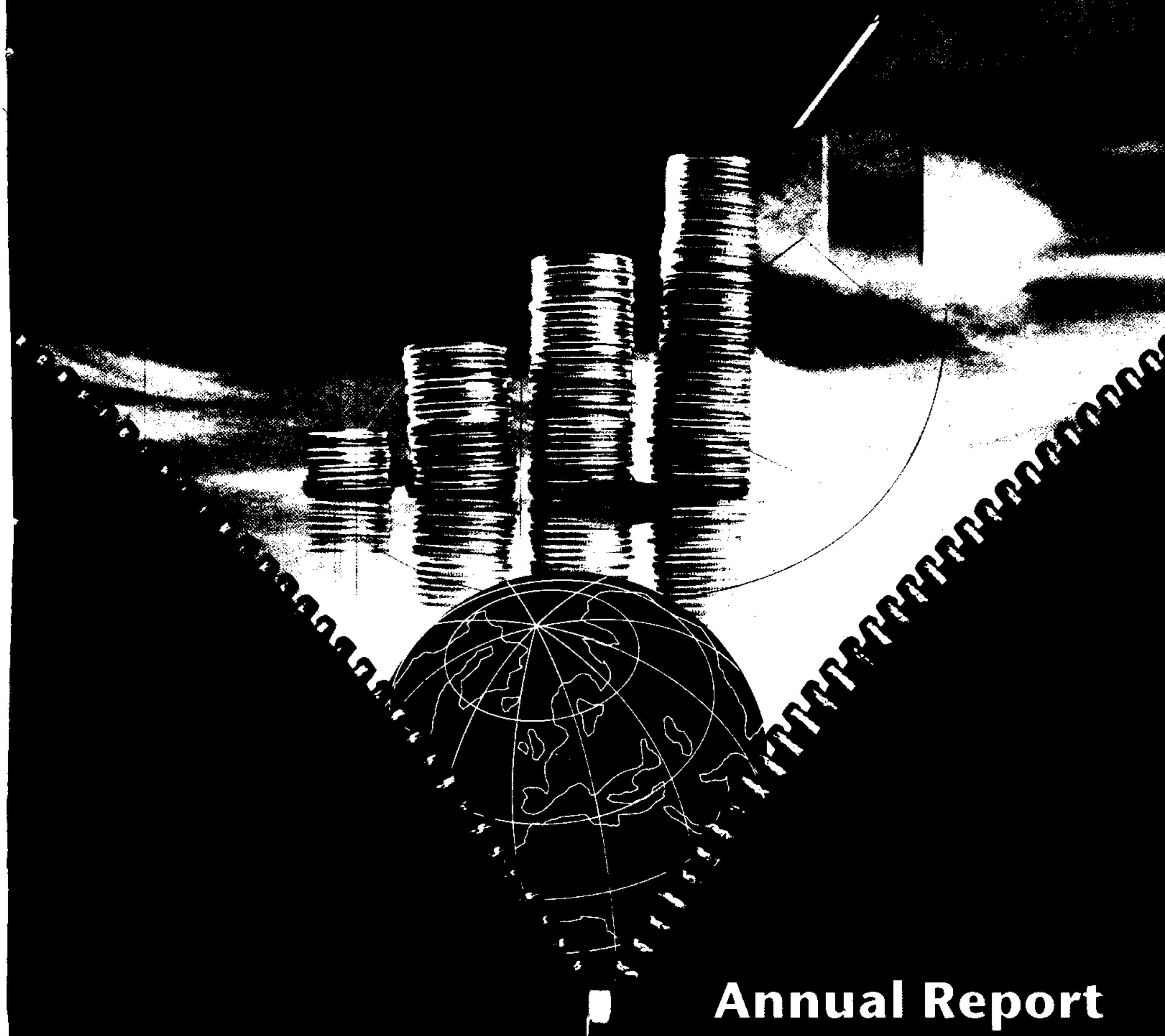
Kenya Re



Annual Report & Financial Statements 2007

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 human resource
- Social responsibility
- Concern for the environment

The Symbol of Reinsurance Service and Security Worldwide

Kenya Re

Table of Contents

Corporate Information

DIRECTORS

Nelius Kariuki	(Chairman)
Eunice Mbogo	(Managing Director)
J.K. Kinyua	(Permanent Secretary, Treasury)
Mutua Kilaka	(Alternate to J. K. Kinyua)
Jacob Haji Ali	
Dr. Iruki Kailemia	
Everest Lenjo	
Mutwiri Ikiao	
Gladys M. Mboya	

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

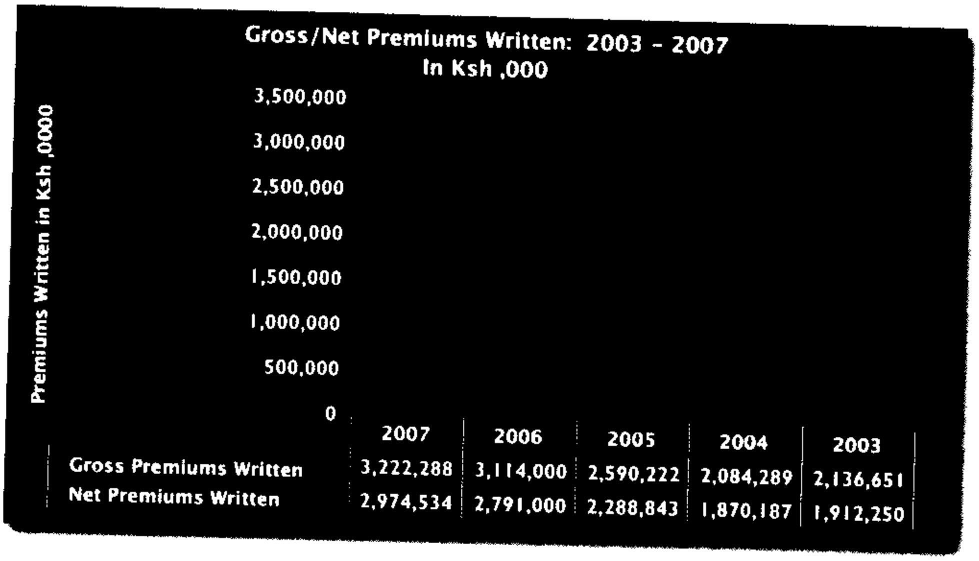
SUBSIDIARIES
Kenya Re Properties Limited
P. O. Box 30271
00100 Nairobi GPO

Wedco Limited
P. O. Box 30271
00100 Nairobi GPO

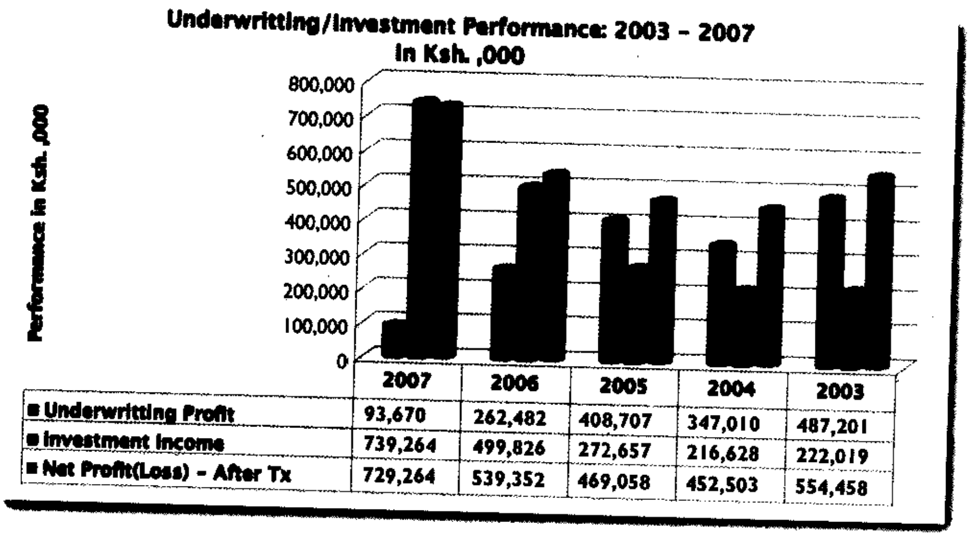
SOLICITORS
Hamilton Harrison and Mathews
ICEA Building, Kenyatta Avenue
P. O. Box 30333
00100 Nairobi GPO

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

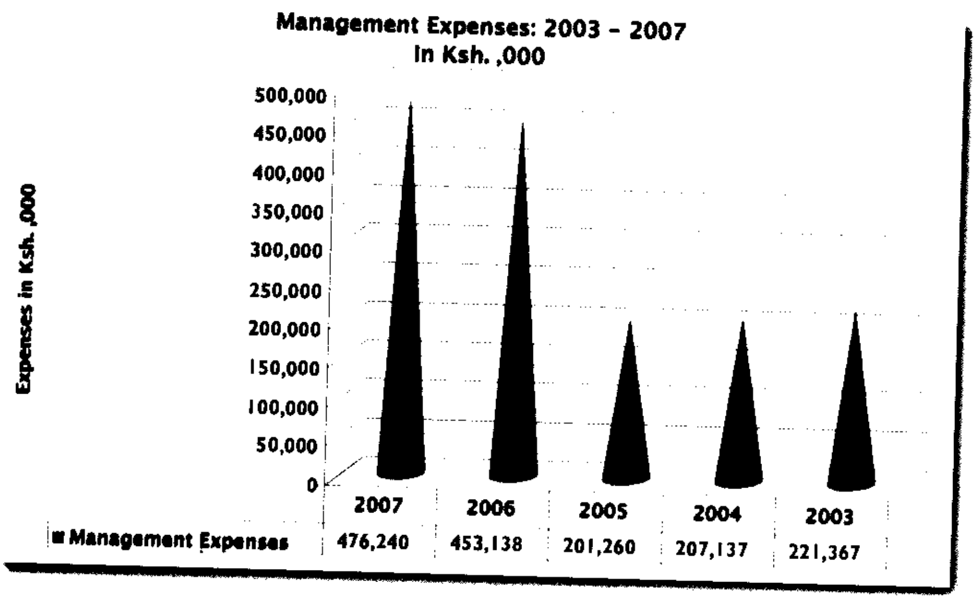
Five Year Performance Analysis



	2007	2006	2005	2004	2003
Gross Premiums Written	3,222,288	3,114,000	2,590,222	2,084,289	2,136,651
Net Premiums Written	2,974,534	2,791,000	2,288,843	1,870,187	1,912,250

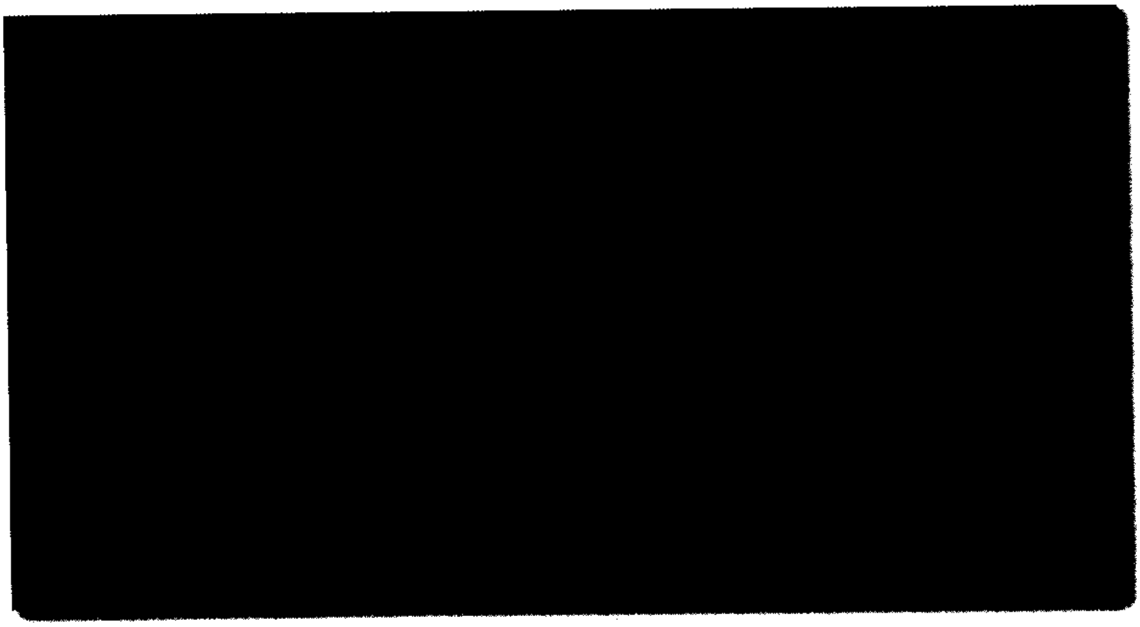


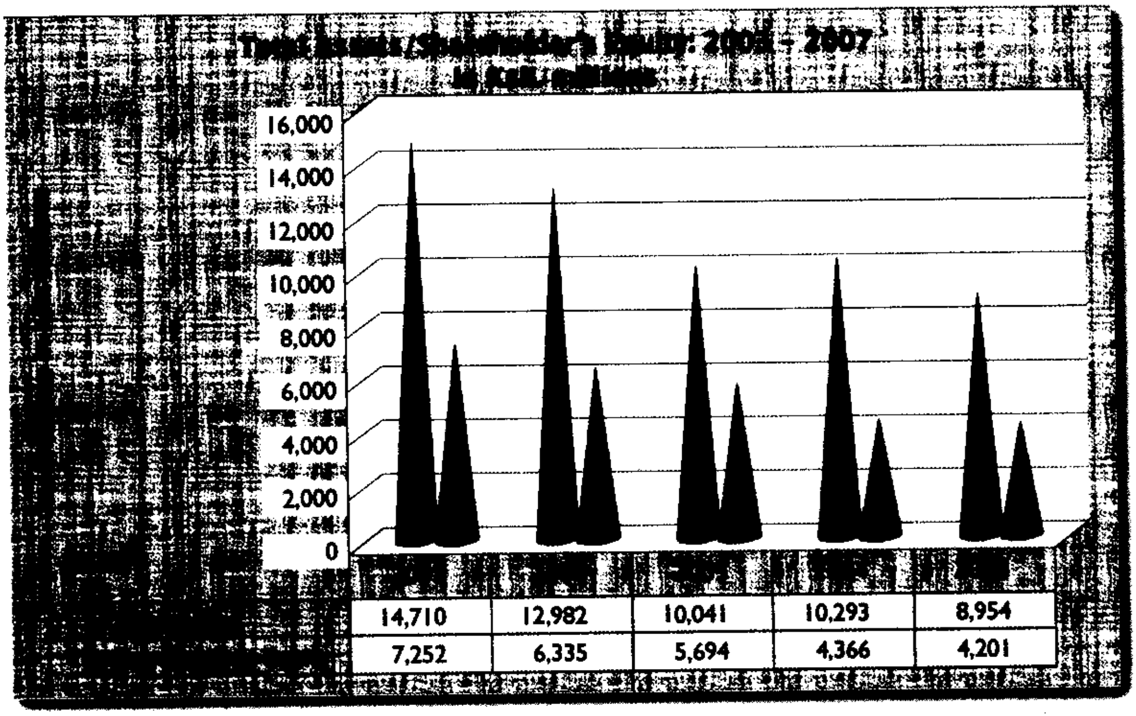
	2007	2006	2005	2004	2003
Underwritting Profit	93,670	262,482	408,707	347,010	487,201
Investment Income	739,264	499,826	272,657	216,628	222,019
Net Profit(Loss) - After Tx	729,264	539,352	469,058	452,503	554,458



	2007	2006	2005	2004	2003
Management Expenses	476,240	453,138	201,260	207,137	221,367

Five Year Performance Analysis *(continued)*





Kenya Re

Notice of the 10th Annual General Meeting

Notice is hereby given that the 10th ANNUAL GENERAL MEETING OF KENYA REINSURANCE CORPORATION LIMITED will be held at the Main Gymnasium, Moi International Sports Centre, Kasarani Gymnasium, off Thika Road, Nairobi, on Thursday, 3rd July 2008 at 11.00 a.m. when the following business will be transacted, namely:

Agenda

1. Constitution of the Meeting

   To read the notice convening the Meeting and determine if a quorum is present.

