

table of contents

chairman's statement	2 - 3
corporate governance	4
directors, officers and administration	5
director's report	6
statement of director's responsibilities	7
report of the independent auditors	8
income statement	9
balance sheet	10
cash flow statement	11
statement of changes in equity	12
notes to financial statements	13 - 39
detailed revenue account	40



It is my pleasure to present the annual report and financial statements of General Accident Insurance Company Limited, for the year ended 31st December 2008. Once again the company has performed well despite the difficult operating environment prevailing in the country.

Year 2008 has been a turbulent year due to the social, political and economic upheavals in the country. The beginning of the year saw the most unfortunate turmoil and tragedy in Kenyan history following the post election violence. As the country was trying to heal up and recover from the social and political breakdown, the global economic recession started showing its impact in the country. In effect the economic downturn in Kenya got initiated earlier than the rest of the world. All these internal and external factors have made the business operation very challenging.

National Economy

Kenya recorded a dismal GDP growth of 1.7% in 2008, much below the preceeding four years of impressive growth and in sharp contrast to the rest of East African economies. The poor performance is almost entirely self inflicted due to impact of the 2008 post-election violence coupled with effects of the global economic downturn. In addition, adverse weather conditions, high cost of food and fuel and a dysfunctional coalition government all contributed to bad performance of the economy in all areas.

The economy has indeed paid a high price for the 2008 social and political instability that led to heavy downfall in all key economic sectors consisting of Tourism, Transport, Communication, Manufacturing and Agriculture. The construction sector defied the odds and registered a growth rate of over 8%. The overall inflation rate was at an unprecedented high of 26.2% while underlying inflation averaged 11.1%, both rates were the highest in the region. Interest rates for the Treasury bill averaged 7.7 % during the year in comparison to 6.9% in 2007. However the increase in income due to interest rate was eroded by the high inflation cost. Kenyan shilling weakened against US Dollar, having opened at 63.40 at the beginning of the year to close at 77.71 shilling to a dollar.

The stock exchange witnessed the worst run in recent years in spite of the most hyped and biggest IPO of Safaricom in the history of Nairobi stock exchange in the middle of the year 2008. Unfortunately it could not set up the pace for a bull run and could not boost up the much needed sentiments of the market. Soon after this, the effects of the global recession caught up with the Kenyan Economy ending the year with the lowest growth in the last five years.

Company's performance

The company's performance for the year 2008 was quite remarkable given the unfavourable economic environment in the country. In line with company's strategy GA continued achieving high growth in business in order to increase the market share. Medical Insurance business grew to attain a critical level after the new health division was constituted in the company last year.

Many structural changes initiated in 2007 strengthened various departments and units in the company. The delegation of work with responsibilities has inculcated a sense of professional environment among the staff. The focus has been the technical department preparing to embrace the new computer software Premia, which did parallel run towards the end of the year 2008.

The company recorded a gross premium income of Kshs 888 Million, as against Kshs 682 Million, achieving a growth rate of 30%. The overall premium portfolio remained balanced with medical 14% of the total premium, motor 29% and the remaining accounting for 57% of the total gross premium. An underwriting profit of Kshs 7 million was earned in the year as compared with an underwriting profit of Kshs 24 million in the year 2007. The underwriting profit was reduced due to losses in motor and workmen compensation claims.

Financial Performance

Total profit before tax was Kshs 145 million compared to Kshs 215 million in 2007. The decrease was mainly due to fall in investment income from Kshs 191 million to Kshs 138 million and comparative reduction in underwriting profit. The profit in the previous year was higher due to gains in disposal of equity shares. Other financial parameters, however continue to reflect the company's growing strength. Total Assets increased by 9.5% to Kshs 2.40 Billion. Solvency Margin of the company remain very high as compared to statutory requirement. After few years of consolidating the profits to company's reserve, an interim dividend of Kshs 100 Million was paid to the shareholders.

Looking forward

The company's goal of continued growth is evident in the results for the year 2008. The company continues to invest in reinforcing the Human Resource asset. Use of the new IT system commenced in 2008 and is expected to be fully operational by 2009. The transition phase of implementation of new software may temporarily affect service deliveries but the ultimate gains will give a definite edge and support to our growing business and the growing customer base. We are committed to providing excellent services to our clients.

Restructuring of many departments and the continuous high growth in business will necessiate consolidation of gains in the coming year. This has been envisaged in the company's strategic plan for medium term.

Year 2009 would be very challenging but I am confident about GA's future and a repeat performance.

