REPUBLIC OF KENYA

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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 2005

KENYA REINSURANCE CORPORATION LIMITED

REPORT AND FINANCIAL STATEMENTS

AT

31 DECEMBER 2005

KENYA REINSURANCE CORPORATION LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

CONTENTS

KENYA REINSURANCE CORPORATION LIMITED

DIRECTORS, OFFICERS AND ADMINISTRATION

DIRECTORS

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

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

AUDITORS
Controller and Auditor General
Kenya National Audit Office
12th Floor, Anniversary Towers
P.O. Box 30084
00100 Nairobi GPO

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

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

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

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

REGISTERED OFFICE
Reinsurance Plaza
Taifa Road
P. O. Box 30271
00100 Nairobi GPO

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

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

Wedco Limited
P.O. Box 30271
00100 Nairobi GPO

SOLICITORS

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

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

KENYA REINSURANCE CORPORATION LIMITED

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2005

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

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 5.

3. **Dividends**

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

4. **Directors**

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

5. **Auditors**

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

6. **Approval of financial statements**

   The financial statements were approved at a meeting of the Directors held on 15th March 2006

BY ORDER OF THE BOARD

Corporation Secretary

Date:

KENYA REINSURANCE CORPORATION LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation. They are also responsible for safeguarding the assets of the Corporation.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Corporation will not remain a going concern for at least the next twelve months from the date of this statement.

Director

Director

15th March 2006

Date

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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 2005

The financial statements of Kenya Reinsurance Corporation Limited for the year ended 31 December 2005 as set out on pages 4 to 32 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 were necessary for the purpose of the audit were obtained. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

As stated on page 3, the directors are responsible for the preparation of financial statements that give a true and fair view of the Corporation's state of affairs and its operating results. My responsibility is to express an independent opinion on the financial statements based on the audit.

Basis of Opinion

The audit was conducted in accordance with the International Standards on Auditing. Those standards require 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 includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

Emphasis of Matters

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

1. Publication of Financial Statements

Contrary to the terms of appointment of the authorized auditors stipulated in the letter of appointment dated 28 July 2005 and the provisions of Section 39(3) to (6) of the Public Audit Act, 2003, the authorized auditors on 15 March 2006 issued an

audit report to the members of Kenya Reinsurance Corporation Ltd. Upon receipt of the report management on 17 March 2006 published the company's accounts purporting to have been duly audited and received an unqualified opinion. By that date however, the accounts were still in draft form pending the issuance of my report in accordance with the law. No satisfactory explanation has been given as to why the appointed auditors as well as the Corporation contravened the provisions of Section 39(3)-(6) of the Public Audit Act, 2003.

2. **Loss on Sale of Houses Kshs 87,983,164**

During the year under review, the Corporation disposed off some of its houses held for sale and made a net loss on the sale of Kshs.32,409,997 (2004 – Kshs.49,431,469). Further, a loss of Kshs 6,141,698 was booked in the financial statements in the current year after a professional valuation in January 2005. The management has explained that the losses were occasioned by political pressure and manipulation which were key drivers to investment decisions and that most projects were dictated by political expediency.

3. **Non - Compliance with Insurance Act**

The Corporation has not complied with Section 50 (2) of Insurance Act in General business class since investments in government securities and prescribed organizations are less than the required minimum of 10% of admitted assets. As at the year end, investments in Government securities and prescribed organizations amounted to 9.7%. Further the Corporation has not complied with Section 32 of the Insurance Act since Government securities under lien are less than the minimum requirement of 5% of the admitted assets. Securities under lien as at the year end amounted to 3.7% of total admitted assets (for both Life business and General business – combined).

Opinion

In my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Corporation as at 31 December 2005 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenya Companies Act.

