KENYA REINSURANCE CORPORATION LIMITED

REPORT AND FINANCIAL STATEMENTS

AT

31 DECEMBER 2006

KENYA REINSURANCE CORPORATION LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

CONTENTS **Page**

KENYA REINSURANCE CORPORATION LIMITED

DIRECTORS, OFFICERS AND ADMINISTRATION

DIRECTORS

Nelius Kariuki	(Chairman – Retired 18 December 2006 and re-appointed 4 January 2007)
Eunice Mbogo	(Managing Director – Appointed 26 March 2007)
Evan A. Jumba	(Appointed 4 January 2007)
Charles N. Kebuchi	(Retired 18 December 2006)
Johnson J. Githaka	(Terminated 12 January 2007)
J.K. Kinyua	(Permanent Secretary, Treasury)
Mutua Kilaka	(Alternate to J. K. Kinyua)
William P. Mayaka	(Retired 18 December 2006)
Charles O. Ogalo	(Resigned 17 November 2006)
Jacob Haji Ali	(Retired 18 December 2006 and re-appointed 4 January 2007)
Dr. Iruki Kailemia	(Retired 18 December 2006 and re-appointed 4 January 2007)
Everest Lenjo	(Appointed 4 January 2007)
Mutwiri Ikiao	(Appointed 4 January 2007)
Gladys M. Mboya	(Appointed 4 January 2007)

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

AUDITORS
KPMG Kenya
On behalf of:
The Controller and Auditor-General
P.O. Box 30084
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

Lloyds TSB Bank PLC
Fenchurch Street Branch
72 Fenchurch Street
London
EC3P3EH, United Kingdom

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

SOLICITORS

Hamilton Harrison and Mathews
ICEA Building, Kenyatta Avenue
P.O. Box 30333
00100 Nairobi GPO

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

KENYA REINSURANCE CORPORATION LIMITED

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2006

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2006 which disclose the state of affairs of the Corporation.

1. **Principal activities**

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

2. **Results for the year**

The results of the company for the year are set out on page 6.

3. **Dividends**

The directors recommend the payment of a dividend of KShs 150,000,000 for the year ended 31 December 2006 (2005 - KShs 150 million).

4. **Directors**

The directors of the Corporation who served since 1 January 2006 are set out on page 1.

5. **Auditors**

The Controller and Auditor-General is responsible for the statutory audit of the Corporation's book of account in accordance with Sections 14 and 39(i) of the Public Audit Act, 2003 which empowers the Controller and Auditor-General to nominate other auditors to carry out the audit on his behalf.

KPMG Kenya were appointed by the Controller and Auditor-General to carry out the auditor for the year ended 31 December 2006.

6. **Approval of financial statements**

The financial statements were approved at a meeting of the Directors held on 3rd April 2007.

BY ORDER OF THE BOARD

Otieno

Corporation Secretary

Date: 3 April 2007

KENYA REINSURANCE CORPORATION LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Corporation as at the end of the financial period and of its operating results for that period. 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 designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. They are also responsible for safeguarding the assets of the Corporation.

The directors accept responsibility for the 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.

Director

Director

3rd April 2007

Date

Fax: +254-20-311482
E-mail: cag@kenyaweb.com

P.O Box 30084-00100
NAIROBI

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KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA REINSURANCE CORPORATION LIMITED FOR THE YEAR ENDED 31 DECEMBER 2006

The financial statements of Kenya Reinsurance Corporation Limited set out on pages 6 to 37 which comprise the balance sheet as at 31 December 2006, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes have been audited on my behalf by KPMG Kenya, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Directors' responsibilities for the financial statements

The directors are responsible for the preparation of financial statements which give a true and fair view of the Corporation's state of affairs and its operating results in accordance with the International Financial Reporting Standards.
This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibilities of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

Opinion

In my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of the financial affairs of the Corporation as at 31 December 2006 and of its profit and cashflows for the year then ended in accordance with the International Financial Reporting Standards and the Kenya Companies Act, Cap 486 of the Laws of Kenya.

Emphasis of Matter

Without qualifying my opinion, I draw attention to the following:

Fraud and Irregularities

As disclosed in note 37 to the Financial Statements, there were allegations on fraud covering the years 2003 to 2006 which were investigated by the Inspectorate of State Corporations, Kenya Anti-Corruption Commission and Forensic Investigators. The investigations have so far confirmed a loss of Kshs 36,000,000. The loss has not been accounted for in these financial statements as the matter is currently in a court of law. However, investigations are still going on. The extent of the loss will only be ascertained on conclusion of the investigations.

Pnkomora

P.N.KOMORA
CONTROLLER AND AUDITOR GENERAL

Nairobi

25 May 2007

KENYA REINSURANCE CORPORATION LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

Income	Note	2006 KShs	2005 Restated KShs
Insurance premium revenue	3	3,114,829,098	2,435,328,496
Insurance premium ceded to reinsuers	3	(323,205,267)	(323,894,115)
Net insurance premium revenue	3	**2,791,623,831**	**2,111,434,381**
Investment income	4	753,096,379	490,928,464
Fair value gains on investment properties	20	-	244,361,010
Fair value gain on non-current asset held for sale	13	-	19,913,229
Impairment provision for inventory	5	-	(6,141,698)
Net income		**3,544,720,210**	**2,860,495,386**
Insurance benefits	6(a)	(306,588,879)	(157,713,817)
Insurance claims incurred	6(b)	(1,215,923,448)	(765,804,262)
Commissions	7	(806,761,017)	(699,998,277)
Net insurance claims and benefits		(2,329,273,344)	(1,623,516,356)
Management expenses	8	(453,138,689)	(290,322,995)
Profit before income taxes	9	**762,308,177**	**946,656,035**
Income tax expense	10	(256,838,405)	(213,323,927)
Profit for the year after income taxes		**505,469,772**	**733,332,108**
Earnings per share	11	**3.37**	**4.89**

√ 45%

The notes set out on pages 11 to 37 form an integral part of the financial statements.

