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Sarit S R Shah

B A Kiplagat

S B R Shah MBS

P J Ransley

Sachit S Shah

## Our Vision

To be the leading insurance company in Kenya known for its reliability, efficiency and financial strength.

## Our Mission

To provide high quality customer service and safeguard the interests of our clients whilst adding value to our shareholders and enhancing the market share.

## chairman's statement

It is my pleasure to present the annual report and financial statements of General Accident Insurance Company for the year ended 31st December 2007:

### Social and Political Environment

Year 2007 started on an apprehensive note of the election year but at the same time there was hope that the new era of democratic process would complement the Kenyan economy which had a decent recovery during the past few years. Unfortunately the post election turmoil took Kenya through the worst phase in our recent memory. It tore the entire social and ethnic fabric of the nation making thousands of Kenyans internally displaced and adversely affected the economy of the country and of the region.

The coalition government, formed after a long political stalemate, has to prove beyond politics of convenience in order to instill confidence in the heart and mind of Kenyans and the world community at large.

### National Economy

Kenya has had a sustained GDP growth of around 6% for the past three years. 2007 has been impressive with over 7% GDP growth, which was mainly contributed by the growth in the financial and service sectors, agricultural and construction based industries, tourism and transport. The Shilling gained considerably and strengthened against the US dollar from 69.58 in the beginning of 2007 to 62.64 at the end of the year. Interest rates depicted by the Treasury bill remained low but static throughout the year. Though the Nairobi Stock Exchange index performed a negative 6.3%, the stock market showed a lot of vibrancy during the year.

The country is clearly emerging as a regional hub for trade and finance in East Africa. In 2007, the government unveiled Vision 2030, an ambitious economic blueprint, which has the potential of placing Kenya in the same league with the Asian Economic Tigers. However, the unrest in the country that commenced at the end of 2007 and continued for over two months appears to have had a huge impact on the country's prospects but may not weigh down completely the consistent economic growth achieved since 2002. The country's image of a major and responsible regional player got a set back when the supplies of fuel and other vital shipments to the neighbouring countries were completely paralysed in the aftermath of Dec'07 election. The congestion at Mombasa port slowed down the export and imports. The Tourism industry was completely crippled. The virtual collapse of the business activities in the first quarter will certainly affect the 2008 economic growth.

### Company's Performance

The company's performance in the year 2007 has been commendable. Various changes in the management and in the structure of the company have worked well and are evolving General Accident into a new look and dynamic company. HRD, Marketing, and Medical Insurance departments were revamped in 2007 in line with our strategy of focusing on human resources and business development.

The company recorded a gross premium income of Kshs 682 Million in 2007 against Kshs 553 Million in 2006 achieving a handsome growth of 23%. Overall premium portfolio remained balanced with non-motor premium accounting to 70% of the total gross premium. An underwriting profit of Kshs 24.54 million was earned in 2007 as compared to underwriting loss of over Kshs 91 million in 2006. This could be possible due to better claims management measures.



### Financial Performance

Total profit before tax for 2007 has gone up to Kshs 215.81 million from Kshs 21.49 million in 2006. The substantial increase is attributed to good investment income of over Kshs 191 million, which includes gain on disposal of some quoted shares and to the good underwriting results. Other financial parameters clearly reflect the company's growing strength. Total assets increased by 23% to Kshs 2.19 billion and solvency margin of the company remains high. Profits have been transferred to Reserves thereby increasing the shareholder's fund by 21% amounting to Kshs 687 million.

### Looking Forward

The company is determined to become one of the biggest market players in the coming years. Human resources are being reinforced with more skilled and efficient manpower on board in the company in 2008. GA has invested heavily in the new IT system, which will be fully operational by middle of 2008. This will greatly improve and enhance the customer services. The new Medical Insurance department is expected to have its share in the fast growing medical sector in the market. The company has also come up with a strategic plan and budget in order to guide and achieve targets in 2008.

Insurance Regulatory Authority has started functioning and we look forward to more discipline in the market and fruitful regulations in the conduct of insurance business. Various Labour Acts including Workmen Injury Benefit Act (WIBA) have been enforced since early this year. We are hopeful that the new Act WIBA will be beneficial to both insurer and employees.

Irrespective of the political upheavals in the beginning of the year, I only expect that the political settlement will bring stability to the country and to its economy.

### Appreciation

I would like to thank to all those who have contributed to the impressive performance and results of the company for 2007. I appreciate the management and staff who have shown will and commitment towards the improvement and development of the company. Our special thanks to all the brokers, agents and clients who supported us and remained loyal to us.

My sincere thanks to Commissioner of Insurance and CEO of IRA for his support and guidance to the company. I am grateful to my fellow Directors on the Board for their valuable advice and contribution.

**S B R Shah**  
Chairman

General Accident Insurance Company Kenya Limited (“General Accident”) is committed to the best practices of Corporate Governance in running the operations of an organisation. The company ensures the compliance of the rules, regulations and laws of the land in the conduct of its business. The company is administered in pursuit of earning credibility in the market and increasing value for the stakeholders. The decision making and powers are exercised with integrity, responsibility, accountability and transparency.

### **Board of Directors**

The Directors in the company's board during the year 2007 are listed on page 6.

The Directors are known for their competencies, integrity and experience in the fields of banking, finance, manufacturing business and social services. Though the overall responsibility of monitoring and controlling the operational and financial performance of General Accident vests with the Board, the day to day management of the company has been delegated to the Executive Director.

The Board of Directors meets at least quarterly and is chaired by a Non-Executive Director.

### **Board Committees**

The Board has instituted various committees to assist it in fulfilling its role of monitoring key activities of General Accident. The Board reviews the reports and minutes of the committees and takes account of its decisions and functions.

#### **Board Audit Committee**

The Board Audit Committee was constituted in 2007. It comprises of the Chairman, Executive Director, one Non-Executive Director, General Manager and Group Internal Auditor. Its key objective is to assist the Board in providing an independent review of the effectiveness of the financial reporting process and internal control system of GA. It will review the performance and findings of the Group Internal Audit and Compliance function and recommend appropriate remedial action at least quarterly.

#### **Management Committee**

The Management Committee meets each month. Constituted in 2006, it comprises of the Executive Director, one Non-Executive Director, General Manager and all functional heads. Its key objective is to monitor the implementation of overall strategy of the company. The committee reviews company's performance of all departments each month and particularly ensures that General Accident's financial results are maintained.

#### **Asset Liability Management Committee**

The committee is chaired by the Executive Director and consists of one Non-Executive Director, General Manager, Head of Finance, Underwriting and of Investment & Credit Control. The Committee is mandated to ensure that company holds sufficient assets of appropriate nature, term and liquidity to enable it to meet liabilities of the company as they become due. It meets monthly to monitor the Assets Liability Management strategy with the objective of making the optimum utilization of funds.

#### **Human Resources Committee**

The Board has established this Committee to appraise it of the Company's Human Resource functions and to ensure that General Accident complies with laws, regulations and industry practices pertaining to staff welfare in line with company's commitment to its corporate values and standards. The committee is headed by the Executive Director and consists of the General Manager, the HR Manager and the Investment & Credit Manager.

