057 | 34,161,183 | 132,866 | - | - | 355,270,434 | 444,670,857 |
| Unearned premium c/f | 1,540,319 | 47,328,634 | 579,203 | 210,112,714 | 22,844,807 | 98,443,728 | 55,726,809 | 24,969,208 | 24,323,673 | 129,249 | 46,378,615 | 302,470 | 532,679,431 | 355,270,434 |
| Net earned premium | 3,048,563 | 160,826,222 | 17,146,404 | 716,544,606 | 53,337,553 | 250,937,691 | 147,326,064 | 67,144,389 | 142,844,163 | 1,013,603 | 212,848,145 | 14,199,798 | 1,787,217,202 | 1,718,233,350 |
| Claims paid | 10,865,090 | 27,737,041 | (2,526,672) | (477,631,266) | (24,303,537) | (142,144,216) | (72,629,599) | (11,856,053) | (28,323,550) | (9,622,119) | (22,098,653) | (6,525,179) | (759,058,714) | (917,399,869) |
| Claims recoverable | - | - | - | 121,545,075 | 193,957 | 893,468 | 522,454 | 240,406 | 426,481 | 3,238 | 65,001,392 | - | 188,826,472 | - |
| Claims o/s at year end | 10,812,264 | 694,574,295 | 150,879 | 249,259,859 | 69,712,730 | 314,229,793 | 178,203,730 | 76,133,026 | 151,755,488 | 590,238 | 133,267,498 | 38,089,317 | 1,916,779,118 | 1,989,906,738 |
| Claims o/s at beginning of year | 10,810,891 | 694,486,076 | 150,879 | 249,259,859 | 69,241,020 | 312,103,561 | 176,997,917 | 75,617,873 | 150,728,636 | 586,244 | 133,267,498 | 38,089,317 | 1,911,339,771 | 2,249,482,748 |
| Total claims incurred | 10,863,717 | 27,648,823 | (2,526,672) | (356,086,191) | (24,581,290) | (143,376,981) | (73,312,958) | (12,130,800) | (28,923,921) | (9,622,874) | 42,902,738 | (6,525,179) | (575,671,589) | (657,823,859) |
| Commissions payable | (108,281) | (5,673,436) | (6,518,524) | (303,046,841) | (15,372,798) | (81,284,381) | (54,264,344) | (20,439,837) | (42,906,499) | (208,240) | (80,635,331) | (4,153,931) | (614,612,442) | (520,008,399) |
| Commissions receivable | - | - | - | - | 69,088 | 318,253 | 186,098 | 85,633 | 151,912 | 1,154 | - | - | 812,136 | - |
| Management expenses | (360,934) | (15,066,167) | (1,654,092) | (94,052,977) | (5,783,781) | (26,643,083) | (15,579,511) | (7,168,875) | (12,717,589) | (96,570) | (9,850,275) | (64,238) | (189,038,092) | (193,390,485) |
| Total expenses | 10,394,502 | 6,909,219 | (10,699,289) | (753,186,009) | (45,668,781) | (250,986,192) | (142,970,715) | (39,653,879) | (84,396,097) | (9,926,531) | (47,582,867) | (10,743,348) | (1,378,509,987) | (1,371,222,743) |
| Underwriting profit(loss) | 13,443,065 | 167,735,443 | 6,447,116 | (36,641,402) | 7,668,772 | (48,501) | 4,355,349 | 27,490,509 | 58,448,065 | (8,912,928) | 165,265,278 | 3,456,450 | 408,707,214 | 347,010,607 |

The notes set out on pages 35 to 54 form an integral part of the financial statements.

## LIFE REVENUE ACCOUNT
## FOR THE YEAR ENDED 31 DECEMBER 2005

| | Note | Ordinary KShs | Super annuation KShs | Total 2005 KShs | Total 2004 KShs |
|---|---|---|---|---|---|
| Gross premium | | 34,883,129 | 352,707,190 | 387,590,319 | 260,934,487 |
| Reinsurance | | ( 5,512,401) | ( 57,860,736) | ( 63,373,137) | ( 19,629,286) |
| Net premium | | 29,370,728 | 294,846,454 | 324,217,182 | 241,305,201 |
| Claims incurred | | ( 5,388,115) | (184,744,558) | (190,132,673) | (155,475,924) |
| Commission | | ( 6,576,319) | ( 79,621,653) | ( 86,197,972) | ( 39,449,429) |
| Management expenses | | ( 1,107,186) | ( 11,114,806) | ( 12,221,992) | ( 13,747,000) |
| | | ( 13,071,620) | (275,481,017) | (288,552,637) | (208,672,353) |
| Underwriting surplus | | 16,299,108 | 19,365,437 | 35,664,545 | 32,632,848 |
| Investment income | 2(b) | 11,076,033 | 111,990,997 | 123,067,030 | 108,496,992 |
| | | 27,375,141 | 131,356,434 | 158,731,575 | 141,129,840 |
| Income expense | 5 | ( 1,017,759) | - | ( 1,017,759) | (16,590,169) |
| Increase in life funds | | 26,357,382 | 131,356,434 | 157,713,816 | 124,539,671 |
| Revaluation reserve | | - | ( 137,667,342) | ( 137,667,342) | - |
| Funds at the beginning of the year | | 500,469,945 | 1,157,886,716 | 1,658,356,661 | 1,533,816,990 |
| **Funds at the end of the year** | **22(a)** | **526,827,327** | **1,151,575,808** | **1,678,403,135** | **1,658,356,661** |

The notes set out on pages 35 to 54 form an integral part of the financial statements.