KENYA REINSURANCE CORPORATION LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	2006	2005 Restated
		KShs	KShs
ASSETS			
Property and equipment	12	52,464,515	88,054,462
Non current assets held for sale	13	316,728,875	316,728,875
Intangible asset	15	5,038,877	1,662,738
Deferred tax	16	35,391,096	19,802,810
Government securities	17	2,122,318,289	1,838,717,161
Available for sale financial assets	18	2,369,062,392	1,866,820,319
Mortgages loans	19	615,483,651	392,700,842
Investment properties	20	3,270,000,000	3,270,000,000
Cash and bank balances		45,082,626	92,243,956
Short term deposits		558,559,383	397,334,345
Inventories	21	483,552,430	808,729,694
Due from cedants and reinsurers	22(a)	2,841,385,333	2,471,074,331
Tax recoverable		3,849,907	-
Other debtors	23	89,243,121	52,601,734
TOTAL ASSETS AND LIFE FUNDS		12,808,160,495	11,616,471,267
Capital and reserves (Pages 9 & 10)			
Ordinary share capital	24	1,500,000,000	1,500,000,000
Revaluation and other reserves	25	2,049,224,011	1,684,965,112
Retained earnings		2,462,051,595	2,106,581,823
Proposed dividends	26	150,000,000	150,000,000
Shareholders' funds		6,161,275,606	5,441,546,935
LIABILITIES			
Insurance contracts:			
- Long term insurance contracts	27(a)	2,122,659,358	1,816,070,479
- Short term insurance contracts:			
- Outstanding claims	27(b)	1,961,123,730	1,916,779,168
- Unearned premiums	27(c)	452,593,712	532,679,433
Due to cedants and reinsurers	22(b)	1,831,879,938	1,640,743,237
Trade and sundry creditors	28	246,331,151	201,190,408
Defined benefit liability	29	32,297,000	32,128,000
Tax payable		-	35,333,607
TOTAL LIABILITIES		6,646,884,889	6,174,924,332
TOTAL EQUITY AND LIABILITIES		12,808,160,495	11,616,471,267

The financial statements on pages 6 to 37 were approved by the Board of Directors on 3 April 2007 and were signed on its behalf by:

Director

Kaniki

Director

The notes set out on pages 11 to 37 form an integral part of the financial statements.

KENYA REINSURANCE CORPORATION LIMITED

CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 KShs	2005 Restated KShs
Cash flow from operating activities			
Net profit before tax		762,308,177	946,656,035
Adjustment for:			
Depreciation		49,021,535	50,937,245
Amortisation of software		2,382,577	1,662,738
Amortisation of prepaid operating lease		-	157,894
Gain on sale of shares		(51,211,712)	(40,792,428)
Equipment write off		-	17,727
Impairment provision on unquoted shares		25,500,000	-
Fair value gains on investment properties		-	(244,361,010)
Fair value gain on non-current assets held for sale		-	(19,913,229)
Movement in provisions			
(Decrease)/increase in unearned premiums		(80,085,722)	177,408,996
Increase/(decrease) in outstanding claims		44,344,562	(73,127,570)
Movement in funded business			
Increase in life fund		306,588,881	158,731,575
Operating profit before working capital changes		**1,058,848,298**	**957,377,973**
Decrease in inventories		325,177,264	390,190,238
Movement in amounts due from/to cedants and reinsurers		(179,174,301)	(673,236,996)
Increase in sundry debtors		(36,641,387)	(23,889,981)
Increase/(decrease) in sundry creditors		45,140,744	(16,727,293)
Movement in defined benefit liability		169,000	(1,708,000)
Cash generated from operations		**1,213,519,618**	**632,005,941**
Tax paid		(311,610,207)	(59,079,335)
Net cash from operating activities		**901,909,411**	**572,926,606**
Cash flows from investing activities			
Purchase of equipment		(13,431,588)	6,132,273
Purchase of shares		(179,031,564)	-
Sale of shares		66,760,102	61,404,679
Net purchase of government securities		(322,304,054)	(213,600,629)
Mortgage loans		(222,782,809)	(163,493,437)
Purchase of intangibles		(5,758,716)	-
Net cash flow used in investing activities		**(676,548,629)**	**(309,557,114)**
Cash flows from financing activities			
Dividends paid on ordinary shares		(150,000,000)	(150,000,000)
Net increase in cash and cash equivalents		**75,360,782**	**113,369,492**
Cash and cash equivalents at the beginning of the year		1,009,476,887	896,107,395
Cash and cash equivalents at the end of the year	31	**1,084,837,669**	**1,009,476,887**

The notes set out on pages 11 to 37 form an integral part of the financial statements.

KENYA REINSURANCE CORPORATION LIMITED

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

2005:	Note	Share capital KShs	Capital and contingency reserves KShs	Revaluation reserves KShs	Fair value adjustments KShs	Retained earnings KShs	Proposed dividends KShs	Total KShs
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	29	-	-	-	-	(33,836,000)	-	(33,836,000)
Deferred tax on the defined benefit liability	16	-	-	-	-	10,150,800	-	10,150,800
At 1 January 2005 – As 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 - Restated		-	-	-	-	733,332,108	-	733,332,108
Final dividend for 2004	26	-	-	-	-	-	(150,000,000)	(150,000,000)
Proposed dividends 2005	26	-	-	-	-	(150,000,000)	150,000,000	-
Change in fair value of quoted investments	18	-	-	-	508,138,863	-	-	508,138,863
Fair value adjustments realised on disposal of quoted shares		-	-	-	(23,737,990)	-	-	(23,737,990)
Transfer		-	-	-	259,824,970	(259,824,970)	-	-
Revaluation of properties and equipment - Restated		-	-	7,629,661	-	-	-	7,621,661
At 31 December 2005 – As restated		**1,500,000,000**	**60,405,772**	**16,881,515**	**1,607,677,825**	**2,106,581,823**	**150,000,000**	**5,441,546,935**

Included in retained earnings is non-distributable reserves amounting to KShs 244,361,010 (2004 – Nil) relating to fair value gain on investment properties.

The notes set out on pages 11 to 37 form an integral part of the financial statements.