**DIRECTORS**

Suresh B R Shah MBS  
Sachit S Shah  
Dr Bethuel A Kiplagat  
Sarit S Raja Shah  
Philip J Ransley  
Shantilal R Shah

Chairman  
Executive Director

Resigned 31 March 2007

**SECRETARY**

N P Kothari FCPS (Kenya)

Appointed 17 July 2007

**AUDITORS**

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

**REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS**

General Accident House  
Ralph Bunche Road  
PO Box 42166  
00100 Nairobi GPO

**BANKERS**

I & M Bank Limited  
I & M Bank House  
2nd Ngong Avenue Branch  
PO Box 30238  
00100 Nairobi GPO

Standard Chartered Bank Kenya Limited  
Kenyatta Avenue Branch  
PO Box 30001  
00100 Nairobi GPO

## director's report - for the year ended 31 december 2007

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

### 1. Principal activity

The company continues to provide insurance cover for general business.

### 2. Results for the year

The results for the year are as follows:

	KShs
Profit before taxation	215,816,462
Income tax expense	<u>(39,871,946)</u>
Profit for the year transferred to revenue reserves	<u>175,944,516</u>

### 3. Dividends

The directors do not recommend the payment of a dividend (2006 - Nil).

### 4. Directorate

The directors who served since 1 January 2007 are set out on page 6.

### 5. Auditors

The auditors, KPMG Kenya, have indicated their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap.486) and subject to their appointment in terms of Section 56(4) of the Insurance Act (Cap.487).

### 6. Approval of financial statements

The financial statements were approved at a meeting of the Directors held on 7 April 2008.

BY ORDER OF THE BOARD



N P Kothari  
Secretary

Date: 7 April 2008

## statement of the directors' responsibilities

The Directors are responsible for the preparation and presentation of the financial statements of General Accident Insurance Company Kenya Limited set out on pages 10 to 40 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.

The Directors responsibility includes: determining that the basis of accounting described in note 2 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.

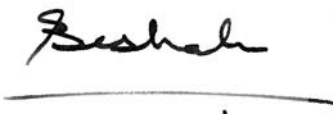
The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan 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 7 April 2008 and were signed on its behalf by:



S B R Shah  
Director



P J Ransley  
Director



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

Telephone +254 202806000  
Fax +254 20 2215695  
Email info@kpmg.co.ke  
Internet www.kpmg.co.ke

## to the members of general accident insurance company kenya limited

We have audited the financial statements of General Accident Insurance Company Kenya Limited set out on pages 10 to 40 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.

### Directors' responsibility for the financial statements

As stated on page 8, 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.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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.

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 company 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 Company so far as appears from our examination of those books; and
- (iii) The balance sheet and the income statement are in agreement with the books of account.

Date: 7 April 2008

KPMG Kenya is the Kenya member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative

Partners  
(British\*)

EE Aholi  
PC Appleton\*  
BC D'Souza  
JM Gathecha  
JM Kiruthu

PC Muema  
JL Mwaura  
RB Ndung'u  
AW Pringle  
AZ Sheikh

## income statement - for the year ended 31 december 2007

	Note	2007 KShs	2006 KShs
Insurance premiums revenue		682,245,576	553,774,136
Insurance premiums ceded to reinsurers		(236,169,739)	(167,957,589)
Net insurance premiums revenue		446,075,837	385,816,547
Unearned insurance premiums brought forward		177,828,687	181,892,342
Unearned premiums carried forward		(214,697,782)	(177,828,689)
Net earned premiums		409,206,742	389,880,200
Net realised investment and other income (net)	7	191,267,266	112,748,146
Claims paid		151,620,433	160,143,438
Amount of claims outstanding at the end of the year		697,753,469	633,108,433
Amount of claims outstanding at the beginning of the year		(633,108,433)	(448,361,263)
Net insurance claims incurred		216,265,469	344,890,608
Expenses			
Commissions payable		63,520,962	48,858,677
Commissions receivable		(53,613,572)	(39,258,742)
Premium tax payable		3,523,338	7,870,569
Expenses of management		154,961,349	118,772,931
Total expenses		168,392,077	136,243,435
Profit before taxation	8	215,816,462	21,494,302
Income tax expense/(credit)	9	(39,871,946)	1,366,635
<b>Profit after taxation</b>		<b>175,944,516</b>	<b>22,860,937</b>
<b>Basic and diluted earnings per share</b>	<b>10</b>	<b>17.59</b>	<b>2.29</b>

The notes set out on pages 11 to 40 form an integral part of these financial statements.

## balance sheet - at 31 december 2007

ASSETS	Note	2007 KShs	2006 KShs
Property and equipment	11	9,365,023	5,324,281
Intangible assets - computer software	12	20,295,720	-
<b>Investments</b>			
Investment properties	13	370,000,000	370,000,000
Investment in quoted equities (market value)		163,071,120	244,408,491
Investment in unquoted equities at directors valuation		59,837,891	34,111,101
Loan receivable	14	469,352,096	256,875,813
Investment in Government securities	15	199,675,909	119,141,013
Deposits with banks		238,115,514	171,289,477
Total investments		1,500,052,529	1,195,825,895
Deferred tax asset	16	6,196,056	4,658,804
Premiums outstanding		162,178,972	125,244,583
Amount due from bodies engaged in insurance business		38,265,778	40,110,714
Sundry debtors		21,526,270	13,504,948
Reinsurance contracts	17(b)	428,342,379	340,523,910
Cash and bank balances		5,667,442	47,127,991
Tax recoverable		-	11,389,044
<b>TOTAL ASSETS</b>		<b>2,191,890,168</b>	<b>1,783,710,170</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital and reserves (Page 10)			
Share capital	18	200,000,000	200,000,000
Reserves	19	487,686,479	369,254,826
<b>Total equity</b>		<b>687,686,479</b>	<b>569,254,826</b>
<b>Liabilities</b>			
Short-term insurance contracts	17(a)	1,340,793,630	1,151,461,031
Defined benefit obligations	20	2,149,126	2,999,000
Sundry creditors		20,498,054	10,948,293
Tax payable		30,020,154	-
Amounts due to bodies engaged in insurance business		110,742,725	49,047,020
<b>Total liabilities</b>		<b>1,504,203,689</b>	<b>1,214,455,344</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,191,890,168</b>	<b>1,783,710,170</b>

The financial statements on pages 7 to 40 were approved by the Board of Directors on 7 April 2008 and were signed on its behalf by:



S B R Shah  
Director



P J Ransley  
Director

The notes set out on pages 11 to 40 form an integral part of these financial statements.