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2005

| 2004: | Note | Share capital KShs | Capital andcontingency reserves KShs | Revaluation reserves KShs | Fair value reserve KShs | Retained earnings KShs | Proposed dividends KShs | Total KShs |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2004 | | 1,000,000,000 | 60,405,772 | 33,480,809 | 856,623,787 | 1,980,027,664 | 100,000,000 | 4,030,538,032 |
| Net profit for the year | | - | - | - | - | 452,503,266 | - | 452,503,266 |
| Issuance of new shares | 19 | 500,000,000 | - | - | - | (500,000,000) | - | - |
| Final dividend for 2003 | 21 | - | - | - | - | - | (100,000,000) | (100,000,000) |
| Proposed dividends 2004 | | - | - | - | - | (150,000,000) | 150,000,000 | - |
| Change in fair value of quoted investments | 20 | - | - | - | 6,828,195 | - | - | 6,828,195 |
| Realisation of revaluation reserves | 20 | - | - | (24,228,955) | - | 24,228,955 | - | - |
| | | 1,500,000,000 | 60,405,772 | 9,251,854 | 863,451,982 | 1,806,759,885 | 150,000,000 | 4,389,869,493 |
| Prior year adjustment: | | | | | | | | |
| Defined benefit liability | 25 | - | - | - | - | (33,836,000) | - | (33,836,000) |
| Deferred tax | 11 | - | - | - | - | 10,150,800 | - | 10,150,800 |
| **At 31 December 2004 - Restated** | | **1,500,000,000** | **60,405,772** | **9,251,854** | **863,451,982** | **1,783,074,685** | **150,000,000** | **4,366,184,293** |

The notes set out on pages 35 to 54 form an integral part of the financial statements.

## CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

| | Note | 2005 KShs | 2004 KShs |
|---|---|---|---|
| Cash flow from operating activities | | | |
| Net profit before tax | | 681,364,036 | 563,638,671 |
| Adjustment for: | | | |
| Depreciation | | 50,937,245 | 48,686,450 |
| Amortisation of lease | | 157,894 | 157,895 |
| Amortisation of software | | 1,662,738 | 1,662,738 |
| Gain on foreign exchange | | 39,190,338 | ( 18,017,093) |
| Gain on sale of shares | | (40,792,428) | (233,154,351) |
| Equipment write off | | 17,727 | ( 7,110) |
| Movement in provisions | | | |
| (Decrease)/increase in unearned premiums | | 177,408,996 | (89,400,420) |
| Decrease in outstanding claims | | (73,127,570) | (338,142,977) |
| Movement in funded business | | | |
| Increase in life fund | | 158,731,575 | 141,129,840 |
| Increase in general fund | | - | 78,566,967 |
| Operating profit before working capital changes | | 995,550,551 | 155,120,610 |
| Decrease in inventories | | 390,190,238 | 414,056,801 |
| Decrease in Investment Properties | | | |
| Increase in amounts due from cedants and reinsurers | | (673,236,996) | (18,114,655) |
| Decrease in sundry debtors | | (23,889,981) | 137,784,028 |
| Decrease in sundry creditors | | (16,727,293) | (5,583,826) |
| Defined Benefit Liability | | (1,708,000) | - |
| Cash generated from operations | | 670,178,519 | 683,262,958 |
| Tax paid | | (58,061,575) | (396,880,733) |
| Net cash from operating activities | | 612,116,944 | 286,382,225 |
| Cash flows from investing activities | | | |
| Purchase of equipment | | 6,132,273 | (5,103,296) |
| Purchase of shares | | - | (20,499,395) |
| Sale of shares | | 61,404,679 | 252,263,905 |
| Net purchase of government securities | | (213,600,629) | (106,800,144) |
| Mortgage loans | | (163,493,437) | (29,030,833) |
| Net cash flow (used in)/from investing activities | | (309,557,114) | 90,830,237 |
| Cash flows from financing activities | | | |
| Dividends paid on ordinary shares | | (150,000,000) | (220,000,000) |
| Net increase in cash and cash equivalents | | 152,559,830 | 157,212,462 |
| Effect of foreign exchange differences | | (39,190,338) | 18,017,093 |
| Cash and cash equivalents at the beginning of the year | | 896,107,395 | 720,877,840 |
| Cash and cash equivalents at the end of the year | 28 | 1,009,476,887 | 896,107,395 |

The notes set out on pages 35 to 54 form an integral part of the financial statements.

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTINUED)