2. To receive, consider and, if approved, adopt the Corporation's audited Financial Statements for the year ended 31st December 2007 together with the Chairman's, Directors' and Auditors' Reports thereon.

3. To declare a first and final dividend of Kshs. 0.35 per share, subject to withholding tax where applicable, for the financial year ended 31st December 2007 and approve the closure of the Register of Members on 4th July 2008.

4. Election of Directors

   a) In accordance with Article 110 of the Company's Articles of Association, Mrs. Nelius Kariuki retires from office as a Director and, being eligible, offers herself for re-election.

   b) In accordance with Article 110 of the Company's Articles of Association, Mr. Joseph Kinyua retires from office as a Director and, being eligible, offers himself for re-election.

5. To approve the Directors' remuneration.

6. Auditors

   To note that the audit of the Corporation's books of accounts will continue to be undertaken by the Controller and Auditor-General or an audit firm appointed by him in accordance with Section 14 of the State Corporations Act (as amended by the Miscellaneous Law Amendment Act 2002) and Sections 14 and 39 (i) of the Public Audit Act 2003.

7. To authorise the Directors to fix the remuneration of the Auditors.

8. To transact any other business which may be properly transacted at an Annual General Meeting.

By Order of the Board.

....

Corporation Secretary
Kenya Reinsurance Corporation Ltd
15th Floor, Reinsurance Plaza, Taifa Road
P. O. Box 30271 – 00100 Nairobi

Notes:

1. Any member may by notice duly signed by him or her and delivered to the Corporation Secretary on the above address, not less than 7 days and not more than 21 days before the date appointed for the Annual General Meeting give notice of his intention to propose any other person for election to the Board, such notice to be accompanied by a notice signed by the person proposed of his or her willingness to be elected. The proposed person need not be a member of the Company.

2. A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. To be valid, the form of proxy attached to the Annual Report must be duly completed and signed by the member and must be lodged at the registered offices of the Company's Share Registrars, KCB Registrar Services, Kencom House, 7th Floor, P.O. Box 48400-00100 GPO, Nairobi or to be posted, so as to reach KCB Registrars Services not later than Tuesday, 1st July 2008 at 11.00 a.m.

Ilani Ya Mkutano Mkuu wa 10

Ilani inatolewa hapa ya kwamba MKUTANO MKUU WA 10 WA MWISHO WA MWAKA WA SHIRIKA LA KENYA REINSURANCE CORPORATION LIMITED utafanyika katika ukumbi mkuu wa michezo (Main Gymnasium) wa uwanja wa kimataifa wa Moi International Sports Centre, Kasarani, ulioko kwenye muelekeo wa Barabara Kuu ya Thika, Nairobi, siku ya Alhamisi, tarehe 3 Julai 2008, saa tano asubuhi wakati ambapo shughuli zifuatazo zitakapoendeshwa:

Ajenda

1. Katiba ya Mkutano

   Kusoma tangazo la kuanzisha mkutano na kuamua iwapo mkutano unaweza kuendelea kwa kuzingatia idadi ya watu waliohudhuria.

2. Kupokea, kukubali na , kama itaidhinishwa, kupitisha taarifa zilizokaguliwa za kifedha za shirika za mwaka uliomalizikia tarehe 31 Desemba 2007 pamoja na ripoti za Mwenyekiti, Mkurugenzi Mkuu na Mkaguzi wa Kifedha.

3. Kutangaza mgawo wa senti 0.35 wa kwanza na wa pili kwa kila hisa, kabla ya kutolewa kwa ushuru wa malimbikizi pale inapohitajika. kwa kipindi cha mwaka wa kifedha uliomalizikia tarehe 31 Desemba 2007 na kuidhinisha kufungwa kwa rejesta ya wanachama kufikia tarehe 4 Julai, 2008.

4. Uchaguzi wa Wakurugenzi Wakuu
   (a) Kulingana na Kifungu cha 110 cha Kanuni za Ushirika wa Kampuni, Bi. Nellius Kariuki anastaafu kama Mkurugenzi na, kwa sababu anaweza kupigania tena, anajitosa uwanjani ili kuchaguliwa tena.
   (b) Kulingana na Kifungu cha 110 cha Kanuni za Ushirika wa Kampuni, Bw. Joseph Kinyua anastaafu kama Mkurugenzi na, kwa sababu anaweza kupigania tena, anajitosa uwanjani ili kuchaguliwa tena.

5. Kuidhinisha malipo ya Wakurugenzi Wakuu

6. Wakaguzi wa Fedha

   Kufahamu ya kwamba ukaguzi wa vitabu vya kifedha wa hesabu za shirika hili utaendelea kusimamiwa na Mkaguzi Mkuu wa Kifedha ama kampuni ya ukaguzi wa fedha atakayoiteua yeye kulingana na masharti yaliyopo kwenye Sehemu ya 14 ya Kifungu cha Sheria ya Mashirika ya Kitaifa (kama ilivyorekebishwa katika Sheria ya ziada ya Kifungu cha Marekebisho cha mwaka wa 2002) na Sehemu ya 14 na 39 (i) cha Sheria ya Ukaguzi wa Umma ya 2003.

7. Kuwaruhusu Wakurugenzi Wakuu kupangilia malipo ya Wakaguzi wa Fedha.

8. Kuendesha shughuli nyinginezo zinazohusiana na ajenda za Mkutano huo Mkuu wa Mwaka

Kwa niaba ya Halmashauri Kuu

J. Shiero

....

Kwa Katibu wa Shirika,
Kenya Reinsuarance Corporation Ltd
Orofa ya 15, Reinsurance Plaza
Taifa Road,
S.L.P 30271-00100
NAIROBI.

Maelezo Zaidi

1. Mwanachama yeyote anaweza kutoa pendekezo la nia yake ya kumchagua mtu kuwa Mkurugenzi wa Halmashauri ya shirika kwa kuandika barua na kuitia sahihi na kisha kuituma kwa afisi ya Katibu Mkuu wa Shirika kupitia anuwani zilizopo hapo juu, sio chini ya siku 7 na zaidi ya siku 21 kabla ya tarehe iliyochaguliwa ya Mkutano Mkuu wa Mwaka. Taarifa kama hiyo inafaa kuambatanishwa na barua iliyotiwa saini na mtu aliyependekezwa kwa nia yake ya kuchaguliwa kama Mkurugenzi. Mtu huyo aliyependekezwa sio lazima awe mwanachama wa kampuni hiyo.

2. Mwanachama aliye na ruhusa ya kuhudhuria na kupiga kura kwenye mkutano na yule asiyeweza kuhudhuria ana ruhusa ya kumteua mtu kwa siri ili kuhudhuria na kuweza kupiga kura kwa niaba ya yake. Mtu huyo wa siri sio lazima awe mwanachama wa shirika hilo. Ili awe na uhalali, fomu ya wanachama wa siri iliyoambatishwa kwenye Ripoti ya Kifedha ya Mwaka ni lazima ijazwe na itiwe saini kikamilifu na mwanachama na pia ni lazima ifikishwe katika afisi za shirika zilizosajiliwa za Msajili wa Hisa wa Shirika, Msajili wa Huduma wa KCB, Jumba la Kencom, Orofa ya 7, S.L.P 48400-00100 GPO, Nairobi au itumwe, ili kumfikia mhusika wa KCB wa Usajili wa Huduma na hivyo basi isipite siku ya Jumanne, tarehe 1 Julai 2008, saa tano asubuhi.

Board of Directors

Nelius Kariuki
Chairman

Eunice Mbogo
Managing Director

Joseph Kinyua
Director

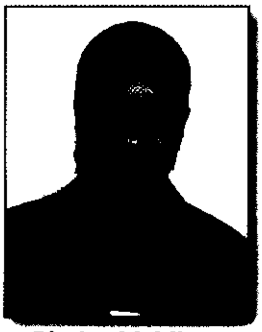
Dr. Iruki Kailemia
Director

Everest Lenjo
Director

Jacob Haji Ali
Director

Mutua Kilaka
Alternate Director

Mutwiri Ikiao
Director



Gladys M. Mboya
Director

Jane F. Otieno
Corporation Secretary

Our Business Principles

The board, 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 clients. It will endeavor to demonstrate a high standard of performance with unquestionable integrity and honesty.

Main areas of responsibility:

To Shareholders

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

To Employees

To provide it's 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 planning and direction of their respective works, recognizing that success depends on the full contribution of all employees. To encourage and use available talents and recognize performance achieved and reward on merit.

To our Cedants & Retrocessionaires

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

To Society

To carry out its operations as responsible corporate members of 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 responsibility are seen as inseparable and it is the duty of the management to continuously access 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 the same from its business partners. All employees are required to avoid conflict of interest between their private financial activities and their part in conduct of the Corporation's business. The Corporation, for both ethical and legal reasons, adheres to 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 legitimate right and responsibility to speak out publicly on matters that affect the interests of its employees, customers and shareholders, on matters of general interest where there are useful contributions to make.

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 employees' wish to do so where it is appropriate and does not adversely affect the Corporation's 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 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 it's activities to legitimately interested parties subject to any overriding consideration of confidentiality and cost.

Chairman's Statement

Shareholders,

I am delighted to present the annual report and financial statements of your company, Kenya Reinsurance Corporation Limited, for the year ended 31st December 2007. For Kenya Re, 2007 was a year of outstanding financial performance. This remarkable improvement reflects the Corporation's great potential and emphatically stamps Kenya Re's financial strength as a regional reinsurer.

Year 2007 was indeed remarkable as the Corporation not only continued its traditional track record of profitability and increase in value of total assets, but it also recorded milestones in its calendar of activities. This is the year that the Corporation was listed in the Nairobi Stock Exchange and ushered in a total of over 151, 000 shareholders following the Government's divesture of 40% of its equity to the public through a very successful IPO in the Stock Market. Let me therefore begin by welcoming all of you to your company and to your first AGM.

Financial Performance

On the financials, your business reported a 22% growth in profits before tax to Ksh. 966 million up from KShs. 796 million in 2006. After tax there was an increase of 35% to Ksh. 729 million up from KShs. 539 million in 2006. The total assets continued to improve and grew from KShs. 12.9 Billion to 14.7 Billion, a total of 14% growth over the 12 month period. The shareholders funds increased by 15% from KShs. 6.3 billion in 2006 to KShs. 7.3 Billion in the year under review. This impressive performance is a reflection of the stakeholders' confidence in Kenya Re as a strong and stable financial reinsurer coupled with prudent leadership at the Board level and serious commitment to hard work by the Management and staff.

This good performance impacted positively on the shares in the Nairobi Stock Exchange as the Share consistently performed above the NSE index. The Kenya Re counter has been among the most actively traded counters since listing on the bourse on 27th August 2007.

Overview Of Business Environment

Year 2007 started with high expectations in the global markets in terms of industrial growth despite the fear of a surge in the petroleum prices. However, this positive trend did not last long enough to carry on the favourable expectations for the industry.

Kenya in particular demonstrated a positive outlook in terms of the major economic indicators. And although the insurance sector closed the year with impressive financial performances recording high profit levels, further growth for the sector in the later days of the year was not very promising; 2007 having been an election year, the negative consequences undoubtedly spread faster than the industry's anticipations. Beginning September, the growing political concerns and subsequent fluctuations in the financial markets particularly in the last quarter of 2007, labeled businesses at the bourse as bearish and the outlook as being a fearful situation. Despite the consequences of these unfavorable

Chairman's Statement *(continued)*

developments which reduced the general appetite for insurance and slowed investments, the buoyed steady economic growth recorded earlier in the year had positive and precautionary measures for the industry.

Kenya Re continued to seize opportunities and to address the challenges to strengthen its position as a lead, secure and stable financial institution both locally and regionally. The Corporation was active and very aggressive in its marketing strategies which resulted in expansion of the existing business and acquisition of new business. Overall, the Corporation enjoyed premium growth most notably in new markets.

Dividends

Given our healthy financial position, the Board is pleased to propose a dividend of 0 .35 cents per share for year 2007.

Corporate Social Responsibility

For many years, Kenya Re contributed to the national kitty on disasters However, the Corporation reviewed this strategy and opted to be contributing directly to the local community for more impact and to establish a long-term stakeholder value. In the past year, the Corporation undertook various activities that aimed at positively impacting the community directly and more permanently, with specific focus to addressing the needs of the less fortunate members of our society and acknowledging academic excellence in our tertiary institutions.

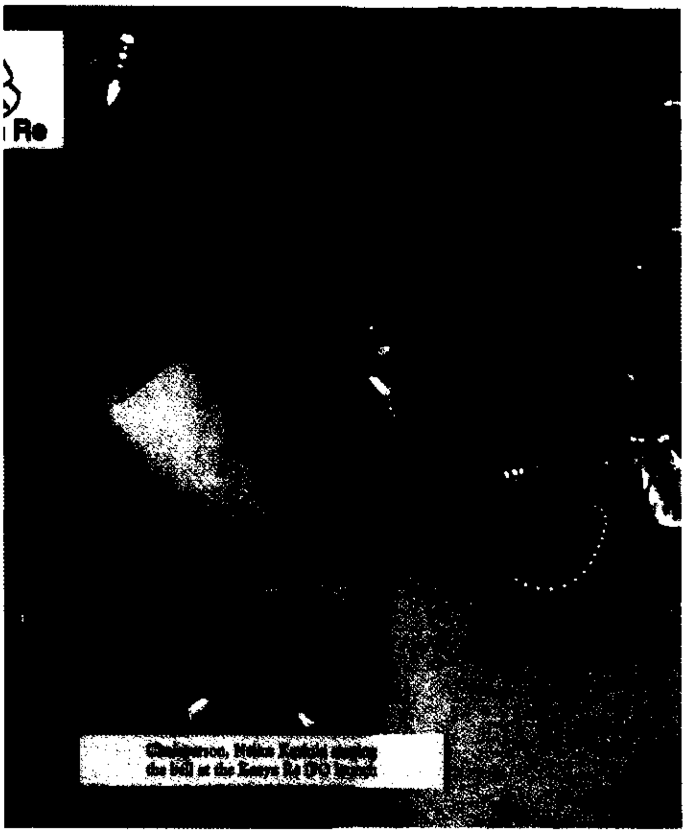
Future Outlook

Going forward, we will continue our growth strategy by growing our business to enhance our earnings and significantly contribute positively to shareholder value. This year, we plan to open a satellite office in West Africa at a cost of KShs. 10 million to tap the profitable business in the French speaking countries. The competition in the regional marketplace will be fierce and will favour those companies with financial strength. As you know, maintaining our financial strength has been a priority for us. So while we have expanded over the past year, we have successfully minimized our capital exposure and also our expenses. These were to ensure that we do not jeopardize our financial ratings where we retained our B+ grade.
It is worth noting here that we recently took significant steps to address the challenges of our management expenses. The Board approved restructuring of staff by offering a competitive voluntary early retirement package so as to ensure that the Corporation was lean.