KENYA REINSURANCE CORPORATION LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

2006:	Note	Share capital KShs	Capital and contingency reserves KShs	Revaluation reserves KShs	Fair value adjustments KShs	Retained earnings KShs	Proposed dividends KShs	Total KShs
At 1 January 2006 – As previously stated		1,500,000,000	60,405,772	533,761,786	1,607,677,825	1,842,307,584	150,000,000	5,694,152,967
Prior year adjustments:								
Reversal of transfer from life fund		-	-	(137,667,344)	-	-	-	(137,667,344)
Gain in investment properties		-	-	(244,361,010)	-	244,361,010	-	-
Gain on non-current assets held for sale		-	-	(19,913,229)	-	19,913,229	-	-
Reversal of revaluation surplus on investments		-	-	(114,938,688)	-	-	-	(114,938,688)
At 1 January 2006 – As restated		**1,500,000,000**	**60,405,772**	**16,881,515**	**1,607,677,825**	**2,106,581,823**	**150,000,000**	**5,441,546,935**
Net profit for the year		-	-	-	-	505,469,772	-	505,469,772
Dividends paid	26	-	-	-	-	-	(150,000,000)	(150,000,000)
Proposed dividends 2006	26	-	-	-	-	(150,000,000)	150,000,000	-
Fair value adjustments realised on disposal of quoted shares	-	-	-	-	(39,897,242)	-	-	(39,897,242)
Change in fair value of quoted investments	18	-	-	-	404,156,141	-	-	404,156,141
At 31 December 2006		**1,500,000,000**	**60,405,772**	**16,881,515**	**1,971,936,724**	**2,462,051,595**	**150,000,000**	**6,161,275,606**

Included in retained earnings is non-distributable reserves amounting to KShs 244,361,010 (2005 – KShs 244,361,010) relating to fair value gain on investment properties.

The notes set out on pages 11 to 37 form an integral part of the financial statements.

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 period 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 period and changes in the provision for outstanding claims. Claims paid represent all payments made during the period, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the balance sheet date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the period 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.

(iii) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses as well as investment income from assets backing such liabilities are used. Any deficiency is immediately charged to the income statement by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision), using an actuary.

(iv) Reinsurance contracts held

Contracts entered into by the Corporation with reinsurers which the Corporation is compensated for losses on one or more contracts issued by the Corporation that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Corporation under which the contract holder is another insurer or reinsurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Corporation is entitled under its reinsurance contracts held are recognised as reinsurance assets.
The Corporation assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Corporation

reduces the carrying amount of the reinsurance assets to its recoverable amount and recognises the impairment loss in the income statement.

(v) Receivables and payables related to insurance contracts

Receivables and payables related to insurance contracts are recognised when due. These include amounts due to/from agents, brokers and insurance contract holders. When the Corporation gathers objective evidence that an insurance receivable is impaired, an impairment loss is calculated and recognised in the income statement.

(vi) Classification of insurance and investment contracts

The Corporation issues contracts that transfer insurance risks or financial risk or both.

Insurance contracts are those contracts that transfer significant risk. Such contract may also transfer financial risks.

Investment contracts are those contracts that transfer financial risk with no significant risk.

(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. The cost of inventories is based on the weighted average cost and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. 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.

The cost of items transferred from property and equipment and investment properties is their value at the date of transfer.

(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 income statement 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 income statement 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 income statement.

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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in the revaluation surplus are transferred to retained earnings.

(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 income statement on a straight-line basis over the period of their lease.

(h) Financial instruments

The Corporation classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Corporation provides money directly to a debtor with no intention of trading the receivable. These include mortgage advances to customers and placements with other banks.

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Corporation's management has the positive intention and ability to hold to maturity. Were the Corporation to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include treasury bills, treasury bonds and government stock.

(iv) Available-for-sale

Available-for-sale investments are those 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 or exchange rates. Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date the date on which the Corporation commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Corporation has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement.

(i) Identification and measurement of impairment of financial assets

The carrying amount of the Corporation's financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The particular impairment policies for each category of financial asset are described below:

(i) Held-to-maturity

The recoverable amount of held-to-maturity financial assets carried at amortised cost is calculated as the present value of estimated future cash flows discounted at the original effective interest rate. Receivables with a short duration are not discounted. An impairment loss for these assets can be reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Loans and receivables

Loans and receivables are shown at the gross amount adjusted for any provision for impairment losses.

A provision for loan impairment is established if there is objective evidence that the Corporation will not be able to collect all amounts due according to the original contractual terms of the loan. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount.

In addition, a portfolio impairment provision is made to cover losses that have been incurred but not reported at the balance sheet date. The Corporation sets the portfolio impairment with reference to past experience taking into account the effect of current conditions that did not affect the period on which the historic loss is based and to remove the effect of conditions in the historical period that do not exist currently. These factors include, but are not limited to, the economic environment, the shape of the portfolio with reference to a range of indicators and management actions taken to proactively manage the portfolio.

When a loan is deemed uncollectable, it is written off against the related provision for impairment. Subsequent recoveries are credited to the provision for loan losses in the income statement.

(iii) Available-for-sale

When a decline in the fair value for available-for-sale financial assets has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the income statement even though the asset has not been derecognised. The amount of cumulative loss that is recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement. If the fair value of the financial asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be reversed with the amount of reversal being recognised in the income statement.

(j) Impairment for non-financial assets

The carrying amounts of the Corporation's non-financial assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Revenue recognition

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

(i) Interest income

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

(ii) Dividend income

Dividend income for available-for-sale equities 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.

(l) Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short term 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 acquisition.

(m) Foreign currency transactions

The financial statements are presented in Kenya shillings (KShs) which is the Corporation's functional and presentation currency.

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 income statement in the period in which they arise.

(n) Taxation

Tax on the income statement for the year comprises current tax and the change in deferred tax. Current taxation is provided for on the basis of the results for the period 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.

Deferred tax is calculated on the basis of the tax rates currently enacted.

(o) Employee benefits

(i) 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 income statement in the period to which they relate.