| | Note | Share capital KShs | Capital and contingency reserves KShs | Revaluation reserves KShs | Fair value adjustments KShs | Retained earnings KShs | Proposed dividends KShs | Total KShs |
|---|---|---|---|---|---|---|---|---|
| 2005: | | | | | | | | |
| At 1 January 2005 – as previously stated | | 1,500,000,000 | 60,405,772 | 9,251,854 | 863,451,982 | 1,806,759,885 | 150,000,000 | 4,389,869,493 |
| Prior year adjustment: | | | | | | | | |
| Defined benefit liability | 25 | - | - | - | - | (33,836,000) | - | ( 33,836,000) |
| Deferred tax | 11 | - | - | - | - | 10,150,800 | - | 10,150,800 |
| At 1 January 2005 - Restated | | 1,500,000,000 | 60,405,772 | 9,251,854 | 863,451,982 | 1,783,074,685 | 150,000,000 | 4,366,184,293 |
| Net profit for the year | | - | - | - | - | 469,057,869 | - | 469,057,869 |
| Final dividend for 2004 | 21 | - | - | - | - | - | (150,000,000) | (150,000,000) |
| Proposed dividends 2005 | | - | - | - | - | (150,000,000) | 150,000,000 | - |
| Change in fair value of quoted investments | 20 | - | - | - | 508,138,863 | - | - | 508,138,863 |
| Realisation of revaluation reserves | 20 | - | - | (22,286,071) | ( 23,737,990) | - | - | ( 46,024,061) |
| Transfer | | - | - | - | 259,824,970 | (259,824,970) | - | - |
| Revaluation of properties | | - | - | 409,128,659 | - | - | - | 409,128,659 |
| Revaluation deficit on properties | | | | | | | | |
| transferred to life | | - | - | 137,667,344 | - | - | - | 137,667,344 |

The notes set out on pages 35 to 54 form an integral part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standard, which comprise standards and interpretations approved by the International Accounting Standards Board. The financial statements have been prepared on historical cost basis, except for investment properties and available for sale financial assets measured at fair value. Other financial assets and liabilities and non-financial assets are stated at amortised cost or historical cost.

All monetary figures appearing in these financial statements, unless otherwise indicated are stated in Kenya shillings (KShs).

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgement, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. The estimates and assumptions are based on the Directors' best knowledge of current events, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### (b) 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 the 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 ultimate cost of settling all claims arising from incidents occurring prior to the balance sheet date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed and include provisions for claims incurred but not reported ("IBNR") in respect of Motor, Fire and Accident which is calculated at 5% of gross premiums written less reinsurances.
- Acquisition costs representing commissions (net of commission recoverable) are allocated to the revenue accounts as incurred in each class of business.
- Management expenses are allocated in the ratio of premium written in 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 on the advice of the actuaries are either transferred to the profit and loss or carried forward in the life fund.

**(c) Intangible assets**

Costs associated with maintaining the computer software programs are recognised as an expense as 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.

**(d) 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 the estimated costs necessary to make the sale.

**(e) Investment properties**

Investment properties are treated as Long term investments and are stated at Fair value. The Directors have considered current prices of properties 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 revenue account for assets attributable to the Long-term business. On disposal of an investment property, the difference between the proceeds and the carrying value is charged and credited to the profit and loss account for investment property held by short-term business and to the life fund for investment property held by the Long-term Business.

**(f) Property and equipment**

Property and equipment are stated at cost or revaluation 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% |
| Computers | 25% |
| Office furniture, fixtures and equipment | 12.5% |
| Household furniture and equipment | 25% |



Assets residual values and useful lives are reviewed at each balance sheet and adjusted if appropriate.

Equipment on Investment properties are classified as fixed assets and depreciated accordingly. The carrying value of the equipment is 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.

**(g) Prepaid lease**

Leases on assets under which all risks and benefits of ownership are effectively retained by the Lessor are classified as operating leases. Payments made under operating Leases are charged to the profit and loss account on a straight-line basis over the period of their lease.

**(h) Financial assets**

All purchases and sales of financial assets are recognised on the trade date, which is the date the Corporation 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 cost. Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs 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 fair value is calculated by reference to the stock exchange quoted bid prices at the close of business on the balance sheet date. 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.

(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. The Corporation's management has the positive intention and ability to hold to maturity. If the Corporation is to sell an amount of held-to-maturity assets, which is insignificant, the entire category could be tainted and reclassified as available-for-sale.

**(i) Loans and receivables and provision for loan impairment**

Mortgages granted by the Corporation through provision of houses directly to borrower are categorised as loans and receivables, 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.

**(j) 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 on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

**(k) Cash and cash equivalents**

Cash and cash equivalents are defined as cash on hand, demand deposits and shortterm highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value and treasury bills maturing within three months from date of acquisiton.

**(l) Foreign currency transactions**

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

**(m) 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.

**(n) 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.

**(o) 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 calculation is performed by a qualified actuary using the projected unit credit method. The defined benefit obligation is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods and the benefits are discounted to determine its present value and the fair value of its plan assets are deducted.

To the extent that any cumulative unrecognised actuarial gains and losses exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average working lives of the employees participating in the plan.

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.