Appreciation

Our stellar results would not have been possible if not for the support we have received from our customers, the cedants, and all our stakeholders and shareholders. As the Chairman of the Corporation, I am indebted to my fellow Board Members for their invaluable insights and support. I also wish to acknowledge the Senior Management and staff for their valuable support and dedication in reaching these favorable results, without their individual contribution it would not be possible to mark once again another successful year for Kenya Re. Finally, and on behalf of the Board, I would like to thank the Government and the regulatory bodies particularly the Capital Markets Authority, and the Nairobi Stock Exchange for their guidance and support. Allow me to take this honorable opportunity to thank you all. I am confident, that with your continued support, we will again steer the Corporation through another successful year.
Thank you and God bless you.

Nelius Kariuki
Chairman



Taarifa ya Mwenyekiti

Wenyehisa,

Nina furaha kuwasilisha kwenu ripoti na taarifa ya kifedha ya kipindi kilichomalizikia tarehe 31, Desemba 2007, ya shirika lenu la Kenya Reinsurance Corporation. Kwa shirika la Kenya Re, mwaka wa 2007 ulikuwa ni mwaka wenye matokeo mazuri na ya kuridhisha. Matokeo hayo, yanadhihirisha uwezo kamili na uthabiti wa kifedha ambao shirika la Kenya Re limeweza kuwaonyesha washika dau wake katika eneo letu zima.

Mwaka wa 2007 ulikuwa ni kielelezo tosha kwani kama kawaida yake, shirika hili lilipata faida na kadhalika kuzidisha thamani ya rasilimali zake, huku likithibiti vyema mipango yake ya shughuli mbali mbali za mwaka. Huu ulikuwa ndio mwaka ambao shirika hili lilipojiunga ili kuwekeza katika soko la hisa la (NSE) na kuongezea wenyehisa wake hadi kufikia takribani watu 151, 000 kufuatia ngawira ya Serikali ya asilimia 40 ya mgawo wake kwa umma kupitia uwekezaji wa umma yaani IPO. Hivyo basi, ningependa kuanza kwa kuwakaribisheni nyote kwenye kusanyiko hili la shirika lenu na katika Mkutano huu Mkuu wa Mwaka.

Matokeo ya Kifedha

Katika taratibu za kifedha, biashara yenu imekuwa na ongezeko la asilimia 22 ya faida kabla ya ushuru na kufikia shilingi milioni 966 kutoka shilingi 796. Pia imekuwa na ongezeko la asilimia 35 baada ya ushuru ili kufikia shilingi Milioni 729 kutoka shilingi Milioni 539 mnamo mwaka wa 2006. Kiwango cha jumla cha rasilimali kiliimarika na kukua kutoka shilingi Bilioni 12.9 hadi shilingi Bilioni 14.7; ongezeko la asilimia 14 katika kipindi cha mwaka mmoja uliopita. Hazina ya wenyehisa iliongezeka kwa asilimia 15 kutoka shilingi bilioni 6.3 kwenye mwaka wa 2006 hadi shilingi bilioni 7.3 katika mwaka unaozungumziwa. Matokeo haya mazuri ndio picha kamili ya imani ya washikadau wetu hapa Kenya Re kwani inatuakisi kama shirika bora na thabiti la wanabima linaloendeshwa kitaalamu katika ngazi ya kihalmashauri na uwajibikaji wa dhati kutoka kwa wafanyikazi na wasimamizi wote.

Haya matokeo bora yalichangia vyema katika hisa kwenye Soko la Hisa la Nairobi kwani hisa hizo zilithibiti vizuri viwango vya soko la NSE. Kaunta ya Kenya Re imekuwa miongoni mwa kaunta zinazofanya vyema katika soko la hisa kutokea wakati tulipojiandikisha kwenye soko mnamo Agosti 27, 2007.

Mtazamo wa Mazingira ya Kibiashara

Mwaka wa 2007 ulianza kwa mtazamo wa juu katika masoko ya kimataifa, hasa kwenye sekta ya ukuaji wa viwanda licha ya hofu ya kuongezeka kwa bei ya mafuta ya petrol. Hata hivyo, hali hii ya kuridhisha haikudumu kwa kipindi kirefu ili kuyaweka wazi mafanikio yaliyokuwa yametarajiwa katika sekta hiyo.

Taifa la Kenya lilionyesha ukakamavu wa kutosha kwa kuviweka wazi viashiria vya kiuchumi. Licha ya sekta ya bima kuufunga mwaka kwa kuonyesha matokeo mazuri ya kifedha hasa viwango vya juu vya faida, matokeo ya mwisho wa mwaka huo hayakuwa ya kuridhisha mno, na sula la mwaka wa 2007 kuwa mwaka wa Uchaguzi Mkuu, matukio ambayo hayakutarajiwa na wengi yalidhihirika. Kutoka mwanzo wa mwezi wa Septemba, Mahitaji ya kisiasa yalikuwa mengi na hivyo kusababisha mafuriko kwenye

Taarifa ya Mwenyekiti

masoko ya kifedha hususan katika miezi ya mwisho ya mwaka wa 2007 ambayo ilibatiza biashara kwenye soko la hisa kama 'biashara ya dira' na mtazamo kamili wa soko lenyewe kuwa wa kuogopesha. Licha ya hali hiyo mbovu ya matukio ya kibiashara yaliyopelekea kupungua kwa hamu ya ununuaji wa bima na kuzorota kwa viwango vya uwekezaji, ukuaji wa kiuchumi uliopatikana mwanzoni mwa mwaka huo ulikuwa na mafanikio yake na pia hali ya kuogopesha katika sekta nzima.

Kenya Re, iliendelea kujitafutia nafasi nyingine za kibiashara na kadhalika kushughulikia changamoto zitakazoimarisha nafasi yake kwenye soko kama asasi ya kifedha iliyo kiongozi, salama na imara humu nchini na kimataifa. Shirika hili lilijitahidi kuboresha mbinu zake kwenye mauzo na kutangaza bidhaa zake ambazo zilipelekea kupanuka kwa biashara zake na hata kununua biashara mpya. Kwa jumla, shirika lenu lilifurahia ukuaji wa wastani hususan katika masoko mapya.

Mgawo wa Hisa

Kufuatia hayo mafanikio mazuri ya kifedha, Halmashauri yetu kuu ina furaha ya kupendekeza mgawo wa senti 0.35 kwa kila hisa kwa mwaka wa 2007.

Majukumu ya Kijamii

Kwa miaka mingi sasa, Kenya Re imechangia pakubwa kwenye hazina ya kitaifa ya misukosuko. Hata hivyo, Shirika hili lilipigia darubini mikakati yake na kuonelea kwamba ni bora kuchangia moja kwa moja kwa wanajamii ili kupata matokeo ya haraka na kuunda uhusiano wa muda mrefu kwa washikadau wake. Katika kipindi cha mwaka uliopita, shirika lenu liliendesha shughuli mbali mbali zilizolenga kuifaidi jamii moja kwa moja na kwa kipindi kirefu, huku tukitarajia kuwafikia maskini na kujihusisha na uboreshaji wa kanuni za kielimu kwenye vyuo vyetu anuwai.

Mikakati ya Baadaye

Ili kuendelea vyema, tutazidi kuimarisha mikakati yetu kwa kuboresha biashara ili kuinua viwango vya mapato na pia kuthibiti vyema uhusiano uliopo kati yetu na washikadau. Mwaka huu, tuna mipango ya kufungua afisi ya Wambiyo (satellite) huko Afrika Magharibi na itatugharimu shilingi Milioni 10 ili kuopoa biashara yenye faida kwenye mataifa yanayotumia lugha ya Kifaransa. Ushindani katika eneo letu la kibiashara utakuwa mkubwa sana na ushindani huo utayafaa mashirika yaliyo na uwezo wa kifedha. Kama unavyofahamu, tumelipatia kipaumbele suala la kuhimili uwezo wetu wa kifedha. Hali hiyo ilisababisha mafanikio yetu ya mwaka uliopita, kwani tumepunguza makadirio ya viwango vyetu vya mtaji na matumizi yetu. Sababu hiyo ilikuwa ni kuhakikisha kwamba viwango vyetu vya kifedha havififii huku tukibakia katika gredi yetu ya B+.

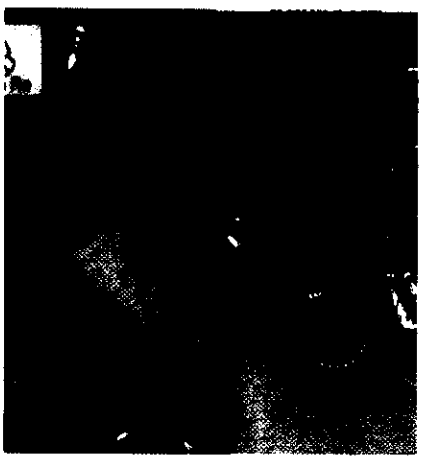
Ni muhimu kuwaeleza hapa ya kuwa, hivi majuzi tulichukua hatua kabambe ya kukabiliana na changamoto ya kupunguza gharama za matumizi kwenye usimamizi wa shirika. Kadhalika, Halmashauri Kuu ilipitisha mpango wa kuwaruhusu wafanyikazi, kwa hiari yao, kuweza kustaafu mapema huku pakitolewa malipo mazuri kwa wale waliojitolea kufanya hivyo ili kuhakikisha kwamba shirika hili lina idadi inayohitajika ya wafanyikazi.

Shukurani

Matokeo haya yakupendeza yasingaliweza kupatikana bila ya usaidizi mkubwa wa wateja, wahusika wetu na hali kadhalika washikadau na wenyehisa wote. Kama Mwenyekiti wa shirika hili, nawashukuru mno wanachama wa halmashauri yetu kwa maono na usaidizi wao wa dhati. Kadhalika, ningependa kuwapongeza Viongozi wa Idara mbali mbali na wafanyikazi wote kwa usaidizi wao wenye thamani kubwa na kujitolea kwao katika kuyafikia matokeo tuliyopata, kwani bila ya michango yao ya kibinafsi tusingalifika tulipofika na kusherehekea kwa mara nyingine tena mwaka wenye mafanikio kabambe kwa shirika la Kenya Re. Mwisho kabisa, na kwa niaba ya Halmashauri Kuu, ningependa kuishukuru Serikali na Halmashauri Kuu za Usimamizi hususan Mamlaka ya Masoko ya Mtaji (Capital Markets Authority), na kampuni ya Soko la Hisa ya Nairobi (Nairobi Stock Exchange) kwa uelekezi na usaidizi wao. Naomba muniruhusu niuchukue wakati huu kuwapongezeni nyote. Nima imani kwamba kupitia usaidizi wenu , tutakuwa na mwaka mwingine wenye mafanikio mema.

Asanteni sana na Mungu awabariki.

Nelius Kariuki
Mwenyekiti



Kenya Re

Report of Directors

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2007 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 30.

3. Dividends

   The directors recommend the payment of a dividend of KShs 218 million for the year ended 31 December 2007 (2006 - KShs 150 million).

4. Directors

   The directors of the Corporation who served during the year are set out on page 3 and 8.

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 audit for the year ended 31 December 2007.

6. Approval of financial statements

   The financial statements were approved at a meeting of the Directors held on 28th April 2008.

By order of the Board

Corporation Secretary

Date: 28th April 2008.

Statement of Directors' Responsibilities

The directors are responsible for the preparation and presentation of the financial statements of Kenya Reinsurance Corporation Limited set out on pages 30 to 72 which comprise the balance sheet at 31 December 2007, 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.

The directors responsibility includes: determining that the basis of accounting described in note 1 is an acceptable basis for preparing and presenting the financial statements in the circumstances; designing, implementing and maintaining internal control relevant to the preparation and presentation of these 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.

Under the Kenyan Companies Act, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company 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 company.

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 company 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.

The Directors have made an assessment of the company's ability to continue as a going concern and have no reason to believe the company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 28th April 2008.
and were signed on its behalf by:

Director

Director

Managing Director's Statement

I am happy to be part of the 2007 team that delivered record financial results in Kenya Reinsurance Corporation limited. I am pleased to report that we did not only achieve a successful IPO process where the Corporation transited from a public company that was fully owned by the government into a quasi-private company with 40% of its equity relinquished to the public through the Nairobi Stock Exchange. We also exceeded the IPO promise to our shareholders.

Financial Results

Kenya Re recorded impressive results with the profits after tax increasing of 35% to stand at KShs. 729 million up from KShs. 539 million in 2006. The total assets also improved from KShs. 12.9 Billion to 14.7 Billion, a total of 14% growth in year 2007. The shareholders funds also increased by 15% from KShs. 6.3 billion in 2006 to KShs. 7.3 Billion in 2007.

This strong operating performance is as a result of steady growth in business volumes, prudent investment policy, stringent cost cutting practice and strong marketing strategies. The aggressive and effective marketing practices enabled the Corporation to acquire new business both locally and internationally. Similarly, the profits realised were due to increased shares in existing companies and markets coupled with improved dealings with brokers. The growth in the investments income was due to the increase in rental income and enhanced rent collection, prudent asset allocation and improved collections from cedants.

Business Enviroment

The global reinsurance sector was characterised by a number of contradictory features. Different regions of the world reported fairly mixed growth performances due to increasing warnings of softening markets.

In the local scene, key sectors of the economy showed remarkable growth in performance, but despite the improving economy, growing the business while maintaining underwriting quality was a challenge as the operating business environment was characterised by stiff competition and incidents of unscrupulous insurance practices which presented a threat to the reinsures.

In our endeavour to meet customer expectations' we developed a service charter with service level agreements. This not only enabled customers to know with precision what to expect from us, but also all staff were able to deliver uniformity of quality service. Where we got business through brokers, we made deliberate efforts to meet the ceding company and ensured that we familiarize our selves with the insurance company to ensure that we fully satisfied the client.

Improving Our Efficiency

For more efficiency and to increase speed in our business processes, we identified our Information and Communication

Managing Director's Statement *(continued)*

Technology needs in tandem with our business volume growth, and propose to buy new software, namely a Financial System, Life System and Document Management System in the year 2008.

Future Outlook

Going forward, the strategies to sustain profitability and growth will include penetration in the French-speaking market, aggressive marketing to penetrate new markets and increase the existing market share, prudent underwriting; analyzing the business and scaling down in loss making businesses and regions (Asia and Middle East).

At the same time, the corporation will partner with cedants to develop new products, endeavour to reduce management expense ratio and loss ratio control. We will also ensure immediate claims recovery from retrocessionaires, verify large claims by visiting the scenes; diversify to new product lines, such as venture into commercial mortgage, offshore investments and fast-tracking disposal of low yielding and non performing assets to sustain profitability and add value to our shareholders.