(ii) Employee entitlements

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

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange of these benefits. The Corporation recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(p) Dividends

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

(q) Earnings per share

Earnings per share are calculated based on the profit attributable to shareholders divided by the number of ordinary shares. Diluted earning per share is the same as the basic earnings per share. Diluted earnings per share are computed using the weighted average number of equity shares and dilutive potential ordinary shares outstanding during the year. During the year there we no outstanding shares with dilutive potential.

(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) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of their business segments. A geographic segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(u) Comparatives

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

(v) New standards and interpretations not yet adopted

IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements Capital Disclosure: requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Corporation's 2007 financial statements will require extensive additional disclosures with respect to Corporation; financial instruments and share capital.

2. SEGMENTAL REPORTING

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.

	General business		Life business		Total	
	2006 KShs	2005 KShs	2006 KShs	2005 KShs	2006 KShs	2005 KShs
Gross insurance premium	2,618,240,824	2,047,738,177	496,588,274	387,590,319	3,114,829,098	2,435,328,496
Insurance premium ceded to reinsurers	(250,308,913)	(260,520,978)	(72,896,354)	(63,373,137)	(323,205,267)	(323,894,115)
Net premium revenue	**2,367,931,911**	**1,787,217,199**	**423,691,920**	**324,217,182**	**2,791,623,831**	**2,111,434,381**
Investment income and gains	622,998,743	367,861,434	130,097,636	123,067,030	753,096,379	490,928,464
Fair value gain on investment properties	-	244,361,010	-	-	-	244,361,010
Fair value gain on non-current asset held for sale	-	19,913,229	-	-	-	19,913,229
Write off inventory	-	(6,141,698)	-	-	-	(6,141,698)
Net income	**2,990,930,654**	**2,413,211,174**	**553,789,556**	**447,284,212**	**3,544,720,210**	**2,860,495,386**
Insurance benefits	-	-	(306,588,879)	(157,713,817)	(306,588,879)	(157,713,817)
Insurance claims incurred	(1,074,756,232)	(575,671,589)	(141,167,216)	(190,132,673)	(1,215,923,448)	(765,804,262)
Commissions	(733,369,295)	(613,800,305)	(73,391,722)	(86,197,972)	(806,761,017)	(699,998,277)
Net insurance claims and benefits	(1,808,125,527)	(1,189,471,894)	(521,147,817)	(434,044,462)	(2,329,273,344)	(1,623,516,356)
Management expenses	(430,836,712)	(278,101,003)	(22,301,977)	(12,221,992)	(453,138,689)	(290,322,995)
Profit before income taxes	**751,968,415**	**945,638,277**	**10,339,762**	**1,017,758**	**762,308,177**	**946,656,035**
Income tax expense	(246,498,643)	(212,306,169)	(10,339,762)	(1,017,758)	(256,838,405)	(213,323,927)
Profit after income taxes	**505,469,772**	**733,332,108**	**-**	**-**	**505,469,772**	**733,332,108**

OTHER INFORMATION

	General business		Life business		Total	
	2006 KShs	2005 KShs	2006 KShs	2005 KShs	2006 KShs	2005 KShs
Segments assets	10,670,610,882	10,041,723,080	2,137,549,615	1,704,131,595	12,808,160,497	11,745,854,675
Capital expenditure	19,190,304	-	-	-	19,190,304	-
Depreciation expense	51,404,112	52,599,983	-	-	51,404,112	52,599,983
Impaired assets written down through resrves and profit and loss	25,500,000	6,141,698	-	-	25,500,000	6,141,698

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period. Segment revenue is based on the geographical location of both customers and assets.

Segment assets consist primarily of investments that match insurance liabilities.

Secondary segment information

Due to the nature of the business it is not possible to allocate revenues based on the regions covered.

		2006 KShs	2005 KShs
3.	**NET INSURANCE PREMIUM REVENUE**		
	Long term insurance contracts with fixed and guaranteed terms	496,588,274	387,590,319
	Short term insurance contracts:		
	- premium receivables	2,538,155,107	2,225,147,176
	- change in unearned premium provision	80,085,717	(177,408,999)
	Premium revenue arising from insurance contracts issued	3,114,829,098	2,435,328,496
	Reinsurance:		
	- Short term contracts	(250,308,913)	(260,520,978)
	- Long term contracts	(72,896,354)	(63,373,137)
	Premium revenue ceded to reinsurers on insurance contracts issued	(323,205,267)	(323,894,115)
	Net insurance premium revenue	**2,791,623,831**	**2,111,434,381**

4. INVESTMENT INCOME

(a) Short term insurance business investment income

	2006 KShs	2005 KShs
Net gain/(loss) on sale of houses	121,335,150	(36,347,497)
Rental income	186,321,074	191,903,300
Interest income	168,538,499	132,155,228
Dividends	78,615,691	62,105,005
Gain on sale of quoted shares	51,734,240	40,732,430
Other income	30,489,585	16,503,302
Net foreign exchange loss	(14,036,490)	(39,190,338)
	622,998,743	**367,861,430**

(b) Long term insurance business investment income

	2006 KShs	2005 KShs
Rental income	35,445,069	30,799,345
Interest income	94,652,567	92,267,689
	130,097,636	**123,067,034**
Total investment income	**753,096,379**	**490,928,464**

5. PROVISION FOR IMPAIRMENT OF INVENTORY

The provision for impairment of inventory in the prior year relates to Eldoret Town plot and Shanzu plot.