**(p) Employee entitlements**

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

**(q) 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.

**(r) Provisions**

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

**(s) Offsetting of financial assets and liabilities**

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(t) Comparatives**

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

## BALANCE SHEET
## AS AT 31 DECEMBER 2005

| | Note | General term insurance business KShs | Long insurance business KShs | 2005 KShs | 2004 Restated KShs |
|---|---|---|---|---|---|
| Assets | | | | | |
| Property and equipment | 7 | 88,054,462 | - | 88,054,462 | 239,431,567 |
| Non-current assets held for sale | 8 | 146,728,875 | - | 146,728,875 | - |
| Prepaid operating lease rentals | 9 | - | - | - | 12,789,473 |
| Intangible asset | 10 | 1,662,738 | - | 1,662,738 | 3,325,476 |
| Deferred tax | 11 | 19,802,810 | - | 19,802,810 | 16,219,078 |
| Government securities | 12 | 955,771,804 | 882,945,357 | 1,838,717,161 | 1,471,217,232 |
| Available-for-sale financial assets | 13 | 1,866,820,319 | - | 1,866,820,319 | 1,403,031,697 |
| Mortgages loans | 14 | 392,700,842 | - | 392,700,842 | 329,207,406 |
| Investment properties | 15 | 2,520,000,000 | 750,000,000 | 3,270,000,000 | 3,682,470,308 |
| Sundry debtors | 16 | 51,808,064 | 793,670 | 52,601,734 | 28,711,753 |
| Tax recoverable | 5 | - | 14,444,720 | 14,444,720 | 123,512,476 |
| Due from cedants & reinsurers | 17(a) | 2,418,209,184 | 52,865,147 | 2,471,074,331 | 1,829,383,659 |
| Inventories | 18 | 1,093,668,382 | - | 1,093,668,382 | 556,167,623 |
| Short term deposits | | 394,955,361 | 2,378,984 | 397,334,345 | 447,852,089 |
| Cash and bank balances | | 91,540,239 | 703,717 | 92,243,956 | 150,441,555 |
| [redacted] | | | | | |
| Capital and reserves (Page 11 & 12) | | | | | |
| Share capital | 19 | 1,500,000,000 | - | 1,500,000,000 | 1,500,000,000 |
| Revaluation and other reserves | 20 | 2,201,845,383 | - | 2,201,845,383 | 933,109,608 |
| Retained earnings | | 1,842,307,584 | - | 1,842,307,584 | 1,783,074,685 |
| Proposed dividends | 21 | 150,00,000 | - | 150,000,000 | 150,000,000 |
| [redacted] | | | | | |

The notes set out on pages 35 to 54 form an integral part of the financial statements.

**BALANCE SHEET**
**AS AT 31 DECEMBER 2005 (Continued)**

| | Note | General Insurance Business KShs | Long-term insurance business KShs | 2005 KShs | 2004 Restated KShs |
|---|---|---|---|---|---|
| Liabilities | | | | | |
| Insurance contract | | | | | |
| - life liabilities | 22(a) | - | 1,678,403,135 | 1,678,403,135 | 1,658,356,661 |
| Underwriting provisions | | | | | |
| Outstanding claims | 23 | 1,916,779,168 | - | 1,916,779,168 | 1,989,906,738 |
| Unearned premiums | 24 | 532,679,433 | - | 532,679,433 | 355,270,437 |
| | | 2,449,458,601 | - | 2,449,458,601 | 2,345,177,175 |
| Amounts due to cedants and reinsurers | 17(b) | 1,621,233,571 | 19,509,666 | 1,640,743,237 | 1,672,289,561 |
| Defined benefit liability | 25 | 32,128,000 | - | 32,128,000 | 33,836,000 |
| Sundry creditors | 26 | 194,971,614 | 6,218,794 | 201,190,408 | 217,917,702 |
| Tax payable | 5 | 49,778,327 | - | 49,778,327 | - |
| Total liabilities | | 4,347,570,113 | 1,704,131,595 | 6,051,701,708 | 5,927,577,099 |
| **Total equity and liabilities** | | **10,041,723,080** | **1,704,131,595** | **11,745,854,675** | **10,293,761,392** |

The financial statements on pages 5 to 32 were approved by the Board of Directors on 15th March 2006 and were signed on its behalf by:

Charles Ogalo
Director

WMayaka

William Mayaka
Director

The notes set out on pages 35 to 54 form an integral part of the financial statements.

| | 2005 KShs | 2004 KShs |
|---|---|---|
| **2. INVESTMENT INCOME** | | |
| **(a) General profit and loss account** | | |
| Loss on sale of houses | ( 36,347,497) | ( 49,431,469) |
| Rent | 191,903,300 | 200,887,935 |
| Interest | 132,155,228 | 82,872,820 |
| Dividends | 62,105,005 | 47,968,796 |
| Gain on sale of shares | 40,732,430 | 233,154,351 |
| Other income | 16,503,302 | 30,100,673 |
| Forex loss | ( 39,190,338) | 18,017,093 |
| Apportioned management expenses | ( 89,062,910) | ( 87,237,808) |
| **(b) Long term insurance business investment income** | | |
| Rent | 30,799,341 | 31,183,514 |
| Interest Income | 92,267,689 | 77,313,478 |

## 3. PROFIT BEFORE TAXATION

| | 2005 KShs | 2004 KShs |
|---|---|---|
| The profit before tax is stated after charging: | | |
| Depreciation | 50,937,245 | 48,686,450 |
| Amortisation of leasehold | 157,895 | 157,895 |
| Amortisation of software | 1,662,738 | 1,662,738 |
| Salaries and wages | 167,223,299 | 149,537,937 |
| Pension costs - Defined benefits plan | 14,877,093 | 12,767,876 |
| Social security costs | 231,600 | 237,400 |
| Auditors' remuneration - Current year | 2,950,000 | 2,700,000 |
| Directors' emoluments: | | |
| - As executive | 8,541,336 | 5,108,730 |
| - Fees | 2,748,750 | 3,600,000 |
| And after crediting: | | |
| Interest income | 224,422,917 | 82,872,820 |
| Dividends | 62,105,005 | 47,968,796 |
| (Loss)/gain on foreign exchange | ( 39,190,338) | 18,017,093 |
| Gain on sale of equity shares | 40,732,430 | 233,154,351 |

## 4. WRITE OFF OF INVENTORY

The inventory write off in the year relates to Eldoret Town plot and Shanzu plot impairments while the write off of inventory in the prior years relates to write-off of undeveloped parcels of land (Kiambu Road and Upper Hill, Mbagathi Way) that are under dispute.