Appreciation

Once again, the impressive performance for 2007 would not have been made possible without the continued commitment and dedication of the Management and staff of Kenya Re. I therefore wish to thank them for their loyalty as well as extend gratitude to the Board of Directors for their guidance and support. My sincere thanks also go to our stakeholders, the ceding companies and the regulatory authorities for their support which was instrumental in our success.

E. W. Mbogo

Thank you.

Eunice Mbogo
Managing Director

Taarifa ya Mkurungenzi Mkuu

Nina furaha kuwa miongoni mwa timu ya wafanyikazi shupavu wa mwaka 2007 iliyovunja rekodi kwa kuzalisha matokeo mazuri kwenye shirika la Kenya Reinsurance Corporation Limited. Nina furaha kuripoti kwamba hatukufaulu tu katika taratibu za Mgawo wa Hisa kwa Umma (IPO) ambapo shirika hili lilijiondoa kutoka kwa umiliki mzima wa serikali hadi katika hali ambapo asili mia 40 ya umiliki wa kampuni hii kwa hivi sasa ni wa umma kupitia kwa Soko la Hisa la Nairobi. Kadhalika, tulitimiza na kupitisha ahadi ya Mgawo huo wa HIsa kwa Umma (IPO) kwa wenyehisa wetu.

Matokeo ya Kifedha

Shirika la Kenya Re lilirekodi matokeo mazuri huku faida baada ya ushuru ikiongezeka kwa asilimia 35 kufika shilingi milioni 729 kutoka shilingi milioni 539 mwaka wa 2006. Idadi nzima ya mali ilizidi kuimarika kutoka shilingi bilioni 12.9 hadi shilingi bilioni 14.7 ambapo ni kukua kwa asilimia 15 katika mwaka 2007. Hazina ya wenyehisa iliongezeka kwa asilimia 15 kutoka Shilingi Bilioni 6.3 mwaka 2006 hadi shilingi bilioni 7.3 mwaka 2007.

Matokeo haya mazuri ya kiusimamizi kwenye utendakazi ni zao la kukua kwa viwango vya kibiashara, sera nzuri za uwekezaji, mbinu bora za kukata matumizi ya kifedha na mikakati imara ya matangazo ya bidhaa zetu. Mbinu zetu bora za matangazo kuhusu shirika hili zimetufanya kupata biashara humu nchini na kimataifa. Vivyo hivyo, faida iliyopatikana ilitokana na kuongezeka kwa hisa kwenye mashirika yaliyopo na masoko ya mawakala wazuri wanaoelewa shughuli za masoko yetu. Ukuaji wa mapato ya uwekezaji ulitokana na kuongeza kwa ada ya ukodishaji na ukusanyaji mzuri wa kodi, ugawaji mzuri wa mali na ukusanyaji bora kutoka kwa watu walioachiwa ardhi au mali.

Mazingira ya Biashara

Sekta ya bima ya kilimwengu ilikabiliwa na mambo kadhaa yanayotofautiana. Maeneo kadhaa duniani yaliripoti ukuaji uliotatanisha kutokana na kuongezeka kwa onyo kuhusu kudidimia kwa masoko.

Hapa nchini, sekta mihumu za uchumi zilionyesha ukuaji mzuri wa kibiashara, lakini hata ingawa uchumi umeimarika, kukuza biashara huku ukiendeleza ubora unaotakikana kulikuwa changamoto kubwa kwani hali ya biashara ilikuwa inakabiliwa na ushindani mkubwa.

Na visa vya walaghai kwenye bima ambavyo vilileta tishio kwa watumizi wa bima kubwa.

Katika juhudi zetu za kufikia matarajio ya wateja, tulianzisha mfumo wa huduma wenye makubalianao. Jambo hili halikuwezesha wateja kufahamu pekee kile wanachoweza kupata kutoka kwetu bali pia wafanyikazi walimudu kutoa huduma bora na sawa kwa wote. Pale tulipopata biashara kupitia kwa mawakala tulihakikisha kwamba tulikutana na kampuni wanazotumikia ili kufahamikiana na kuhakikisha kwamba tumemtosheleza mteja.

Kuboresha Utendaji Bora Wetu

Kwa utendaji kazi bora na kuongezeka kwa kasi na mawasiliano

Taarifa ya Mkurungenzi Mkuu

katika shughuli za kibiashara, tulibainisha mahitaji yetu ya teknolojia habari na mawasiliano kuambatana na ukubwa wa ukuaji wa biashara yetu na tukapendekeza kununuliwa kwa programu za kompiuta kama Finacial System, Life System na Document Management System katika mwaka wa 2008.

Maono Ya Siku Zijazo

Kwa kwenda mbele, mikakati ya kuendeleza faida na ukuaji zitahusisha kujitoma katika masoko ya wateja wazungumza Kifaransa, kufanya elimu kwa masoko kuhusu huduma zetu ili kupenya katika masoko mapya na kuongeza idadi ya wateja katika masoko tuliyopo, uchanganuzi maridhawa wa biashara na kupunguza matumizi mengi ya pesa katika maeneo ambayo tunapata hasara (Asia na Mashariki ya Kati).

Wakati huo huo, shirika hili litaungana na kampuni zingine za bima kubuni na kuzindua bidhaa mpya na kujizatiti kupunguza utumizi mkubwa na kudhibiti hasara. Tutahakikisha kukombolewa kwa pesa kutoka kwa retrocessionaires, kukagua matukio tunayopaswa kulipa kwa kutembelea sehemu hizo, kuanza bidhaa mpya kama kujiingiza kwenye mpango wa kuwezesha watu kununua nyumba, kuwekeza kwa mbali na kuondoa bidhaa na mali ambayo haileti mapato mazuri ili kuendeleza faida na kuongezea wenye hisa ubora.

Shukrani

Kwa mara nyingine, matokeo mazuri ya mwaka 2007 hayangewezekana bila uwajibikaji na hali ya kujitolea ya wasimamizi na wafanyikazi wa Kenya Re. Hivyo basi nawashukuru kwa utiifu na kuendeleza shukrani zangu kwa Halmashauri ya wakurugenzi kwa muongozo na kuunga mkono. Shukrani zangu za dhati pia zielekee kwa washika dau, kampuni za bima na sheria za utawala ambazo zilichangia katika ufanisi wetu.

Asanteni.

E. M. Mbogo

Eunice Mbogo
Mkurugenzi Mkuu

Kenya Re

Management Team

1.	**Eunice W. Mbogo**	Managing Director
2.	**Michael J. Mbeshi**	General Manager (Property & Investments)
3.	**Jadiah M. Mwarania**	General Manager (Reinsurance Operations)
4.	**Jacqueline N. Njui**	Manager (Finance & Investments)
5.	**Jane F. Otieno**	Corporation Secretary
6.	**Esther N. Kimanzi**	Manager (Administration & Supplies)
7.	**Nancy Njakai**	Manager (Life)
8.	**Beth Nyaga**	Manager (International)
9.	**Charles Etemesi**	Assistant Manager (Local Business)
10.	**Mumut Ole Sialo**	Statutory Manager (United Insurance Company)
11.	**Sally W. Kang'ethe**	Human Resource Manager
12.	**Consolata W. Kihara**	Manager (Property)
13.	**George K. Njuguna**	Manager (ICT)
14.	**Anticonen Gichana**	Internal Audit Manager
15.	**Samson Mudogo**	Assistant Chief Accountant
16.	**Mary Mwendwa**	Deputy Manager (Corporate Affairs)
17.	**John Rika**	Deputy Manager (Property)
18.	**Charles Abebe**	Assistant Manager (ICT)
19.	**Sammy Kaaria**	Assistant Manager (Internal Audit)
20.	**Susan Njuguna**	Assistant Legal Officer
21.	**Jean-Claude Razafimandimby**	Senior French Underwriter

Corporate Governance Statement

Corporate governance is the process and structure by which companies are directed and controlled and held accountable in order to achieve long term value to shareholders taking cognizant of the interest of other stakeholders.

The Board of Directors of Kenya Reinsurance Corporation Ltd is responsible for the governance of the Corporation and is accountable to the shareholders for ensuring that the Corporation complies with the law and the highest standards of business ethics and corporate governance. Accordingly the Board attaches very high importance to the generally accepted corporate governance practice and has embraced the internationally developed principles and code of best practice of good corporate governance.

Board of Directors

The roles and functions of the Chairman and the Managing Director are distinct and their respective responsibilities clearly defined.

The Board comprises of eight directors of which seven of them are independent non-executive including the Chairman. The Board defines the Corporation's strategies, objectives and values and ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues. The directors bring a wealth of experience and knowledge to the Board's deliberations.

Except for direction and guidance on general policy, the Board has delegated authority of its day-to-day business to the Managing Director. The Board nonetheless is responsible for the stewardship of the Corporation and assumes responsibilities for the effective control over the Corporation.

The Corporation Secretary advises the Board on all corporate governance matters and statutory requirements as well as attends all the Board meetings.

Board Meetings

The Board holds meetings on a regular basis while special meetings are called when it is deemed necessary to do so. The Board held 16 regular and 10 special meetings during the year under review.

Committees of the Board

The Board has set up the following principal committees which meet under well defined terms of reference set by the Board. This is intended to facilitate efficient decision making of the Board in discharging its duties and responsibilities.

Audit Committee of the Board

The membership of the Audit Committee comprises Everest Lenjo (Chairman), Mutwiri Ikiao, Dr. Iruki Kailemia, Mutua Kilaka, Peter Ondieki (Now retired).

The committee assists the Board to fulfill its corporate governance responsibilities and in particular to:

- Review financial statements before submission to the Board focusing on changes of accounting policies, compliance with the International Financial Reporting Standards and legal requirements and the going concern assumption.
- Strengthen the effectiveness of the internal audit function.
- Maintain oversight on internal control system.
- Increase the shareholders' confidence in the credibility and standing of the Corporation.
- Review and make recommendations regarding the Corporation's budgets, financial plans and risk management.
- Liaise with the external auditors.

Corporate Governance Statement *(continued)*

The Committee held 5 regular and 2 special meetings in the year under review

Risk Managemnt and Internal Controls

The Corporation has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information.These cover systems for obtaining authority for all transactions and for ensuring compliance with the laws and regulations that have significant financial implications. In reviewing the effectiveness of the internal control system, the Board takes into account the results of work carried out to audit and review the activities the Corporation. The Board also considers the management accounts for each quarter, reports from each Board Committee, annual budgetary proposals, major issues and strategic opportunities for the Corporation.
As an integral strategy in achieving its corporate goals the Board ensures that an optimal mix between risks and returns is maintained. To achieve this goal a risk management programme has been put 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.

Human Resource Committee of the Board

Gladys Mboya is the Chairman of this committee while Jacob Ali Haji, Eunice Mbogo, Mutua Kilaka, Peter Ondieki (Now retired) are members.

The Committee reviews and recommends on issues relating to Training Needs, Job Transfers, Staff Recruitment, Staff Placements, Promotions, Demotions, Discipline and Staff Welfare.

The committee held 5 regular meetings during the period under review.

Creating Shareholders' Value

In order to assure the shareholder of the commitment to activities that create and enhance shareholder value, the Board signs a performance contract and continue to perform an annual evaluation exercise to review and audits its role and success or otherwise to meet the challenges envisaged at the beginning of each year.

Directors Emoluments and Loans

The aggregate amount of emoluments paid to directors for services rendered during the financial year 2007 are disclosed in the notes to the financial statements on page. Non- executive directors are paid sitting allowances for every meeting attended. There were no arrangements for the directors to acquire benefits through the acquisition of the Corporation's shares.

Lending to Board of Directors as at the end of the year is disclosed in the financial statements on page 69.

Directors interest in the shares of the Corporation and the distribution of the Corporation's shareholding and analysis of the ten largest shareholders as at 31st December 2007 were as follows:-

Corporate Governance Statement *(continued)*

Directors Interests
As At 31st December, 2007

Name of Directors	Number of Shares	% Shareholding
Permanent Secretary to the Treasury of Kenya	360,000,000	60.00
Nelius Kariuki	0	0.00
Jacob Haji Ali	300	0.00
Dr. Iruki Kailemia	0	0.00
Everest Lenjo	72	0.00
S. Mwitiri Ikiao	0	0.00
Gladys Mboya	15,772	0.00
Mutua kilaka	3,303	0.00
Eunice Mbogo	25,143	0.00

Shareholders' Profile as at 31st December, 2007	Number of Shareholders	Number of Shares Held	% of Issued Share Capital
Kenyan Individual Investors	132,001	121,190,414	20.20
Kenyan Institutional Investors	13,409	468,405,886	78.07
East African Individual Investors	263	759107	0.13
East African Institutional Investors	129	773,996	0.13
Foreign Individual Investors	561	1,707,002	0.28
Foreign Institutional Investors	225	7,163,595	1.19
	146,588	**600,000,000**	**100.00**

Major Shareholders	Number of Shares Held	% Shareholding
Permanent Secretary to the Treasury of Kenya	360,000,000	60.00
Sterling securities nominnes ltd A/C N.S.SF	12,700,000	2.12
National Social Security Fund	7,389,638	1.23
Barclays (Kenya) Nominees Ltd A/C 9230	5,322,629	0.89
Mahendra Kumar Khetshi Shah	3,748,774	0.62
Cannon Assurance (Kenya) Limited	3,623,669	0.60
Stanbic Nominees Kenya Ltd A/C R48701	3,148,584	0.52
Continental Reinsurance PLC	2,713,842	0.45
Barclays (Kenya) Nominees Ltd A/C 9397	2,462,483	0.41
Kenindia Assurance Company Ltd - Pension Fund	2,148,392	0.36
Barclays (Kenya) Nominees Ltd Non-Resd A/C 9322	2,055,500	0.34
	405,313,511	**67.55**

Corporate Governance Statement *(continued)*

Summary of Totals

Shares Range	Shareholders	Number of Shares	% Shareholding
1 to 5000	142,969	76,810,067	12.80
5001 to 50,000	3,252	40,352,252	6.73
50,001 to 100,000	200	13,998,689	2.33
100,001 to 1,000,000	139	39,855,006	6.64
1,000,001 to 10,000,000	27	68,983,986	11.50
10,000,001 & above	1	360,000,000	60.00
	146,588	**600,000,000**	**100.00**

Board Committees

Audit Committee	Human Resource Committee	Executive Management Committee
Composition	**Composition**	**Composition**
-Five Non-Executive Directors	-Four Non- Executive Director	-Managing Director
-Manager(Internal Audit)	-Managing Director	-General Managers
	-Manager(Human Resource)	-Managers
Frequency Of Meetings Per Annum	**Frequency Of Meetings Per Annum**	**Frequency Of Meetings Per Annum**
Six and as when necessary	As and when necessary	Monthly
Chairman	**Chairman**	**Chairman**
Everest Lenjo	Gladys Mboya	Eunice Mbogo
Members	**Members**	**Members**
S. Mutwiri Ikiao	Jacob Haji Ali	(See Page 20)
Iruki Kailemia	Eunice Mbogo	
Mutua Kilaka	Mutua Kilaka	
Peter Ondieki (Retired)	Peter Ondieki (Retired)	
	Salome Kangethe	

Corporate Social Responsibility

Kenya Re is committed to supporting the development of the larger community, through working with its employees and other stakeholders.

Kenya Re endeavors to support the less fortunate members of society and also through excellence awards to support the academic progress in our tertiary institutions.