Appreciation

Our growth and good performance was possible due to continued patronage extended to our company by all our clients, brokers and agents. I thank for your invaluable support and loyalty that we continue to enjoy. I would like to extend my appreciation to all those who contributed to the excellent performance and results of the company in the year 2008. I would like to thank the management and staff who have shown commitment toward the improvement and continued growth of the company.

Let me also extend my sincere thanks to the Commissioner of Insurance and CEO of Insurance Regulatory Authority for his support and guidance to the company.

I am grateful to my fellow Directors on the Board for their valuable advice and guidance.

S B R Shah
Chairman

General Accident Insurance Company Kenya Limited ("General Accident") is committed to the best principles of Corporate Governance in running the operations of an organisation. The company ensures the compliance of all 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 2008 are listed on page 5.

The Directors are known for their competencies, integrity and experience in the field 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 is accountable 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, Chief Executive Officer 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 General Accident. 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, Chief Executive Officer 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 Executive Director and consists of one non-executive Director, Chief Executive Officer, 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 all 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 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 Executive Director and consists of Chief Executive Officer, HR Manager and Investment & Credit Manager.

DIRECTORS

Suresh B R Shah	(Chairman)
Sachit Shah	(Executive Director)
Philip J Ransley	
Dr Bethuel A Kiplagat	
Sarit S Raja Shah	

SECRETARY

N P Kothari FCPS (Kenya)

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

BRANCH OFFICE

Upper Mezzanine Floor
Biashara Building, Nyerere Avenue
P.O. Box 84081 - 80100
Mombasa

BANKERS

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

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

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2008.

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	145,900,564
Income tax expense	<u>(42,331,254)</u>
Profit for the year transferred to revenue reserves	<u>103,569,310</u>

3. Dividends

During the year, an interim dividend of KShs 100,000,000 was paid (2007 - Nil). The directors do not recommend the payment of a final dividend.

4. Directorate

The directors who served since 1 January 2008 are set out on page 5.

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 2 April 2009.

BY ORDER OF THE BOARD



N P Kothari
Secretary

Date: 2 April 2009

The Directors are responsible for the preparation and presentation of the financial statements of General Accident Insurance Company Kenya Limited set out on pages 7 to 41 which comprise the balance sheet at 31 December 2008, 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.

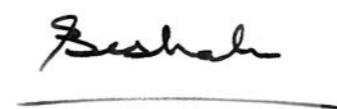
The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan 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 2 April 2009 and were signed on its behalf by:



S B R Shah
Director



Sachit S Shah
Director

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 9 to 40 which comprise the balance sheet at 31 December 2008, 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 7, 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 2008, 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: 2 April 2009

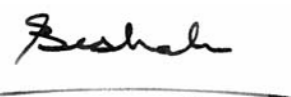
	Note	2008 KShs	2007 KShs
Insurance premiums revenue		887,906,597	682,245,576
Insurance premiums ceded to reinsurers		(298,888,542)	(236,169,739)
Net insurance premiums revenue		589,018,055	446,075,837
Unearned insurance premiums brought forward		214,697,781	177,828,686
Unearned premiums carried forward		(276,526,528)	(214,697,781)
Net earned premiums		527,189,308	409,206,742
Net investment and other income (net)		138,748,966	191,267,266
Claims paid		204,605,571	151,620,433
Amount of claims outstanding at the end of the year		813,879,930	697,753,469
Amount of claims outstanding at the beginning of the year		(697,753,469)	(633,108,433)
Net insurance claims incurred		320,732,032	216,265,469
Expenses			
Commissions payable		98,279,665	63,520,962
Commissions receivable		(76,236,894)	(53,613,572)
Premium tax payable		9,855,681	3,523,338
Expenses of management	7	167,407,226	154,961,349
Total expenses		199,305,678	168,392,077
Profit before taxation	8	145,900,564	215,816,462
Income tax expense	9	(42,331,254)	(39,871,946)
Profit after taxation		103,569,310	175,944,516
Basic and diluted earnings per share	10	10.36	17.59

The notes set out on pages 13 to 40 form an integral part of these financial statements.