E.N. MWAI
CONTROLLER AND AUDITOR GENERAL

Nairobi

17 May 2006

KENYA REINSURANCE CORPORATION LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

Income	Note	2005 KShs	2004 Restated KShs
Investment income	2(a)	278,798,520	476,332,391
Profit transferred from the underwriting revenue account (Page 6)		408,707,214	347,010,607
Profit before taxation	3	**687,505,734**	**823,342,998**
Write off of Inventory	4	(6,141,698)	(259,704,327)
Profit before tax		**681,364,036**	**563,638,671**
Income tax expense	5	(212,306,167)	(111,135,405)
Net profit for the year		**469,057,869**	**452,503,266**
Earnings per share	6	**3.13**	**3.02**

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

KENYA REINSURANCE CORPORATION LIMITED

GENERAL INSURANCE REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

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

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

KENYA REINSURANCE CORPORATION LIMITED

LIFE REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

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

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

KENYA REINSURANCE CORPORATION LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2005

	Note	General insurance business KShs	Long-term insurance business KShs	2005 KShs	2004 Restated KShs
Assets					
Property and equipment	7	88,054,462	-	88,054,462	239,431,567
Non-current assets held for sale	8	146,728,875	-	146,728,875	-
Prepaid operating lease rentals	9	-	-	-	12,789,473
Intangible asset	10	1,662,738	-	1,662,738	3,325,476
Deferred tax	11	19,802,810	-	19,802,810	16,219,078
Government securities	12	955,771,804	882,945,357	1,838,717,161	1,471,217,232
Available-for-sale financial assets	13	1,866,820,319	-	1,866,820,319	1,403,031,697
Mortgages loans	14	392,700,842	-	392,700,842	329,207,406
Investment properties	15	2,520,000,000	750,000,000	3,270,000,000	3,682,470,308
Sundry debtors	16	51,808,064	793,670	52,601,734	28,711,753
Tax recoverable	5	-	14,444,720	14,444,720	123,512,476
Due from cedants & reinsurers	17(a)	2,418,209,184	52,865,147	2,471,074,331	1,829,383,659
Inventories	18	1,093,668,382	-	1,093,668,382	556,167,623
Short term deposits		394,955,361	2,378,984	397,334,345	447,852,089
Cash and bank balances		91,540,239	703,717	92,243,956	150,441,555
Total assets		**10,041,723,080**	**1,704,131,595**	**11,745,854,675**	**10,293,761,392**
Capital and reserves (Page 11 & 12)					
Share capital	19	1,500,000,000	-	1,500,000,000	1,500,000,000
Revaluation and other reserves	20	2,201,845,383	-	2,201,845,383	933,109,608
Retained earnings		1,842,307,584	-	1,842,307,584	1,783,074,685
Proposed dividends	21	150,00,000	-	150,000,000	150,000,000
Shareholders' funds		5,694,152,967	-	5,694,152,967	4,366,184,293

(Continued on page 9)

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

KENYA REINSURANCE CORPORATION LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2005 (Continued)

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

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

Director

Director

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

KENYA REINSURANCE CORPORATION LIMITED

CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

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

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

KENYA REINSURANCE CORPORATION LIMITED

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

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

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

KENYA REINSURANCE CORPORATION LIMITED

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

2005:	Note	Share capital KShs	Capital and contingency reserves KShs	Revaluation reserves KShs	Fair value adjustments KShs	Retained earnings KShs	Proposed dividends KShs	Total KShs
At 1 January 2005 – as previously stated		1,500,000,000	60,405,772	9,251,854	863,451,982	1,806,759,885	150,000,000	4,389,869,493
Prior year adjustment:								
Defined benefit liability	25	-	-	-	-	(33,836,000)	-	(33,836,000)
Deferred tax	11	-	-	-	-	10,150,800	-	10,150,800
At 1 January 2005 - Restated		**1,500,000,000**	**60,405,772**	**9,251,854**	**863,451,982**	**1,783,074,685**	**150,000,000**	**4,366,184,293**
Net profit for the year		-	-	-	-	469,057,869	-	469,057,869
Final dividend for 2004	21	-	-	-	-	-	(150,000,000)	(150,000,000)
Proposed dividends 2005		-	-	-	-	(150,000,000)	150,000,000	-
Change in fair value of quoted investments	20			-	508,138,863	-	-	508,138,863
Realisation of revaluation reserves	20	-	-	(22,286,071)	(23,737,990)	-	-	(46,024,061)
Transfer		-	-	-	259,824,970	(259,824,970)	-	-
Revaluation of properties		-	-	409,128,659	-	-	-	409,128,659
Revaluation deficit on properties transferred to life		-	-	137,667,344	-	-	-	137,667,344
At 31 December 2005		**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**

