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COMPANY INFORMATION

Board of directors	Mr. Rasik Kantaria	- Chairman
	Mr. Mukesh Patel	
	Mr. Shantilal Shah	
	Mr. Rapinder Singh Sehmi	
	Mr. Amar Kantaria (Appointed on 26/06/2007)	
	Mr. Rajnikant Sanghrajka (Resigned on 26/04/2007)	
Executive management	Mrs. Rita Thatthi	- Principal Officer/General Manager
	Mrs. Archana Hasham	- Assistant General Manager
	Ms. Emma Kinyua	- Chief Accountant
	Ms. Eva Wambui	- Manager
	Ms. Winnie Muoki	- Legal Manager
	Mr. Nicholas Mwala	- Manager

Company secretaries

Commercial Registrars
P.O. Box 49925, 00100
Nairobi, Kenya.

Head office and registered office

Tausi Court, Tausi Road
Off Muthithi Road, Westlands
P.O. Box 28889, 00200 - City Square
Nairobi, Kenya.
Tel: 3746602/03/17
Fax: 3746618
E-mail: clients@tausiassurance.com

Auditors

HLB Ashvir
Certified Public Accountants
1st Floor, Reliance Centre,
Woodvale Grove, Westlands
P.O. Box 349, 00606
Nairobi, Kenya.

Principal bankers

Prime Bank Ltd.
Nairobi.

CHAIRMAN'S STATEMENT

Overview of the Kenyan business environment

The Kenyan economy grew impressively by 6.9% mainly due to increased growth in the agricultural and tourism sectors. There was also significant growth in the telecommunications, building and construction and manufacturing sectors.

Interest rates remained stable with the interest rate on the benchmark 91 day Treasury bill ranging between 6% and 7.5%. Inflation also remained stable with the average overall inflation rate being 9.8% in December 2007 from 14.45% in December 2006.

Insurance Industry

The insurance industry has 44 players in the market and hence competition is intense.
The year 2007 saw several important changes in the legislation that established the Insurance Regulatory Authority in May. Review of the Insurance Act and the introduction of the Regulatory Authority will go a long way in ensuring a stable and professionally run industry. Another major amendment was the introduction of cash and carry for Fire and Motor insurance with effect from March 07 in preparation for cash and carry on all insurance covers in January 2008.

The Finance Act 2007 introduced a requirement for all insurance companies to triple their paid up capital over a period of 3 years. General insurance companies will need to raise their paid up capital from a minimum of Ksh.100m to Ksh.300m, Composite insurance companies from Ksh.150m toKsh.450m and long term insurers from Ksh50m to Ksh.150m. The industry is expected to witness consolidations, mergers and acquisitions during the next 2 ½ years which is expected to result in a leaner, more productive and professional industry. With fewer players in the market, the price wars and wasteful competition are likely to reduce.

The Company's performance

The overall performance of the Company has improved. The profit for the year before tax amounted to Kshs. 2,016,118 compared to a loss of Kshs. 34,868,853 for the preceding financial year despite the insecurity in the country and the cost of liability claims especially motor and workmen's compensation.
The client profile of the Company was reassessed and continuously loss making accounts shed, resulting in a decrease of 19% in gross earned premiums. However it is felt that the leaner client profile is of higher quality that will secure higher returns for the Company
.
The net income from the Company's core business of insurance increased by 54% from Kshs. 43.9 million for 2006 to Kshs. 67.7 million for the current year.
In line with the restructuring of the Company, a detailed review of the outstanding claims for previous years was done and adequate adjustments made in the reserves.

A stringent credit control policy resulted in enhanced cash flows available for investment purposes. Investment income for the year increased by 110% from Kshs. 23.3 million for 2006 to Kshs. 49.1 million.
The Shareholders' funds increased marginally from Kshs. 139.8 million for 2006 to Kshs. 142.8 million, the prescribed minimum paid up capital being Kshs. 100 million.

I believe that with the reassessment of client profile and strict implementation of various risk management policies, the Company is well poised to progress rapidly in its core business.

I take this opportunity to thank the management and all members of staff for their hard work and dedication to duty. I urge them to rededicate their efforts in the coming years so that the Company can progress from strength to strength.
I wish to convey my appreciation to my colleagues on the Board for their very valuable counsel throughout the year.
None of our achievements would have been possible without the loyal and continued support of our esteemed clients, brokers and agents. I sincerely thank them all and assure them of even more improved service and support.
I take this opportunity to thank our shareholders for demonstrating their confidence and trust in the Board and the management.

Finally, I would like to thank the Government of Kenya and Insurance Regulatory Authority for their guidance and support.

RASIK C. KANTARIA
Chairman

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31st December 2007, which disclose the state of affairs of the company.

Incorporation

The company is incorporated in Kenya under the Kenyan Companies Act, and is domiciled in Kenya.

Principal activities

The company is licenced under Section 31 of the Insurance Act (Cap. 487) to transact in all classes of general insurance business with the exception of aviation.

Results and dividends

The net profit / (loss) for the year of Shs. 2,669,626 (2006: Shs. (25,369,760)) has been added to / deducted from retained earnings. The directors do not recommend the declaration of a dividend for the year.

Directorate

The directors who held office during the year and to the date of this report are set out on page 1.

Auditors

The company's auditors, HLB Ashvir, continue in office in accordance with Section 159 (2) of the Kenyan Companies Act, subject to the approval by the Commisioner of Insurance in accordance with Section 56(4) of the Insurance Act (Cap. 487).

By order of the board

RASIK KANTARIA
Chairman

Nairobi, 30th April 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of 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 as at 31st December 2007 and of its operating results for the year then ended. The directors further accept responsibility for the maintenance of accounting records which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

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

Approved by the board of directors on 30th April 2008 and signed on its behalf by:

Rasik Kantaria
Chairman

Mukesh Patel
Director

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF TAUSI ASSURANCE COMPANY LIMITED

We have audited the accompanying financial statements of Tausi Assurance Company Limited, set out on pages 5 to 27 which comprise the balance sheet as at 31st December 2007, and the profit and loss account, 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

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

Auditor's Responsibility

Our responsibility is to express an independent opinion of 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 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 depended on our professional 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 considered the internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31st December 2007 and of its profit 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