## cash flow statement - for the year ended 31 december 2007

	Note	2007 KShs	2006 KShs
Cash flows from operating activities	21(a)	165,818,730	57,901,521
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of property and equipment		1,190,000	757,448
Purchase of property and equipment		(8,598,538)	(3,212,780)
Purchase of software		(28,993,884)	-
Proceeds from disposal of shares		109,953,483	29,628,893
Proceeds from refund of unquoted equity purchase		11,675,499	-
Proceeds from loan repayment		134,368,967	104,738,426
Purchase of quoted equities		(16,260,316)	(9,791,967)
Purchase of unquoted equities		(24,038,000)	(11,675,499)
Loans advanced		(346,845,250)	(352,450,000)
Purchase from redemption of treasury bonds		(16,436,042)	12,900,924
Redemption of commercial paper		-	4,891,574
Net rental income received		27,043,407	24,492,721
Interest received		75,799,276	52,381,226
Dividends received		4,787,010	6,135,800
<b>Cash flows from investing activities</b>		<b>(76,354,388)</b>	<b>(141,203,234)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>21(b)</b>	<b>89,464,342</b>	<b>(83,301,713)</b>

The notes set out on pages 14 to 40 form an integral part of these financial statements.

## statement of changes in equity - for the year ended 31 december 2007

	Share capital KShs	Available for sale reserve KShs	Revenue reserves		Total KShs
			Undistributable KShs	Distributable KShs	
<b>2006:</b>					
At 1 January 2006	200,000,000	118,667,752	119,685,284	36,185,088	474,538,124
Net profit for the year	-	-	-	22,860,937	22,860,937
Net changes in available for sale financial instruments	-	92,631,552	-	-	92,631,552
Available for sale reserve realised on disposal of quoted shares	-	(20,775,787)	-	-	(20,775,787)
<b>Balance at 31 December 2006</b>	<b>200,000,000</b>	<b>190,523,517</b>	<b>119,685,284</b>	<b>59,046,025</b>	<b>569,254,826</b>
<b>2007:</b>					
At 1 January 2007	200,000,000	190,523,517	119,685,284	59,046,025	569,254,826
Net profit for the year	-	-	-	175,944,516	175,944,516
Net changes in available for sale financial instruments	-	17,210,143	-	-	17,210,143
Available for sale reserve realised on disposal of quoted shares	-	(74,723,006)	-	-	(74,723,006)
<b>Balance at 31 December 2007</b>	<b>200,000,000</b>	<b>133,010,654</b>	<b>119,685,284</b>	<b>234,990,541</b>	<b>687,686,479</b>

The notes set out on pages 14 to 39 form an integral part of these financial statements.

## 1. REPORTING ENTITY

General Accident Insurance Company Kenya Limited underwrites short-term insurance business (non-life) risks. The company is a limited liability company incorporated and domiciled in Kenya. The registered office is:

General Accident House  
Ralph Bunche Road  
PO Box 42166  
00100 Nairobi GPO

## 2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

### (a) Basis of preparation

#### (i) Statement of compliance

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

#### (ii) Basis of measurement

The financial statements have been prepared under the historical cost basis of accounting as modified by the revaluation of financial instruments, classified as instruments available-for-sale, financial assets at fair value through profit or loss, and the investment property at professional valuation.

#### (iii) Functional and presentation currency

These financial statements are presented in Kenya Shillings, which is the company's functional currency.

#### (iv) 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 period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on amount recognized in the financial statements are disclosed in Note 3 and 4.

### (b) Underwriting results

#### (i) Unearned premiums and outstanding claims

Provision is made for unearned premiums at 31 December by using the monthly pro rata fraction (24ths) method for all classes of business.

The provision for outstanding claims includes the cost of claims notified but not settled and of claims incurred but not reported at the date of the balance sheet, computed on the basis of best information available at that date. Differences between the provision for outstanding claims and subsequent revisions or settlements are included in the financial statements in the year in which the claims are revised or settled.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (b) Underwriting results (cont'd)

#### (ii) Premiums

Premiums are stated gross of commission, excluding taxes and levies and are accounted for when due for payment. Outward reinsurance premiums are accounted for on a payable basis. Annual premiums are recognised on each policy anniversary date.

#### (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).

#### (iv) Reinsurance contracts held

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

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

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

### (c) Commissions

#### (i) Commissions receivable

The company is entitled to receive commissions for premiums ceded to reinsurers. The rates of commission are agreed and stipulated in the treaty notes at the beginning of each contract year.

#### (ii) Commissions payable

The company pays commissions to brokers and agents for business acquired on its behalf. The rates of commission are filed with the regulatory authorities at the start of each underwriting year for approval.

### (d) Investment income

Investment income comprises interest, net rental income and dividends receivable in the year and is stated net of management expenses allocated to the investment portfolio.

#### (i) Interest income

Interest income is recognised in the income statement as it accrues taking into account the effective yield of the asset. Interest income includes the amortisation of any discount or premium or other differences between the carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (d) Investment income (cont'd)

#### (ii) Rental income

Net rental income on investment properties is accounted on a straight-line basis over the lease term on ongoing leases. Lease incentives granted are recognised as an integral part of the total rental income, over the period of the lease.

#### (iii) Dividend income

Dividend income is accounted for on a receipt basis or when the right to receive the payment is established.

### (e) Expenses of management

Expenses of management are allocated /charged to the relevant revenue accounts as incurred in the management of each class of business.

### (f) Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

### (g) Salvage and subrogation reimbursements

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim (salvage). The Company may also have the right to pursue third parties for payment of some or all costs (subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property. Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

### (h) Financial instruments

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (h) Financial instruments (cont'd)

#### (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 company provides money, goods or services directly to a debtor with no intention of trading the receivable.

#### (iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. Were the company 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 and treasury bonds. The fair value of held-to-maturity investments is determined for disclosure purposes only.

#### (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. These include quoted and unquoted equity investments.

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 company 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 company 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 income' statement 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 (available-for-sale reserve), until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement.

#### (i) Investment properties

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are treated as long term investments and carried at fair value, representing market value determined every five years by external independent valuers. Investment properties are not subject to depreciation. Changes in carrying amount between balance sheet dates are recognised in the profit or loss in the period in which they arise.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (i) Investment properties (cont'd)

Valuations reflect, when appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Company and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

### (j) Translation of foreign currencies

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

Transactions in foreign currencies during the year are converted into Kenya Shillings at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate ruling at the balance sheet date. Resulting exchange differences are recognised in the income statement for the year. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the date of transaction.

### (k) Property and equipment

Items of property and equipment are stated at historical cost less accumulated depreciation and impairment losses.

Depreciation is charged on a straight-line basis to allocate their cost to their residual values over the estimated useful lives of the assets at the following rates:

Motor vehicles	25%
Furniture, fittings and equipment	12 <sup>1</sup> / <sub>2</sub> %
Leasehold improvements	12 <sup>1</sup> / <sub>2</sub> %
Computer equipment	12 <sup>1</sup> / <sub>2</sub> % - 25%

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate.

### (l) Intangible asset - Computer software

The costs incurred to acquire and bring to use specific computer software licences are capitalised. The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, currently over three years. Costs associated with maintaining software are recognised as an expense as incurred.

### (m) Premium and other receivables

Premium and other receivables are carried at anticipated realisable value. A review of all outstanding amounts is carried out at year end to identify and provide for impaired receivables.