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

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

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

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

(b) Underwriting results

(i) General insurance business

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. The underwriting results for general business are determined on an annual basis. The incurred cost of claims, acquisition costs and expenses of management are charged against the earned proportion of premiums, net of reinsurance as follows:

- Earned premiums are net written premium for the period after accounting for unearned premium. Unearned premiums represent the proportion of net premiums written in the year that are attributable to future risks and are determined on the basis of 40% of net premiums written.

- Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the balance sheet date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed and include provisions for claims incurred but not reported ("IBNR") in respect of Motor, Fire and Accident which is calculated at 5% of gross premiums written less reinsurances.

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

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

(ii) Long term insurance business

- The full annual premium income is recognised in respect of both individual and group life after making provisions for policy lapses and other terminations on policy anniversary dates.

- Claims arising are recognised on notification.

- Expenses and commission are allocated to the Life Funds as incurred in the management of long term insurance business.

- The Life fund is assessed annually by the Corporation's consulting actuaries. Surpluses arising on the advice of the actuaries are either transferred to the profit and loss or carried forward in the life fund.

(c) Intangible assets

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

(d) Inventories

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

(e) **Investment properties**

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

(f) **Property and equipment**

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

Depreciation is calculated on the straight-line basis, at annual rates estimated to write off carrying values of the assets over their estimated useful lives.

The annual depreciation rates in use are:

Freehold buildings	2%
Motor vehicles	25%
Computers	25%
Office furniture, fixtures and equipment	12.5%
Household furniture and equipment	25%

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

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

(g) **Prepaid lease**

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

(h) Financial assets

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

Financial assets with fixed maturity that management has the intent and ability to hold to maturity are classified as held to maturity and are carried at amortised cost. Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available for sale and are carried at fair value.

Investments are classified and carried at values as follows:

(i) Quoted shares are classified as available-for-sale investments and are carried at fair value. Their fair value is calculated by reference to the stock exchange quoted bid prices at the close of business on the balance sheet date. Changes in fair value of available for sale financial assets are recorded as a separate component of equity. Any impairment is transferred to profit and loss account.

(ii) Unquoted investments are classified as available-for-sale investments. They are carried at fair value which is determined on the basis of net assets unless their value cannot be reliably measured, in which case they are carried at amortised cost.

(iii) Securities issued by the Kenya Government are classified as Held to Maturity investments. They are carried at amortised cost (i.e. cost plus accrued discount or interest) and any premium or discount is amortised through income, using the effective yield method. The Corporation's management has the positive intention and ability to hold to maturity. If the Corporation is to sell an amount of held-to-maturity assets, which is insignificant, the entire category could be tainted and reclassified as available-for-sale.

(i) Loans and receivables and provision for loan impairment

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

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

(j) Revenue recognition

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

(i) Interest income

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

(ii) Dividends

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

(iii) Rental income

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

(k) Cash and cash equivalents

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

(l) Foreign currency transactions

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

(m) Bad and doubtful debts

Specific provision is made for all known debts. An estimate is made for doubtful receivables based on review of all outstanding amounts at the year-end. Bad debts are written off in the year in which they are identified.

(n) Taxation

Current taxation is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation. Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilised.

(o) Pension obligations

The Corporation operates a defined benefits pension scheme for all its employees the assets of which are held in trustee administered funds. The retirement plans are funded by payments from both employees and the Corporation. The calculation is performed by a qualified actuary using the projected unit credit method. The defined benefit obligation is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods and the benefits are discounted to determine its present value and the fair value of its plan assets are deducted.

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

The Corporation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by the local statute and are currently limited to KShs 200 per employee per month.