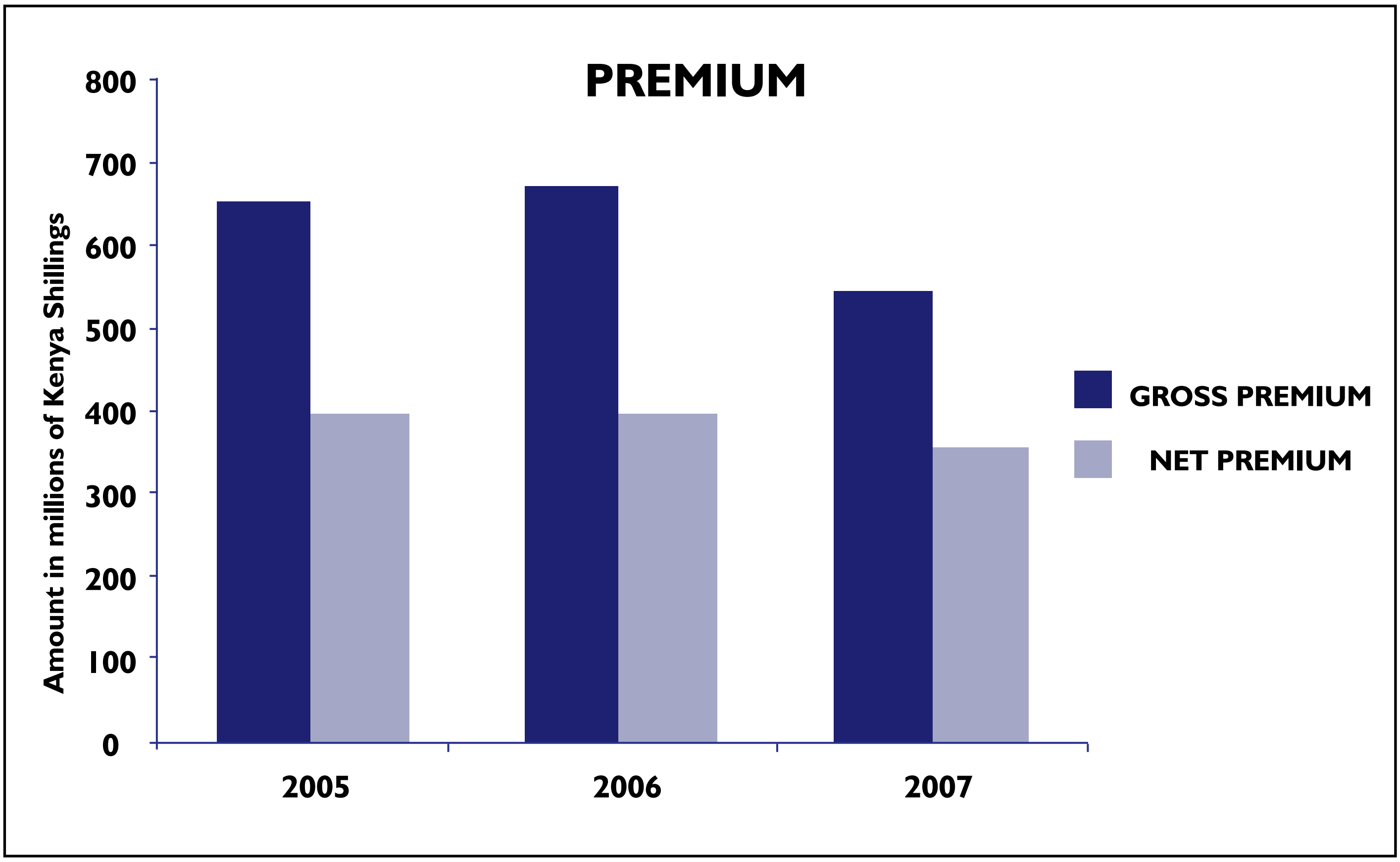
As required by the Kenyan Companies Act we report to you, based on our audit, that:

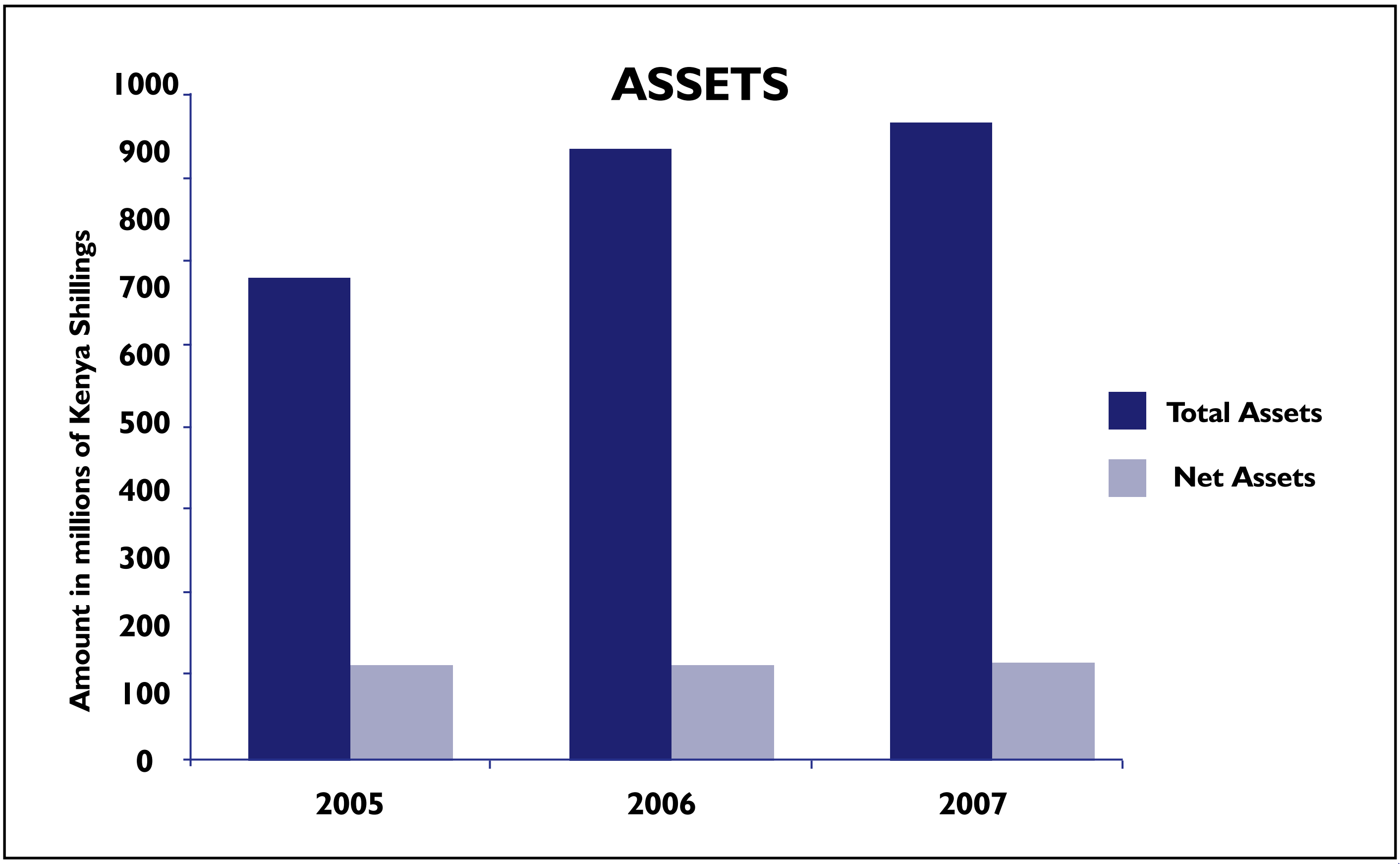
i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and
iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