### (n) Employee benefits

#### (i) Defined contribution scheme

The company operates a defined contribution scheme for all employees. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (n) Employee benefits (cont'd)

#### (ii) Termination benefits

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

#### (iii) Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

### (o) Identification and measurement of impairment of financial assets

The carrying amount of the Company'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 Company 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 Company 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (o) Identification and measurement of impairment of financial assets (cont'd)

#### (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.

### (p) Impairment for non-financial assets

The carrying amounts of the Company'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 in the Company that generates cash flows that largely are independent from other assets and Companies. 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 (Company 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.

### (q) Taxation

Tax on the operating results for the year comprises current tax expense and the change in deferred tax. Current tax is provided on the results in the year as shown in the financial statements adjusted in accordance with tax legislation.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (q) Taxation (cont'd)

Deferred tax assets are recognised for all deductible temporary differences carry forward of unused tax credits to the extent that it is probable that future 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 rate currently enacted.

### (r) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and bank balances, deposits held at call or for a term with the banks and securities issued by the Government of Kenya with less than 182 days maturity from the date of acquisition.

### (s) Dividends

Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity.

### (t) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (both for prepaid and postpaid) are charged to the income statement on a straight-line basis over the period of the lease.

### (u) 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.

### (v) Offsetting

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

### (w) 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 were no outstanding shares with dilutive potential.

### (x) Comparatives

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (y) 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:

- IFRS 8 Operating Segments introduces the “management approach” to segment reporting. Currently, the Company does not present segment information.
- 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 Company's 2009 financial statements.
- IFRIC 11 IFRS 2 - Company 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 Company's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the financial statements.
- IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Company's 2008 financial statements, is not expected to have any effect on the financial statements.
- 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 Company's 2009 financial statements, is not expected to have any impact on the financial statements.
- 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 Company's 2008 financial statements, with retrospective application required. It is not expected to have any effect on the financial statements as the company has converted the defined benefit scheme to a defined contribution scheme during the year.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (a) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the company will ultimately pay for such claims. Claims arising from employer's liability policies and third party liability claims arising from Motor policies form significant portion of outstanding liabilities (approximately 50%), principally because of their long-tail nature. Estimation of the ultimate costs of these claims is limited due to inconsistent court awards and resolutions.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont'd)

#### (a) The ultimate liability arising from claims made under insurance contracts (cont'd)

There are two significant factors that will affect the future trend of these classes as a result of change in legislation:

- **Work Injury Benefit Act 2007 (effective from 20 December 2007)**

It is now mandatory for employers to take out a Work Injury Benefit cover for their employees. The scope has also been increased to cover funeral expenses, an aspect that was hitherto not included. Previously also, settlement was based on 60 months earnings. It is now based on 96 months earnings. The new Act has specifically barred Common Law Claims - the employer therefore will have no other liability except compensation under WIBA. The Act is implemented retrospectively. All benefits are subject to a maximum limit determined by the Ministry. However the Act has been challenged by Federation of Kenya Employers and Law Society of Kenya in court. It is thus difficult to estimate the effect this will have on our current outstanding losses for these class of business.

- **Capping of liability awards for Motor Third Party Claims**

Effective 1 of January 2007, a cap has been placed on the maximum award per incident at KShs 3 million for motor third party liability claims. However, the insured is at liberty to extend this cap by varying of policy terms. This will not have a significant effect on our estimates as 95% of previous awards were within this limit.

Changes in legislation have been taken into consideration in arriving at third party liability claim estimates arising out of Motor policies. The company believes that the reserves held as at 31 December 2007 are adequate.

#### (b) Impairment of available for sale equity financial assets

The company determines that available for sale equity financial assets as impaired when there has been a significant and prolonged decline in the fair value below its costs. The determination of what is significant or prolonged requires judgement by management.

In making this judgement, the company will evaluate among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

### 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Insurance risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

#### 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (cont'd)

##### (a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations,

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

The Company 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 Company is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;

##### **Premiums outstanding**

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry in which customers operate, has less of an influence on credit risk. The Asset Liability Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

More than 75 percent of the Company's customers have been transacting with the Company for over four years, and losses have occurred infrequently. In monitoring customer credit risk, customers are rated according to their credit characteristics, including whether they are an individual or legal entity, location, industry, aging profile, maturity and existence of previous financial difficulties.

Policies sold are subject to a cancellation notice in case of default in payment of premium, so that in the event of non-payment the Company may have a secured claim. The Company does not require collateral in respect of premiums due.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of premiums outstanding and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for Companies of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

##### **Investments**

The Company limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating. Management does not expect any counterparty to fail to meet its obligations.

## notes to the financial statements cont'd

### for the year ended 31 december 2007

#### 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (cont'd)

##### (b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company'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 Company's reputation.

The Company monitors its daily cash flow requirements and optimises its cash return on investments by immediately investing any excess cash on hand. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following table provides an analysis of financial assets and liabilities of the company into relevant maturity based on the remaining periods to maturity. It also shows the applicable effective interest rates and the periods within which the financial assets and liabilities reprice.

2007:	Effective interest rate %	Due within 3 months KShs	Due between 3 and 12 months KShs	Due between 1 and 5 years KShs	Due after 5 years KShs	Total KShs
<b>Assets</b>						
Ordinary shares - unquoted	-	59,837,891	-	-	-	59,837,891
Ordinary shares - quoted	-	163,071,120	-	-	-	163,071,120
Treasury bonds	9.2%	-	-	105,072,345	30,504,713	135,577,055
Treasury Bills	7.77%	49,637,321	14,461,533	-	-	64,098,854
Syndicated loan	11.63%	142,148	4,661,485	197,635,976	266,912,487	469,352,096
Deposits with banks	8.5%	239,442,504	-	-	-	239,442,504
Bank and cash balances	1.16%	5,667,442	-	-	-	5,667,442
<b>Liabilities</b>						
Short term insurance liabilities	-	(1,022,969,592)	(278,089,821)	-	-	(1,301,059,413)
<b>At 31 December 2007</b>		<b>531,930,838</b>	<b>(258,966,803)</b>	<b>302,708,315</b>	<b>297,417,199</b>	<b>(164,112,453)</b>
2006:	Effective interest rate %	Due within 3 months KShs	Due between 3 and 12 months KShs	Due between 1 and 5 years KShs	Due after 5 years KShs	Total KShs
<b>Assets</b>						
Ordinary shares - unquoted	-	-	-	-	34,111,101	34,111,101
Ordinary shares - quoted	-	-	-	-	244,408,491	244,408,491
Treasury bonds	10.0%	10,392,329	30,795,853	77,952,831	-	119,141,013
Syndicated loan	12.6%	-	-	256,875,813	-	256,875,813
Deposits with banks	8.0%	171,289,477	-	-	-	171,289,477
Bank and cash balances	1.16%	47,127,991	-	-	-	47,127,991
<b>Liabilities</b>						
Short term insurance liabilities	-	(710,303,433)	(100,633,688)	-	-	(810,937,121)
<b>At 31 December 2006</b>		<b>(481,493,636)</b>	<b>(69,837,835)</b>	<b>334,828,644</b>	<b>278,519,592</b>	<b>62,016,765</b>

#### 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (cont'd)

##### (c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company'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.