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

(p) Employee entitlements

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

(q) Dividends

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

(r) Provisions

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

(s) Offsetting of financial assets and liabilities

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

(t) Comparatives

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

	2005 KShs	2004 KShs

2. INVESTMENT INCOME

(a) General profit and loss account

Loss on sale of houses	(36,347,497)	(49,431,469)
Rent	191,903,300	200,887,935
Interest	132,155,228	82,872,820
Dividends	62,105,005	47,968,796
Gain on sale of shares	40,732,430	233,154,351
Other income	16,503,302	30,100,673
Forex loss	(39,190,338)	18,017,093
Apportioned management expenses	(89,062,910)	(87,237,808)
	278,798,520	**476,332,391**

(b) Long term insurance business investment income

Rent	30,799,341	31,183,514
Interest Income	92,267,689	77,313,478
	123,067,030	**108,496,992**

3. PROFIT BEFORE TAXATION

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

4. WRITE OFF OF INVENTORY

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

5. INCOME TAX EXPENSE

(a) Balance sheet

	2005 KShs	2004 KShs
General insurance business		
Balance brought forward	108,049,998	(123,488,469)
Charge for the year	(215,889,900)	(121,759,478)
Paid during the year	58,061,575	353,297,945
	(49,778,327)	108,049,998
Life insurance business		
Balance brought forward	15,462,478	(11,530,141)
Charge for the year	(1,017,758)	(16,590,169)
Paid during the year	-	43,582,788
	14,444,720	15,462,478
	(35,333,607)	**123,512,476**

(b) Profit and loss account

Current tax at 30% on the taxable profit for the year:		
Revenue account	215,889,899	89,766,053
Under/(over) provision in prior years	-	31,993,425
	215,889,899	121,759,478
Deferred tax credit (Note 11)	(3,583,732)	(10,624,073)
	212,306,167	**111,135,405**
Life account	**1,017,759**	**16,590,169**

(c) Reconciliation of tax expense

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

	2005 KShs	2004 KShs
Profit before tax	681,364,036	563,638,671
Tax applicable rate of 30%	204,409,210	169,091,601
Tax effects of:		
Tax effects on items not deducted for tax	7,896,957	(77,114,171)
Originating and reversing temporary differences	-	(12,835,450)
Under provision in prior years	-	31,993,425
	212,306,167	**111,135,405**

6. EARNINGS PER SHARE

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

7. PROPERTY AND EQUIPMENT

	Freehold buildings KShs	Motor vehicles KShs	Computers KShs	Furniture & fixtures KShs	Equipment KShs	Total KShs
Cost or valuation						
At 1 January 2005	135,748,477	18,929,247	60,061,581	31,530,663	575,937,197	822,207,165
Transfer to non-current assets held for sale	(135,748,477)	-	-	-	-	(135,748,477)
Additions	-	-	168,055	4,846,283	1,117,935	6,132,273
Disposal	-	-	-	(20,259)	-	(20,259)
At 31 December 2005	-	18,929,247	60,229,636	36,356,687	577,055,132	692,570,702
Depreciation						
At 1 January 2005	18,451,176	17,563,907	56,264,193	22,240,139	468,256,183	582,775,598
Transfer to non-current assets held for sale	(21,564,410)	-	-	-	-	(21,564,410)
Charge for the year	3,113,234	3,272,754	1,776,102	2,453,174	40,321,981	50,937,245
Revaluation	-	(7,629,661)	-	-	-	(7,629,661)
Disposal	-	-	-	(2,532)	-	(2,532)
At 31 December 2005	-	13,207,000	58,040,295	24,690,781	508,578,164	604,516,240
Net book value						
At 31 December 2005	-	5,722,247	2,189,341	11,665,906	68,476,968	88,054,462
At 31 December 2004	117,297,301	1,365,340	3,797,388	9,290,524	107,681,014	239,431,567