HLB Ashvir
Certified Public Accountants
Nairobi

30th April 2008

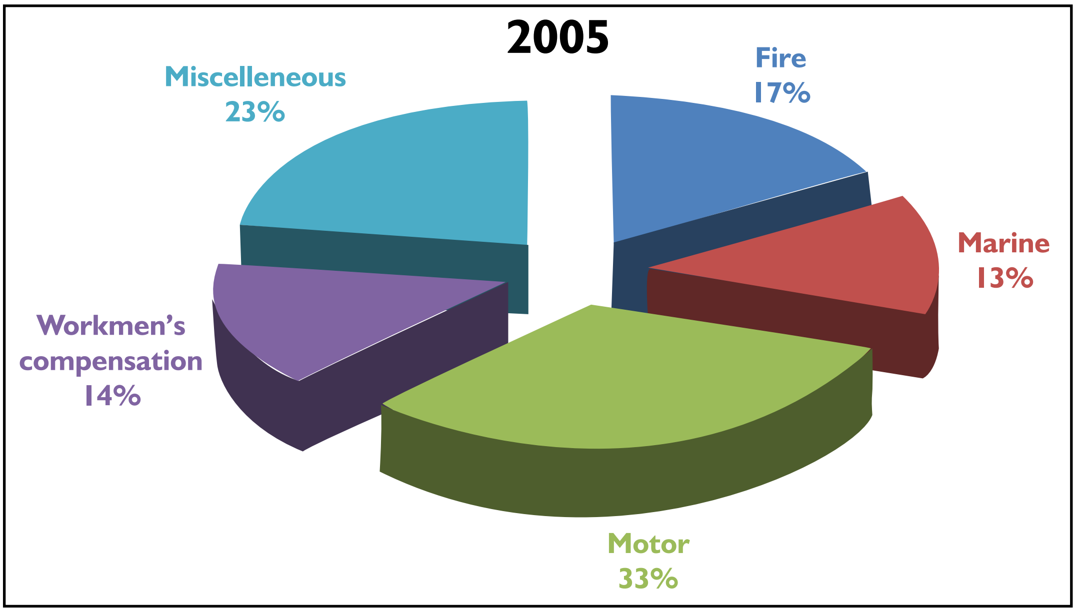
FINANCIAL HIGHLIGHTS

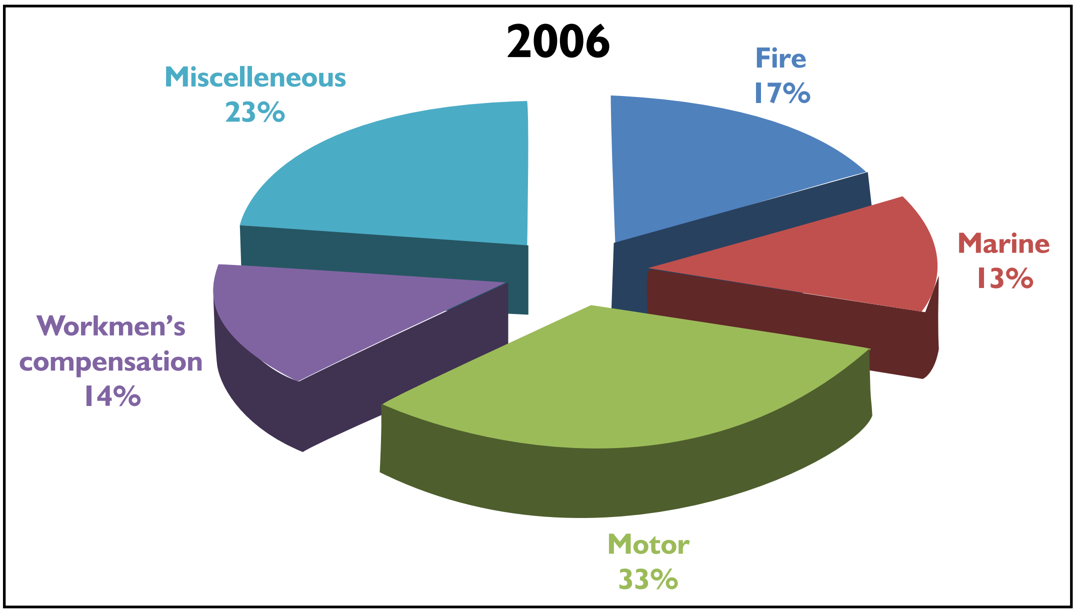


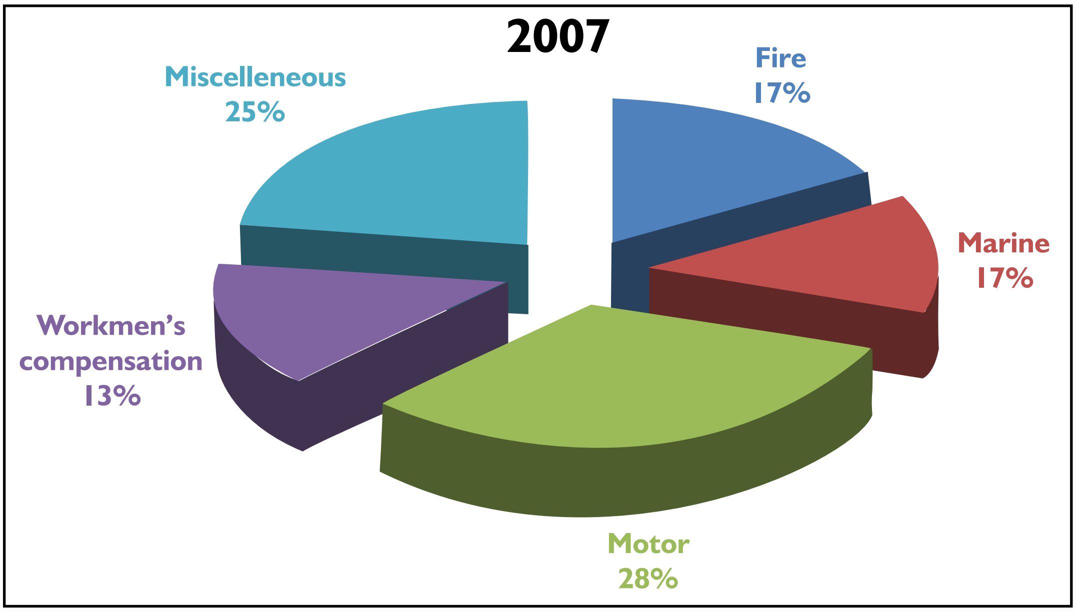


FINANCIAL HIGHLIGHTS (CONTINUED)

GROSS PREMIUM CLASSWISE







PROFIT AND LOSS ACCOUNT

Income	**Note**	**2007 Shs**	**2006 Shs**
Gross earned premiums		552,717,385	681,264,380
Less: reinsurance premium ceded		(190,692,603)	(280,416,517)
Net earned premiums		362,024,782	400,847,863
Investment income	3	49,129,955	23,302,888
Commissions earned		46,903,446	63,239,881
Other income	4	-	168,000
Total income		458,058,183	487,558,632
Expenses			
Claims payable	5	(258,097,451)	(311,818,505)
Operating and other expenses	6	(114,880,357)	(102,252,887)
Commissions payable		(83,064,257)	(108,356,093)
Profit / (loss) before tax		2,016,118	(34,868,853)
Tax	8	653,508	9,499,093
Profit / (loss) after tax		2,669,626	(25,369,760)
Earnings / (loss) per share	9	2.14	(20.30)