The Corporation reviews various requests presented by the stakeholders and prudently allocates resources to meet those needs. Through these initiatives, the Corporation is able to give hope and economic value to its target audience.

In 2007, Kenya Re supported a number of destitute and orphans' children homes. We also contributed to the internally displaced persons following the post election political violence.

Education is a core area where Kenya Re has over the years supported academic excellence in the institutions of higher learning by rewarding the best students in various categories related to our business. The benefiting categories include: The Most Outstanding Scholar of the Year, Best Student in Insurance option, actuarial science, mathematics and related subjects. We also host a program for induction and internship to university and diploma students for a period of three months with a stipend allowance.

Going forward, we intend to place further emphasis on insurance education for the public through the print and electronic media to ensure greater uptake of insurance in the country.

Kenya Re

Actuary's Certificate

Actuary's Certificate

Alexander Forbes

I, James Israel Omanyala Olubayi of Alexander Forbes Financial Services (EA) Ltd, Landmark Plaza, 10th Floor, Landmark Plaza Argwings Kodhek, 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 2007 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.

30 April 2008

Date

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

Consultants & Actuaries
P.O. Box 52439, City Square, Nairobi, 00200, Kenya
10th Floor, Landmark Plaza, Argwings Kodhek Road
Opposite Nairobi Hospital
Tel:+254 (20) 271 0722 / 271 0755 / 271 0789 / 271 0782
Fax:+254 (20) 271 0721
Email: actuaries@afforbes.co.ke

Alexander Forbes Financial Services (East Africa) Limited

Report of the Controller and Auditor General *(continued)*

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 Corporation's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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 2007 and of its profit and cashflows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Kenya Companies Act, Cap 486 of the Laws of Kenya.

P. N. KOMORA, CBS.
CONTROLLER AND AUDITOR GENERAL

Nairobi

28 April 2008

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: cag@kenyaweb.com

P.O Box 30084-00100
NAIROBI

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 2007

The financial statements of Kenya Reinsurance Corporation Limited set out on pages 6 to 47 which comprise the balance sheet as at 31 December 2007 and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, together with 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.

Responsibility 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.

Income Statement

For the year ended 31 December 2007

	Note	2007 KShs	2006 Restated KShs
ncome			
nsurance premium revenue	4	3,222,288,178	3,114,829,098
nsurance premium ceded to reinsuers	4	(247,754,120)	(323,205,267)
Net insurance premium revenue	4	**2,974,534,058**	**2,791,623,831**
nvestment income	5	939,325,878	753,096,379
air value gains on investment properties	25	65,620,000	-
Reversal of write down on inventory	26(b)	99,129,200	-
Reversal/(impairment loss) on unquoted investment	20	25,500,000	-
Transfer from Life Fund	30	74,627,765	-
Net income		**4,178,736,901**	**3,544,720,210**
Insurance benefits	6(a)	(208,812,761)	(306,588,879)
Insurance claims incurred	6(b)	(1,465,434,010)	(1,215,923,448)
Commissions	7	(933,548,493)	(806,761,017)
Net insurance claims and benefits		**(2,607,795,264)**	**(2,329,273,344)**
Management expenses	8	(476,240,205)	(453,138,689)
Rationalization expenses	9	(197,097,769)	-
Profit from operations		**897,603,663**	**762,308,177**
Share of profit of associate	17	68,142,364	33,881,906
Profit before income taxes	10	**965,746,027**	**796,190,083**
Income tax expense	11	(236,481,943)	(256,838,405)
Profit for the year after income taxes		**729,264,084**	**539,351,678**
Earnings per share	12	**1.21**	**3.59**

The notes set out on pages 35 to 72 form an integral part of the financial statements.

Afisi ya Kitaifa ya Ukaguzi wa Hesabu

Ripoti ya msimamizi na mkaguzi mkuu wa hesabu kuhusu taarifa za kifedha za shirika la Kenya Reinsurance Corporation Limited katika kipindi cha mwaka kilichomalizikia desemba 31, 2007.

Taarifa za kifedha za shirika la Kenya Reinsurance Corporation Limited zilizotajwa kwenye ukurasa wa 6 hadi 47 zilizo na malimbikizi mpaka kufikia Desemba 31, 2007, taarifa ya mapato, taarifa ya mabadiliko ya hisa zilizo na riba ya kudumu na taarifa ya uingiaji wa pesa taslimu katika mwaka huo uliomalizika, na taarifa ya sera maalum za uhasibu na matini mengineyo yamekaguliwa kwa niaba yangu na KPMG Kenya, wakaguzi walioteuliwa chini ya Sehemu ya 39 ya sheria ya Ukaguzi wa Umma wa mahesabu ya mwaka 2003. Wakaguzi wameripoti kwangu matokeo ya ukaguzi wao na kwa misingi ya ripoti yao, nimetosheka kwamba habari zo na maelezo ambayo kulingana na ninavyoelewa vyema na imani yangu, palikuwa na haja kuu ya kupatikana kwazo kwa minajili ya ukaguzi huo wa kifedha.

Majukumu ya Wakurugenzi Wakuu katika taarifa za Kifedha

Ni jukumu la Wakurugenzi Wakuu kutayarisha taarifa za kifedha ambazo zinaonyesha hali halisi na ukweli wa mambo katika shirika na matokeo ya kibiashara kulingana na ubora wa utendakazi kwa viwango vya 'International Finacing Reporting Standards'. Majukumu haya ni pamoja na: kuunda, kutekeleza na kuthibiti taratibu husika zinazoambatana na matayarisho na mawasilisho yenye uhaki katika taarifa za kifedha ambazo ni huru dhidi ya makosa, iwe ni kutokana na ulaghai au makosa ya kawaida; kuchagua na kutumia sera madhubuti za uhasibu; na kutengeneza makadirio ya kihesabu ambayo ni ya kisawa kulingana na hali halisi ilivyo.

Majukumu ya Msimamizi na Mkaguzi Mkuu wa Mahesabu

Jukumu langu ni kueleza maoni yangu binafsi kuhusu taarifa za kifedha kulingana na ukaguzi wa hesabu. Ukaguzi ulifanyika kwa kuzingatia Viwango vya Ubora wa Ukaguzi wa Hesabu vya Kimataifa.
Viwango hivyo vinafaa kuambatana na mahitaji ya kimaadili na kwamba ukaguzi upangwe na kufanywa kwa minaajili ya kupata uhakika mzuri kwamba taarifa za hesabu hazina makosa yoyote.

Ukaguzi huo unajumuisha kushughulikiwa vizuri ili kufikia usawa na ushahidi wa kutosha wa Ukaguzi hasa kuhusu viwango vya pesa na vile vilivyotajwa kwenye taarifa ya kifedha. Shughuli zilizochaguliwa zinategemea na maamuzi ya mkaguzi, pamoja na kuangalia kwa kina hatari ya makosa ya taarifa ya kifedha, iwe ni kutokana na ulaghai au makosa ya kawaida.
Kwa kutathmini hatari hizo, mkaguzi anatilia maanani udhibiti wa ndani unaohusiana na matayarisho ya na mawasilisho ya taarifa ya kifedha ya shirika ili kutayarisha taratibu za shughuli za ukaguzi ambazo ni bora kulingana na hali, lakini sio kwa minajili ya kueleza maoni kuhusu ubora wa udhibiti wa ndani wa kampuni. Ukaguzi pia unajumuisha kuangalia ubora wa kanuni za uhasibu zilizotumiwa na usawa wa makadirio ya kifedha yaliyofanywa na wakurugenzi, na vile vile kuangalia uwasilishi mzima wa taarifa ya kifedha. Naamini kwamba ukaguzi huu unatoa msingi kamili wa maoni yangu.

Maoni

Kwa maoni yangu, vitabu muafaka vya hesabu vimewekwa na taarifa za kifedha zilizoambatanishwa nazo zinatoa hali halisi ya usawa ya maswala ya kifedha ya shirika hili hadi kufikia tarehe 31 Desemba 2007 na kuhusu faida na uingiaji wa pesa taslimu katika mwaka uliomalizika kulingana na Viwango vya Kuripoti Ubora wa Kifedha vya Kimataifa (International Financial Reporting Standards) na Sheria za Ushirika za Kenya, Kifungu cha 486 cha Sheria za Kenya.

P. N. KOMORA
Msimamizi na mkaguzi mkuu wa hesabu

Nairobi
28th April 2008

Kenya Re

Balance Sheet

At 31 December 2007

	Note	2007 KShs	2006 Restated KShs
Assets			
Property and equipment	13	21,824,656	52,464,515
Non current assets held for sale	14	316,728,875	316,728,875
Intangible asset	15	4,280,952	5,038,877
Deferred tax asset	16	68,355,579	35,391,096
Investment in associate	17	318,680,487	285,964,391
Financial assets			
Held to maturity - Government securities	18	1,826,458,448	1,641,122,629
Available for sale equity assets	18	2,737,572,838	2,257,770,947
Loans and receivables including reinsurance receivables	18	4,153,010,323	3,546,112,105
Cash and cash equivalents	24	1,459,418,605	1,084,837,689
Investment properties	25	3,335,620,000	3,270,000,000
Inventories	26	468,324,049	483,552,430
Tax recoverable		-	3,849,907
Total Assets And Life Funds		**14,710,274,812**	**12,982,833,441**
Capital and reserves (Pages 9 & 10)			
Ordinary share capital	27	1,500,000,000	1,500,000,000
Other reserves	28	2,315,629,127	2,038,540,175
Retained earnings		3,218,299,008	2,647,408,377
Proposed dividends	29	218,779,225	150,000,000
Shareholders' funds		7,252,707,360	6,335,948,552
Liabilities			
Insurance contracts:			
- Long term insurance contracts	30(a)	2,256,844,354	2,122,659,358
- Short term insurance contracts:			
- Outstanding claims	30(b)	1,984,056,385	1,961,123,730
- Unearned premiums	30(c)	633,646,894	452,593,712
Due to cedants and reinsurers	22(b)	2,090,388,761	1,831,879,938
Trade and sundry creditors	31	444,743,680	246,331,151
Defined benefit liability	32	39,926,000	32,297,000
Tax payable		7,961,378	-
Total Liabilities		7,457,567,452	6,646,884,889
Total Equity And Liabilities		**14,710,274,812**	**12,982,833,441**

The financial statements on pages 30 to 72 were approved by the Board of Directors on 28th April 2008 and were signed on its behalf by:

Director

Director

The notes set out on pages 35 to 72 form an integral part of the financial statements.

Kenya Re

Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 KShs	2006 KShs
Cash flow from operating activities			
Net profit before tax		897,603,663	762,308,177
Adjustment for:			
Depreciation		35,071,861	49,021,535
Profit on disposal of property and equipment		(179,500)	-
Amortisation of software		2,707,749	2,382,577
Gain on sale of shares		(186,783,408)	(51,211,712)
Gain on sale of inventories (houses)		(45,526,724)	-
Reversal of impairment provision on unquoted shares		(25,500,000)	25,500,000
Fair value gain in investment properties		(65,620,000)	-
Proceeds on sale of inventories		159,884,306	-
Reversal of impairment on inventories		(99,129,200)	-
Movement in provisions			
Increase/(decrease) in unearned premiums		181,053,182	(80,085,722)
Increase in outstanding claims		22,932,655	44,344,562
Movement in funded business			
Increase in life fund		134,184,996	306,588,881
Operating profit before working capital changes		**1,010,699,580**	**1,058,848,298**
Decrease in inventories		-	325,177,260
Movement in amounts due from/to cedants and reinsurers		(275,894,264)	(179,174,301)
Increase in sundry debtors		22,563,878	(36,641,387)
Increase in sundry creditors		198,412,529	45,140,744
Movement in defined benefit liability		7,629,000	169,000
Cash generated from operations		**963,410,723**	**1,213,519,618**
Tax paid		(257,635,142)	(311,610,207)
Net cash from operating activities		**705,775,581**	**901,909,411**
Cash flows from investing activities			
Proceeds on disposal property and equipment		1,109,501	-
Purchase of property and equipment		(5,362,003)	(13,431,588)
Purchase of shares		(84,529,215)	(179,031,564)
Sale of shares		189,931,725	66,760,102
Net purchase of government securities		(185,335,819)	(322,304,054)
Mortgage loans		(95,059,008)	(222,782,809)
Purchase of intangibles		(1,949,824)	(5,758,716)
Net cash flow used in investing activities		**(524,580,938)**	**(676,548,629)**
Cash flows from financing activities			
Dividends paid on ordinary shares		(150,000,000)	(150,000,000)
Net increase in cash and cash equivalents		374,580,936	75,360,782
Cash and cash equivalents at the beginning of the year		1,084,837,669	1,009,476,887
Cash and cash equivalents at the end of the year	24	**1,459,418,605**	**1,084,837,669**

The notes set out on pages 35 to 72 form an integral part of the financial statements.

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	Translation reserve KShs	Retained earnings KShs	Proposed dividend 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 – Prior years:									
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)
Current year – Prior year adjustment:									
Share of associates' reserves		-	-	206,783	-		151,474,876	-	151,681,659
At 1 January 2006 – As restated		**1,500,000,000**	**60,405,772**	**17,088,298**	**1,607,677,825**	**-**	**2,258,056,699**	**150,000,000**	**5,593,228,594**
Net profit for the year		-	-	-	-	-	539,351,678	-	539,351,678
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)
Share of associates' reserves		-	-	-	178,068	(11,068,687)	-	-	(10,890,619)
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	17,088,298	1,972,114,792	(11,068,687)	2,647,408,377	150,000,000	6,335,948,552

Included in retained earnings is non-distributable reserves amounting to KShs 244,361,010 (2006 – KShs 244,361,010) relating to fair value gain on investment properties.

The notes set out on pages 35 to 72 form an integral part of the financial statements.

Kenya Re

Statement of Changes in Equity

For The Year Ended 31 December 2007

2007:	Note	Share capital KShs	Capital and contingency reserves KShs	Revaluation reserves KShs	Fair value adjustments KShs	Translation reserve KShs	Retained earnings KShs	Proposed dividends KShs	Total KShs
At 1 January 2007 – As previously stated		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
Prior year adjustment - Share of associate reserves	-	-	206,783	178,068	(11,068,687)	185,356,782	-	174,672,946	-
At 1 January 2007 - As restated		**1,500,000,000**	**60,405,772**	**17,088,298**	**1,972,114,792**	**(11,068,687)**	**2,647,408,377**	**150,000,000**	**6,335,948,552**
Share of associate reserves		-	-	-	(589,409)	(34,836,860)	-	-	(35,426,269)
Net profit for the year		-	-	-	-	-	729,264,084	-	729,264,084
Dividends paid	26	-	-	-	-	-	-	(150,000,000)	(150,000,000)
Proposed dividends 2007	26	-	-	-	-	-	(218,779,225)	218,779,225	-
Transfer to retained earnings		-	(60,405,772)	-	-	-	60,405,772	-	-
Fair value adjustments realised on disposal of quoted shares		-	-	-	(206,995,600)	-	-	-	(206,995,600)
Change in fair value of quoted investments	18	-	-	-	579,916,593	-	-	-	579,916,593
At 31 December 2007		**1,500,000,000**	**-**	**17,088,298**	**2,344,446,376**	**(45,905,547)**	**3,218,299,008**	**218,779,225**	**7,252,707,360**

Included in retained earnings is non-distributable reserves amounting to KShs 309,981,010 (2006 – KShs 244,361,010) relating to fair value gain on investment properties.