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

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

##### (i) Interest rate risk

The company ensures that its investments are held primarily at fixed interest rates to avoid fluctuations in earnings due to change in interest rates.

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

##### Sensitivity analysis - interest-rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

The Company's bond portfolio is designated as "held to maturity" and therefore change in interest rates does not have a bearing on its portfolio.

Only one financial asset has a variable interest rate. A change of 100 basis points in interest rates would have increased the profit for the year 2007 by KShs 226,195.

##### (ii) Currency risk

The Company is exposed to currency risk on payment to overseas service providers and reinsurers, and foreign exchange short term deposits held for investment purposes that are denominated in a currency other than the respective functional currencies of Company entities, primarily the U.S. Dollar (USD) and Sterling (GBP). The currencies in which these transactions primarily are denominated are USD and GBP.

The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

#### 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (cont'd)

##### (c) Market risk (cont'd)

###### (ii) Currency risk - (cont'd)

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

###### (iii) Equity risks

Equity price risk arises from available-for-sale equity securities held. Management of the Company monitors the mix of debt and equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Asset Liability Committee.

The primary goal of the Company's investment strategy is to maximise investment returns in order to meet partially the Company's claims payment obligations.

##### (d) Capital management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by the regulators of the insurance markets where the Company operates;
- to safeguard the Company'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 contracts commensurately with the level of risk.

In Kenya, the local insurance regulator specifies the minimum amount and type of capital that must be held by the company in addition to its insurance liabilities. The minimum required capital must be maintained at all times throughout the year.

The Company is subject to insurance solvency regulations and is required to comply with solvency regulations. The Company has embedded in its Asset Liability Policy Framework the necessary tests to ensure continuous and full compliance with such regulations.

The solvency and capital adequacy margins are calculated based on distribution of assets among investment classes, and the matching of specific classes of assets and liabilities.

##### (e) Insurance risk management

The Company's activities expose it to a variety of financial risks, including its portfolio of risks covered and perils insured. The Company's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. The Company has policies in place to ensure that insurance is sold to customers with an appropriate claim and credit history.

The Company manages the insurance risk in the manner briefly outlined below:

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 insurance, risk is random and therefore unpredictable. Risks must be avoidable. Inevitability makes it certain hence not insurable.

#### 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (cont'd)

##### (e) Insurance risk management (cont'd)

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and payments exceed the carrying amount of the insurance liabilities. This could occur if the frequency or severity of claims are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location, the nature of industry covered and likelihood of a catastrophe.

##### (i) Insurance risk

The Company issues contracts that transfer insurance risk. 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, this risk is random and therefore unpredictable.

Insurance events are random and the actual number and amount of claims and benefits will vary from year to year. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Claims are payable on claims occurrence basis. The company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a larger element of the claims provision relates to incurred but not reported claims (IBNR).

For certain contracts, the company has limited the number of claims that can be paid in any policy year or introduced a maximum amount payable for claims in any policy year. The company also has the right to re-price the risk at renewal. It also has the ability to impose deductibles and reject fraudulent claims.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The Company reinsurance placement policy assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information.

##### (ii) Insurance contract liabilities

Gross claims reported, claims handling expenses liability and the liability for claims incurred but not reported (IBNR) are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2007 are not material.

#### 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (cont'd)

##### (ii) Insurance contract liabilities (cont'd)

The Company uses the most reliable technique to estimate the ultimate cost of claims including IBNR provision. Under this method, mature classes of business that have a relatively stable development pattern have appropriate assessment mechanism. It also includes analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not fully developed to produce an estimated ultimate claims cost for each accident year. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims.

##### (iii) Reinsurance risk

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

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

##### (f) Political risk

Events after the election crisis in this country demonstrated the effect political risk can have on a company's business. Business in the affected areas suffered heavy losses. Those not in the directly affected areas still suffered because of the negative impact on the economy. Political risk is difficult to estimate but organisations may have to take this into consideration when determining the investment environment and expected costs of doing business.

#### 5. DETERMINATION OF FAIR VALUE

##### Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	31 December 2007		31 December 2006	
	Carrying Amount KShs	Fair value KShs	Carrying amount KShs	Fair value KShs
Held-to-maturity investments	135,577,065	132,516,204	119,141,013	118,218,383
Financial assets at fair value				
- quoted equities	163,071,120	163,071,120	244,408,491	244,408,491
- Unquoted equities	59,837,891	59,837,891	34,111,101	34,111,101
Loans and receivables	469,352,810	469,352,096	315,150,279	315,150,279
Cash and cash equivalents	307,881,502	307,881,502	218,417,468	218,417,468
	<u>1,135,720,386</u>	<u>1,132,658,811</u>	<u>868,234,039</u>	<u>867,311,409</u>

6. MANAGEMENT EXPENSES

	2007 KShs	2006 KShs
<b>Staff costs</b>		
Wages and salaries	89,369,896	78,095,198
Compulsory social security costs	176,418	170,000
Pension and similar costs	2,753,506	7,412,389
Other	17,192,809	5,569,480
	109,492,629	91,247,067
<b>Other management expenses</b>		
Marketing and administrative expenses	28,810,653	20,373,317
Depreciation, amortisation	12,753,459	3,659,254
Occupancy expenses	3,904,608	3,493,293
	<b>154,961,349</b>	<b>118,772,931</b>

7. INVESTMENT AND OTHER INCOME (NET)

Gross rental income	36,898,774	33,301,966
Less: Property expenses	(9,855,367)	(8,809,245)
Net rental income	27,043,407	24,492,721
Interest income	76,966,977	57,555,037
Dividend income	4,787,010	6,135,800
Foreign exchange gain	(1,114,490)	1,270,864
Profit on disposal of equipment	687,500	757,448
Loan commitment fees	285,000	-
Gain on disposal of quoted shares	83,232,940	23,736,003
Other income	684,951	-
	192,573,295	113,947,873
Less: Portion of management expenses	(1,306,029)	(1,199,727)
<b>Net investment income</b>	<b>191,267,266</b>	<b>112,748,146</b>

8. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

Depreciation expense	4,055,295	3,696,216
Amortisation of intangible assets	8,698,164	-
Directors' emoluments:		
- As executives	27,045,797	33,839,735
- Non executives	650,000	650,000
Auditors' remuneration:		
- Current year	2,540,004	2,000,000
- Prior year under provision	225,002	-
Profit on disposal of quoted shares	(83,232,940)	(23,736,003)
Profit on disposal of equipment	(687,500)	(757,448)

notes to the financial statements cont'd  
for the year ended 31 december 2007

9. INCOME TAX EXPENSE/(CREDIT)

	2007 KShs	2006 KShs
Charge for the year at 30%	41,409,198	-
Deferred tax credit (Note 16)	(1,537,252)	(1,366,635)
	<b>39,871,946</b>	<b>(1,366,635)</b>

The tax on the company's profit differs from the theoretical amount using the basic tax rate as follows:

	2007 KShs	2006 KShs
Accounting profit	215,816,461	21,494,302
Tax at the applicable rate of 30%	64,744,938	6,448,291
Non-deductible costs and non-taxable income	(24,872,992)	(7,814,926)
<b>Income tax expense/(credit)</b>	<b>39,871,946</b>	<b>(1,366,635)</b>

10. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share is based on:

	2007	2006
Profit attributable to ordinary shareholders - KShs	175,944,516	22,860,937
Weighted average number of shares	10,000,000	10,000,000
Earnings per share - KShs	17.59	2.29

There were no potentially dilutive shares outstanding at 31 December 2007 and 2006.