BALANCE SHEET

	Note	2007 Shs	2006 Shs
CAPITAL EMPLOYED			
Share capital	10	124,949,400	124,949,400
Revaluation reserve	11	31,733,665	32,503,665
Retained earnings		(13,858,709)	(17,628,335)
Shareholders' funds		142,824,356	139,824,730
REPRESENTED BY:			
Assets			
Property, plant and equipment	12	115,108,920	117,407,364
Prepaid operating lease rentals	13	4,631,860	4,687,780
Intangible assets	14	396,278	600,783
Financial assets at fair value through profit or loss	15	74,679,318	26,537,603
Loans receivable	16	36,022,174	10,760,042
Receivables arising out of reinsurance arrangements		13,314,243	8,497,620
Receivables arising out of direct insurance arrangements		9,370,501	119,712,698
Reinsurers' share of insurance liabilities	17	184,834,289	237,886,724
Other receivables	18	27,162,393	8,421,737
Government securities held to maturity	19	101,850,000	79,850,000
Deposits with financial institutions	20	351,000,000	260,000,000
Cash and bank balances	20	25,765,370	29,177,377
Tax recoverable		4,805,945	4,805,945
Total assets		948,941,291	908,345,673
Liabilities			
Deferred tax	22	6,067,759	7,051,267
Insurance contract liabilities	23	489,679,865	385,354,699
Unearned premium	25	221,191,826	320,488,223
Payables arising from reinsurance arrangements		77,305,884	50,157,218
Other payables	26	11,871,601	5,371,899
Borrowings	27	-	97,637
Total liabilities		806,116,935	768,520,943
		142,824,356	139,824,730

The financial statements on pages 5 to 27 were approved for issue by the board of directors on 30th April 2008 and were signed on its behalf by:

Rasik Kantaria
Chairman

Mukesh Patel
Director

Rita Thatthi
Principal Officer

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital Shs	Retained earnings Shs	Revaluation surplus Shs	Total Shs
At 1st January 2006		105,000,000	22,187,159	11,007,331	138,194,490
Net (loss) for the year		-	(25,369,760)	-	(25,369,760)
Bonus issue of shares	10	19,949,400	(14,445,734)	(5,503,666)	-
Surplus on revaluation	11	-	-	43,500,000	43,500,000
Deferred tax on revaluation	22	-	-	(16,500,000)	(16,500,000)
At 31st December 2006		124,949,400	(17,628,335)	32,503,665	139,824,730
At 1st January 2007		124,949,400	(17,628,335)	32,503,665	139,824,730
Net profit for the year		-	2,669,626	-	2,669,626
Transfer of excess depreciation		-	1,100,000	(1,100,000)	-
Deferred tax on depreciation transfer		-	-	330,000	330,000
At 31st December 2007		124,949,400	(13,858,709)	31,733,665	142,824,356

CASH FLOW STATEMENT

	Note	2007 Shs	2006 Shs
Cash flows from operating activities			
Profit / (loss) before income tax		2,016,118	(34,868,853)
Adjustments for:			
Depreciation on property, plant and equipment	12	4,549,606	2,697,212
Amortisation of prepaid operating lease rentals	13	55,920	55,920
Amortisation of intangible assets	14	710,772	542,017
Revaluation surplus on property, plant and equipment		-	43,500,000
Fair value loss on quoted investments	3	12,632,757	941,108
Investment income	3	(39,367,441)	(20,428,040)
Surplus on sale of shares	3	(18,230,060)	(646,812)
Dividend income	3	(1,164,944)	(188,884)
Operating (loss) before working capital changes		(38,797,272)	(8,396,333)
Decrease / (increase) in:			
Trade and other receivables		88,767,886	(54,376,814)
(Decrease) / increase in:			
Technical provisions		(57,771,383)	33,180,635
Trade and other payables		147,517,989	157,736,178
Cash generated from operations		139,717,220	128,143,666
Income tax paid		-	(4,169,999)
Net cash generated from operating activities		139,717,220	123,973,667
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(2,251,162)	(2,259,366)
Additions to intangible assets	14	(506,267)	(176,300)
Purchase of quoted investments	15	(88,536,844)	(27,478,711)
Proceeds from sale of quoted investments		45,992,430	2,696,278
Loans (advanced) / repaid		(25,262,132)	18,990,296
Deposits with financial institutions		(86,000,000)	(235,000,000)
Investment in Government securities		(22,000,000)	(36,000,000)
Investment income	3	39,367,441	20,428,040
Dividends received		1,164,944	188,884
Net cash (used in) investing activities		(138,031,590)	(258,610,879)
Net increase / (decrease) in cash and cash equivalents		1,685,630	(134,637,212)
Cash and cash equivalents at 1st January	20	54,079,740	188,716,952
Cash and cash equivalents at 31st December	20	55,765,370	54,079,740

ACCOUNTING POLICIES

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

a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards under the historical cost convention as modified by the revaluation of certain property, plant and equipment, fair value adjustments to financial instruments and the carrying of impaired assets at their recoverable amounts, and are presented in the functional currency, Kenya Shillings (Shs).

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions. It also requires management to exercise its judgment in the process of applying the accounting policies adopted by the company. Although such estimates and assumptions are based on the managements' best knowledge of the information available, actual results may differ from those estimates.

b) Revenue recognition

Premium income is recognised on assumption of risk, and includes estimates of premiums due but not yet received, less an allowance for cancellations and unearned premiums. Unearned premiums represent the proportion of premiums written up to the accounting date that relates to the unexpired terms of policies in force at the balance sheet date. Unearned premium is computed using the 1/24th method.

Commissions receivable are recognised as income in the year in which they are earned.

Interest income is recognised on a time proportion basis using the effective interest rate method. Rental income is recognised in the year in which it is earned.

Dividends are recognised as income in the year in which the right to receive payment is established.

c) Claims incurred

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the balance sheet date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims Incurred But Not Reported ('IBNR'). 'IBNR' provisions are based on management experience and estimates, but are subject to a minimum percentage set by the Commissioner of Insurance. Outstanding claims are not discounted.

d) Commissions payable

Commissions payable are recognised as an expense in the year in which they are paid.

e) Property, plant and equipment

All categories of property, plant and equipment are initially recognised at historical cost. Buildings are subsequently revalued and stated at market value based on annual valuations by external independent valuers less accumulated depreciation and accumulated impairment losses. All other items of property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying value only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Repairs and maintenance is charged to the profit and loss account in the year to which it relates.

Depreciation is calculated using the straight line / reducing balance method to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

ACCOUNTING POLICIES (CONTINUED)

e) Property, plant and equipment (continued)

	Rate - %	
Buildings	2	- Straight line
Motor vehicles	25	
Furniture & fittings	12.5	
Computers, copiers & faxes	30	

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

Increases in the carrying amount arising on revaluation are credited to the revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revalua tion surplus. All other decreases are charged to the profit and loss account. Annually, the difference between depreciation based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

(f) Intangible assets

Software licence costs are stated at historical cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight line method to write down the cost of the software to its residual value over the estimated useful life of three years.

(g) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the balance sheet date denominated in foreign currencies are translated into Kenya Shillings using the exchange rate prevailing as at that date. The resulting gains and losses from the settlement of such transactions and translations are recognised on a net basis in the profit and loss account in the year in which they arise.