## 5. INCOME TAX EXPENSE

| (a) Balance sheet | 2005<br>KShs | 2004<br>KShs |
|---|---|---|
| General insurance business | | |
| Balance brought forward | 108,049,998 | (123,488,469) |
| Charge for the year | (215,889,900) | (121,759,478) |
| Paid during the year | 58,061,575 | 353,297,945 |
| | (49,778,327) | 108,049,998 |
| Life insurance business | | |
| Balance brought forward | 15,462,478 | (11,530,141) |
| Charge for the year | (1,017,758) | (16,590,169) |
| Paid during the year | - | 43,582,788 |
| | **14,444,720** | **15,462,478** |
| [redacted] | | |

### (b) Profit and loss account

| | | |
|---|---|---|
| Current tax at 30% on the taxable profit for the year: | | |
| Revenue account | 215,889,899 | 89,766,053 |
| Under/(over) provision in prior years | - | 31,993,425 |
| | **215,889,899** | **121,759,478** |
| Deferred tax credit (Note 11) | ( 3,583,732) | ( 10,624,073) |
| | **212,306,167** | **111,135,405** |
| [redacted] | | |

### (c) Reconciliation of 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:

| | 2005<br>KShs | 2004<br>KShs |
|---|---|---|
| Profit before tax | 681,364,036 | 563,638,671 |
| Tax applicable rate of 30% | 204,409,210 | 169,091,601 |
| Tax effects of: | | |
| Tax effects on items not deducted for tax | 7,896,957 | ( 77,114,171) |
| Originating and reversing temporary differences | - | ( 12,835,450)0 |
| Under provision in prior years | - | 31,993,425 |
| [redacted] | | |

## 6. 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.

## 7. PROPERTY AND EQUIPMENT

| | Freehold buildings KShs | Motor vehicles KShs | Computers KShs | Furniture & fixtures KShs | Equipment KShs | Total KShs |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At 1 January 2005 | 135,748,477 | 18,929,247 | 60,061,581 | 31,530,663 | 575,937,197 | 822,207,165 |
| Transfer to non-current assets held for sale | (135,748,477) | - | - | - | - | (135,748,477) |
| Additions | - | - | 168,055 | 4,846,283 | 1,117,935 | 6,132,273 |
| Disposal | - | - | - | ( 20,259) | - | ( 20,259) |
| **At 31 December 2005** | **-** | **18,929,247** | **60,229,636** | **36,356,687** | **577,055,132** | **692,570,702** |
| **Depreciation** | | | | | | |
| At 1 January 2005 | 18,451,176 | 17,563,907 | 56,264,193 | 22,240,139 | 468,256,183 | 582,775,598 |
| Transfer to non-current assets held for sale | (21,564,410) | - | - | - | - | ( 21,564,410) |
| Charge for the year | 3,113,234 | 3,272,754 | 1,776,102 | 2,453,174 | 40,321,981 | 50,937,245 |
| Revaluation | - | (7,629,661) | - | - | - | ( 7,629,661) |
| Disposal | - | - | - | ( 2,532) | - | ( 2,532) |
| At 31 December 2005 | - | 13,207,000 | 58,040,295 | 24,690,781 | 508,578,164 | 604,516,240 |
| **Net book value** | | | | | | |
| **At 31 December 2005** | **-** | **5,722,247** | **2,189,341** | **11,665,906** | **68,476,968** | **88,054,462** |

The property and equipment other than fixtures and fitting were revalued in January 2005. The revaluation amounts have been incorporated in these financial statements. The valuation was undertaken by independent professional valuers, Tysons Ltd. The valuation surplus was credited to relevant reserves. The bases of valuation were:

| | | |
|---|---|---|
| Freehold building | - | Open market value |
| Equipment | - | Open market value |
| Others | - | Depreciated replacements cost |

## 8. NON-CURRENT ASSETS HELD FOR SALE

| | 2005<br>KShs | 2004<br>KShs |
|---|---|---|
| **Cost or valuation** | | |
| At 1 January 2005 | - | - |
| Transfer from property and equipment (Note 7) | 135,748,477 | - |
| Transfer from prepaid operating lease rentals (Note 9) | 15,000,000 | - |
| Revaluation surplus | 19,913,229 | - |
| **At 31 December 2005** | **170,661,706** | - |
| **Depreciation** | | |
| At 1 January 2005 | - | - |
| Transfer from property and equipment (Note 7) | 21,564,410 | - |
| Transfer from prepaid operating lease rentals (Note 9) | 2,368,421 | - |
| **At 31 December 2005** | **23,932,831** | - |
| **Net book value** | | |
| **At 31 December 2005** | **146,728,875** | **-** |

The Corporation's Sports Complex is presented as held for sale following the decision of the Corporation to sell. The property had been professionally valued in January 2005.