The notes set out on pages 35 to 72 form an integral part of the financial statements.

Notes to the Financial Statements

For The Year Ended 31 December 2007

1. Significant Accounting Policies

(a) Basis of preparation

(i) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(ii) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value

(iii) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is described in Note 34.

(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.

Notes to the Financial Statements

(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 comprise housing units and land held for development.

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.

Notes to the Financial Statements

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 assets

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 and re-evaluates this at every reporting date.The classification depends on the purpose for which the investments were acquired.

(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, if it forms part of a portfolio of financial assets in which there is evidence of short term profit making, 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.

Notes to the Financial Statements

(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.

Notes to the Financial Statements

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:

Notes to the Financial Statements

(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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

(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) Investment in associates

Associates are those entities in which the Corporation has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method .The financial statements include the Corporations's share of the income and expenses of equity accounted investees.

(v) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period. In addition, the comparative income statement and balance sheet have been represented as if the operations of the associate company accounted for during the current period under the equity method had been accounted for from the start of the comparative period.

(w) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements as follows:

- IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Corporation's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Corporation's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.

- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Corporation's 2009 financial statements and will constitute a change in accounting policy for the Corporation. In accordance with the transitional provisions the Corporation will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Corporation's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the financial statements.

Notes to the Financial Statements

- IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Corporation's 2008 financial statements, is not expected to have any effect on the financial statements because the Corporation has not entered into any public-to-private service concession.

- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Corporation's 2009 financial statements, is not expected to have any impact on the financial statements because the Corporation does not have any customer loyalty programmes.

- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Corporation's 2008 financial statements, with retrospective application required. The Corporation has not yet determined the potential effect of the interpretation.

2. Financial Risk Management

The Corporation is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. In particular, the key financial risk is that the in the long-term its investment proceeds are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, equity price risk, foreign currency risk and credit risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Corporation primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The Corporation manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. Within the ALM framework, the Corporation periodically produces reports at portfolio and asset and liability class level that are circulated to the Corporation's key management personnel.

The principal technique of the Corporation's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct class of liabilities, a separate portfolio of assets is maintained. The Corporation has not changed the processes used to manage its risks from previous periods.

The Corporation's ALM is integrated with the management of the financial risks associated with the Corporation's other classes of financial assets and liabilities not directly associated with insurance and investment liabilities. The notes below explain how financial risks are managed using the categories utilised in the Corporation's ALM framework. In particular, the ALM Framework requires the management of interest rate risk, equity price risk and liquidity risk at the portfolio level. Foreign currency and credit risk are managed on a Corporation-wide basis. To reflect the Corporation risk management approach the required disclosures for liquidity, market and credit risks are given separately for each portfolio of the ALM Framework below:

(a) Liquidity risk

Liquidity risk is current or prospective risk to earnings and capital arising from the institution's failure to meet its maturing obligations when they fall due without incurring unacceptable losses. The Corporation's approach to managing liquidity is to

Notes to the Financial Statements

ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

To this end, there is a Board approved policy to effectively manage liquidity at all times to meet claims payable, regulatory requirements (cash reserve ratio), unexpected outflow / non-receipt of expected inflow of funds as well as ensure adequate diversification of funding sources. The Investment Committee undertakes balance sheet liquidity management and scenario analysis as per the policy on a bi-weekly basis.

The Corporation has access to a diverse funding base. Funds are raised mainly from reinsurance premiums and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Corporation continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Corporation strategy.

In addition the Corporation holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Contractual maturity analysis of financial liabilities

The table below analyses the liquidity position of the Corporation's financial liabilities:

31 December 2007:	Due on Demand KShs'080	Due within 3 months KShs '000	Due between 3 and 12 months KShs'800	Due between I and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Financial liabilities						
Long-term insurance contracts	-	-	-	-	2,256,844,354	2,256,844,354
Short-term insurance contracts						
-Outstanding claims	1,984,056,385	-	-	-	-	1,984,056,385
-Unearned premiums	633,646,894	-	-	-	-	633,646,894
Due to cedants and reinsures	2,090,388,761	-	-	-	-	2,090,388,761
Trade and other payables	444,743,687	-	-	-	-	444,743,687
Total	**5,152,835,727**	**-**	**-**	**-**	**2,256,844,354**	**7,409,680,081**
31 December 2006:						
Financial liabilities						
Long-term insurance contracts	-	-	-	-	2,122,659,358	2,122,659,358
Short-term insurance contracts	-					
-Outstanding claims	1,961,123,730	-	-	-	-	1,961,123,730
-Unearned premiums	452,593,712	-	-	-	-	452,593,712
Due to cedants and reinsures	1,831,879,938	-	-	-	-	1,831,879,938
Trade and other payables	246,331,151	-	-	-	-	246,331,151
Total	**4,491,928,531**	**-**	**-**	**-**	**2,122,659,358**	**6,614,587,889**

Kenya Re

Notes to the Financial Statements

(b) *Market risk*

Management of market risk

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Overall authority for market risk is vested in ALCO. ALCO is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

(i) *Interest rate risk*

Exposure to interest rate risk

The principal risk to which financial assets and liabilities are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.

The table below summarises the exposure to interest rate risks. Included in the table below are the Corporation's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates:

31 December 2007:	**Average interest rate %**	**Due on Demand KShs'000**	**Due within 3 months KShs '000**	**Due between 3 and 12 months KShs'000**	**Due between 1 and 5 years KShs'000**	**Due after 5 years KShs'000**	**Total KShs'000**
Financial assets							
Cash and cash equivalents	6.10	139,201,568	723,191,746	597,025,291	-	-	1,459,418,605
Investment in Government securities	8.61	-	-	70,445,280	673,796,911	1,082,216,257	1,826,458,448
Mortgage loans	11.25	-	28,477,654	85,432,962	455,642,642	140,989,581	710,542,839
At 31 December 2007		**139,201,568**	**751,669,400**	**752,903,533**	**1,129,439,553**	**1,223,205,838**	**3,996,419,892**
31 December 2006:							
Financial assets							
Cash and cash equivalents	5.00	45,082,626	481,195,660	558,559,383	-	-	1,084,837,669
Investment in Government securities	11.00	-	-	97,048,132	727,249,813	816,824,684	1,641,122,629
Mortgage loans	9.00	-	22,807,370	68,422,140	364,918,090	159,481,361	615,628,961
At 31 December 2006		**45,082,626**	**504,003,030**	**724,029,655**	**1,092,167,903**	**976,306,045**	**3,341,443,949**

Notes to the Financial Statements

2. FINANCIAL RISK MANAGEMENT (Continued)

(b) Market risk (continued)

Sensitivity analysis interest rate risk
The interest earning financial assets that the corporation holds include investments in government securities, mortgage loans and short-term deposits.All these are fixed interest instruments, changes in interest rates would therefore not have an impact on the reported profit or equity.

Liabilities under short term insurance contracts are not interest bearing. For liabilities under long term re-insurance contracts, with fixed terms, changes in interest rate will not cause a change to the amount of the liability.

(ii) Currency rate risk

The Corporation underwrites reinsurance contracts from cedants in various currencies. The corporation invests in assets denominated in the same currencies as their insurance liabilities, which eliminates the foreign currency exchange rate risk.

(c) Credit risk

The Corporation has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Corporation is exposed to credit risk are:

- amounts due from reinsurers in respect of claims already paid;
- amounts due from cedants;
- amounts due from re-insurance intermediaries; and
- mortgage advances to its customers.

The Corporation structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or Corporations of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

The creditworthiness of cedants is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

Individual operating units maintain records of the payment history for significant contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Corporation. Management information reported to the Corporation includes details of provisions for impairment on due from cedants and subsequent write-offs.

Notes to the Financial Statements

Exposure to credit risk	2007 KShs'000	2006 KShs'000
Held to maturity instruments		
Investments in government securities	1,826,458,448	1,641,122,629
Loans and receivables at amortized cost		
Mortgage loans	710,542,661	615,483,651
Due from cedants and reinsures	3,375,520,410	2,841,385,333
Other debtors	66,679,243	89,243,121
Cash and cash equivalents	1,459,418,605	1,084,837,689
Total assets bearing credit risk	**7,438,619,367**	**6,272,072,423**

Impairment losses

The aging of due from cedants and reinsurers at the reporting date was:

	Gross 2007 KShs'000	Impairment 2007 KShs'000	Net 2007 KShs'000	Gross 2006 KShs'000	Impairment 2006 KShs'000	Net 2006 KShs'000
0-120 days	402,531,485	-	402,531,485	325,165,344	-	325,165,344
121-240	951,333,030	-	951,333,030	842,528,343	-	842,528,343
241-480 days	7,183,482	-	7,183,482	92,670,232	-	92,670,232
More than 480 days	2,198,857,281	(184,384,868)	2,014,472,413	1,740,616,488	(159,595,076)	1,581,021,412
	3,559,905,278	**(184,384,868)**	**3,375,520,410**	**3,000,980,409**	**(159,595,076)**	**2,841,385,333**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2007 KShs'000	2006 KShs'000
Balance at 1 January	159,595,076	159,595,076
Impairment loss recognised	24,789,792	-
Balance at 31 December	**184,384,868**	**159,595,076**

(d) 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.

Notes to the Financial Statements

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.

(e) Operational risk

The Corporation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Corporation's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. The responsibility is supported by the development of overall Corporation standards for the management of operational risks. Compliance with Corporation standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Corporation.

Risk measurement and control

Interest rate, credit, liquidity, operational risk and other risks are actively managed by independent risk control Corporations to ensure compliance with the Corporation's risk limits. The Corporation's risk limits are assessed regularly to ensure their appropriateness given the Corporation's objectives and strategies and current market conditions.

(f) Capital management

The Corporation's objectives when managing capital are:

- To comply with the insurance capital requirements required by the regulators of the insurance industry of KShs 500,000,000. Currently, the Corporation is in excess of this requirement at a share capital of KShs 1,500,000,000.
- To safeguard the Corporation's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital and the level of dividends to ordinary shareholders.

Segment Reporting

3. 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 2007 KShs	Life business 2006 KShs	Total 2007 KShs	2006 KShs	2007 KShs	2006 KShs
Gross insurance premium	2,641,366,312	2,618,240,824	580,921,866	496,588,274	3,222,288,178	3,114,829,098
Insurance premium ceded to reinsurers	(205,129,303)	(250,308,913)	(42,624,817)	(72,896,354)	(247,754,120)	(323,205,267)
Net premium revenue	2,436,237,009	2,367,931,911	538,297,049	423,691,920	2,974,534,058	2,791,623,831
Investment income and gains	788,954,037	622,998,743	150,371,841	130,097,636	939,325,878	753,096,379
Fair value gain on investment properties	65,620,000	-	-	-	65,620,000	-
Reversal of write down inventory	99,129,200	-	-	-	99,129,200	-
IDB provision - Write back	25,500,000	-	-	-	25,500,000	-
Transfer from Life Fund	74,627,765	-	-	-	74,627,765	-
Share of profit from associate	68,142,360	33,881,906	-	-	68,142,360	33,881,906
Net income	3,558,210,371	3,024,812,560	688,668,890	553,789,556	4,246,879,261	3,578,602,116
Insurance benefits	-	-	(208,812,760)	(306,588,879)	(208,812,760)	(306,588,879)
Insurance claims incurred	(1,147,849,920)	(1,074,756,232)	(317,584,089)	(141,167,216)	(1,465,434,009)	(1,215,923,448)
Commissions	(801,086,484)	(733,369,295)	(132,462,009)	(73,391,722)	(933,548,493)	(806,761,017)
Net insurance claims and benefits	(1,948,936,404)	(1,808,125,527)	(658,858,858)	(521,147,817)	(2,607,795,262)	(2,329,273,344)
Management expenses	(453,328,593)	(430,836,712)	(22,911,610)	(22,301,977)	(476,240,203)	(453,138,689)
Rationalisation expenses	(190,199,347)	-	(6,898,422)	-	(197,097,769)	-
Profit before income taxes	965,746,027	785,850,321	-	10,339,762	965,746,027	796,190,083
Income tax expense	(236,481,943)	(246,498,643)	-	(10,339,762)	(236,481,943)	(256,838,405)
Profit after income taxes	729,264,084	539,351,678	-	-	729,264,084	539,351,678

Notes to the Financial Statements

3. Segmental Reporting *(continued)*

Other information

	General business		Life business		Total	
	2007 KShs	2006 KShs	2007 KShs	2006 KShs	2007 KShs	2006 KShs
Segments assets	12,199,354,105	10,670,610,882	-	2,137,549,615	14,710,274,812	12,808,160,497
Capital expenditure	7,311,827	19,190,304	-	-	7,311,827	19,190,304
Depreciation expense	37,779,610	51,404,112	-	-	37,779,610	51,404,112
Impaired assets written down through reserves and profit and loss (Reversed in 2007)	(25,500,000)	25,500,000	-	-	(25,500,000)	25,500,000

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.

4. Net Insurance Premium Revenue

	2007 KShs	2006 KShs
Long term insurance contracts with fixed and guaranteed terms	**580,921,866**	496,588,274
Short term insurance contracts:		
- premium receivables	**2,822,419,494**	2,538,155,107
- change in unearned premium provision	**(181,053,182)**	80,085,717
Premium revenue arising from insurance contracts issued	**3,222,288,178**	3,114,829,098
Reinsurance:		
- Short term contracts	**(205,129,303)**	(250,308,913)
- Long term contracts	**(42,624,817)**	(72,896,354)
Premium revenue ceded to reinsurers on insurance contracts issued	**(247,754,120)**	(323,205,267)
Net reinsurance premium	**2,974,534,058**	**2,791,623,831**

Notes to the Financial Statements

5. Investment Income

	2007 KShs	2006 KShs
i) Short term insurance business investment income		
Net gain on sale of houses	45,526,724	121,335,150
Rental income	235,455,665	186,321,074
Interest income	224,569,870	168,538,499
Dividends	111,277,574	78,615,691
Gain on sale of quoted shares	186,786,566	51,734,240
Other income	38,727,673	30,489,585
Net foreign exchange loss	(53,390,035)	(14,036,490)
	788,954,037	622,997,749
ii) Long term insurance business investment income		
Rental income	58,095,780	35,445,069
Interest income	92,276,061	94,652,567
	150,371,841	130,097,636
Total investment income	**939,325,878**	**753,095,385**

6. Insurance Benefits And Claims

(a) Insurance benefits

	2007 KShs	2006 KShs
Long term insurance contracts		
- Increase in liabilities	**208,812,761**	**306,588,879**

Notes to the Financial Statements

6. Insurance Benefits And Claims *(continued)*

(b) Insurance claims

	2007 Gross KShs	2007 Reinsurance KShs	2007 Net KShs	2006 Gross KShs	2006 Reinsurance KShs	2006 Net KShs
Short term insurance contracts:						
- Claims paid	1,206,430,591	(81,513,325)	1,124,917,266	1,175,097,677	(144,686,007)	1,030,411,670
- Changes in the provision for outstanding claims	22,932,655	-	22,932,655	44,344,562	-	44,344,562
Claims incurred	1,229,363,246	(81,513,325)	1,147,849,921	1,219,442,239	(144,686,007)	1,074,756,232
Long term insurance contracts	324,096,507	(6,512,418)	317,584,089	195,234,346	(54,067,130)	141,167,216
Total claims	**1,553,459,753**	**(88,025,743)**	**1,465,434,010**	**1,414,676,585**	**(198,753,137)**	**1,215,923,448**

Kenya Re

Notes to the Financial Statements

	[redacted]	2006 KShs
7. Commissions		
Short term insurance contracts:		
- Commissions payable	801,995,255	734,237,412
- Commissions receivable	(908,771)	(868,117)
Net commissions on short term insurance contracts	801,086,484	733,369,295
Long term insurance contracts:		
- Commissions payable	141,756,622	122,095,277
- Commissions receivable	(9,294,613)	(48,703,555)
Net commissions on long term insurance contracts	132,462,009	73,391,722
Total commissions	**933,548,493**	**806,761,017**
8. Management Expenses		
Total management expenses	**449,803,062**	**453,138,689**
Allocated as follows:		
Life funds	22,911,609	22,301,977
Investment	140,931,170	133,513,096
General business	312,397,426	297,323,616
Total expenses	**476,240,205**	**453,138,689**
9. Rationalisation Expenses		
Total rationalization expenses	**197,097,769**	-
Allocated as follows:		
Life funds	6,898,422	-
Investment	59,129,331	-
General business	131,070,016	-
Total expenses	**197,097,769**	-

During the year, the company undertook a voluntary early retirement program. The costs relates to benefits payable to employees who opted to retire early.