balance sheet
at 31 december 2008

ASSETS	Note	2008 KShs	2007 KShs
Property and equipment	11	22,857,485	9,365,023
Intangible assets - computer software	12	14,698,739	20,295,720
Investments			
Investment properties	13	402,500,000	370,000,000
Investment in quoted equities (market value)		115,823,816	163,071,120
Investment in unquoted equities at directors valuation		65,741,302	59,837,891
Loan receivable	14	580,651,750	469,352,095
Corporate bonds and commercial paper		45,109,321	-
Investment in Government securities	15	208,464,302	199,675,909
Deposits with banks		150,551,490	238,115,514
Total investments		1,568,841,981	1,500,052,529
Deferred tax asset	16	8,614,224	6,196,056
Premiums outstanding		172,073,380	162,178,972
Amount due from bodies engaged in insurance business		47,403,756	38,265,778
Sundry debtors		45,064,827	21,526,269
Reinsurance contracts	17(b)	506,270,950	428,342,379
Tax recoverable		783,132	-
Cash and bank balances		14,843,859	5,667,442
TOTAL ASSETS		2,401,452,333	2,191,890,168
EQUITY AND LIABILITIES			
Share capital and reserves (Page 13)			
Share capital	18	200,000,000	200,000,000
Reserves	19	447,018,483	487,686,479
Total equity		647,018,483	687,686,479
Liabilities			
Short-term insurance contracts	17(a)	1,596,677,409	1,340,793,630
Defined benefit obligations	20	-	2,149,126
Sundry creditors		32,811,828	20,498,054
Tax payable		-	30,020,154
Amounts due to bodies engaged in insurance business		124,944,613	110,742,725
Total liabilities		1,754,433,850	1,504,203,689
TOTAL EQUITY AND LIABILITIES		2,401,452,333	2,191,890,168

The financial statements on pages 9 to 40 were approved by the Board of Directors on 2 April 2009 and were signed on its behalf by:



S B R Shah
Director



Sachit S Shah
Director

The notes set out on pages 13 to 40 form an integral part of these financial statements.

cash flow statement
for the year ended 31 december 2008

	Note	2008 KShs	2007 KShs
Cash flows from operating activities	21(a)	362,684	165,818,730
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		713,298	1,190,000
Purchase of property and equipment		(22,990,588)	(8,598,538)
Purchase of software		(4,430,292)	(28,993,884)
Proceeds from disposal of shares		5,818,547	109,953,483
Proceeds from refund of quoted equity purchase		-	11,675,499
Proceeds from loan repayment		714,807,528	134,368,967
Purchase of quoted equities		(10,929,580)	(16,260,316)
Purchase of investment property		(25,000,000)	(24,038,000)
Loans advanced		(826,107,183)	(346,845,250)
Purchase from redemption of treasury bonds		(2,482,276)	(16,436,042)
Redemption of commercial paper		10,000,000	-
Purchase of commercial paper and corporate bonds		(55,109,321)	-
Net rental income received		33,821,328	27,043,407
Interest received		104,134,320	75,799,276
Dividends received		5,310,045	4,787,010
Cash flows from investing activities		(72,444,174)	(76,354,388)
Net (decrease)/increase in cash and cash equivalents	21(b)	(72,081,490)	89,464,342

The notes set out on pages 13 to 40 form an integral part of these financial statements.

statement of changes in equity
for the year ended 31 december 2008

	Share capital KShs	Available for sale reserve KShs	Revenue reserves		Total KShs
			Undistributable KShs	Distributable KShs	
2007:					
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)
Balance at 31 December 2007	200,000,000	133,010,654	119,685,284	234,990,541	687,686,479
2008:					
At 1 January 2008	200,000,000	133,010,654	119,685,284	234,990,541	687,686,479
Net profit for the year	-	-	7,500,000	96,069,310	103,569,310
Interim dividend paid	-	-	-	(100,000,000)	(100,000,000)
Net changes in available for sale financial instruments	-	(39,804,597)	-	-	(39,804,597)
Available for sale reserve realised on disposal of quoted shares	-	(4,432,709)	-	-	(4,432,709)
Balance at 31 December 2008	200,000,000	88,773,348	127,185,284	231,059,851	647,018,483

The notes set out on pages 13 to 40 form an integral part of these financial statements.

notes to the
financial statements
for the year ended 31 december 2008

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, exchange rates. These include the 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 ¹ / ₂ %
Leasehold improvements	12 ¹ / ₂ %
Computer equipment	12 ¹ / ₂ % - 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 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 91 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 2008, and have not been applied in preparing these financial statements:

- 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 and will constitute a change in accounting policy for the Company. In accordance with the transitional provisions the Company will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore, there will be no impact on prior periods in the Company's 2009 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 because the company does not have any customer loyalty programmes.
- Amendment to IFRS 2 **Share-based Payment - Vesting Conditions and Cancellations** clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Company's 2009 financial statements, with retrospective application. The Company currently does not operate a share-based payment scheme.
- Revised IFRS 3 **Business Combinations (2008)** incorporates the following changes:
 - The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
 - Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
 - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
 - Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
 - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Company's 2010 financial statements, is not expected to have an impact on prior periods in the Company's 2010 financial statements.