## 9. PREPAID OPERATING LEASE RENTALS

| | 2005 | 2004 |
|---|---|---|
| **Cost** | | |
| At 1 January and at 31 December | 15,000,000 | 15,000,000 |
| Transfer to non-current assets held for sale (Note 8) | (15,000,000) | - |
| | - | 15,000,000 |
| **Accumulated amortisation** | | |
| At 1 January | 2,210,527 | 2,052,632 |
| Amortised during the year | 157,895 | 157,895 |
| Transfer to non-current assets held for sale (Note 8) | ( 2,368,422) | - |
| At 31 December | - | 2,210,527 |
| **Net book value at 31 December** | **-** | **12,789,473** |

## 10. INTANGIBLE ASSETS

| | 2005 Ksh | 2004 Ksh |
|---|---|---|
| **Cost** | | |
| At 1 January and 31 December | 6,650,952 | 6,650,952 |
| **Accumulated amortisation** | | |
| At 1 January | 3,325,476 | 1,662,738 |
| Amortised during the year | 1,662,738 | 1,662,738 |
| [redacted] | | |

## 11. DEFERRED TAX

| | As previously stated 1.1.2005 KShs | Prior year adjustment KShs | As restated balance at 1.01.2005 KShs | Recognised in profit and loss account KShs | Balance at 31.12.2005 KShs |
|---|---|---|---|---|---|
| Accelerated capital allowances | (9,834,568) | - | ( 9,834,568) | 15,028,882 | 5,194,314 |
| Leave pay provisions | (4,348,695) | - | ( 4,348,695) | 747,072 | (3,601,623) |
| Other temporary differences | 8,114,985 | - | 8,114,985 | (19,872,086) | (11,757,101) |
| Defined benefit liability | - | (10,150,800) | (10,150,800) | 512,400 | ( 9,638,400) |
| [redacted] | | | | | |

## 12. GOVERNMENT SECURITIES

| | 2005 KShs | 2004 KShs |
|---|---|---|
| Held to maturity | | |
| Securities maturing: | | |
| Within 91 days | 568,888,455 | 297,813,751 |
| After 91 days | 7,750,000 | 102,198,369 |
| After one year to five years | 1,262,078,706 | 1,071,205,112 |
| [redacted] | | |

Treasury bonds amounting to KShs 433,575,000 are held under lien by the commissioner of insurance.

## 13. AVAILABLE FOR SALE – FINANCIAL ASSETS

| | 2004<br>KShs | 2005<br>KShs |
|---|---|---|
| **(i) Quoted ordinary shares** | | |
| At 1 January | 1,252,591,109 | 1,244,373,071 |
| Fair value gain | 508,138,862 | 209,895,615 |
| Additions | - | 20,499,395 |
| Disposal of shares | (44,350,240) | (222,176,972) |
| | 1,716,379,731 | 1,252,591,109 |
| All quoted shares are stated at market value | | |
| **(ii) Investment in unquoted shares** | | |
| These relate to general business and the movement during the year is as follows: | | |
| At 1 January | 150,440,588 | 150,524,209 |
| Fair value losses | - | (83,621) |
| End of year | 150,440,588 | 150,440,588 |
| 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 assets** | **1,866,820,319** | **1,403,031,697** |

## 14. MORTGAGE LOANS

| | 2004<br>KShs | 2005<br>KShs |
|---|---|---|
| **Mortgages maturing:** | | |
| Within 1 year | 42,227,352 | 23,185,045 |
| In 1-5 years | 168,909,408 | 169,109,921 |
| After 5 years | 181,564,082 | 136,912,440 |
| | **392,700,842** | **329,207,406** |
| The gross mortgages comprises of: | | |
| Staff mortgages | 166,105,284 | 167,488,202 |
| Commercial mortgages | 226,595,559 | 161,719,204 |
| | **392,700,843** | **329,207,406** |

## 15. INVESTMENT PROPERTIES

| | 2005 KShs | 2004 KShs |
|---|---|---|
| At 1 January | 3,682,470,308 | 4,205,991,473 |
| Transfer to inventory | ( 637,500,000) | ( 523,521,165) |
| Revaluation surplus arising in the year | 225,029,692 | - |

[redacted]

(i) Investment properties comprise office building held to earn rentals and capital appreciation and land acquired for development of office property and housing projects. During the year, the Corporation transferred properties valued at KShs 637,500,000 to inventory in order to appropriately reflect the intended use.

(ii) The valuation of investment properties was last carried out by Tysons Ltd, professional independent valuers as at 31 December 2005. The basis of valuation was open market value. The fair value losses arising from the revaluation were charged to the profit and loss account.

## 16. SUNDRY DEBTORS

| | 2005 KShs | 2004 KShs |
|---|---|---|
| Rent arrears | 7,921,286 | (481,438) |
| Staff advances | 33,149,280 | 25,934,719 |
| Other debtors | 11,531,168 | 3,258,472 |

[redacted]

## 17. BALANCES WITH CEDANTS AND REINSURERS

### (a) Amounts due from cedants and reinsurers

| | | |
|---|---|---|
| Local companies | 280,217,784 | 234,430,052 |
| International companies | 2,350,451,623 | 1,796,632,136 |
| | 2,630,669,407 | 2,031,062,188 |
| Less: provision for bad and doubtful debts | (159,595,076) | (201,678,529) |

[redacted]

### (b) Amounts due to cedants and reinsurers

| | | |
|---|---|---|
| Due to cedants | 1,607,085,017 | 1,590,429,487 |
| Due to reinsurers | 33,658,220 | 81,860,074 |

[redacted]

## 18. INVENTORIES

| | 2005 KShs | 2004 KShs |
|---|---|---|
| Housing units for sale | 798,668,382 | 292,350,785 |
| Land held for sale | 295,000,000 | 263,816,838 |