(h) Operating leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

(i) Financial instruments

The company classifies its investments into the following categories:

i) Held-to-maturity investments which are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has a positive intention to hold to maturity.

ii) Loans and receivables which are non-derivative financial assets created by the company by providing money or products directly to the debtor other than those with the intent to be sold immediately or in the short-run.

ACCOUNTING POLICIES (CONTINUED)

(i) Financial instruments (continued)

iii) Available-for-sale financial assets which are assets held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates.

iv) Financial assets at fair value through profit or loss which are assets designated by the entity at fair value through profit or loss.

All financial assets are classified as non-current except those with maturities of less than 12 months from the balance sheet date, those which the management has the express intention of holding for less than 12 months from the balance sheet date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale and recorded at the fair value of the consideration given plus the transaction costs. Subsequently, held-to-maturity investments and loans and receivables are carried at amortised cost using the effective interest rate method, financial assets at fair value through profit or loss are carried at their fair values, while available-for-sale assets for which there is no active market and whose fair value cannot be reliably measured are carried at cost.

Changes in fair value for financial assets at fair value through profit or loss are recognised in the profit and loss account. Impairment losses are recognised in the profit and loss account in the year in which there is objective evidence of impairment. Changes in fair value for available-for-sale financial assets are recognised directly in equity, except for impairment losses which are recognised in the profit and loss account in the year there is objective evidence of impairment. On sale, the cumulative gain or loss previously recognised in equity is recognised in the profit and loss account in the year of sale.

The management classifies financial assets as follows:

* Receivables and mortgage loans are classified as 'loans and receivables' and are carried at amortised cost using the effective interest rate method.

* Government securities and term and call deposits with banking institutions are classified as 'held-to- maturity investments' and are carried at amortised cost using the effective interest rate method.

* Investments in quoted securities are classified as 'financial assets at fair value through profit or loss' and are carried at fair value. Fair value is determined using the quoted bid price at the close of business on the balance sheet date.

Financial liabilities

All financial liabilities including borrowings are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

(j) Receivables

Outstanding premiums and amounts due from reinsurers are carried at amortised invoice amount less provision for impairment. A provision for impairment is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(k) Provision for liabilities and charges

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.

ACCOUNTING POLICIES (CONTINUED)

l) Retirement benefit obligations

The company operates a defined contribution retirement benefits scheme for its employees, the assets of which are held in a separate trustee administered guaranteed scheme managed by an insurance company. The scheme is funded by contributions from the company and the employees. The company's contributions are charged to the profit and loss account in the year to which they relate.

The company and the employees also contribute to the National Social Security Fund, a national defined contribution scheme. Contributions are determined by local statute and the company's contributions are charged to the profit and loss account in the year to which they relate.

m) Employee entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

n) Borrowing costs

Borrowing costs are recognised as an expense in the year in which they are incurred.

o) Taxation

Income tax expense / (income) comprise current income tax and deferred income tax. Income tax is recognised as an expense / (income) and included in the profit and loss account, except to the extent that they arise from a transaction which is recognised directly in equity, in which case the tax effect is recorded directly in equity.

Current tax

Current tax is provided on the basis of results for the year adjusted in accordance with the fiscal laws of Kenya.

Deferred tax

Deferred tax is provided in full on all temporary differences except those arising at the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred tax is provided using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

p) Cash and cash equivalents

Cash and cash equivalents include cash in hand, term and call deposits with banking institutions and other short-term highly liquid investments in money market instruments with maturities of three months or less from the date of acquisition and which are not encumbered, net of bank overdrafts. In the balance sheet, bank overdrafts are included as borrowings under current liabilities.

q) Dividends

Dividends on ordinary shares are recognised as a liability in the year in which they are declared.

r) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS

1. Critical accounting estimates and judgements in applying accounting policies

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

i) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims 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 up to the time the company eventually settles the claim.

ii) Property, plant and equipment

Critical estimates are required in determining the depreciation rates for property, plant and equipment. The management determines the rates of depreciation based on their assessment of the estimated useful lives of the various items of property, plant and equipment.

iii) Intangible assets

Critical estimates are made by management in determining the amortisation rates for intangible assets. The management determines these rates of amortisation based on their assessment of the estimated useful lives of the intangible assets.

iv) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

v) Impairment losses on receivables

The company regularly reviews its receivables to assess impairment. In determining whether an impairment loss should be recorded in the profit and loss account, management makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of any receivables.

vi) Impairment of financial assets at fair value through profit or loss

The company determines that financial assets at fair value through profit or loss are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, management evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

vii) Held-to-maturity financial assets

The company follows the guidelines of IAS 39 'Financial Instruments: Recognition and Measurement on classification of financial assets with determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, management evaluates its intention and ability to hold such assets to maturity. If the company fails to keep these assets to maturity other than for the specific circumstances, for example selling an insignificant amount close to maturity, it will be required to reclassify the entire class as available-for-sale. The assets would therefore be measured at fair value and not at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Financial risk management objectives and policies

The company's activities expose it to a variety of financial risks which include insurance risk and financial risk (including interest rate, currency, credit and equity price risks), and management of the company's capital. 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, reinsurance planning, credit policy and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place, which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk. The company manages its risks as follows:

i) Insurance risk

The risk under any one insurance contract is the possibility of the occurance of the insured event and the uncertainty of the resulting claim. The inherent nature of an insurance contract makes this risk random and unpredictable as the number and amount of claims and benefits vary from year to year from levels established by using statistical data.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces is that the actual claims and benefit payments may exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than that estimated at the time of the claim intimation and subsequent revision based on the best information available at the time of estimation.

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 by a change in any subset of the portfolio. The company has developed 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. In addition, the company reviews the risk profile of each client prior to the renewal of insurance policies.

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.

a) Underwriting

The company ensures that the underwriting department takes into consideration the type and the amount of risks and the specific risks attached to the industry and the client before underwriting or renewing policies. Management has put in place controls ensure that high risk policies are not renewed through a scrutiny of the claims paid ratios and the profitability on each client portfolio.