6. INSURANCE BENEFITS AND CLAIMS

	2006 KShs	2005 KShs
(a) Insurance benefits		
Long term insurance contracts		
- Increase in liabilities	306,588,879	157,713,816

(b) Insurance claims

	2006 Gross KShs	2006 Reinsurance KShs	2006 Net KShs	2005 Gross KShs	2005 Reinsurance KShs	2005 Net KShs
Short term insurance contracts:						
- Claims paid	1,175,097,677	(144,686,007)	1,030,411,670	759,058,714	(188,826,472)	570,232,242
- Changes in the provision for outstanding claims	44,344,562	-	44,344,562	5,439,347	-	5,439,347
Claims incurred	1,219,442,239	(144,686,007)	1,074,756,232	764,498,061	(188,826,472)	575,671,589
Long term insurance contracts	195,234,346	(54,067,130)	141,167,216	215,799,905	(25,667,232)	190,132,673
Total claims	1,414,676,585	(198,753,137)	1,215,923,448	980,297,966	(214,493,704)	765,804,262

7. COMMISSIONS

	2006 KShs	2005 KShs
Short term insurance contracts:		
- Commissions payable	734,237,412	614,612,442
- Commissions receivable	(868,117)	(812,137)
Net commissions on short term insurance contracts	733,369,295	613,800,305
Long term insurance contracts:		
- Commissions payable	122,095,277	98,076,765
- Commissions receivable	(48,703,555)	(11,878,793)
Net commissions on long term insurance contracts	73,391,722	86,197,972
Total commissions	**806,761,017**	**699,998,277**

8. MANAGEMENT EXPENSES

Total management expenses	**453,138,689**	**290,322,995**
Allocated as follows:		
Life funds	22,301,977	12,221,992
Investment	133,513,096	89,062,910
General business	297,323,616	189,038,093
Total expenses	**453,138,689**	**290,322,995**

9. PROFIT BEFORE INCOME TAXES

	2006 KShs	2005 KShs
The profit before income tax is stated after charging:		
Depreciation	49,021,535	50,937,245
Amortisation of leasehold	-	157,895
Amortisation of software	2,382,577	1,662,738
Salaries and wages	237,681,723	167,223,299
Pension contribution - Defined benefits plan	18,348,139	14,877,093
Social security costs	254,600	231,600
Auditors' remuneration	3,200,000	2,950,000
Directors' emoluments:		
- As executive	11,784,000	8,541,336
- Fees	2,220,000	2,748,750
And after crediting:		
Interest income	263,191,066	224,422,917
Dividends	78,615,691	62,105,005
Gain/(loss) on foreign exchange	(14,036,490)	(39,190,338)
Gain on sale of equity shares	51,734,240	40,732,430

10. INCOME TAX EXPENSE

Current tax at 30% on the taxable profit for the year	237,548,358	216,907,659
Prior year under provision	34,878,333	-
	272,426,691	216,907,659
Deferred tax credit (Note 16)	(15,588,286)	(3,583,732)
	256,838,405	**213,323,927**

The tax on the Corporation's profit before tax differs from the theoretical amount that would arise using the basic tax rates as follows:

	2006 KShs	2005 Restated KShs
Profit before tax	762,308,177	946,656,035
Tax applicable rate of 30%	228,692,453	283,996,811
Prior year under provision	34,878,333	-
Net tax effects of non-deductible expenses and exempt income	(6,732,381)	(70,672,884)
	256,838,405	**213,323,927**

11. 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.

12. PROPERTY AND EQUIPMENT

	Motor vehicles KShs	Computers KShs	Furniture & fixtures KShs	Equipment KShs	Total KShs
Cost or valuation					
At 1 January 2006	18,929,247	60,229,636	36,356,687	577,055,132	692,570,702
Additions	-	12,108,948	1,322,640	-	13,431,588
At 31 December 2006	18,929,247	72,338,584	37,679,327	577,055,132	706,002,290
Depreciation					
At 1 January 2006	13,207,000	58,040,295	24,690,781	508,578,164	604,516,240
Charge for the year	1,907,415	4,550,525	2,241,612	40,321,983	49,021,535
At 31 December 2006	15,114,415	62,590,820	26,932,393	548,900,147	653,537,775
Net book value					
At 31 December 2006	**3,814,832**	**9,747,764**	**10,746,934**	**28,154,985**	**52,464,515**
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

13. NON-CURRENT ASSETS HELD FOR SALE

	2006 KShs	2005 Restated KShs
Cost or valuation		
At 1 January – As previously stated	170,661,706	-
Transfer from inventories (Note 21)	170,000,000	-
At 1 January – As restated	340,661,706	-
Transfer from property and equipment	-	135,748,477
Transfer from prepaid operating lease rentals (Note 14)	-	15,000,000
Revaluation surplus	-	19,913,229
At 31 December – As previously stated	340,661,706	170,661,706
Transfer from inventories (Note 21)	-	170,000,000
At 31 December (2005 – Restated)	340,661706	340,661,706
Deprcciation		
At 1 January	23,932,831	-
Transfer from property and equipment	-	21,564,410
Transfer from prepaid operating lease rentals (Note 14)	-	2,368,421
At 31 December	23,932,831	23,932,831
Net book value		
At 31 December (2005 – Restated)	**316,728,875**	**316,728,875**

The above assets are presented as held for sale following the decision of the Corporation to sell. The properties had been professionally valued in January 2005.

14. PREPAID OPERATING LEASE RENTALS

	2006 KShs	2005 KShs
Cost		
At 1 January and at 31 December	-	15,000,000
Transfer to non-current assets held for sale (Note 13)	-	(15,000,000)
	-	-
Accumulated amortisation		
At 1 January	-	2,210,527
Amortised during the year	-	157,895
Transfer to non-current assets held for sale (Note 13)	-	(2,368,422)
At 31 December	-	-
Net book value		
At 31 December	-	-

15. INTANGIBLE ASSETS

	2006 KShs	2005 KShs
Cost		
At 1 January	6,650,952	6,650,952
Additions	5,758,716	-
At 31 December	12,409,668	6,650,952
Accumulated amortisation		
At 1 January	4,988,214	3,325,476
Amortised during the year	2,382,577	1,662,738
At 31 December	7,370,791	4,988,214
Net book value		
At 31 December	**5,038,877**	**1,662,738**

16. DEFERRED TAX

2006	Balance at 1.01.2006 KShs	Recognised in profit and loss account KShs	Balance at 31.12.2006 KShs
Property and equipment	(5,194,314)	19,306,538	14,112,224
Leave pay provisions	3,601,623	1,686,800	5,288,423
Exchange differences	11,757,101	(7,546,154)	4,210,947
Defined benefit liability	9,638,400	50,700	9,689,100
Other provisions	-	2,090,402	2,090,402
	19,802,810	**15,588,286**	**35,391,096**

2005	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)
	(6,068,278)	**(10,150,800)**	**(16,219,078)**	**(3,583,732)**	**(19,802,810)**

17. GOVERNMENT SECURITIES

	2006 KShs	2005 KShs
Held to maturity		
Securities maturing:		
Within 91 days	481,195,660	568,888,455
After 91 days	97,048,132	7,750,000
After one year to five years	1,544,074,497	1,262,078,706
	2,122,318,289	**1,838,717,161**

Treasury bonds amounting to KShs 701,200,000 (2005 – KShs 433,575,000) are held under lien by the Commissioner of Insurance.