- IFRS 8 **Operating Segments** introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Company's 2009 financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Company's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them.
- Revised IAS 1 **Presentation of Financial Statements (2007)** introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Company's 2009 financial statements, is expected to have a significant impact on the presentation of the financial statements as the Company plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(y) New standards and interpretations not yet adopted (cont'd)

- Amended IAS 27 **Consolidated and Separate Financial Statements (2008)** requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the control of a subsidiary is lost, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Company's 2010 financial statements, are not expected to have a significant impact on the financial statements.
- Amendments to IAS 39 **Financial Instruments: Recognition and Measurement - Eligible Hedged Items** clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Company's 2010 financial statements, with retrospective application required. The Company does not expect this amendment to have an impact on the financial statements.
- IFRIC 16 **Hedges of a Net Investment in a Foreign Operation** clarifies that:
 - net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation
 - the hedging instrument may be held by any entity within the company except the foreign operation that is being hedged
 - on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of had been used. IFRIC16, which becomes mandatory for the Company's 2009 financial statements, is not expected to have a significant impact on the financial statements.

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)

(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 limits 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;

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

(a) Credit risk (cont'd)

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 groups 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.

(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.

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

(b) Liquidity risk (cont'd)

2008:	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
Assets						
Ordinary shares - unquoted	-	65,741,302	-	-	-	65,741,302
Ordinary shares - quoted	-	115,823,816	-	-	-	115,823,816
Treasury bonds	9.63%	10,388,214	30,048,230	60,893,962	36,728,925	138,059,331
Treasury Bills	8.61%	36,604,421	33,800,550	-	-	70,404,971
Commercial loans	11.52%	-	119,956,308	389,728,952	70,966,490	580,651,750
Commercial Paper	9.52%	9,899,082	-	-	-	9,899,082
Corporate Bonds	10%	-	-	210,239	35,000,000	35,210,239
Deposits with banks	9%	128,159,620	22,391,870	-	-	150,551,490
Bank and cash balances	1.16%	14,843,859	-	-	-	14,843,859
Premiums outstanding	-	88,053,681	84,019,699	-	-	172,073,380
Amounts due from bodies engaged in insurance business	-	-	-	47,403,756	-	47,403,756
Sundry debtors	-	-	16,607,003	5,830,705	22,627,119	45,064,827
Reinsurance contracts	-	86,559,032	315,726,655	88,131,373	15,853,890	506,270,950
Liabilities						
Short term insurance liabilities	-	(272,989,891)	(995,738,778)	(277,948,740)	(50,000,000)	(1,596,677,409)
Sundry creditors	-	-	(32,811,828)	-	-	(32,811,828)
Amounts due to bodies engaged in insurance business	-	-	(124,944,613)	-	-	(124,944,613)
At 31 December 2008		283,083,136	(530,944,904)	314,250,247	131,176,434	197,564,903
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
Assets						
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	30,504,710	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
Premiums outstanding	-	109,401,509	52,777,463	-	-	162,178,972
Amounts due from bodies engaged in insurance business	-	-	-	38,265,778	-	38,265,778
Sundry debtors	-	-	10,116,304	4,347,198	7,062,767	21,526,269
Reinsurance contracts	-	33,893,395	304,051,496	74,424,024	15,973,464	428,342,379
Liabilities						
Short term insurance liabilities	-	(106,092,814)	(951,739,377)	(232,961,439)	(50,000,000)	(1,340,793,630)
Sundry creditors	-	-	(20,498,054)	-	-	(20,498,054)
Amounts due to bodies engaged in insurance business	-	-	(110,742,725)	-	-	(110,742,725)
At 31 December 2007		555,000,516	(696,911,875)	186,783,882	270,453,428	315,325,951

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 instruments 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 2008 by KShs 176,824.

(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 Insurance Act imposes a minimum capital requirement of KShs 100 million.

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:

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

(e) Insurance risk management (cont'd)

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 evitable. Inevitable makes it certain hence not insurable.

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.

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 claim and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency and severity of claims and benefits are greater than estimated. 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.