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

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

8. NON-CURRENT ASSETS HELD FOR SALE

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

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

	2005 KShs	2004 KShs

9. PREPAID OPERATING LEASE RENTALS

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

10. INTANGIBLE ASSETS

Cost		
At 1 January and 31 December	6,650,952	6,650,952
Accumulated amortisation		
At 1 January	3,325,476	1,662,738
Amortised during the year	1,662,738	1,662,738
At 31 December	4,988,214	3,325,476
Net book value at 31 December	1,662,738	3,325,476

11. DEFERRED TAX

	As previously stated 1.1.2005 KShs	Prior year adjustment KShs	As restated balance at 1.01.2005 KShs	Recognised in profit and loss account KShs	Balance at 31.12.2005 KShs
Accelerated capital allowances	(9,834,568)	-	(9,834,568)	15,028,882	5,194,314
Leave pay provisions	(4,348,695)	-	(4,348,695)	747,072	(3,601,623)
Other temporary differences	8,114,985	-	8,114,985	(19,872,086)	(11,757,101)
Defined benefit liability	-	(10,150,800)	(10,150,800)	512,400	(9,638,400)
	(6,068,278)	(10,150,800)	(16,219,078)	(3,583,732)	(19,802,810)

12. GOVERNMENT SECURITIES

	2005 KShs	2004 KShs
Held to maturity		
Securities maturing:		
Within 91 days	568,888,455	297,813,751
After 91 days	7,750,000	102,198,369
After one year to five years	1,262,078,706	1,071,205,112
	1,838,717,161	1,471,217,232

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

	2005 KShs	2004 KShs

13. AVAILABLE FOR SALE – FINANCIAL ASSETS

(i) *Quoted ordinary shares*

At 1 January	1,252,591,109	1,244,373,071
Fair value gain	508,138,862	209,895,615
Additions	-	20,499,395
Disposal of shares	(44,350,240)	(222,176,972)
	1,716,379,731	1,252,591,109

All quoted shares are stated at market value

(ii) *Investment in unquoted shares*

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

At 1 January	150,440,588	150,524,209
Fair value losses	-	(83,621)
End of year	150,440,588	150,440,588

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

Total available for sale – financial instruments	**1,866,820,319**	**1,403,031,697**

14. MORTGAGE LOANS

Mortgages maturing:		
Within 1 year	42,227,352	23,185,045
In 1-5 years	168,909,408	169,109,921
After 5 years	181,564,082	136,912,440
	392,700,842	**329,207,406**

The gross mortgages comprises of:

Staff mortgages	166,105,284	167,488,202
Commercial mortgages	226,595,559	161,719,204
	392,700,843	**329,207,406**

	2005 KShs	2004 KShs

15. INVESTMENT PROPERTIES

At 1 January	3,682,470,308	4,205,991,473
Transfer to inventory	(637,500,000)	(523,521,165)
Revaluation surplus arising in the year	225,029,692	-
Fair value amount	**3,270,000,000**	**3,682,470,308**

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

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

	2005 KShs	2004 KShs

16. SUNDRY DEBTORS

Rent arrears	7,921,286	(481,438)
Staff advances	33,149,280	25,934,719
Other debtors	11,531,168	3,258,472
	52,601,734	**28,711,753**

17. BALANCES WITH CEDANTS AND REINSURERS

(a) Amounts due from cedants and reinsurers

Local companies	280,217,784	234,430,052
International companies	2,350,451,623	1,796,632,136
	2,630,669,407	2,031,062,188
Less: provision for bad and doubtful debts	(159,595,076)	(201,678,529)
	2,471,074,331	**1,829,383,659**

(b) Amounts due to cedants and reinsurers

Due to cedants	1,607,085,017	1,590,429,487
Due to reinsurers	33,658,220	81,860,074
	1,640,743,237	**1,672,289,561**

	2005 KShs	2004 KShs
18. INVENTORIES		
Housing units for sale	798,668,382	292,350,785
Land held for sale	295,000,000	263,816,838
Total inventories at lower of cost and net realisable value	1,093,668,382	556,167,623