## 19. SHARE CAPITAL

| | | |
|---|---|---|
| **Authorised share capital:** | | |
| 200,000,000 Ordinary shares of KShs 10 each | **2,000,000,000** | **2,000,000,000** |
| **Issued and fully paid:** | | |
| 150,000,000 Ordinary shares of KShs 10 each | **1,500,000,000** | **1,500,000,000** |
| **Movement in issued share capital** | **No of shares** | **No of shares** |
| At 1 January 2005 | 150,000,000 | 100,000,000 |
| Issue of Bonus Shares | - | 50,000,000 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

## 20. REVALUATION AND OTHER RESERVES

| | 2005 KShs | 2004 KShs |
|---|---|---|
| Revaluation reserves | 533,761,786 | 9,251,854 |
| Fair value reserve | 1,607,677,825 | 863,451,982 |
| Capital reserves | 10,784,528 | 10,784,528 |
| Contingency reserves | 49,621,244 | 49,621,244 |

**Revaluation reserve**

The revaluation reserve relates to investment property, property and equipment. The reserve is non-distributable.

**Fair value reserve**

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

**Contingency reserve**

The contingency reserve is to cater for contingent liabilities that may arise on tax amount not yet agreed on.

## 21. PROPOSED DIVIDENDS

| | 2005 KShs | 2004 KShs |
|---|---|---|
| The movement in proposed dividends is as follows: | | |
| At 1 January | 150,000,000 | 100,000,000 |
| Declared and paid during the year | (150,000,000) | (100,000,000) |
| Proposed dividends | 150,000,000 | 150,000,000 |
| At 31 December | **150,000,000** | **150,000,000** |

The proposed dividends on the ordinary shares are calculated on dividends of KShs 1.00 (2004 – 1.00) 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%.

## 22. INSURANCE CONTRACT

| | 2005 KShs | 2004 KShs |
|---|---|---|
| **(a) Life liabilities** | | |
| Ordinary life fund | 526,827,327 | 500,469,945 |
| Superannuation | 1,151,575,808 | 1,157,886,716 |

The life liabilities, 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 Alexander Forbes Insurance Brokers Limited, consulting actuaries as at 31 December 2005 and according to the valuation, the fund had a surplus of KShs 507,714,434. No transfer has been made from Life Fund to the Profit and loss account. The actuary recommended that no transfer should be made.

**(b) Actuarial liability**

| | | 2005 | |
|---|---|---|---|
| **Class of business** | **Sums at risk KShs** | **Annual office premium Khs** | **Actuarial liability KShs** |
| Ordinary life business | 1,208,632,205 | 8,220,645 | 8,056,232 |
| Group life business | 95,416,103,217 | 341,704,924 | 334,870,826 |
| Treaty business | 3,455,923,369 | 33,966,132 | 33,286,809 |
| Supplementary benefits | 4,261,143,302 | 12,990,383 | 12,990,383 |
| AIDS reserve | - | - | 441,798,541 |
| Claims equalisation reserve | - | - | 284,685,910 |
| Contingency reserve | - | - | 55,000,000 |

## 22. INSURANCE CONTRACT (Continued)

### (b) Actuarial liability (cont'd)

| Class of business | Sums at risk KShs (2004) | Annual office premium KShs (2004) | Actuarial liability KShs (2004) |
|---|---|---|---|
| Ordinary life business | 3,863,072,162 | 29,258,520 | 14,629,260 |
| Group life business | 83,310,444,998 | 307,368,440 | 153,684,220 |
| Treaty business | 6,745,767,041 | 20,803,769 | 10,401,885 |
| Supplementary benefits | 5,881,521,295 | 16,958,207 | 8,479,104 |
| AIDS reserve | - | - | 425,070,064 |
| Claims equalisation reserve | - | - | 27,757,747 |
| Contingency reserve | - | - | 282,893,486 |
| | [illegible] | 374,388,936 | 922,915,766 |

### (c) Actuarial valuation

**2005**

| Liabilities | KShs | Assets | KShs |
|---|---|---|---|
| Actuarial liability | 1,170,688,701 | Life Fund | 1,678,403,135 |
| Surplus | 507,714,434 | | - |
| | 1,678,403,135 | | 1,678,403,135 |

**2004**

| | KShs | Assets | KShs |
|---|---|---|---|
| Actuarial liability | 922,915,766 | Life Fund | 1,658,356,661 |
| Surplus | 735,440,895 | | - |
| | 1,658,356,661 | | 1,658,356,661 |

## 23. OUTSTANDING CLAIMS

| | 2005 KShs | 2004 KShs |
|---|---|---|
| Provision for outstanding claims | 1,910,779,168 | 1,989,906,738 |

## 24. UNEARNED PREMIUMS

| | 2005 KShs | 2004 KShs |
|---|---|---|
| Unearned premiums | 532,679,433 | 355,270,437 |

## 25. DEFINED BENEFIT LIABILITY

The Company operates a funded defined benefit plan for substantially all employees. The Scheme is open to new entrants. Scheme members' contributions are a fixed percentage of pensionable pay with the Company responsible for the balance of the cost of benefits accruing. The Scheme is established under trust. The Scheme funds are invested by the Company in a variety of asset classes comprising Government securities, property and stocks and shares.