## 11. PROPERTY AND EQUIPMENT

2007:	Motor vehicles KShs	Furniture & fittings KShs	Computer and office equipment KShs	Total KShs
<b>Cost:</b>				
At 1 January 2007	10,476,998	27,761,477	20,977,931	59,216,406
Additions	1,805,011	895,423	5,898,104	8,598,538
Disposals	(1,635,000)	-	(3,934,655)	(5,569,655)
At 31 December 2007	10,647,009	28,656,900	22,941,380	62,245,289
<b>Depreciation:</b>				
At 1 January 2007	7,480,745	27,182,506	19,228,874	53,892,125
Charge for the year	1,695,000	214,452	2,145,842	4,055,294
On disposals	(1,245,000)	-	(3,822,153)	(5,067,153)
At 31 December 2007	7,930,745	27,396,958	17,552,563	52,880,266
<b>Net book value:</b>				
At 31 December 2007	<b>2,716,264</b>	<b>1,259,942</b>	<b>5,388,817</b>	<b>9,365,023</b>
<b>2006:</b>				
<b>Cost:</b>				
At 1 January 2006	11,424,609	27,126,657	19,394,971	57,946,237
Additions	995,000	634,820	1,582,960	3,212,780
Disposals	(1,942,611)	-	-	(1,942,611)
At 31 December 2006	10,476,998	27,761,477	20,977,931	59,216,406
<b>Depreciation:</b>				
At 1 January 2006	7,061,612	26,860,200	18,216,708	52,138,520
Charge for the year	2,361,744	322,306	1,012,166	3,696,216
On disposals	(1,942,611)	-	-	(1,942,611)
At 31 December 2006	7,480,745	27,182,506	19,228,874	53,892,125
<b>Net book value:</b>				
At 31 December 2006	<b>2,996,253</b>	<b>578,971</b>	<b>1,749,057</b>	<b>5,324,281</b>

Included in property and equipment are assets with a gross value of KShs 49,771,107 (2006 - KShs 44,200,091) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs 9,075,103 (2006 - KShs 7,902,148).

notes to the financial statements cont'd  
for the year ended 31 december 2007

12. INTANGIBLE ASSETS - Computer software

	2007 KShs	2006 KShs
<b>Cost:</b>		
At 1 January	-	-
Additions	28,993,884	-
At 31 December	28,993,884	-
<b>Amortisation:</b>		
At 1 January	-	-
Charge for the year	8,698,164	-
At 31 December	8,698,164	-
<b>Net book value:</b>		
At 31 December	20,295,720	-

13. INVESTMENT PROPERTIES

	Land and buildings 2007 KShs	2006 KShs
Balance at 1 January and 31 December	370,000,000	370,000,000

The carrying value of the investment properties is the fair value of the property as determined by a registered independent approver having an appropriate recognised professional qualification and experience in the category of the property being valued.

The investment properties were last revalued on 10 November 2005 by Tysons Limited, professional valuers on the basis of open market value for existing use. The increase in the net carrying value as a result of the revaluation was incorporated in the financial statements as at the revaluation date with the revaluation surplus arising being recognised through the income statement as undistributable reserves.

The investment properties are leased to third parties under operating leases. No contingent rents are charged.

14. LOANS RECEIVABLE

	2007 KShs	2006 KShs
Balance at 1 January	256,875,813	3,990,428
Loans advanced	342,400,560	352,450,000
Interest accrued	4,444,690	5,173,811
Redemption of the loans	(134,368,967)	(104,738,426)
Balance at 31 December	469,352,096	256,875,813

## 15. INVESTMENT IN GOVERNMENT SECURITIES

<b>Held to maturity</b>	<b>2007</b>	<b>2006</b>
	<b>KShs</b>	<b>KShs</b>
Treasury Bills - at amortised cost		
Maturing within three months of balance sheet date	49,621,773	-
Maturing within six months of balance sheet date	14,461,534	-
Treasury Bonds - at amortised cost		
Maturing within three months of balance sheet date	-	10,392,329
Maturing after six months of balance sheet date	135,592,602	108,748,684
<b>Total investments in government securities</b>	<b>199,675,909</b>	<b>119,141,013</b>

The weighted average effective interest rate on government securities as at 31 December 2007 was 9.29% (2006 - 10%).

## 16. DEFERRED TAX ASSET

Movement during the year is detailed below:

<b>2007:</b>	<b>Balance at</b>	<b>Recognised in</b>	<b>Balance at</b>
	<b>1/1/2007</b>	<b>income statement</b>	<b>31/12/2007</b>
	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>
<b>Arising from:</b>			
Property and equipment	2,947,056	(448,500)	2,498,556
Tax losses	791,628	(791,628)	-
Unrealised exchange gains	20,420	377,676	398,096
Defined benefit liability	899,700	(254,962)	644,738
Provisions	-	2,654,666	2,654,666
	<b>4,658,804</b>	<b>1,537,252</b>	<b>6,196,056</b>
<b>2006:</b>	<b>Balance at</b>	<b>Recognised in</b>	<b>Balance at</b>
	<b>1/1/2006</b>	<b>income statement</b>	<b>31/12/2006</b>
	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>
<b>Arising from:</b>			
Property and equipment	3,268,828	(321,772)	2,947,056
Tax losses	-	791,628	791,628
Unrealised exchange gains	23,341	(2,921)	20,420
Defined benefit liability	-	899,700	899,700
	<b>3,292,169</b>	<b>1,366,635</b>	<b>4,658,804</b>

notes to the financial statements cont'd  
for the year ended 31 december 2007

17. INSURANCE LIABILITIES AND REINSURANCE ASSETS

	2007 KShs	2006 KShs
<b>(a) Gross</b>		
Claims reported	1,010,576,569	892,735,391
Claims incurred but not reported	35,014,429	28,058,143
Unearned premiums	295,202,632	230,667,497
<b>Total insurance liabilities gross</b>	<b>1,340,793,630</b>	<b>1,151,461,031</b>
<b>(b) Recoverable from reinsurers</b>		
Claims reported	339,461,057	282,122,006
Claims incurred but not reported	8,376,471	5,563,096
Unearned premiums	80,504,851	52,838,808
<b>Total reinsurers share of insurance liabilities</b>	<b>428,342,379</b>	<b>340,523,910</b>
<b>(c) Net</b>		
Claims reported	671,115,822	610,613,385
Claims incurred but not reported	26,637,648	22,495,047
Unearned premiums	214,697,781	177,828,689
<b>Total Insurance liabilities net</b>	<b>912,451,251</b>	<b>810,937,121</b>