The reinsurance arrangements include excess of loss coverage.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The concentration of insurance risk before and after reinsurance by class of insurance is summarised below:

a) Underwriting (continued)

Year ended 31st December 2007	**Class of Insurance**						
	Motor Shs	**Fire Shs**	**Theft Shs**	**Workmens' compensation Shs**	**Marine Shs**	**Others Shs**	**Total Shs**
Gross earned premiums	169,387,785	94,551,079	71,144,614	77,901,052	74,870,350	64,862,505	552,717,385
Less: Premiums ceded to reinsurers	(6,870,713)	(68,425,874)	(41,127,525)	(2,700,874)	(31,750,848)	(39,816,769)	(190,692,603)
Net earned premiums	162,517,072	26,125,205	30,017,089	75,200,178	43,119,502	25,045,736	362,024,782
Gross earned premiums - %	30.65%	17.11%	12.87%	14.09%	13.55%	11.74%	100.00%
Premiums ceded to reinsurers - %	3.60%	35.88%	21.57%	1.42%	16.65%	20.88%	100.00%
Net earned premiums - %	44.89%	7.22%	8.29%	20.77%	11.91%	6.92%	100.00%
Year ended 31st December 2006	**Class of Insurance**						
	Motor Shs	**Fire Shs**	**Theft Shs**	**Workmens' compensation Shs**	**Marine Shs**	**Others Shs**	**Total Shs**
Gross earned premiums	238,357,730	111,682,215	81,227,996	90,210,033	84,551,378	75,235,028	681,264,380
Less: Premiums ceded to reinsurers	(39,309,888)	(85,750,778)	(47,551,641)	(13,504,930)	(51,483,292)	(42,815,988)	(280,416,517)
Net earned premiums	199,047,842	25,931,437	33,676,355	76,705,103	33,068,086	32,419,040	400,847,863
Gross earned premiums - %	34.99%	16.39%	11.92%	13.24%	12.41%	11.04%	100.00%
Premiums ceded to reinsurers - %	14.02%	30.58%	16.96%	4.82%	18.36%	15.27%	100.00%
Net earned premiums - %	49.66%	6.47%	8.40%	19.14%	8.25%	8.09%	100.00%

b) Claims

i) Claims management

The frequency and severity of claims is affected by several factors including the underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The company has a specialised claims department dealing with claims management. The department assesses all claims and also carries out investigations where such claims do not conform to expected norms. Claims are reviewed individually at the time of intimation and subsequently reviewed when new information regarding the claim is received, and at least once every quarter, and adjusted to reflect the last information based on the underlying facts, contractual terms and conditions, assessments provided by independent loss adjustors and changes in the current laws, amongst other factors. The company actively manages and pursues early settlement of claims to reduce its exposure to unpredictable developments. Outstanding claims are not discounted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

ii) Claims provisions

Claims are paid on a claims-occurrence basis and the company is liable for all insured events that occurred during the contract term, even if the loss is notified after the end of the contract term. As a result, liability claims are settled over a long period of time. In addition, a provision is made by the management for claims that may have occurred but have not been reported to the company at the date of the financial statements. Such provisions are termed as Incurred But Not Reported (IBNR), and are based on the managements' experience and estimates, but subject to the minimum percentages set by the Commissioner of Insurance.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of expected subrogation value and other recoveries. In calculating the claims outstanding provision, the company uses the information available and adjusts this for an estimate based on the claims experience. The claims experience is based on the loss ratio, which is defined as the ratio between the ultimate cost of the insurance claims to the insurance premium earned in a particular financial year in relation to such claims. The company takes all reasonable steps to ensure that it has all appropriate information regarding its claims exposures. However, due to the inherent uncertainty in establishing claims provisions, it is likely that the financial settlement may be different from the assessed liability. Moreover, the amount of casualty claims is particularly sensitive to the level of court awards and to the development of legal precedents on matters of contract and tort. Casualty claims are also subject to the emergence of new types of latent claims, but no allowance is included for this at the balance sheet date.

The estimation of IBNR is subject to greater degrees of uncertainty than the estimation of the cost of settling claims already notified to the company. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claim. For casualty contracts, IBNR proportion to the total liabilty is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the company considers any information available from loss adjustors and information on the cost of settling claims with similar characteristics in previous periods.

The rates used by the company for each class of reinsurance business are:

	Class of Insurance					
Year	Motor	Fire	Theft	Workmens' compensation	Marine	Others
2007	5%	1%	5%	5%	2.5%	5%
2006	5%	1%	5%	5%	2.5%	5%
Minimum prescribed rates by Commissioner of Insurance	5%	1%	5%	1%	3.0%	5%

ii) Financial risk

The company is exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, equity price risk, currency risk and credit risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

a) Credit risk

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; and
- counterparty risk with respect to derivative transactions.

The company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category are approved on a regular basis by the board of directors.

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.

b) Interest rate risk

The company is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes. The table below summarises the effective interest rates calculated on a weighted average basis for monetary financial assets:

	2007	2006
	Shs	Shs
	%	%
Loans receivable	12.2	12.2
Government securities	10.5	9.3
Deposits with financial institutions	9.76	8.61

c) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The table below analyses assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

c) Liquidity risk (continued)

At 31st December 2007	**90 days Shs '000**	**1 year Shs '000**	**1 - 5 years Shs '000**	**Over 5 years Shs '000**
Assets				
Property and equipment	-	-	-	115,109
Prepaid operating lease rentals	-	-	-	4,632
Intangible assets	-	-	396	-
Financial assets at fair value through profit or loss	-	-	-	74,679
Loans receivable	-	11,015	25,009	-
Receivables arising out of reinsurance arrangements	13,314	-	-	-
Receivables arising out of direct insurance arrangements	9,371	-	-	-
Reinsurers' share of insurance liabilities	-	-	-	184,834
Other receivables	-	27,162	-	-
Government securities held to maturity	-	19,850	75,000	7,000
Deposits with financial institutions	30,000	321,000	-	-
Cash and bank balances	25,765	-	-	-
Tax recoverable	-	4,806	-	-
Total assets	78,450	383,833	100,405	386,254
Liabilities and shareholders' funds				
Deferred tax	-	6,279	-	-
Insurance contract liabilities	-	-	-	489,680
Unearned premium	-	221,192	-	-
Payables arising from reinsurance arrangements	77,306	-	-	-
Other payables	-	11,872	-	-
Shareholders' funds	-	-	-	142,613
Total liabilities and shareholders' funds	77,306	239,343	-	632,293
Net liquidity gap	**1,144**	**144,490**	**100,405**	**(246,039)**
At 31st December 2006				
Total assets	157,387	254,280	99,777	371,930
Total liabilities and shareholders' funds	50,255	332,911	-	525,180
Net liquidity gap	**107,132**	**(78,631)**	**99,777**	**(153,250)**

(d) Equity price risk

The company does not hold a significant portion of its investments in the equity market. Investments are based on approval by the board in companies with stable performances and dividend track records. The movement in the investments is shown in Note 15 to the financial statements.

(e) Foreign currency risk

The company's underwriting, reinsurance and claims settlements are done in the principal currency, which is the Kenya Shilling. The limited exposure to foreign currency risk relates to the amounts invested in foreign currency bank accounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

iii) Capital management

The Company's objectives when managing capital are:
- to comply with the insurance capital requirements required by Insurance Act (Cap. 487);
- 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;
- to provide an adequate return to shareholders by pricing insurance and investment contracts commensu rately with the level of risk; and
- to maintain as strong capital base to support the development of its business.

The Insurance Act (Cap. 487) specifies the minimum amount and type of capital that must be held. The minimum required capital (presented in the table below) must be maintained at all times throughout the year. The company is subject to insurance solvency regulations.