18. AVAILABLE FOR SALE – FINANCIAL ASSETS

	2006 KShs	2005 KShs
(i) Quoted ordinary shares		
At 1 January	1,716,379,731	1,252,591,109
Fair value gain	404,156,141	508,138,863
Additions	179,031,564	-
Disposal of shares	(55,445,632)	(44,350,241)
At 31 December	2,244,121,804	1,716,379,731

All quoted shares are stated at market value.

(ii) Investment in unquoted shares

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

	2006 KShs	2005 KShs
Cost		
At 1 January and 31 December	161,440,588	161,440,588
Impairment provision		
At 1 January	(11,000,000)	(11,000,000)
Provision made during the year	(25,500,000)	-
At 31 December	(36,500,000)	(11,000,000)
Net carrying value at 31 December	124,940,588	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 instruments at 31 December	**2,369,062,392**	**1,866,820,319**

		2006 KShs	2005 KShs
19.	**MORTGAGE LOANS**		
	Mortgages maturing:		
	Within 1 year	91,229,520	42,227,352
	In 1-5 years	364,918,080	168,909,408
	After 5 years	159,481,361	181,564,082
		615,628,961	**392,700,842**
	The gross mortgages comprises of:		
	Staff mortgages	200,070,663	166,105,283
	Commercial mortgages	462,638,176	266,707,428
		662,708,839	432,812,711
	Impairment provision	(47,079,878)	(40,111,869)
	Net	**615,628,961**	**392,700,842**
20.	**INVESTMENT PROPERTIES**		
	At 1 January	3,270,000,000	3,682,470,308
	Transfer to inventory	-	(637,500,000)
	Revaluation surplus arising in the period	-	225,029,692
	Fair value amount at 31 December	**3,270,000,000**	**3,270,000,000**

(i) Investment properties comprise office building held to earn rentals and capital appreciation and land acquired for development of office property and housing projects for rental and/or capital appreciation.

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

		2006 KShs	2005 Restated KShs
21.	**INVENTORIES**		
	Housing units for sale	192,552,430	798,668,382
	Land held for sale	550,704,327	554,704,327
		743,256,757	1,353,372,709
	Impairment provision	(259,704,327)	(259,704,327)
	As previously stated	483,552,430	1,093,668382
	Transfer to non-current assets held for sale (Note 13)	-	(170,000,000)
	Reversal of revaluation surplus	-	(114,938,688)
	Total inventories at lower of cost and net realisable value (2005 – Restated)	**483,552,430**	**808,729,694**

The impairment in inventory relates to Kiambu Road and Mbagahti Road plots which have been fully provided for.

22. BALANCES WITH CEDANTS AND REINSURERS

	2006 KShs	2005 KShs
(a) Amounts due from cedants and reinsurers		
Local companies	901,129,984	280,217,784
International companies	2,099,850,425	2,350,451,623
	3,000,980,409	2,630,669,407
Less: provision for bad and doubtful debts	(159,595,076)	(159,595,076)
	2,841,385,333	**2,471,074,331**
(b) Amounts due to cedants and reinsurers		
Due to cedants	61,461,112	1,607,085,017
Due to reinsurers	1,770,418,826	33,658,220
	1,831,879,938	**1,640,743,237**

23. OTHER DEBTORS

	2006 KShs	2005 KShs
Rent debtors	17,397,581	7,921,286
Staff advances	35,781,722	33,149,280
Other debtors	36,063,818	11,531,168
	89,243,121	**52,601,734**

24. SHARE CAPITAL

	2006 KShs	2005 KShs
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**

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.

25. REVALUATION AND OTHER RESERVES

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.

26. DIVIDENDS

	2006 KShs	2005 KShs
The movement in proposed dividends is as follows:		
At 1 January	150,000,000	150,000,000
Declared and paid during the period	(150,000,000)	(150,000,000)
Proposed dividends in the period	150,000,000	150,000,000
Transferred to dividends payable	-	-
At 31 December	150,000,000	150,000,000
Dividends payable at 31 December	-	-
Proposed dividend per share (KShs)	1.00	1.00

The proposed dividends on the ordinary shares are calculated on dividends of KShs 1.00 (2005 – KShs 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%.

27. INSURANCE CONTRACT

(a) Long term insurance contracts

The movement in the long term insurance contracts in the year is as follows:

	2006 KShs	2005 KShs
At 1 January	1,816,070,479	1,658,356,662
Net premium written	423,691,920	324,217,182
Investment income	130,097,636	123,067,030
Less:		
Total claims	(141,167,216)	(190,132,673)
Commission	(73,391,722)	(86,197,972)
Management expenses	(22,301,977)	(12,221,992)
Income tax	(10,339,762)	(1,017,758)
At 31 December	2,122,659,358	1,816,070,479

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 income statement are made on the recommendation of the Actuary. The latest actuarial valuation of the life fund was carried out by Alexander Forbes Financial Services Limited, consulting actuaries as at 31 December 2006 and according to the valuation, the fund had a surplus of KShs 385,400,495 (2005 – KShs 645,381,778). No transfer has been made from Life Fund to the income statement. The actuary recommended that no transfer should be made.