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

(e) Insurance risk management (cont'd)

(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 2008 are not material.

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 effect 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 2008		31 December 2007	
	Carrying Amount KShs	Fair value KShs	Carrying amount KShs	Fair value KShs
Held-to-maturity investments	138,059,331	138,031,730	135,577,055	132,516,204
Financial assets at fair value				
- quoted equities	115,823,816	115,823,816	163,071,120	163,071,120
- Unquoted equities	65,741,302	65,741,302	59,837,891	59,837,891
Loans and receivables	580,651,750	580,651,750	469,352,810	469,352,096
Corporate Bonds	35,210,239	35,210,239	-	-
Commercial Paper	9,899,082	9,899,082	-	-
Cash and cash equivalents	235,800,320	235,800,320	307,881,502	307,881,502
	1,181,185,840	1,181,158,239	1,135,720,378	1,132,658,813

6. INVESTMENT AND OTHER INCOME (NET)

	2008 KShs	2007 KShs
Gross rental income	48,850,232	36,898,774
Less: Property expenses	(15,028,904)	(9,855,367)
Net rental income	33,821,328	27,043,407
Interest income	104,134,320	76,966,977
Dividend income	5,310,045	4,787,010
Foreign exchange gain/(loss)	881,459	(1,114,490)
Profit on disposal of property and equipment	620,336	687,500
Loan commitment fees	1,485,923	285,000
Fair value gain on investment property	7,500,000	-
Fair value losses on equities	(6,693,801)	-
Gain on disposal of quoted shares	4,476,1808	83,232,940
Other income	2,853,530	684,951
	154,389,320	192,573,295
Less: Portion of management expenses	(15,640,354)	(1,306,029)
Net investment income	138,748,966	191,267,266

7. MANAGEMENT EXPENSES

	2008 KShs	2007 KShs
Staff costs		
Wages and salaries	84,830,229	89,369,896
Compulsory social security costs	153,600	176,418
Pension and similar costs	2,461,977	2,753,506
Other	14,969,872	17,192,809
	102,415,678	109,492,629
Other management expenses		
Marketing and administrative expenses	40,919,003	28,810,653
Depreciation and amortisation	18,168,142	12,753,459
Occupancy expenses	5,904,403	3,904,608
	167,407,226	154,961,349

The number of employees at the end of the year 2008 was 68 (2007 - 83).

8. PROFIT BEFORE TAXATION

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

	2008 KShs	2007 KShs
Depreciation expense	9,405,164	4,055,294
Amortisation of intangible assets	10,027,273	8,698,164
Directors' emoluments:		
- As executives	22,340,570	27,045,797
- Non executives	675,000	650,000
Auditors' remuneration:		
- Current year provision	2,373,134	2,540,004
- Prior year under provision	-	225,002
Profit on disposal of quoted shares	(4,476,180)	(83,232,940)
Profit on disposal of equipment	(620,336)	(687,500)

9. INCOME TAX EXPENSE/(CREDIT)

	2008 KShs	2007 KShs
Charge for the year at 30%	44,779,724	41,409,198
Prior year over provision	(30,302)	-
	44,749,422	41,409,198
Deferred tax credit (Note 16)	(2,418,168)	(1,537,252)
	42,331,254	39,871,946

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

	2008 KShs	2007 KShs
Accounting profit	145,900,564	215,816,462
Tax at the applicable rate of 30%	43,770,169	64,744,938
Non-deductible costs and non-taxable income	(1,408,613)	(24,872,992)
Prior year over provision	(30,302)	-
	42,331,254	39,871,946

10. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share is based on:

	2008	2007
Profit attributable to ordinary shareholders - KShs	103,569,310	175,944,516
Weighted average number of shares	10,000,000	10,000,000
Earnings per share - KShs	10.36	17.59

There were no potentially dilutive shares outstanding at 31 December 2008 and 2007.