| | 2005 | 2004 |
|---|---|---|
| **Notes to the balance sheet** | **KShs** | **KShs** |
| Present value of funded obligations | 276,435,000 | 214,334,000 |
| Fair value of Scheme assets | 212,912,000 | 180,498,000 |
| Net underfunding in funded plan | 63,523,000 | 33,836,000 |
| Unrecognised actuarial gain/(loss) | ( 31,395,000) | - |
| [redacted] | | |
| Notes to the income statement | | |
| Current service cost net of employees' contributions | 10,588,000 | |
| Interest on obligation | 24,074,000 | |
| Expected return on plan assets | ( 20,635,000) | |
| [redacted] | | |
| **Reconciliation** | | |
| Net liability at start of period | 33,8356,000 | |
| Net expense recognised in the income statement | 14,027,000 | |
| Employer contributions | ( 15,735,000) | |
| [redacted] | | |
| **Actuarial assumptions** | | |
| Discount rate (% p.a.) | 11.0% | 11.0% |
| Expected return on Scheme assets (% p.a.) | 11.0% | 11.0% |
| Future salary increases (% p.a.) | 9.0% | 9.0% |
| Future pension increases (% p.a.) | 0% | 0% |

The company also makes contributions to a statutory provident fund, the National Social Security Fund. Contributions are determined by local statute and are shared between the employer and employee. For the year ended 31 December 2005, the Company contributed KShs 14,877,092 (2004 – KShs 12,767,875) which has been charged to the profit and loss account.

## 26. SUNDRY CREDITORS

| | 2005 | 2004 |
|---|---|---|
| | **KShs** | **KShs** |
| Investment creditors | 11,324,273 | 96,418,623 |
| Accrued leave pay | 12,005,410 | 14,495,074 |
| Other creditors and accruals | 177,860,725 | 107,004,005 |
| [redacted] | | |

## 30. 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) Transactions with directors

(i) The executive members of the Board of Directors received remuneration totalling KShs 8,541,336 (2004 – KShs 5,108,730). The non-executive members received fees totalling KShs 2,748,750 (2004 – KShs 1,860,000).

| | 2005 | 2004 |
|---|---|---|
| | KShs | KShs |

[redacted]

Interest income on these loans was KShs 9,612,058 (2004 – KShs 9,229,751).

| (iii) Loans to directors | 2005 | 2004 |
|---|---|---|
| | KShs | KShs |
| Loans to ex-directors | 5,844,938 | 13,728,365 |
| Loans to existing directors | 35,774,938 | 6,446,090 |

[redacted]

Interest earned on these loans was KShs 1,935,043 (2004 – KShs 1,056,091). 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 | 2005 | 2004 |
|---|---|---|
| | KShs | KShs |

[redacted]

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:

| | 2005 | 2004 |
|---|---|---|
| | KShs | KShs |

[redacted]

## 31. SEGMENTAL INFORMATION

Primary segment information

For management purposes the Corporation is organised into two business segments, general insurance and life assurance. The general insurance segment comprises of motor, marine, aviation and accident. The life assurance segment includes individual and group life. These segments are the basis on which the Corporation reports its primary segment information. Investment and cash management for the Corporation's own accounts are also reported as part of the above segments. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest and investment income is credited to business segments based on segmental capital employed.

## 32. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets include bank balances and cash, deposits, investments, receivables, payables and certain other assets and liabilities. The fair values of the financial assets and liabilities, with the exception of unquoted investments in shares carried at amortized cost are not materially different from their carrying values.

## 33. RISK MANAGEMENT

### Reinsurance risk

In common with other insurance companies, in order to minimize financial exposure arising from large insurance claims, the Corporation, in the normal course of business, enters into arrangements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under excess of loss reinsurance contracts. To minimise its exposure to significant losses from reinsurer insolvencies, the Corporation evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristic of the reinsurers.

Retrocession contracts do not relieve the Corporation from its obligations to cedants and as a result the Corporation remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. The maximum theoretical credit risk exposure in this connection is mainly in Asia.

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of significant losses due to exchange rates fluctuations.

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair value of financial instruments. The Corporation has deposits with banks and investments in Government Securities which are subject to interest rate risk. Interest rate risk to the Corporation is the risk of changes in market interest rates reducing the overall return or increasing the cost of finance to the Corporation. The Corporation limits interest rate risk by monitoring changes in interest rates in the currencies in which its deposits and investments are denominated.

## 34. RISK MANAGEMENT

### Market price risk

Market price risk is the risk that the value of financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Corporation is exposed to market risk with respect to its investments.

The Corporation limits market risks by maintaining a diversified portfolio and by continuous monitoring of developments in stock markets. In addition, the Corporation actively monitors the key factors that affect stock movements, including analysis of the operational and financial performance of investors. Most of the

Corporation's investments are within Kenya.

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Corporation, other than those relating to reinsurance contracts as described in reinsurance risk above, the maximum credit risk exposure to the Corporation is the carrying value as disclosed in the balance sheet. The Corporation seeks to limit its credit risk with respect to customers by setting credit limit for individual customers and monitoring outstanding receivables. Premiums and insurance balances receivable comprise a large number of customers and insurance companies mainly within Kenya as well as Reinsurance companies mainly in Africa, Asia, and Middle East.

**Liquidity risk**

Liquidity risk is the risk that the Corporation will not be able to meet its commitments associated with financial liabilities when they fall due. Liquidity requirements are monitored on a weekly basis and management ensures that sufficient funds are available to meet any commitments as they arise. Most contracts with reinsurers and ceding companies normally require quarterly settlements of the balances.

## 35. CURRENCY

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

## 36. EMPLOYEES

The number of employees for the Corporation during the year was 98 (2004 – 98).

## 37. INCORPORATION

The Corporation is incorporated in Kenya under the Companies Act.

# NOTES