Notes to the Financial Statements

	[redacted]	2006 KShs
10. Profit Before Income Taxes		
The profit before income tax is stated after charging:		
Depreciation	35,071,861	49,021,535
Amortisation of software	2,707,749	2,382,577
Salaries and wages	229,975,584	237,681,723
Pension contribution - Defined benefits plan	17,762,874	18,348,139
Social security costs	2,599,207	254,600
Auditors' remuneration	4,676,665	3,200,000
Directors' emoluments:		
- As executive	10,280,569	11,784,000
- Fees	1,920,000	2,220,000
And after crediting:		
Interest income	224,569,870	263,191,066
Dividends	111,277,574	78,615,691
Loss on foreign exchange	(53,390,034)	(14,036,490)
Gain on sale of equity shares	**190,512,247**	**51,734,240**

11. Income Tax Expense

Current tax at 30% on the taxable profit for the year	269,281,101	237,548,358
Prior year under provision	165,325	34,878,333
	269,446,426	272,426,691
Deferred tax credit (Note 11)	(32,964,483)	(15,588,286)
	236,481,943	**256,838,405**

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

	2007 KShs	2006 KShs
Profit before tax	**897,603,663**	**751,968,415**
Tax applicable rate of 30%	269,281,099	225,590,525
Prior year under provision	165,325	34,878,333
Tax effects on items not deducted for tax	(32,799,156)	(3,630,453)
	236,964,481	**256,838,405**

Notes to the Financial Statements

12. 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. As explained in note 27 at a Board of Directors meeting held on 31 May 2007, the directors resolved that each of the ordinary shares of KShs 10 in the present capital of the Corporation both issued and unissued, be subdivided into four shares of KShs 2.50 each. As a result the earnings per share for the year ended 31 December 2007 are based on 600,000,000 ordinary shares issued and paid up (2006 - 150,000,000).

13. Property and Equipment

	Motor vehicles KShs	Computers KShs	Furniture & fixtures KShs	Equipment KShs	Total KShs
2007:					
Cost or valuation					
At 1 January 2007	18,929,247	72,338,584	37,679,327	577,055,132	706,002,290
Additions	-	4,220,016	1,141,987	-	5,362,003
Disposals	(7,121,246)	-	-	-	(7,121,246)
At 31 December 2007	11,808,001	76,558,600	38,821,314	577,055,132	704,243,047
Depreciation					
At 1 January 2007	15,114,415	62,590,820	26,932,393	548,900,147	653,537,775
Charge for the year	1,752,415	4,625,205	2,616,364	26,077,877	35,071,861
Disposals	(6,191,246)	-	-	-	(6,191,246)
At 31 December 2007	10,675,584	67,216,025	29,548,757	574,978,024	682,418,390
Net book value					
At 31 December 2007	**1,132,417**	**9,342,574**	**9,272,557**	**2,077,108**	**21,824,656**
2006:					
Cost or valuation					
At 1 January 2006	18,929,247	60,229,636	36,356,687	577,055,132	692,57[illegible]
Additions	-	12,108,948	1,322,640	-	13,[illegible]
At 31 December 2006	18,929,247	72,338,584	37,679,327	577,055,132	706,002,[illegible]
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**

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

Notes to the Financial Statements

16. Deferred Tax

2007	Balance at 1.01.2007 KShs	Recognised in income statement KShs	Balance at 31.12.2007 KShs
Property and equipment	14,112,224	5,737,221	19,849,445
Leave pay provisions	5,288,423	(590,631)	4,697,792
Exchange differences	4,210,947	11,806,064	16,017,011
Defined benefit liability	9,689,100	2,288,700	11,977,800
Other provisions	2,090,402	13,723,129	15,813,531
	35,391,096	**32,964,483**	**68,355,579**

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**

17. Investment in Associate

	[redacted]	2006 Restated KShs
At 1 January	285,964,392	111,291,445
Share of reserves	-	151,681,659
Restated carrying amount	285,964,392	262,973,104
Share of profits	68,142,364	33,881,906
Share of translation reserve	(34,836,860)	(11,068,687)
Share of fair value reserve	(589,409)	178,068
	318,680,487	**285,964,391**

This relates to investment in ZEP-Re (PTA Reinsurance) which is an associate company accounted for under the equity method.

Notes to the Financial Statements

valuation surplus was credited to relevant reserves. The bases of valuation were:

Freehold building	-	Open market value
Equipment	-	Open market value
Others	-	Depreciated replacement cost

14. Non-current Assets Held for Sale

	[redacted]	2006 KShs
Cost or valuation		
At 1 January	340,661,706	170,661,706
Transfer from inventories	-	170,000,000
At 1 January – As restated	340,661,706	340,661,706
Depreciation		
At 1 January and 31 December	23,932,831	23,932,831
Net book value		
At 31 December	**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.

15. Intangible Assets

	[redacted]	2006 KShs
Cost		
At 1 January	12,409,668	6,650,952
Additions	1,949,824	5,758,716
At 31 December	14,359,492	12,409,668
Accumulated amortisation		
At 1 January	7,370,791	4,988,214
Amortised during the year	2,707,749	2,382,577
At 31 December	10,078,540	7,370,791
Net book value		
At 31 December	**4,280,952**	**5,038,877**

Kenya Re

Notes to the Financial Statements

Summary financial information for ZEP-Re not adjusted for the percentage ownership held by the Corporation.The presentation currency for ZEP-Re is the US$, the following exchange rates have been applied in converting the balances in Kenya shillings:

	2007 KShs	2006 KShs
Closing rate	63.97	69.95
Average rate	67.82	72.65

	Ownership	Total assets KShs	Total liabilities KShs	Net assets KShs	Revenues KShs	Expenses KShs	Profit KShs
2007	21%	3,414,343,672	1,918,033,300	1,496,310,372	1,162,221,550	805,764,003	356,457,547
2006	23%	3,075,369,657	1,841,373,873	1,233,995,784	934,696,988	754,938,417	179,758,571

During the year, a dividend of KShs 7,775,084 (2006 – KShs 5,426,498) was received.

18. Financial Assets

The Corporation's financial assets are summarised below by measurement category in the table below:

	[redacted]	2006 KShs'000
Held to maturity - Government securities (Note 19)	**1,826,458,448**	1,641,122,629
Available for sale equity assets (Note 20)	**2,737,572,838**	2,257,770,947
Loans and receivables:		
Mortgages (Note 21)	710,542,660	615,483,651
Due from cedants and reinsurers (Note 22(b))	**3,375,788,420**	2,841,385,333
Other debtors (Note 23)	66,679,243	89,243,121
	4,153,010,323	3,546,112,105
Total financial assets	**8,717,041,710**	**7,475,005,681**

19. Held To Maturity Financial Assets At Amortised Cost

	[redacted]	2006 KShs'000
Held to maturity		
Securities maturing:		
After 91 days	**70,445,280**	97,048,132
After one year to five years	1,756,013,168	1,544,074,497
	1,826,458,448	**1,641,122,629**

Treasury bonds amounting to KShs 739,850,000 (2006 – KShs 701,200,000) are held under lien by the Commissioner of Insurance.

Kenya Re

Notes to the Financial Statements

Financial assets held to maturity are not presented on the Corporation's balance sheet at fair value. The fair value is KShs 1,773,850,860 (2006 – KShs 1,480,885,008). Fair values are based on market prices or broker/dealer price quotations.

20. Available For Sale – Financial Assets

	[redacted]	2006 KShs'000
(i) Quoted shares		
At 1 January	2,244,121,804	1,716,379,731
Fair value gain	579,916,593	404,156,141
Additions	84,529,121	179,031,564
Disposal of shares	(210,143,823)	(55,445,632)
At 31 December	2,698,423,695	2,244,121,804

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:

	[redacted]	2006 Restated KShs'000
Cost		
At 1 January and 31 December	50,149,143	161,440,588
Less: Transferred to investment in associate	-	(111,291,445)
At 1 January and 31 December – As restated	50,149,143	50,149,143
Impairment provision		
At 1 January	(36,500,000)	(11,000,000)
Provision reversed/(made) during the year	25,500,000	(25,500,000)
At 31 December	(11,000,000)	(36,500,000)
Net carrying value at 31 December	39,149,143	13,649,143
Total available for sale – financial instruments at 31 December	2,737,572,838	2,257,770,947

The fair value of unquoted securities has not been determined since there is no active market.

Kenya Re

Notes to the Financial Statements

21. Mortgages

	[redacted]	2006 KShs'000
The gross mortgages comprising of:		
Staff mortgages	251,213,091	200,070,663
Commercial mortgages	515,903,375	462,638,176
	767,116,466	662,708,839
Impairment provision	(56,573,806)	(47,079,878)
Net	**710,542,660**	**615,628,961**

As at 31 December 2007 and 2006, mortgage loans at nominal value of KShs 18,657,253 (2006 – KShs 18,657,253) were impaired and fully provided for.

22. Due From Cedants And Reinsurers

(a) Amounts due from cedants and reinsurers		
Local companies	1,066,590,688	901,129,984
International companies	2,493,314,590	2,099,850,425
	3,559,905,278	3,000,980,409
Less: provision for bad and doubtful debts	(184,384,869)	(159,595,076)
	3,375,520,410	2,841,385,333
(b) Amounts due to cedants and reinsurers		
Due to reinsurers	2,558,462	61,461,112
Due to cedants	2,087,830,299	1,770,418,826
	2,090,388,761	**1,831,879,938**

23. Other Debtors

Rent debtors	9,068,861	17,397,581
Staff advances	33,252,052	35,781,722
Other debtors	24,358,330	36,063,818
	66,679,243	**89,243,121**

Notes to the Financial Statements

	2007 KShs'000	2006 KShs'000

24. Cash And Cash Equivalents

Cash and bank balances	139,201,568	45,082,626
Treasury bills maturing within 91 days	723,191,746	481,195,660
Short term deposits	597,025,291	558,559,383
	1,459,418,605	**1,084,837,669**

25. Investment Properties

At 1 January	3,270,000,000	3,270,000,000
Revaluation surplus arising in the period	65,620,000	-
Fair value amount at 31 December	**3,335,620,000**	**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 Gimco Ltd, professional independent valuers as at 28 May 2007. The basis of valuation was open market value. The fair value losses arising from the revaluation were charged to the income statement.

26. Inventories

	2007 KShs	2006 Restated KShs
(a) Cost		
Housing units for sale	192,552,430	192,552,430
Land held for sale	550,704,327	550,704,327
	743,256,757	743,256,757
Disposals	(114,357,582)	-
Impairment provision	(160,575,127)	(259,704,327)
Total inventories at lower of cost and net realisable	**468,324,049**	**483,552,430**
(b) Impairment loss		
As at 1 January	259,704,327	259,704,327
Impairment loss reversed	(99,129,200)	-
	160,575,127	**259,704,327**

Notes to the Financial Statements

27. Share Capital

(a) Authorised share capital

At 1 January		
200,000,000 Ordinary shares of KShs 10 each	**2,000,000,000**	**2,000,000,000**

	[redacted]	**2006 Number of shares**
At 1 January	200,000,000	200,000,000
Additional shares as a result of share split	600,000,000	-
Total shares at 31 December	**800,000,000**	**200,000,000**
Authorised share capital:		
At 31 December 2007		
800,000,000 Ordinary shares of KShs 2.50 each		
(2006 – 200,000,000 Ordinary shares of KShs 10 each)	**2,000,000,000**	**2,000,000,000**

(b) Issued and fully paid

At 1 January		
150,000,000 Ordinary shares of KShs 10 each	1,500,000,000	1,500,000,000
At 1 January	150,000,000	150,000,000
Additional shares as a result of share split	450,000,000	-
Total shares at 31 December	600,000,000	150,000,000
Issued and fully paid:		
At 31 December 2007		
600,000,000 Ordinary shares of KShs 2.50 each		
(2006 – 150,000,000 Ordinary shares of KShs 10 each)	**1,500,000,000**	**1,500,000,000**

At a Board of Directors meeting held on 31 May 2007, the directors resolved that each of the ordinary shares of KShs 10 in the present capital of the Corporation both issued and unissued, be subdivided into four shares of KShs 2.50 each.

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.

Notes to the Financial Statements

28. Revaluation And Other Reserves

Revaluation reserve

The revaluation reserve relates to 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.

Translation reserve

Relates to foreign exchange movement on the net investment in PTA Re, an associate company accounted for under the equity method.

29. Dividends

	[illegible]	2006 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)
Proposed dividends in the period	218,779,225	150,000,000
Proposed dividends	(150,000,000)	-
At 31 December	218,779,225	150,000,000
Dividends payable at 31 December	-	-
Proposed dividend per share (KShs)	0.35	0.25

The proposed dividends per share on the ordinary shares are calculated on dividends of KShs 218,779,225 (2006 – KSh
and on the number of ordinary shares in issue at the respective balance sheet dates. Payment of the dividends is su
withholding tax at the rate of 5%.

Notes to the Financial Statements

Valuation assumptions

The significant valuation assumptions for the actuarial valuation as at 31 December 2007 are summarised below. The same assumptions are used in 2006.

(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 2007 does not use an explicit technical rate of return. The weighted averag rate of return earned by the assets backing the life fund in 2007 was 5.3%% per annum (2006 – 5.2% per annum).

Sensitivity analsysis

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

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 be 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

Notes to the Financial Statements

30. Insurance Contract

(a) Long term insurance contracts

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

	[illegible]	2006 KShs
At 1 January	2,122,659,358	1,816,070,479
Net premium written	538,297,049	423,691,920
Investment income	150,371,841	130,097,636
Less:		
Total claims	(317,584,089)	(141,167,216)
Commission	(132,462,009)	(73,391,722)
Management expenses	(29,810,031)	(22,301,977)
Income tax	-	(10,339,762)
Less: Transfer to income statement	(74,627,765)	-
At 31 December	**2,256,844,354**	**2,122,659,358**

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 2007 and according to the valuation, the fund had a surplus of KShs 248.8 million (2006 – KShs 385.4 million). The actuary recommended a transfer of KShs 74,627,765 to the income statement.