11. PROPERTY AND EQUIPMENT

2008:	Motor vehicles KShs	Furniture & fittings KShs	Computer and office equipment KShs	Total KShs
Cost:				
At 1 January 2008	10,647,009	28,656,900	22,941,380	62,245,289
Additions	20,085,761	821,053	2,083,774	22,990,588
Disposals	(1,030,000)	(51,980)	(474,731)	(1,556,711)
At 31 December 2008	29,702,770	29,425,973	24,550,423	83,679,166
Depreciation:				
At 1 January 2008	7,930,745	27,396,958	17,552,563	52,880,266
Charge for the year	6,716,436	288,751	2,399,977	9,405,164
On disposals	(1,030,000)	(14,698)	(419,051)	(1,463,749)
At 31 December 2008	13,617,181	27,671,011	19,533,489	60,821,681
Net book value:				
At 31 December 2008	16,085,589	1,754,962	5,016,934	22,857,485
2007:				
Cost:				
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
Depreciation:				
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
Net book value:				
At 31 December 2007	2,716,264	1,259,942	5,388,817	9,365,023

Included in property and equipment are assets with a gross value of KShs.45,893,117 (2007 - KShs 49,771,107) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs 7,496,826 (2007 - KShs 9,075,103).

12. INTANGIBLE ASSETS - Computer software

	2008 KShs	2007 KShs
Cost:		
At 1 January	28,993,884	-
Additions	4,430,292	28,993,884
At 31 December	33,424,176	28,993,884
Amortisation:		
At 1 January	8,698,164	-
Charge for the year	10,027,273	8,698,164
At 31 December	18,725,437	8,698,164
Net book value:		
At 31 December	14,698,739	20,295,720

13. INVESTMENT PROPERTIES

	Land and buildings 2008 KShs	Land and buildings 2007 KShs
Balance at 1 January and 31 December	370,000,000	370,000,000
Additions during the year	25,000,000	-
Revaluation surplus	7,500,000	-
Balance as at 31 December	402,500,000	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 brought forward were last revalued on 10 November 2005 by Tysons Limited, while those acquired in the year were revalued in the year by Kiragu & Mwangi 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

	2008 KShs	2007 KShs
Balance at 1 January	469,352,095	256,875,812
Loans advanced	820,760,000	342,400,560
Interest accrued	5,347,183	4,444,690
Redemption of the loans	(714,807,528)	(134,368,967)
Balance at 31 December	580,651,750	469,352,095

15. INVESTMENT IN GOVERNMENT SECURITIES

	2008 KShs	2007 KShs
Held to maturity		
Treasury Bills - at amortised cost		
Maturing within three months of balance sheet date	36,604,421	49,621,773
Maturing within six months of balance sheet date	33,800,550	14,477,081
	70,404,971	64,098,854
Treasury Bonds - at amortised cost		
Maturing within three months of balance sheet date	10,388,214	-
Maturing after six months of balance sheet date	127,671,117	135,577,055
	138,059,331	135,577,055
Total investments in government securities	208,464,302	199,675,909

The weighted average effective interest rate on government securities as at 31 December 2008 was 9.12% (2007 - 9.29%).

16. DEFERRED TAX ASSET

Movement during the year is detailed below:

2008:	Balance at 1/1/2008 KShs	Recognised in income statement KShs	Balance at 31/12/2008 KShs
Arising from:			
Property and equipment	2,498,556	534,950	3,033,506
Unrealised exchange loss	398,096	(398,096)	-
Unrealised exchange gain	-	(264,438)	(264,438)
Defined benefit liability	644,738	(644,738)	-
Provisions	2,654,666	3,190,490	5,845,156
	6,196,056	2,418,168	8,614,224
2007:	Balance at 1/1/2008 KShs	Recognised in income statement KShs	Balance at 31/12/2008 KShs
Arising from:			
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
	4,658,804	1,537,252	6,196,056

17. INSURANCE LIABILITIES AND REINSURANCE ASSETS

	2008 KShs	2007 KShs
(a) Gross		
Claims reported	1,171,245,500	1,010,576,569
Claims incurred but not reported	45,214,133	35,014,429
Unearned premiums	380,217,776	295,202,632
Total insurance liabilities gross	1,596,677,409	1,340,793,630
(b) Recoverable from reinsurers		
Claims reported	394,828,141	339,461,057
Claims incurred but not reported	7,751,561	8,376,471
Unearned premiums	103,691,248	80,504,851
Total reinsurers share of insurance liabilities	506,270,950	428,342,379
(c) Net (a - b)		
Claims reported	776,417,359	671,115,822
Claims incurred but not reported	37,462,571	26,637,648
Unearned premiums	276,526,528	214,697,781
Total insurance liabilities net	1,090,406,458	912,451,251

(d) Claims development tables

Claims triangular statistics for excess of loss claim over one million as at 31/12/2008