(d) Claims development tables

Claims triangular statistics for excess of loss claim over one million as at 31/12/2007

At gross

Claim year	2001 KShs	2002 KShs	2003 KShs	2004 KShs	2005 KShs	2006 KShs	2007 KShs
At the end of reporting year	7,203,556	7,647,295	9,543,576	7,588,827	13,019,684	6,330,080	6,166,629
One year later	-	20,128,722	19,792,425	19,026,464	18,166,910	15,411,971	20,797,300
Two years later	-	-	21,285,636	33,694,802	35,532,743	30,314,577	30,129,737
Three years later	-	-	-	60,952,986	50,686,026	43,133,851	38,205,046
Four years later	-	-	-	-	82,900,463	95,896,348	59,878,899
Five years later	-	-	-	-	-	137,168,735	91,688,667
Six years later	-	-	-	-	-	-	103,306,606
Current estimate of cumulative claims	7,203,556	20,128,722	21,285,636	60,952,986	82,900,463	137,168,735	103,306,606
Cumulative payments to date	(7,062,498)	(8,922,342)	(1,944,866)	(30,459,922)	(34,472,476)	(51,751,671)	(74,183,953)
Recognised in the balance sheet	141,058	11,206,380	19,340,770	30,493,064	48,427,987	85,417,064	29,122,653

## 18. SHARE CAPITAL

	2007 KShs	2006 KShs
<b>Authorised, issued and fully paid</b>		
10,000,000 Ordinary shares of KShs.20 each	<b>200,000,000</b>	<b>200,000,000</b>

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

## 19. RESERVES

### (a) Available for sale reserves

Relates to the cumulative net change in the fair value of available-for-sale investments (namely equity instruments) until the investment is derecognised. The reserves are non distributable

### (b) Undistributable revenue reserves

Relates to the cumulative net change in fair value of investment properties, which is maintained until respective properties are derecognised. The reserves are not distributable.

### (c) Distributable revenue reserves

Are realised profit and loss retained which is available for distribution as dividends or otherwise.

## 20. RETIREMENT BENEFIT OBLIGATIONS

During the year, the two schemes were converted to a defined contribution scheme from defined benefits schemes on the basis of an actuarial valuation prepared on that basis.

The company has converted to a defined contribution basis with effect from 1 January 2007 and the actuarial valuation has been prepared on that basis.

During the year the company expensed KShs 2,100,230 in contributions (2006 - KShs 3,086,617).

In accordance with the company policy, actuarial assessment is done after every three years. The actuarial valuation of the two schemes was undertaken as at 31 December 2006 and as at 1 January 2004 as shown below:

	31.12.2007 KShs	31.12.2006 KShs
Present value of funded obligations	-	45,109,000
Fair value of plan assets	-	(42,110,000)
Present value of net obligations	-	2,999,000
Net asset in the balance sheet at 31 December	-	2,999,000

The actuarial valuation at 31 December 2006, was carried out on the basis of a provisional statement from the custodian and reported a deficit of KShs 2,999,000. A final fund statement was availed and the actual deficit to be recognised is KShs 2,149,126.

## notes to the financial statements cont'd

for the year ended 31 december 2007

### 20. RETIREMENT BENEFIT OBLIGATIONS (cont'd)

	31.12.2007 KShs	31.12.2006 KShs
Net liability at 1 January recognised in the income statement	2,999,000	-
Net expense recognised in the income statement	(849,874)	6,085,617
Contributions	-	(3,086,617)
Net liability in balance sheet at 31 December	2,149,126	2,999,000
Total expenses included in staff costs	2,100,230	6,085,617
The principal actuarial assumptions at the balance sheet date were:		
Discount rate (p.a.)	-	10%
Future salary increase (p.a.)	-	8%
Expected return on plan assets (p.a.)	-	10%
Future pension increases (p.a.)	-	0%

### 21. NOTES TO THE CASH FLOW STATEMENT

	2007 KShs	2006 KShs
<b>(a) Reconciliation of net profit before tax to cash flow from operating activities</b>		
Profit before tax	215,816,462	21,494,302
Adjustments for:		
Depreciation	4,055,294	3,696,216
Amortisation	8,698,164	-
Dividends income	(4,787,010)	(6,135,800)
Interest income	(75,799,276)	(57,555,037)
Net rental income	(27,043,407)	(24,492,721)
Profit on disposal of property and equipment	(687,502)	(757,448)
Profit on disposal of shares	(83,232,940)	(23,736,003)
<b>Operating profit before working capital changes</b>	<b>37,019,785</b>	<b>(81,488,491)</b>
Increase in premiums outstanding	(36,934,389)	(14,745,083)
Decrease/(increase) in amounts due from bodies engaged in insurance business	1,844,936	(9,376,854)
Increase in sundry debtors	(8,021,322)	(5,162,350)
Increase in amounts due to bodies engaged in insurance business	61,695,705	1,916,973
Increase/ (decrease) in unearned premium provisions	36,869,092	(4,063,654)
Increase in outstanding claims	64,645,036	184,747,171
Decrease/(increase) in defined benefit obligations	(849,874)	2,999,000
Increase in sundry creditors	9,549,761	169,356
<b>Cash generated from operations</b>	<b>165,818,730</b>	<b>68,998,068</b>
Tax paid	-	(11,096,547)
<b>Cash flows from operating activities</b>	<b>165,818,730</b>	<b>57,901,521</b>

## 21. NOTES TO THE CASH FLOW STATEMENT (cont'd)

### (b) Movement in cash and cash equivalents

	2007 KShs	2006 KShs	Change in the year KShs
Cash and bank balances	5,667,442	47,127,991	(41,460,549)
Deposits with banks and financial institutions	238,115,514	171,289,477	68,826,037
Securities issued by the Government of Kenya	64,098,854	-	64,098,854
	<b>307,881,810</b>	<b>218,417,468</b>	<b>89,464,342</b>

## 22. RELATED PARTY TRANSACTIONS

The company has entered into transactions with its directors and employees as follows:

### (a) Loans

#### Employees:

	2007 KShs	2006 KShs
Balance at the beginning of the year	4,664,501	4,244,465
Advanced during the year	12,384,877	6,915,974
Repayments received	(4,206,091)	(6,495,938)
<b>Balance at the end of the year</b>	<b>12,843,287</b>	<b>4,664,501</b>

The related interest income in 2007 was KShs 587,487 (2006 - KShs 513,546). The above loans were given on commercial terms and conditions and the average interest rate during the year was 12% (2006 - 12%).

The directors did not have any loans with the company.

### (b) Directors emoluments (Note 8)

	2007 KShs	2006 KShs
As executives	27,045,797	33,839,735
Non-executives	650,000	650,000

(c) Included in bank deposits are balances with related companies amounting to KShs 125,498,875 (2006 - KShs 85,228,836).

(d) The transactions with related parties are entered into in the normal course of business and are on commercial terms and conditions.