The table below summarises the minimum required capital and the regulatory capital held:

	2007 Shs	2006 Shs
Capital held	142,824,356	139,824,730
Required minimum capital	100,000,000	100,000,000

3. Investment income

	2007 Shs	2006 Shs
Interest from Government securities	12,023,634	5,089,785
Bank deposit interest	26,099,501	15,055,589
Loan interest receivable	1,244,306	282,666
Rental income from investment properties	3,000,267	2,980,260
Gain on sale of quoted investments	18,230,060	646,812
Dividend income	1,164,944	188,884
Fair value (loss) on quoted investments	(12,632,757)	(941,108)
	49,129,955	23,302,888

4. Other income

Bad debts recovered	-	168,000

5. Claims payable

Gross claims payable	341,336,667	414,502,315
Reinsurers' share	(83,239,216)	(102,683,810)
	258,097,451	311,818,505

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. **Operating and other expenses**	**2007**	**2006**
	Shs	**Shs**
Staff costs (Note 7)	61,370,376	59,461,498
Auditors' remuneration	1,403,594	1,044,000
Depreciation on property, plant and equipment (Note 12)	4,549,606	2,697,212
Amortisation of prepaid operating lease rentals (Note 13)	55,920	55,920
Amortisation of intangible assets (Note 14)	710,772	542,017
Others	46,790,089	38,452,240
	114,880,357	102,252,887
7. **Staff costs**		
Staff costs include the following:		
Pension fund contributions	2,007,491	2,096,402
8. **Tax**		
Current tax	-	-
Deferred tax charge / (credit) (Note 22)	(653,508)	(9,499,093)
Tax (credit)	(653,508)	(9,499,093)
The tax on the company's profit / (loss) before tax differs from the theoretical amount that would arise using the corporation tax rate as follows:		
Profit / (loss) before tax	2,016.118	(34.868,853)
Tax calculated at a tax rate of 30%	604,835	(10,460,656)
Tax effect of:		
Expenses not deductible for tax purposes	4,141,833	1,018,228
Excess of depreciation over wear and tear	630,000	-
Income not subject to tax	(6,012,546)	(56,665)
Tax (credit)	(635,878)	(9,499,093)

9. **Earnings per share**

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of shares in issue during the year.

	2007	**2006**
	Shs	**Shs**
Net profit / (loss) attributable to shareholders	2,669,626	(25,369,760)
Weighted average number of ordinary shares in issue during the year	1,249,494	1,249,494
Basic earnings / (loss) per share	2.14	(20.30)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Share capital

	No. of ordinary shares	Issued and paid up capital Shs
At 1st January 2007 and 31st December 2007	1,249,494	124,949,400
At 1st January 2006	1,050,000	105,000,000
Bonus issue	199,494	19,949,400
At 31st December 2006	1,249,494	124,949,400

The total number of authorised ordinary shares is 2,000,000 (2006: 2,000,000) with a par value of Shs. 100 each.

11. Revaluation surplus

The revaluation surplus arose on the revaluation of buildings and is stated at net of deferred income tax. The Commissioner of Insurance has allowed capitalisation of revaluation reserves upto a maximum of 50%.

12. Property, plant and equipment

	Buildings Shs	Motor vehicles Shs	Furniture & fittings Shs	Computers, copiers & faxes Shs	Total Shs
At 1st January 2006					
Cost or valuation	61,500,000	750,000	15,729,392	11,567,520	89,546,912
Accumulated depreciation	-	(327,973)	(6,632,495)	(8,241,234)	(15,201,702)
Net carrying value	61,500,000	422,027	9,096,897	3,326,286	74,345,210
Year ended 31st December 2006					
Opening carrying value	61,500,000	422,027	9,096,897	3,326,286	74,345,210
Additions	-	-	1,263,442	995,924	2,259,366
Revaluation surplus	43,500,000	-	-	-	43,500,000
Depreciation charge	-	(105,507)	(1,295,042)	(1,296,663)	(2,697,212)
Closing carrying value	105,000,000	316,520	9,065,297	3,025,547	117,407,364
At 31st December 2006					
Cost or valuation	105,000,000	750,000	16,992,834	12,563,444	135,306,278
Accumulated depreciation	-	(433,480)	(7,927,537)	(9,537,897)	(17,898,914)
Net carrying value	105,000,000	316,520	9,065,297	3,025,547	117,407,364
Year ended 31st December 2007					
Opening carrying value	105,000,000	316,520	9,065,297	3,025,547	117,407,364
Additions	-	98,600	1,947,243	205,319	2,251,162
Depreciation charge	(2,100,000)	103,780)	(1,376,566)	(969,260)	(4,549,606)
Closing carrying value	102,900,000	311,340	9,635,974	2,261,606	115,108,920
At 31st December 2007					
Cost or valuation	105,000,000	848,600	18,940,077	12,768,763	137,557,440
Accumulated depreciation	(2,100,000)	537,260)	(9,304,103)	(10,507,157)	(22,448,520)
Net carrying value	102,900,000	311,340	9,635,974	2,261,606	115,108,920

Buildings were valued on 31st December 2006 by R.R. Oswald & Co. Ltd., independent valuers, on the basis of open market value. The resulting surplus arising on revaluation net of deferred income tax was credited to the revaluation surplus in shareholders' equity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Property, plant and equipment (continued)

If the building was stated on the historical cost basis, the carrying values would be as follows:

Year 2007	**Buildings Shs**
Cost	50,000,000
Accumulated depreciation	(6,000,000)
Net book value	44,000,000
Year 2006	
Cost	50,000,000
Accumulated depreciation	(5,000,000)
Net book value	45,000,000

13. Prepaid operating lease rentals

Prepaid operating lease rentals are recognised at historical cost and subsequently amortised over the lease period.

The movement of prepaid operating rentals is as follows:

	2007 Shs	**2006 Shs**
Cost		
At 1st January and 31st December	5,000,000	5,000,000
Amortisation		
At 1st January	312,220	256,300
Charge for the year	55,920	55,920
At 31st December	368,140	312,220
Net book value		
At 31st December	4,631,860	4,687,780

14. Intangible assets

	2007 Shs	2006 Shs
Cost		
At 1st January	1,626,050	1,449,750
Additions	506,267	176,300
At 31st December	2,132,317	1,626,050
Amortisation		
At 1st January	1,025,267	483,250
Charge for the year	710,772	542,017
At 31st December	1,736,039	1,025,267
Net book value		
At 31st December	396,278	600,783

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Financial assets at fair value through profit or loss	2007 Shs	2006 Shs
Quoted investments:		
At 1st January	26,537,603	-
Additions	88,536,844	27,478,711
Disposals	(27,762,372)	-
Fair value (loss)	(12,632,757)	(941,108)
At 31st December	74,679,318	26,537,603

16. Loans receivable

Mortgage loans	33,209,300	9,142,484
Other loans	2,812,874	1,617,558
Total loans	36,022,174	10,760,042
Maturing:		
- Within 1 year	11,014,557	8,812,469
- Within 1 to 5 years	25,007,617	1,947,573
	36,022,174	10,760,042

17. Reinsurers' share of insurance liabilities

Reinsurers' share of:		
- Unearned premium (Note 25)	77,462,562	124,619,751
- Notified claims outstanding (Note 24)	101,367,904	103,350,872
- Claims incurred but not reported (Note 24)	6,003,823	9,916,101
	184,834,289	237,886,724

Amounts due from reinsurers in respect of claims paid by the company on contracts that are reinsured are included as receivables arising out of reinsurance arrangements.