27. INSURANCE CONTRACT (Continued)

Actuarial valuation results

At 31 December 2006:	**KShs**	**Assets**	**KShs**
Liabilities			
Actuarial liability	1,737,258,863	Life Fund	2,122,659,358
Surplus	385,400,495		-
	2,122,659,358		**2,122,659,358**

At 31 December 2005:	**KShs**	**Assets**	**KShs**
Actuarial liability	1,170,688,701	Life Fund	1,816,070,479
Surplus	645,381,778		-
	1,816,070,479		**1,816,070,479**

Valuation assumptions

The significant valuation assumptions for the actuarial valuation as at 31 December 2006 are summarised below. The same assumptions are used in 2005.

(i) Actuarial basis and method of valuation

The Corporation underwrites both treaty and some mandatory cessions business. Compulsory cessions ordinary life business is written on a risk premium basis. Accordingly, this business can be viewed as a series of one year renewable term assurances reinsured on guaranteed risk premium rates and valued as such. Therefore, the actuarial reserves have been have established as a proportion of gross annual premiums written. Each type or class of ordinary live business has been valued as a different percentage of annual office premiums written. The actuary has established actuarial reserves of 98% of the gross annual premiums written for all types of compulsory cessions ordinary life business at the valuation date.

Treaty business and group life business actuarial reserves has been established to 98% of the annual office premiums at the valuation date.

For supplementary benefits actuarial reserves has been established to equal to 100% of annual office premiums at the valuation date.

In addition to establishing actuarial reserves for ordinary life business, group life business and supplementary benefits we have established additional actuarial reserves namely AIDS reserve, claims equalisation reserve and contingency reserve.

(ii) Investment returns

The actuarial valuation as at 31 December 2006 does not use an explicit technical rate of return. The weighted average rate of return earned by the assets backing the life fund in 2006 was 5.2% per annum (2005 – 7.7% per annum).

27. INSURANCE CONTRACT (Continued)

Sensitivity analsysis

The life actuarial valuation is sensitive to the factors listed below and the assumptions on each of the key factors is as shown:

Risk discount rate
For the calculation of appraisal value a discount rate of 20% has been used.

Investment return
This is the rate of return assumed to earned by the actuarial reserves and positive cash flows in each future year. A rate of return of 6% per annum for both ordinary life and group life business has been assumed.

Mortality rate

Ordinary life business claims ratio	= 0.35
Group life business claims ratio	= 0.55

Commission and profit commission

Ordinary life business	= 0.15
Group life business	= 0.20

Lapse rate

Ordinary life business	= 10%
Group life business	= 10%

	2006 KShs	2005 KShs
(b) Outstanding claims – Short term insurance contracts		
Provision for outstanding claims	**1,961,123,730**	**1,916,779,168**
(c) Unearned premiums – Short term insurance contracts		
Unearned premiums	**452,593,712**	**532,679,433**

28. TRADE AND SUNDRY CREDITORS

	2006 KShs	2005 KShs
Investment creditors	93,874,675	65,861,123
Accrued leave pay	17,628,076	12,005,410
Other creditors and accruals	134,828,400	123,323,875
	246,331,151	**201,190,408**

29. 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.

The actuarial valuation results at 30 September 2006 and 31 December 2005, respectively, is as follows:

	At 30.09.2006 KShs	At 31.12.2005 KShs
Present value of funded obligations	348,357,000	276,435,000
Fair value of Scheme assets	254,730,000	212,912,000
Net underfunding in funded plan	93,627,000	63,523,000
Unrecognised actuarial gain/(loss)	(61,330,000)	(31,395,000)
Net liability in the balance sheet	**32,297,000**	**32,128,000**
Notes to the income statement		
Current service cost net of employees' contributions	9,112,000	10,588,000
Interest on obligation	23,170,000	24,074,000
Expected return on plan assets	(18,144,000)	(20,635,000)
Net actuarial losses/gains recognised in the period	348,000	-
Total included in "staff costs" in respect of Scheme	**14,486,000**	**14,027,000**
Actual return on plan assets	**27,791,000**	**14,223,000**
Reconciliation		
Net liability at start of year	32,128,000	33,836,000
Net expense recognised in the income statement	14,486,000	14,027,000
Employer contributions	(19,075,954)	(15,735,000)
Net liability at end of period	**32,297,000**	**32,128,000**
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 actuaries of the scheme carried out an valuation as at 30 September 2006. The directors are of the opinion that there are no significant events between the last actuarial valuation at 30 September 2006 which would materially affect the position as at 31 December 2006.

The Corporation also makes contributions to a statutory provident fund, the National Social Security Fund (NSSF). Contributions are determined by local statute and are shared between the employer and employee. For the year ended 31 December 2006, the Corporation contributed KShs 18,348,139 (2005 – KShs 14,877,092) to the defined pension scheme and KShs 254,600 (2005 – KShs 231,600) for NSSF which has been charged to the income statement.

30. BANK OVERDRAFT

The Corporation has an overdraft facility with Kenya Commercial Bank Limited of KShs 17,860,000. The facility is secured by lien over fixed deposits of KShs 24 million. The weighted average interest rate during the year was 4.5 %. (2005 – 4.5%).

31. CASH AND CASH EQUIVALENTS

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

	2006 KShs	2005 KShs
Cash and bank balances	45,082,626	92,243,956
Treasury bills	481,195,660	519,898,586
Short term deposits	558,559,383	397,334,345
	1,084,837,669	**1,009,476,887**

32. CONTINGENT LIABILITIES

The Kenya Revenue Authority raised assessments for additional tax for 1995, 1999 to 2001 years of income. The Corporation together with its tax consultants appealed against these assessments to the Local Committee which confirmed the assessments. As a result, the corporation has accrued in the financial statements the principal tax. With the advice of the tax consultants, the directors of the Corporation are of the view that an application of the waiver of the penalties and interest amounting to KShs 242,536,026 will be granted. On this basis, no provision/accrual has been made in the financial statements.

33. 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 11,784,000 (2005 – KShs 8,541,336). The non-executive members received fees totalling KShs 2,220,000. (2005 – KShs 2,748,750).