### 23. OPERATING LEASES

The company leases out its investment property under operating leases. Operating lease rentals are receivable as follows:

	2007 KShs	2006 KShs
Less than one year	32,131,669	29,210,608
Between one and five years	75,873,877	108,005,547
	108,005,547	137,216,155

During the year ended 31 December 2007, KShs 27,047,407(2006 - KShs 24,492,721) was recognised as net rental income in the income statement, and KShs 9,855,367 (2006 - KShs 8,809,245) in respect of direct operating costs was recognised in the income statement relating to the investment property.

### 24. CONTINGENCIES

The company has contingencies arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities. The company has given guarantees in the ordinary course of business amounting to KShs 10,099,486 (2006 - KShs 158,400,424) to third parties.

### 25. ASSETS HELD UNDER LIEN

Treasury bonds include bonds with a face value of KShs 103,500,000 (2006 - KShs 67,000,000) held under lien in favour of the Commissioner of Insurance in accordance with Section 32 of the Insurance Act.

### 26. INCORPORATION

The company is incorporated in Kenya under the Companies Act (Cap 486).

### 27. EVENTS AFTER THE BALANCE SHEET

The period immediately before and after the reporting date was characterised with political turmoil and unrest resulting in great damage to property, disruption of business and loss of life, due to post-election violence.

The Association of Kenya Insurers has directed that the claims arising may be admissible depending on a company's individual reinsurance arrangement and terms of the policy. It is difficult to ascertain the overall extent of exposure in this regard. The company, however, has catastrophe cover. Claims reported relating to that period amount to KShs 9 million (net). Each case will be determined on individual basis.

## detailed revenue account for the year ended 31 december 2007

### Appendix

Class of insurance business	Engineering		Fire		Liability		Marine		Motor		Accident		Theft compensation		Workmen's		Miscellaneous		2007		2006			
	KShs	Domestic KShs	KShs	Industrial KShs	KShs	KShs	KShs	Private KShs	Commercial KShs	Pool KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	Total KShs	Total KShs	Total KShs	Total KShs		
Gross premiums written	41,638,812	14,492,016	105,235,945	7,664,908	56,069,273	57,734,689	149,339,105	-	75,509,353	51,922,428	64,114,233	58,524,814	682,245,576	553,774,136										
Re-insurance premiums	(36,760,056)	(2,427,416)	(61,795,858)	(7,58,432)	(19,364,177)	(7,494,282)	(33,037,059)	-	(54,079,673)	(7,440,680)	(6,268,771)	(6,743,328)	(236,169,732)	(167,957,589)										
<b>Net written premiums</b>	<b>4,878,756</b>	<b>12,064,600</b>	<b>43,440,087</b>	<b>6,906,476</b>	<b>36,705,096</b>	<b>50,240,407</b>	<b>116,302,046</b>	<b>-</b>	<b>21,429,680</b>	<b>44,481,748</b>	<b>57,845,462</b>	<b>51,781,486</b>	<b>446,075,844</b>	<b>385,816,547</b>										
Unearned premiums brought forward	1,991,514	5,528,502	13,887,609	3,868,897	15,160,133	21,534,304	55,567,533	-	4,448,124	15,369,082	19,927,637	20,545,354	177,828,689	181,892,342										
Unearned premiums carried forward	(2,361,787)	(5,706,074)	(16,310,936)	(3,770,431)	(19,730,711)	(24,183,728)	(64,785,988)	-	(9,157,797)	(16,856,277)	(23,021,576)	(28,812,478)	(214,697,781)	(177,828,689)										
<b>Net earned premiums</b>	<b>4,508,483</b>	<b>11,887,029</b>	<b>41,016,760</b>	<b>7,004,942</b>	<b>32,134,518</b>	<b>47,590,984</b>	<b>107,083,592</b>	<b>-</b>	<b>16,720,007</b>	<b>42,994,553</b>	<b>54,751,524</b>	<b>43,514,362</b>	<b>409,206,752</b>	<b>389,880,200</b>										
<b>Claims:</b>																								
Claims paid	(254,734)	3,800,709	6,849,975	722,250	3,561,067	28,036,827	43,692,994	353,857	6,491,709	24,312,414	25,727,204	8,326,161	151,620,433	160,143,438										
Claims outstanding at the end of the year	2,014,240	1,286,763	16,916,793	35,775,845	16,666,102	95,508,580	281,468,745	8,860,004	7,097,548	17,569,217	201,905,807	12,683,826	697,753,469	633,108,433										
Claims outstanding at the beginning of the year	(1,482,054)	(3,356,500)	(16,089,521)	(30,047,864)	(8,024,034)	(119,363,350)	(239,714,824)	(8,545,000)	(9,133,160)	(32,515,213)	(157,492,309)	(7,344,605)	(633,108,433)	(448,361,263)										
<b>Total claims incurred</b>	<b>277,452</b>	<b>1,730,972</b>	<b>7,677,247</b>	<b>6,450,231</b>	<b>12,203,135</b>	<b>4,182,057</b>	<b>85,446,915</b>	<b>668,861</b>	<b>4,456,097</b>	<b>9,366,418</b>	<b>70,140,702</b>	<b>13,665,382</b>	<b>216,265,469</b>	<b>344,890,608</b>										
<b>Expenses:</b>																								
Commissions payable	4,035,267	1,643,257	18,832,014	1,330,858	6,632,744	2,981,209	6,547,393	-	5,769,959	2,795,410	7,917,532	5,035,319	63,520,962	48,858,677										
Commissions receivable	(11,311,152)		(22,000,817)	(6,870)	(5,184,596)	(159,170)	(41,655)	-	(14,447,427)	(172,445)	(38,053)	(251,388)	(53,613,572)	(39,258,742)										
Premium tax	38,535	95,292	343,112	54,551	289,916	396,825	918,614	-	169,263	351,340	456,893	408,997	3,523,338	7,870,568										
Expenses of management	1,691,731	4,183,455	15,063,048	2,394,852	13,010,179	17,421,090	40,328,264	-	7,430,839	15,424,249	20,058,177	17,955,466	154,961,350	118,772,931										
<b>Total expenses</b>	<b>(5,545,619)</b>	<b>5,922,004</b>	<b>12,237,357</b>	<b>3,773,391</b>	<b>14,748,243</b>	<b>20,639,954</b>	<b>47,752,616</b>	<b>-</b>	<b>(1,077,366)</b>	<b>18,398,554</b>	<b>28,394,549</b>	<b>23,148,394</b>	<b>168,392,078</b>	<b>136,243,435</b>										
<b>Underwriting profit(loss) transferred to profit and loss</b>	<b>9,776,650</b>	<b>4,234,052</b>	<b>21,102,156</b>	<b>(3,218,680)</b>	<b>5,183,140</b>	<b>22,768,972</b>	<b>(26,115,940)</b>	<b>(668,861)</b>	<b>13,341,276</b>	<b>15,229,581</b>	<b>(43,783,728)</b>	<b>6,700,586</b>	<b>24,549,207</b>	<b>(91,253,844)</b>										