At gross Claim year	2002 KShs	2003 KShs	2004 KShs	2005 KShs	2006 KShs	2007 KShs	2008 KShs
At the end of reporting year	20,128,722	21,285,636	60,952,986	83,900,463	139,128,681	103,609,612	142,343,653
One year later	19,792,425	33,694,802	50,686,026	96,896,348	92,348,784	146,052,609	-
Two years later	19,026,464	35,532,743	43,133,851	63,500,783	93,877,878	-	-
Three years later	18,166,910	30,314,577	38,205,046	64,425,234	-	-	-
Four years later	15,411,971	30,129,737	38,205,046	-	-	-	-
Five years later	20,797,300	21,207,617	-	-	-	-	-
Six years later	20,797,300	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-	-
Current estimate of cumulative claims	20,797,300	21,207,617	38,205,046	64,425,234	93,877,878	146,052,609	142,343,653
Cumulative payments to date	(9,541,308)	(22,324,533)	(47,376,033)	(52,754,864)	(62,556,563)	(22,056,981)	(26,720,475)
Recognised in the balance sheet	11,255,992	(1,116,916)	(9,170,987)	11,670,370	31,321,315	123,995,628	115,623,178

18. SHARE CAPITAL

Authorised, issued and fully paid

10,000,000 Ordinary shares of KShs.20 each

	2007 KShs	2006 KShs
	200,000,000	200,000,000

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

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

During the year the company expensed KShs 2,735,529 in contributions (2007 - KShs 2,100,230).

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:

	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. This was settled in full during the year 2008.

20. RETIREMENT BENEFIT OBLIGATIONS (cont'd)

Net liability at 1 January recognised in income statement
Net income recognised in income statement
Paid in the year

	2008 KShs	2007 KShs
	2,149,126	2,999,000
	-	(849,874)
	(2,149,126)	-
Net liability at 31 December	-	(2,149,126)

21. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of net profit before tax to cash flow from operating activities

	2008 KShs	2007 KShs
Profit before tax	145,900,564	215,816,462
Adjustments for:		
Depreciation	9,405,164	4,055,294
Amortisation	10,027,273	8,698,164
Impairment for quoted entities	6,693,801	-
Fair value gain on investment property	(7,500,000)	-
Dividends income	(5,310,045)	(4,787,010)
Interest income	(104,134,320)	(75,799,276)
Net rental income	(33,821,328)	(27,043,407)
Profit on disposal of property and equipment	(620,336)	(687,502)
Profit on disposal of shares	(4,476,180)	(83,232,940)

Operating profit before working capital changes

	2008 KShs	2007 KShs
Increase in premiums outstanding	(9,894,408)	(36,934,389)
Decrease/(increase) in amounts due from bodies engaged in insurance business	(9,137,978)	1,844,936
Increase in sundry debtors	(23,538,558)	(8,021,322)
Increase in amounts due to bodies engaged in insurance business	14,201,888	61,695,705
Increase in unearned premium provisions	61,828,747	36,869,092
Increase in outstanding claims	116,126,460	64,645,036
Decrease in defined benefit obligations	(2,149,126)	(849,874)
Increase in sundry creditors	12,313,774	9,549,761

Cash generated from operations

	2008 KShs	2007 KShs
Tax paid	(75,552,708)	-
Dividend paid	(100,000,000)	-

Cash flows from operating activities

	2008 KShs	2007 KShs
Cash generated from operations	175,915,392	165,818,730
Cash flows from operating activities	362,684	165,818,730

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

(b) Movement in cash and cash equivalents

	2008 KShs	2007 KShs	Change in the year KShs
Cash and bank balances	14,843,859	5,667,442	9,176,417
Deposits with banks and financial institutions	150,551,490	238,115,514	(87,564,024)
Securities issued by the Government of Kenya	70,404,971	64,098,854	6,306,117
	235,800,320	307,881,810	(72,081,490)

22. RELATED PARTY TRANSACTIONS

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

(a) Loans

Employees:

	2008 KShs	2007 KShs
Balance at the beginning of the year	12,843,287	4,664,501
Advanced during the year	26,526,379	12,384,877
Repayments received	(8,266,094)	(4,206,091)
Balance at the end of the year	31,103,572	12,843,287

The related interest income in 2008 was KShs 1,767,366 (2007 - KShs 587,487). The above loans were given on commercial terms and conditions and the average interest rate during the year was 8% (2007 - 8%).

The directors did not have any loans with the company.

(b) Directors emoluments (Note 8)

	2008 KShs	2007 KShs
As executives	24,822,856	27,045,797
Non-executives	675,000	650,000

(c) Included in bank deposits are balances with related companies amounting to KShs 145,475,241 (2007 - KShs 125,498,875).