19. SHARE CAPITAL

Authorised share capital:		
200,000,000 Ordinary shares of KShs 10 each	2,000,000,000	2,000,000,000
Issued and fully paid:		
150,000,000 Ordinary shares of KShs 10 each	1,500,000,000	1,500,000,000
Movement in issued share capital	**No of shares**	**No of shares**
At 1 January 2005	150,000,000	100,000,000
Issue of Bonus Shares	-	50,000,000
At 31 December 2005	150,000,000	150,000,000

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

20. REVALUATION AND OTHER RESERVES

	2005 KShs	2004 KShs
Revaluation reserves	533,761,786	9,251,854
Fair value reserve	1,607,677,825	863,451,982
Capital reserves	10,784,528	10,784,528
Contingency reserves	49,621,244	49,621,244
	2,201,845,383	933,109,608

Revaluation reserve

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

Fair value reserve

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

Contingency reserve

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

21. PROPOSED DIVIDENDS

The movement in proposed dividends is as follows:	2005 KShs	2004 KShs
At 1 January	150,000,000	100,000,000
Declared and paid during the year	(150,000,000)	(100,000,000)
Proposed dividends	150,000,000	150,000,000
At 31 December	**150,000,000**	**150,000,000**
Proposed dividend per share (KShs)	**1.00**	**1.00**

The proposed dividends on the ordinary shares are calculated on dividends of KShs 1.00 (2004 – 1.00) and on the number of ordinary shares in issue at the respective balance sheet dates. Payment of the dividends is subject to withholding tax at the rate of 5%.

22. INSURANCE CONTRACT

(a) Life liabilities

	2005 KShs	2004 KShs
Ordinary life fund	526,827,327	500,469,945
Superannuation	1,151,575,808	1,157,886,716
At 31 December	**1,678,403,135**	**1,658,356,661**

The life liabilities, which comprise Ordinary Life Fund and Superannuation Fund, were established in respect of its long-term business as required under Section 45 of the Insurance Act. Income arising from the investment of the assets of the statutory funds is credited to and forms part of these funds. Transfers from the statutory funds to the profit & loss account are made on the recommendation of the Actuary. The latest actuarial valuation of the life fund was carried out by Alexander Forbes Insurance Brokers Limited, consulting actuaries as at 31 December 2005 and according to the valuation, the fund had a surplus of KShs 507,714,434. No transfer has been made from Life Fund to the Profit and loss account. The actuary recommended that no transfer should be made.

(b) Actuarial liability

	← 2005 →		
Class of business	**Sums at risk KShs**	**Annual office premium Khs**	**Actuarial liability KShs**
Ordinary life business	1,208,632,205	8,220,645	8,056,232
Group life business	95,416,103,217	341,704,924	334,870,826
Treaty business	3,455,923,369	33,966,132	33,286,809
Supplementary benefits	4,261,143,302	12,990,383	12,990,383
AIDS reserve	-	-	441,798,541
Claims equalisation reserve	-	-	284,685,910
Contingency reserve	-	-	55,000,000
	104,341,802,093	**396,882,084**	**1,170,688,701**

22. INSURANCE CONTRACT (Continued)

(b) Actuarial liability (cont'd)

Class of business	2004 Sums at risk KShs	2004 Annual office premium KShs	2004 Actuarial liability KShs
Ordinary life business	3,863,072,162	29,258,520	14,629,260
Group life business	83,310,444,998	307,368,440	153,684,220
Treaty business	6,745,767,041	20,803,769	10,401,885
Supplementary benefits	5,881,521,295	16,958,207	8,479,104
AIDS reserve	-	-	425,070,064
Claims equalisation reserve	-	-	27,757,747
Contingency reserve	-	-	282,893,486
	99,800,805,496	374,388,936	922,915,766

(c) Actuarial valuation

Liabilities	2005 KShs	2005 Assets	2005 KShs
Actuarial liability	1,170,688,701	Life Fund	1,678,403,135
Surplus	507,714,434		-
	1,678,403,135		1,678,403,135

	2004 KShs	2004 Assets	2004 KShs
Actuarial liability	922,915,766	Life Fund	1,658,356,661
Surplus	735,440,895		-
	1,658,356,661		1,658,356,661