At 31 December 2007:	**KShs**	**Assets**	**KShs**
bilities			
uarial liability	2,084,070,649	Life Fund	2,332,829,866
plus	248,759,217		-
	2,332,829,866		**2,332,829,866**

31 December 2006:	**KShs**	**Assets**	**KShs**
iarial liability	1,737,258,863	Life Fund	2,122,659,358
S us	385,400,495		-
	2,122,659,358		**2,122,659,358**

Notes to the Financial Statements

Lapse rate

Ordinary life business = 10%

Group life business = 10%

	[redacted]	2006 KShs
(b) Outstanding claims – Short term insurance contracts		
Provision for outstanding claims	**1,984,056,384**	**1,961,123,730**
(c) Unearned premiums – Short term insurance contracts		
Unearned premiums	**633,646,894**	**452,593,712**

31. Trade and Sundry Creditors

Investment creditors	93,313,080	93,874,675
Accrued leave pay	15,659,305	17,628,076
Other creditors and accruals	138,673,526	134,828,400
Accrual for rationalisation expenses	197,097,769	-
	444,743,680	**246,331,151**

32. 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 31 December 2007 and 31 December 2006, respectively, is as follows:

	2007 KShs	2006 KShs
Present value of funded obligations	363,923,000	348,357,000
Fair value of Scheme assets	290,229,000	254,730,000
Net underfunding in funded plan	73,694,000	93,627,000
Unrecognised actuarial loss	(33,768,000)	(61,330,000)
Net liability in the balance sheet	39,926,000	32,297,000

Notes to the Financial Statements

32. Defined Benefit Liability *(Continued)*

	2007 KShs	2006 KShs
Notes to the income statement		
Current service cost net of employees' contributions	15,090,000	9,112,000
Interest on obligation	38,586,000	23,170,000
Expected return on plan assets	(29,456,000)	(18,144,000)
Net actuarial losses/gains recognised in the period	1,805,000	348,000
Total included in "staff costs" in respect of Scheme	**26,025,000**	**14,486,000**
Actual return on plan assets	**24,414,000**	**27,791,000**
Reconciliation		
Net liability at start of year	31,664,000	32,128,000
Net expense recognised in the income statement	26,025,000	14,486,000
Employer contributions	(17,763,000)	(19,075,954)
Net liability at end of year	**39,926,000**	**32,297,000**
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 evaluation as at 31 December 2007.

The Corporation also makes contributions to a statutory provident fund, the National Social Security Fund (NSSF). Contri are determined by local statute and are shared between the employer and employee. For the year ended 31 December Corporation contributed KShs 17,762,875 (2006 – KShs 18,348,139) to the defined pension scheme and KShs 262, – KShs 254,600) for NSSF which has been charged to the income statement.

Historical information	2007 KShs	2006 KShs	2005 KShs	
Fair value of plan assets	290,229,000	254,730,000	212,912,000	300
Present value of funded obligations	(363,923,000)	(348,357,000)	(276,435,000)	(,000)
Net (under)/over funding in the scheme	(73,694,000)	(93,627,000)	(63,523,000)	6,000)
Unrecognised actuarial loss	33,768,000	61,330,000	31,395,000	-
Defined benefit liability	**(39,926,000)**	**(32,297,000)**	**(32,128,000)**	**3,836,000)**

Notes to the Financial Statements

(b) Transaction with related companies

	[redacted]	2006 KShs
(i) Net premium written	28,666,344	13,791,157
(ii) Claims incurred	10,594,809	29,541,410

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:

	2007 KShs	2006 KShs
Amounts due from related parties	10,957,024	15,380,924
Amounts due to related parties	4,638,913	931,432

36. Incorporation

The Corporation is incorporated in Kenya under the Companies Act and is owned by the Government of Kenya 60% while the public owns 40%.

Notes to the Financial Statements

33. BANK OVERDRAFT

The Corporation has an overdraft facility with Kenya Commercial Bank Limited of KShs 15,000,000.The facility is secured by lien over fixed deposits of KShs 24 million.The weighted average interest rate during the year was 4.5 %. (2006 – 4.5%).

34. 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.

35. 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 10,280,569 (2006 – KShs 11,784,000). The non-executive members received fees totalling KShs 1,920,000 (2006 – KShs 2,220,000).

	[redacted]	2006 KShs
(ii) Loans to staff	**284,465,143**	**235,852,383**

Interest income on these loans was KShs 13,240,247 (2006 – KShs 10,172,466).

(iii) Loans to directors	2007 KShs	2006 KShs
Loans to ex-directors	22,213,113	34,421,710
Loans to existing directors	8,464,285	13,075,928
	30,677,398	**47,497,638**

Interest ed on these loans was KShs 1,577,010 (2006 – KShs 2,427,925). Loans to staff and directors are secured by mortgage on real pr rty and interest is charged as per the terms of contract.

Kenya Re

Life Revenue Account

Appendix II

For The Year Ended 31 December 2007

	Ordinary KShs	Super annuation KShs	[redacted]	2006 KShs
Gross premium	69,710,624	511,211,242	580,921,866	496,588,274
Reinsurance	(5,114,978)	(37,509,839)	(42,624,817)	(72,896,354)
Net premium	**64,595,646**	**473,701,403**	**538,297,049**	**423,691,920**
Claims incurred	(12,703,364)	(304,880,725)	(317,584,089)	(141,167,216)
Commission	(11,921,580)	(120,540,429)	(132,462,009)	(73,391,722)
Management expenses	(2,749,393)	(20,162,217)	(22,911,610)	(22,301,977)
Rationalisation Expenses	(827,811)	(6,070,611)	(6,898,422)	-
	(28,202,148)	(451,653,982)	(479,856,130)	(236,860,915)
Underwriting surplus	36,393,498	22,047,421	58,440,919	186,831,005
Investment income	18,044,622	132,327,220	150,371,842	130,097,636
	54,438,120	154,374,641	208,812,761	316,928,641
Provision for taxation	-	-	-	(10,339,762)
Increase in life funds	**54,438,120**	**154,374,641**	**208,812,761**	**306,588,879**
Funds at the beginning of the year	565,446,980	1,557,212,378	2,122,659,358	1,816,070,479
Transfer from Life Fund	-	(74,627,765)	(74,627,765)	-
Funds as at 31 December 2007	**619,885,100**	**1,636,959,254**	**2,256,844,354**	**2,122,659,358**

General Insurance Revenue Account

For The Year Ended 31 December 2007

Appendix I

	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 2007 KShs	Total 2006 KShs
Gross premium	895,245	262,412,091	14,850,955	1,202,440,477	153,199,303	397,598,744	282,487,665	44,965,265	178,803,054	952,206	273,744,999	10,069,491	2,822,419,494	2,538,155,098
Less: reinsurances	-	-	1,949,200	157,821,255	2,497,772	6,482,478	4,605,699	733,117	2,915,218	15,525	28,109,041	-	205,129,303	250,308,911
Net written premium	**895,245**	**262,412,091**	**12,901,756**	**1,044,619,222**	**150,781,531**	**391,116,266**	**277,881,966**	**44,232,148**	**175,887,836**	**936,681**	**245,635,958**	**10,069,491**	**2,617,290,192**	**2,287,846,187**
Unearned Premium b/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	532,679,429
Unearned Premium c/f	270,108	79,173,314	2,187,971	177,153,943	48,554,601	126,013,945	89,530,930	14,251,178	56,669,390	301,790	38,716,057	823,667	633,646,894	452,593,712
Net earned premium	**2,245,477**	**236,400,679**	**10,916,781**	**984,011,798**	**125,816,437**	**350,967,325**	**259,839,356**	**43,754,011**	**185,774,661**	**715,326**	**224,475,550**	**11,319,689**	**2,436,237,010**	**2,367,931,904**
Claims paid	7,004,861	122,202,298	3,863,864	478,925,623	81,771,473	147,021,666	118,613,987	15,274,471	36,345,601	14,017,375	174,788,380	6,600,994	1,206,430,591	1,175,097,676
Claims recoverable	-	-	-	36,606,501	1,084,678	1,950,205	1,573,385	202,612	482,115	185,937	39,427,892	-	81,513,325	144,686,007
Claims O/s at year end	39,233,367	684,440,049	-	262,737,350	162,656,112	292,448,843	235,941,573	30,383,285	72,297,024	27,882,727	137,535,100	38,500,953	1,984,056,384	1,961,123,730
Claims O/s at beginning of year	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	1,916,779,117
Total claims Incurred	**31,809,870**	**100,921,346**	**3,863,864**	**442,319,121**	**181,225,210**	**71,158,769**	**168,824,044**	**(20,126,218)**	**(9,944,217)**	**35,836,650**	**135,360,488**	**6,600,994**	**1,147,849,920**	**1,074,756,282**
Commissions	26,938	11,452,598	6,048,893	375,906,054	43,790,591	120,998,806	89,335,458	7,581,882	62,495,083	186,949	82,435,391	1,736,611	801,995,255	734,237,410
Commissions receivable	-	-	-	-	122,679	338,976	250,272	21,241	175,079	524	-	-	908,771	868,117
Provision - Doubtful debts	7,863	2,304,810	130,438	10,561,240	1,345,576	3,492,178	2,481,137	394,938	1,570,458	8,363	2,404,349	88,442	24,789,792	-
Management expenses	99,090	29,044,889	1,643,767	133,091,239	16,956,752	44,007,924	31,266,939	4,976,947	19,790,684	105,394	30,299,264	1,114,534	312,397,424	297,323,540
Rationalisation expenses	41,574	12,186,125	689,662	55,839,996	7,114,405	18,464,043	13,118,412	2,088,137	8,303,415	44,219	12,712,413	467,616	131,070,016	-
Total expenses	**31,985,335**	**155,909,769**	**12,376,624**	**1,017,717,658**	**250,309,855**	**257,782,743**	**304,775,719**	**(5,105,555)**	**82,040,344**	**36,181,052**	**263,211,904**	**10,008,197**	**2,417,193,637**	**2,105,449,113**
Underwriting profit(loss)	**(29,739,858)**	**80,490,918**	**(1,459,924)**	**(33,705,852)**	**(124,493,418)**	**93,184,582**	**(44,936,363)**	**48,859,566**	**103,734,316**	**(35,465,726)**	**(38,736,354)**	**1,311,492**	**19,043,373**	**262,482,791**

Kenya Re

Fomu ya Uwakilishi ya Mhusika wa Kisiri

Nambari ya Hisa ya Mwanachama:____________________

Katibu wa Shirika
Kenya Reinsurance Corporation Limited
Orofa ya 15, Reinsurance Plaza
Taifa Road
S.L.P 30271-00100
NAIROBI.

KENYA REINSURANCE CORPORATION LIMITED

Mimi/ Sisi,

__________________________________ wa __________________________________

Kama *mwanachama/ wanachama wa Kampuni iliyotajwa hapo juu, namchagua

__________________________________ wa __________________________________

au kutomuwezesha yeye____________________________ wa __________________________________

kama muwakilishi *wangu/wetu wa siri atakayenipigia au atakayetupigia kura kwa niaba yangu/ yetu katika Mkutano Mkuu wa Mwaka wa Shirika utakaofanyika tarehe 3 Julai 2008 na hitimisho lake baadae.

Sahihi______________________________

Alitia sahihi tarehe____________________mwezi wa ____________________Mwaka wa____________

Fomu hii inafaa kutumiwa * kuambatana na au kinyume na makubaliano.
Ila tu kwa maelekezo mengineyo, mhusika huyo wa siri atapiga kura kwa njia akatayoiona inamfaa.

**Ondoa sehemu isiyohitajika.*

Maelezo Zaidi:

1. Anuwani inafaa kuwa ile iliyoonyeshwa kwenye rejesta ya wanachama.
2. Na ikiwa mwanachama ni shirika, fomu hii ya mhusika wa siri ni lazima ikamilishwe kwa kuwekwa Mhuri Maalum au kutiwa s kwa niaba yake na Wakili ama Afisa anayeruhusiwa wa shirika hilo.
3. Mtu aliyeteuliwa kuwa mhusika wa siri sio lazima awe mwanachama wa shirika.
4. Ikiwa pana ubia, sahihi ya mmoja wa wanachama hao itatosha lakini ni lazima majina yao yote yaandikishwe.

Barua ya Ukubalifu kwa Wenyehisa Kuhudhuria Mkutano Mkuu wa Mwaka, utakaofanyika tarehe 3 Julai, 2008.

Tafadhali **ikamilishe** fomu **hii na fahamu** ya kwamba utalazimika kujitambulisha nayo katika Mkutano Mkuu wa Mwaka au mhı wako **wa siri atakayekuwasilisha ili** kuonyesha kwamba umehudhuria. Tafadhali fahamu ya kwamba, ni wenyehisa waliosajiliwa na wahusika wao wa siri wafahamike kwenye ofisi za usajili za shirika kwa muda usiopungua saa 48 kabla ya Mkutano huo Mku atakubalika kuhudhuria mkutano.

Jina:______________________________________Sahihi:____________________________

Mkutano Mkuu wa Mwisho wa Mwaka wa Shirika la Kenya Reinsurance Corporation utakaofanyika kwenye ukumbi wa michezo huko Kasarani (Kasarani Gymnasium), kwenye muelekeo wa Barabara ya Thika, Nairobi, siku ya Alhamisi, Tarehe 3 Julai, 2008.

Proxy Form

Share Member No.

The Company Secretary
Kenya Reinsurance Corporation Limited
15th Floor, Reinsurance Plaza Building
Taifa Road
P.O. Box 30271 – 00100
NAIROBI

KENYA REINSURANCE CORPORATION LIMITED

I/WE

____ of ____________________________

being a *member/members of the above-named Company, hereby appoint

____ of ____________________________

or failing him____ of ____________________

as *my/our proxy to vote for *me/us on *my/our behalf at the Annual General Meeting of the Company to be held on the 3rd day of July 2008 and at any adjournment thereof.

Signature(s) ____________________________________

Signed this____________________________ day of ________________________________2008

*This form is to be used * in favour of/against the resolution.*
Unless otherwise instructed the proxy will vote as he/she thinks fit.

** Strike out whichever is not desired.*

'otes:

The address should be that shown in the register of members.

ı the case of a member being a Corporation, this form of proxy must be executed either under its Common Seal or signed on behalf by an attorney or officer of the Corporation duly authorized.

person appointed to act as a proxy need not be a member of the Company.

In case of joint holders, the signature of any one holder will be sufficient but the names of all joint holders should be stated.

Shareholder's Admission Letter for AGM on 3rd July 2008

Please complete this form and note that it must be produced at the Annual General Meeting by you or your proxy in order to record attendance. Kindly note that only the registered shareholders or their proxy notified to the Company not less than 48 hours before the time for holding the meeting will be admitted to the meeting.

Name: ____ Signature: ________________________

ı Annual General Meeting of Kenya Reinsurance Corporation Limited to be held at the Kasarani Gymnasium, Thika Road, Nairobi on Thursday 3rd July, 2008 at 11.00 a.m.

Notes

Notes