	2006 KShs	2005 KShs
(ii) Loans to staff	**235,852,383**	**196,186,161**

Interest income on these loans was KShs.10,172,466 (2005 – KShs 9,612,058).

33. RELATED PARTY TRANSACTIONS (Continued)

(iii) Loans to directors

	2006 KShs	2005 KShs
Loans to ex-directors	34,421,710	5,844,938
Loans to existing directors	13,075,928	35,774,938
	47,497,638	41,619,876

Interest earned on these loans was KShs 2,427,925 (2005 – KShs 1,935,043). Loans to staff and directors are secured by mortgage on real property and interest is charged as per the terms of contract.

(b) Transaction with related companies

		2006 KShs	2005 KShs
(i)	Net premium written	13,791,157	25,276,566
(ii)	Claims incurred	29,541,410	2,525,524

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:

	2006 KShs	2005 KShs
Amounts due from related parties	15,380,924	1,337,240
Amounts due to related parties	931,432	3,800,773

34. 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.

35. RISK MANAGEMENT

Reinsurance risk

The Corporation reinsures all classes of insurance business including accident, engineering, liability, motor, fire, aviation and life. The bulk of the business written is of a short-tail nature.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

The Corporation has developed a detailed underwriting procedures manual covering risk acceptance criteria, pricing, accumulation control, authority levels and reinsurance protection. The procedures guide the underwriters in their acceptances, on the principles of prudence and professionalism as well as with an overall objective of diversifying the type insurance risks accepted.

The Corporation enters into retrocession arrangements with reputable retrocessionaires to diversify its risks and reduce the risk catastrophic loss on reinsurance assumed. As part of its annual renewals, the financial condition of retrocessionaires is reviewed. As a result retrocession is placed with a select group of financially secure and experienced companies in the industry.

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.

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.

35. RISK MANAGEMENT (Continued)

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.

36. INCORPORATION

The Corporation is incorporated in Kenya under the Companies Act and is wholly owned by the Government of Kenya.

37 FRAUD AND IRREGULARITIES

There were allegations on fraud and irregular transactions spuming the period 2003 to 2006 that were brought to the attention of Directors during the year. These allegations were investigated by Inspectorate of State Corporations, Kenya Anti-Corruption Commission and Forensic Investigators.

The fraudulent activities involved transactions where funds due to the Corporation were diverted to acquire Corporation assets as well as other assets. The investigations revealed that the Corporation lost about Ksh. 36 million through such activities. The services of the Corporation's staff who are alleged to have perpetrated these activities have been terminated and the assets in question have been preserved awaiting finalization of legal process. This matter is also currently in court.

Appendix I

KENYA REINSURANCE CORPORATION LIMITED

GENERAL INSURANCE REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

	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 2006 KShs	Total 2005 KShs
Gross premium	5,411,306	177,540,070	2,025,950	1,163,619,203	82,207,282	298,220,337	248,288,236	47,835,565	231,158,395	279,361	264,986,989	16,582,404	2,538,155,098	2,225,147,176
Less: reinsurances	-	-	310,650	187,005,388	1,426,147	5,173,581	4,307,350	829,860	4,010,178	4,846	47,240,911	-	250,308,911	260,520,978
Net written premium	5,411,306	177,540,070	1,715,300	976,613,815	80,781,135	293,046,756	243,980,886	47,005,705	227,148,217	274,515	217,746,078	16,582,404	2,287,846,187	1,964,626,198
Unearned Premium b/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	532,679,429	355,270,434
Unearned Premium c/f	1,620,340	53,161,902	202,916	116,546,519	23,669,508	85,865,004	71,488,319	13,773,041	66,556,214	80,435	17,555,649	2,073,865	452,593,712	(532,679,431)
Net earned premium	**5,331,285**	**171,706,802**	**2,091,587**	**1,070,180,010**	**79,956,434**	**305,625,480**	**228,219,377**	**58,201,872**	**184,915,676**	**323,329**	**246,569,044**	**14,811,009**	**2,367,931,904**	**1,787,217,201**
Claims paid	3,017,019	98,985,681	941,904	540,989,526	31,483,350	114,210,993	95,088,237	18,319,835	88,527,933	106,988	179,644,104	3,782,105	1,175,097,676	(759,058,714)
Claims recoverable	-	-	230,104	138,518,739	-	-	-	-	-	-	5,937,164	-	144,686,007	188,826,422
Claims O/s at year end	14,428,358	705,721,001	-	262,737,350	62,117,697	366,361,535	184,158,132	65,581,362	118,104,727	5,877,515	137,535,100	38,500,953	1,961,123,730	1,916,779,168
Claims O/s at beginning of year	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	1,916,779,117	1,911,339,771
Total claims incurred	6,633,113	110,132,387	560,921	415,948,278	23,888,317	166,342,735	101,042,639	7,768,171	54,877,172	5,394,265	177,974,542	4,193,741	1,074,756,282	(575,671,589)
Commissions	197,122	6,467,389	702,366	403,409,320	21,359,701	77,485,804	64,512,078	12,428,989	60,061,276	72,586	83,157,417	4,383,363	734,237,410	(614,612,442)
Commissions receivable	-	-	-	-	78,597	285,125	237,385	45,735	221,008	267	-	-	868,117	812,136
Management expenses	633,889	20,797,327	237,323	136,308,211	9,629,892	34,934,006	29,084,880	5,603,534	27,078,263	32,725	31,040,999	1,942,489	297,323,540	(189,038,092)
Total expenses	**7,464,124**	**137,397,103**	**1,500,610**	**955,665,809**	**54,799,313**	**278,477,420**	**194,402,212**	**25,754,959**	**141,795,703**	**5,499,309**	**292,172,958**	**10,519,593**	**2,105,449,113**	**(1,378,509,987**
Underwriting profit(loss)	**(2,132,839)**	**34,309,699**	**590,977**	**114,514,201**	**25,157,121**	**27,148,060**	**33,817,164**	**32,446,913**	**43,119,973**	**(5,175,980)**	**(45,603,914)**	**4,291,416**	**262,482,791**	**408,707,214**