(d) The company has also issued a corporate bond of KShs 25,000,000 to a related party.

(e) 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:

	2008 KShs	2007 KShs
Less than one year	35,861,447	32,131,669
Between one and five years	90,327,831	75,873,877
	126,189,278	108,005,546

During the year ended 31 December 2008, KShs 33,821,328 (2007 - KShs 27,047,407) was recognised as net rental income in the income statement, and KShs 15,028,904 (2007 - KShs 9,855,367) 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 8,590,296 (2007 - KShs 10,099,486) to third parties.

25. ASSETS HELD UNDER LIEN

Treasury bonds include bonds with a face value of KShs 106,500,000 (2007 - KShs 103,500,000) held under lien in favour of the Commissioner of Insurance in accordance with Section 32 of the Insurance Act.

Appendix

Class of insurance business	Engineering		Fire		Marine		Motor		Workmen's		2008 Total KShs	2007 Total KShs	
	KShs	Domestic KShs	Industrial KShs	Liability KShs	Private KShs	Commercial KShs	Pool KShs	Accident KShs	Theft KShs	compensation KShs			Miscellaneous KShs
Gross premiums written	43,081,666	18,927,461	122,254,833	9,328,899	70,256,474	94,432,990	159,322,261	-	141,601,750	64,490,605	66,782,197	887,906,597	682,245,576
Re-insurance premiums	(36,045,084)	(5,654,957)	(68,430,255)	(902,215)	(24,053,364)	(10,089,523)	(18,578,431)	-	(112,221,036)	(6,996,716)	(6,612,643)	(298,888,542)	(236,169,739)
Net written premiums	7,036,582	13,272,504	53,824,578	8,426,684	46,203,110	84,343,467	140,743,830	-	29,380,714	57,493,889	60,169,554	589,018,055	446,075,837
Unearned premiums brought 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	28,812,476	214,697,781	177,828,686
Unearned premiums carried forward	(2,377,684)	(6,539,225)	(22,072,619)	(4,650,639)	(28,345,753)	(46,611,719)	(57,857,178)	-	(12,512,229)	(23,251,138)	(29,498,829)	(276,526,528)	(214,697,781)
Net earned premiums	7,020,685	12,439,353	48,062,895	7,546,476	37,588,068	61,915,476	147,672,640	-	26,026,282	51,099,028	59,483,201	527,189,308	409,206,742
Claims:													
Claims paid	1,044,696	1,810,999	11,965,535	2,264,633	9,420,581	28,836,784	86,150,889	178,417	7,928,400	17,159,257	12,569,266	204,605,571	151,620,433
Claims outstanding at the end of the year	2,527,853	2,903,024	21,337,251	35,712,272	10,843,436	137,688,134	291,218,256	8,858,429	8,967,058	34,649,668	234,453,738	813,879,930	697,753,469
Claims outstanding at the beginning 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)	(12,683,825)	(697,753,469)	(633,108,433)
Total claims incurred	1,558,309	3,427,260	16,385,993	2,201,060	3,597,915	71,016,338	95,900,400	176,842	9,797,910	34,239,708	57,824,045	320,732,032	216,265,469
Expenses:													
Commissions payable	5,699,562	2,503,785	24,164,330	1,377,889	8,736,572	6,108,612	10,221,375	-	13,936,009	4,233,157	14,636,397	98,279,665	63,520,962
Commissions receivable	(13,057,466)	(245,375)	(26,656,605)	(3,125)	(8,079,436)	(177,640)	(12,508)	-	(27,640,865)	(138,953)	(224,921)	(76,236,894)	(53,613,572)
Premium tax	117,739	222,081	900,614	140,999	773,089	1,411,268	2,354,981	-	491,610	962,010	1,006,779	9,855,681	3,523,338
Expenses of management	1,996,355	3,765,554	15,270,619	2,390,742	13,404,707	23,929,161	39,930,559	-	8,335,629	16,311,643	17,070,760	167,407,226	154,961,349
Total expenses	(5,243,810)	6,246,045	13,678,958	3,906,505	14,834,932	31,271,401	52,494,407	-	(4,877,617)	21,367,857	41,112,405	199,305,678	168,392,077
Underwriting profit(loss) transferred to profit and loss	10,706,186	2,766,048	17,997,944	1,438,911	19,155,221	(40,372,263)	(722,167)	(176,842)	21,105,989	(4,508,537)	(30,601,246)	7,151,598	24,549,196