	2005 KShs	2004 KShs
23. OUTSTANDING CLAIMS		
Provision for outstanding claims	1,916,779,168	1,989,906,738
24. UNEARNED PREMIUMS		
Unearned premiums	532,679,433	355,270,437

25. DEFINED BENEFIT LIABILITY

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

	2005 KShs	2004 KShs
Notes to the balance sheet		
Present value of funded obligations	276,435,000	214,334,000
Fair value of Scheme assets	212,912,000	180,498,000
Net underfunding in funded plan	63,523,000	33,836,000
Unrecognised actuarial gain/(loss)	(31,395,000)	-
Net liability in the balance sheet	**32,128,000**	**33,836,000**
Notes to the income statement		
Current service cost net of employees' contributions	10,588,000	
Interest on obligation	24,074,000	
Expected return on plan assets	(20,635,000)	
Total included in "staff costs" in respect of Scheme	**14,027,000**	
Actual return on plan assets	**14,223,000**	
Reconciliation		
Net liability at start of period	33,8356,000	
Net expense recognised in the income statement	14,027,000	
Employer contributions	(15,735,000)	
Net liability at end of period	**32,128,000**	
Actuarial assumptions		
Discount rate (% p.a.)	11.0%	11.0%
Expected return on Scheme assets (% p.a.)	11.0%	11.0%
Future salary increases (% p.a.)	9.0%	9.0%
Future pension increases (% p.a.)	0%	0%

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

26. SUNDRY CREDITORS

	2005 KShs	2004 KShs
Investment creditors	11,324,273	96,418,623
Accrued leave pay	12,005,410	14,495,074
Other creditors and accruals	177,860,725	107,004,005
	201,190,408	**217,917,702**

27. BANK OVERDRAFT

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

28. CASH AND CASH EQUIVALENTS

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

	2005 KShs	2004 KShs
Cash and bank balances	92,243,956	150,441,555
Treasury bills maturing within 91 days	519,898,586	297,813,751
Short term deposits	397,334,345	447,852,089
	1,009,476,887	**896,107,395**

29. CONTINGENT LIABILITIES

The Corporation has issued guarantees to various third parties amounting to KShs 450,000 (2004 – KShs 997,000).

The Kenya Revenue Authority has raised on assessments amounting to KShs 57,399,597 being additional tax for 1999 and 2002 years of income. The Corporation through its tax consultants is appealing against the tax notices against the Commissioner of Income Tax to the Local Committee. The likely outcome of the issue cannot at present be determined. No provision has been made in the financial statements for this liability as the directors are confident that the appeal will be successful.

30. RELATED PARTY TRANSACTIONS

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

(a) Transactions with directors

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

	2005 KShs	2004 KShs
(ii) Loans to staff	196,186,161	193,452,735

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

(iii) Loans to directors	2005 KShs	2004 KShs
Loans to ex-directors	5,844,938	13,728,365
Loans to existing directors	35,774,938	6,446,090
	41,619,876	20,174,455

Interest earned on these loans was KShs 1,935,043 (2004 – KShs 1,056,091). Loans to staff and directors are secured by mortgage on real property and interest is charged as per the terms of contract.

(b) Transaction with related companies

	2005 KShs	2004 KShs
(i) Net premium written	25,276,566	29,376,742
(ii) Claims incurred	2,525,524	16,671,039

General insurance policies taken out by related parties are at arm's length and in the ordinary course of business at terms and conditions similar to those offered to other clients.

(iii) Outstanding balances with related parties in respect of underwriting business:

	2005 KShs	2004 KShs
Amounts due from related parties	1,337,240	6,972,911
Amounts due to related parties	3,800,773	-

31. SEGMENTAL INFORMATION

Primary segment information

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

32. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

33. RISK MANAGEMENT

Reinsurance risk

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

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

Currency risk

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

Interest rate risk

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

32. RISK MANAGEMENT (Continued)

Market price risk

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

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

Credit risk

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

Liquidity risk

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

34. CURRENCY

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

35. EMPLOYEES

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

36. INCORPORATION

The Corporation is incorporated in Kenya under the Companies Act.