KENYA REINSURANCE CORPORATION LIMITED

REPORT AND FINANCIAL STATEMENTS

AT

31 DECEMBER 2007

KENYA REINSURANCE CORPORATION LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

CONTENTS

KENYA REINSURANCE CORPORATION LIMITED

DIRECTORS, OFFICERS AND ADMINISTRATION

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

KENYA REINSURANCE CORPORATION LIMITED

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2007

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 6.

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 1.

5. Auditors

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

KPMG Kenya were appointed by the Controller and Auditor-General to carry out the auditor for the year ended 31 December 2007.

6. Approval of financial statements

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

BY ORDER OF THE BOARD

Corporation Secretary

Date:

KENYA REINSURANCE CORPORATION LIMITED

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 6 to 47 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
and were signed on its behalf by:

__________________________ __________________________

Director Director

KENYA REINSURANCE CORPORATION LIMITED

Report of the Authorised Auditors (Appointed under Section 39(1) of the Public Audit Act, 2003) to the Controller and Auditor-General

We have audited the financial statements of Kenya Reinsurance Corporation Limited set out on pages 6 to 47 which comprise the balance sheet at 31 December 2007, and 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.

Directors' responsibilities for the financial statements

As stated on page 3, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Authorised auditor's responsibility

Our responsibility is to report on the outcome of our audit of the financial statements to the Controller and Auditor-General.

Controller and Auditor-Generals' responsibility

The Controller and Auditor-General is responsible for reporting on his examination of the financial statements to the Minister responsible for the Corporation for presentation to the National Assembly.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

KENYA REINSURANCE CORPORATION LIMITED

Report of the Authorised Auditors (Appointed under Section 39(1) of the Public Audit Act, 2003) to the Controller and Auditor-General (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Corporation at 31 December 2007, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.

(ii) In our opinion, proper books of account have been kept by the Corporation, so far as appears from our examination of those books; and

(iii) The balance sheet is in agreement with the books of account.

KPMG Kenya
Certified Public Accountants
16th Floor, Lonrho House
Standard Street
PO Box 40612
00100 Nairobi GPO

Date:

KENYA REINSURANCE CORPORATION LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

Income	Note	2007 KShs	2006 Restated KShs
Insurance premium revenue	4	3,222,288,178	3,114,829,098
Insurance premium ceded to reinsuers	4	(247,754,120)	(323,205,267)
Net insurance premium revenue	4	**2,974,534,058**	**2,791,623,831**
Investment income	5	939,325,878	753,096,379
Fair 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 11 to 47 form an integral part of the financial statements.

KENYA REINSURANCE CORPORATION LIMITED

BALANCE SHEET AT 31 DECEMBER 2007

	Note	2007	2006 Restated
		KShs	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 6 to 47 were approved by the Board of Directors on
and were signed on its behalf by:

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Director Director

The notes set out on pages 11 to 47 form an integral part of the financial statements.

KENYA REINSURANCE CORPORATION LIMITED

CASHFLOW 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 11 to 47 form an integral part of the financial statements.

KENYA REINSURANCE CORPORATION LIMITED

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

2006:	Note	Share capital KShs	Capital and contingency reserves KShs	Revaluation reserves KShs	Fair value adjustments KShs	Translation reserve KShs	Retained earnings KShs	Proposed dividends KShs	Total KShs
At 1 January 2006 – As previously stated		1,500,000,000	60,405,772	533,761,786	1,607,677,825	-	1,842,307,584	150,000,000	5,694,152,967
Prior year adjustments – 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 11 to 47 form an integral part of the financial statements.

KENYA REINSURANCE CORPORATION LIMITED

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 11 to 47 form an integral part of the financial statements.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Underwriting results (continued)

- 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Underwriting results (continued)

The benefits to which the Corporation is entitled under its reinsurance contracts held are recognised as reinsurance assets.

The Corporation assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Corporation reduces the carrying amount of the reinsurance assets to its recoverable amount and recognises the impairment loss in the income statement.

(v) Receivables and payables related to insurance contracts

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

(vi) Classification of insurance and investment contracts

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

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

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

(c) Intangible assets

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

(d) Inventories

Inventories 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Investment properties

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

(f) Property and equipment

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

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

The annual depreciation rates in use are:

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

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

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

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

(g) Prepaid lease

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Identification and measurement of impairment of financial assets

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

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

(i) Held-to-maturity

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

(ii) Loans and receivables

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

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

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

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

(iii) Available-for-sale

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment for non-financial assets

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

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

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

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

(k) Revenue recognition

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

(i) Interest income

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

(ii) Dividend income

Dividend income for available-for-sale equities is recognised when the shareholder's right to receive the payment is established.

(iii) Rental income

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Cash and cash equivalents

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

(m) Foreign currency transactions

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

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

(n) Taxation

Tax on the income statement for the year comprises current tax and the change in deferred tax. Current taxation is provided for on the basis of the results for the period as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilised.

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

(o) Employee benefits

(i) Pension obligations

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Employee benefits (continued)

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

The Corporation's contributions to the defined benefits pension scheme are charged to the income statement in the period to which they relate.

(ii) Employee entitlements

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

(iii) Termination benefits

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

(p) Dividends

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

(q) Earnings per share

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

(r) Provisions

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

(s) Offsetting of financial assets and liabilities

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(w) New standards and interpretations not yet adopted (continued)

- 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:

2. FINANCIAL RISK MANAGEMENT (Continued)

(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 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.

2. FINANCIAL RISK MANAGEMENT (Continued)

(a) Liquidity risk (continued)

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'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 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**

2. FINANCIAL RISK MANAGEMENT (Continued)

(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**

2. **FINANCIAL RISK MANAGEMENT (Continued)**

(b) Market risk (continued)

(i) Interest rate risk - continued

31 December 2006:	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	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**

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.

2. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit risk (continued)

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.

2. FINANCIAL RISK MANAGEMENT (Continued)

(d) Reinsurance risk (continued)

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.

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		Life business		Total	
	2007	2006	2007	2006	2007	2006
	KShs	KShs	KShs	KShs	KShs	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**

3. SEGMENTAL REPORTING (continued)

Other information

	General business		Life business		Total	
	2007	2006	2007	2006	2007	2006
	KShs	KShs	KShs	KShs	KShs	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.

		2007 KShs	2006 KShs
4.	**NET INSURANCE PREMIUM REVENUE**		
	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**
5.	**INVESTMENT INCOME**		
	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		
	Long term insurance contracts		
	- Increase in liabilities	**208,812,761**	**306,588,879**

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**

		2007 KShs	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.

		2007	2006
		KShs	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	-	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**

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

	2007	2006
	KShs	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**

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

2007:	Motor vehicles KShs	Computers KShs	Furniture & fixtures KShs	Equipment KShs	Total KShs
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:	Motor vehicles KShs	Computers KShs	Furniture & fixtures KShs	Equipment KShs	Total KShs
Cost or valuation					
At 1 January 2006	18,929,247	60,229,636	36,356,687	577,055,132	692,570,702
Additions	-	12,108,948	1,322,640	-	13,431,588
At 31 December 2006	18,929,247	72,338,584	37,679,327	577,055,132	706,002,290
Depreciation					
At 1 January 2006	13,207,000	58,040,295	24,690,781	508,578,164	604,516,240
Charge for the year	1,907,415	4,550,525	2,241,612	40,321,983	49,021,535
At 31 December 2006	15,114,415	62,590,820	26,932,393	548,900,147	653,537,775
Net book value					
At 31 December 2006	**3,814,832**	**9,747,764**	**10,746,934**	**28,154,985**	**52,464,515**

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

14. NON-CURRENT ASSETS HELD FOR SALE

	2007 KShs	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

	2007 KShs	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**

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**

16. DEFERRED TAX (Continued)

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

	2007 KShs	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.

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:

	2007 KShs'000	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

Held to maturity	2007 KShs'000	2006 KShs'000
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.

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

	2007 KShs'000	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.

20. AVAILABLE FOR SALE – FINANCIAL ASSETS (Continued)

(ii) Investment in unquoted shares

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

	2007 KShs'000	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.

21. MORTGAGES

	2007 KShs'000	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.

		2007 KShs'000	2006 KShs'000
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**
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**

27. SHARE CAPITAL

(a) Authorised share capital

	2007	2006
At 1 January		
200,000,000 Ordinary shares of KShs 10 each	**2,000,000,000**	**2,000,000,000**

	2007 Number of shares	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**

	2007	2006
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

	2007	2006
At 1 January		
150,000,000 Ordinary shares of KShs 10 each	**1,500,000,000**	**1,500,000,000**

	2007 Number of shares	2006 Number of shares
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**

27. SHARE CAPITAL (Continued)

(b) Issued and fully paid (continued)

	2007 Number of shares	2006 Number of shares
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.

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

	2007 KShs	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)	0.36	0.25

The proposed dividends per share on the ordinary shares are calculated on dividends of KShs 218,779,225 (2006 – KShs 0.25) 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%.

30. INSURANCE CONTRACT

(a) Long term insurance contracts

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

	2007 KShs	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**
Liabilities			
Actuarial liability	2,084,070,649	Life Fund	2,332,829,866
Surplus	248,759,217		-
	2,332,829,866		**2,332,829,866**

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

30. INSURANCE CONTRACT (Continued)

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 average 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 shown:

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

Investment return
This is the rate of return assumed to 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

30. **INSURANCE CONTRACT (Continued)**

Commission and profit commission

Ordinary life business	= 0.15
Group life business	= 0.20

Lapse rate

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

	2007 KShs	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**

	2007 KShs	2006 KShs
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 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**

32. DEFINED BENEFIT LIABILITY (Continued)

	2007 KShs	2006 KShs
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). Contributions are determined by local statute and are shared between the employer and employee. For the year ended 31 December 2007, the Corporation contributed KShs 17,762,875 (2006 – KShs 18,348,139) to the defined pension scheme and KShs 262,000 (2006 – KShs 254,600) for NSSF which has been charged to the income statement.

Historical information	2007 KShs	2006 KShs	2005 KShs	2004 KShs
Fair value of plan assets	290,229,000	254,730,000	212,912,000	180,498,000
Present value of funded obligations	(363,923,000)	(348,357,000)	(276,435,000)	(214,334,000)
Net (under)/over funding in the scheme	(73,694,000)	(93,627,000)	(63,523,000)	(33,836,000)
Unrecognised actuarial loss	33,768,000	61,330,000	31,395,000	-
Defined benefit liability	**(39,926,000)**	**(32,297,000)**	**(32,128,000)**	**(33,836,000)**

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 7,613,446 (2006 – KShs 2,220,000).

		2007 KShs	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 earned on these loans was KShs 1,577,010 (2006 – KShs 2,427,925). 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**	**2007 KShs**	**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 wholly owned by the Government of Kenya.

Appendix I

KENYA REINSURANCE CORPORATION LIMITED

GENERAL INSURANCE REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007

	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**	**150,701,531**	**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**	**10,916,701**	**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**	**1,017,717,650**	**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)**	**80,490,910**	**(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**

Appendix II

KENYA REINSURANCE CORPORATION LIMITED

LIFE REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Ordinary KShs	Super annuation KShs	2007 KShs	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**