18. Other receivables

Deposits	500,000	3,845,381
Prepayments	1,268,742	480,947
Sundry debtors	532,610	173,150
Deposits with courts	12,572,621	-
Accrued interest	12,288,420	3,922,259
	27,162,393	8,421,737

19. Government securities

Treasury bonds	101,850,000	79,850,000
Maturing:		
- Within 1 year	19,850,000	5,000,000
- Within 1 to 5 years	82,000,000	74,850,000
	101,850,000	79,850,000

Treasury bonds amounting to Shs. 37,850,000 (2006: Shs. 27,850,000) are held under lien with the Central Bank of Kenya in accordance with Section 32(1) of the Insurance Act (Cap. 487). These funds are not available to finance the company's operations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Cash and cash equivalents

	2007 Shs	2006 Shs
Cash and bank balances	25,765,370	29,177,377
Bank overdraft (Note 27)	-	(97,637)
Deposits with financial institutions	351,000,000	260,000,000
	376,765,370	289,079,740

Fixed deposits amounting to Shs. 35 million (2006: Nil) are held under lien with NIC Bank Ltd. These funds are not available to finance the company's day to day operations.

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

	2007 Shs	2006 Shs
Cash and bank balances	25,765,370	29,177,377
Bank overdraft (Note 27)	-	(97,637)
Deposits with financial institutions	30,000,000	25,000,000
	55,765,370	54,079,740

21. Weighted average effective interest rates

The following table summarises the weighted average effective interest rates at the year-end on the principal interest-bearing investments:

	2007 %	2006 %
Mortgage loans	12.22	12.22
Government securities	10.5	9.34
Deposits with financial institutions	9.76	8.61

22. Deferred tax

Deferred tax is calculated using the currently enacted corporation tax rate of 30% (2006: 30%). The movement on the deferred tax account is as follows:

	2007 Shs	2006 Shs
At 1st January	7,051,267	50,360
Charge / (credit) to profit and loss account (Note 8)	(653,508)	(9,499,093)
(Credit) / charge to equity	(330,000)	16,500,000
At 31st December	6,067,759	7,051,267

Deferred tax assets, deferred tax charge / (credit) in the profit and loss account and in equity are attributable to the following items:

	At 1st January 2007 Shs	(Credited) / charged to profit & loss Shs	(Credit) to equity Shs	At 31st December 2007 Shs
Deferred tax liabilities				
Revaluation surplus	16,500,000	-	(330,000)	16,170,000
Deferred tax assets				
Excess deprecation over capital allowances	38,784	(8,785)	-	29,999
Provision for liabilities and charges	-	(362,795)	-	(362,795)
Tax losses carried forward	(9,487,517)	(281,928)	-	(9,769,445)
	(9,448,733)	(653,508)	-	(10,102,241)
Net deferred tax liability	7,051,267	(653,508)	(330,000)	6,067,759

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Insurance contract liabilities

	2007 Shs	2006 Shs
Short-term non-life insurance contracts:		
- Claims reported and claims handling expenses	462,898,621	349,029,000
- Claims incurred but not reported	26,781,244	36,325,699
Total gross insurance liabilities (Note 24)	489,679,865	385,354,699

Gross claims reported, claims handling expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2007 and 2006 are not material.

24. Movement in insurance liabilities and reinsurance assets

	2007			2006		
	Gross Shs	Reinsurance Shs	Net Shs	Gross Shs	Reinsurance Shs	Net Shs
Short-term insurance business						
Notified claims	349,029,000	103,350,872	245,678,128	192,409,843	82,818,414	109,591,429
Incurred but not reported	36,325,699	9,916,101	26,409,598	33,200,442	9,117,868	24,082,574
At 1st January	385,354,699	113,266,973	272,087,726	225,610,285	91,936,282	133,674,003
Cash paid for claims settled in year	(243,688,878)	(83,239,216)	(160,449,662)	(276,088,592)	(102,683,810)	(173,404,782)
Increase in liabilities						
- arising from current year claims	128,522,000	42,057,904	86,464,096	197,389,000	62,444,708	134,944,292
- arising from prior year claims	219,492,044	35,286,066	184,205,978	238,444,006	61,569,793	176,874,213
At 31st December	489,679,865	107,371,727	382,308,138	385,354,699	113,266,973	272,087,726
Notified claims	462,898,621	101,367,904	361,530,717	349,029,000	103,350,872	245,678,128
Incurred but not reported	26,781,244	6,003,823	20,777,421	36,325,699	9,916,101	26,409,598
At 31st December	489,679,865	107,371,727	382,308,138	385,354,699	113,266,973	272,087,726

25. Provision for unearned premium

	2007			2006		
	Gross Shs	Reinsurance Shs	Net Shs	Gross Shs	Reinsurance Shs	Net Shs
At 1st January	320,488,223	124,619,751	195,868,472	290,432,845	114,994,145	175,438,700
Net increase in the period	(99,296,397)	(47,157,189)	(52,139,206)	30,055,378	9,625,606	20,429,772
At 31st December	221,191,826	77,462,562	143,729,266	320,488,223	124,619,751	195,868,472

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Other payables

	2007 Shs	2006 Shs
Accrued expenses	7,779,951	5,302,555
Withholding tax on commisions	72,528	-
Other liabilities	4,019,122	69,344
	11,871,601	5,371,899

27. Borrowings

	2007 Shs	2006 Shs
Current		
Bank overdraft (Note 20)	-	97,637

The bank overdraft is a book overdraft.

28. Contingent liabilities

In common with the insurance industry in general, the company is subject to litigation arising in the normal course of insurance business. The directors are of the opinion that this litigation will not have a material effect on the financial position or loss of the company.

The company is subject to solvency regulations in respect of its insurance and investment contracts, and had complied with those regulations at 31st December 2007 and 31st December 2006.

29. Commitments

Operating lease commitments

The future minimum lease payments under non-cancelable operating leases are as follows:

	2007 Shs	2006 Shs
Not later than 1 year	-	-
Later than 1 year and not later than 5 years	1,440,000	1,920,000
	1,440,000	1,920,000

The directors are of the view that future net revenues and funding will be sufficient to cover these commitments.

30. Related party transactions

The company is related to other companies which are related through common shareholding or common directorships. The following transactions were carried out with related parties:

	2007 Shs	2006 Shs
i) Transactions with related parties		
Gross premiums written	8,102,513	7,600,684
ii) Loans receivable		
Mortgage loans		
- Staff	1,289,630	1,947,573
Other loans		
- Staff	176,394	577,625

The loans to related parties bear market rates of interest and are secured by pledge of security documents.

All related party transactions are at arms length on terms and conditions as offered to other clients. No impairment loss provision has been made against any related party balance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. Related party transactions (continued)	**2007 Shs**	**2006 Shs**
iii) Directors' remuneration (included in Note 30(iv))	3,025,000	1,500,000
iv) Key management compensation		
Salaries and other employment benefits	17,853,750	30,396,900
Post-employment benefits	986,450	1,907,580
	18,840,200	32,304,480
v) Deposits held with related parties		
Prime Bank Ltd.	50,000,000	50,000,000
Prime Capital and Credit Ltd.	30,000,000	30,000,000
	80,000,000	80,000,000
v) Guarantees	500,801	-

The guarantees have been issued to third parties by Prime Bank Ltd. on behalf of the company in the ordinary course of business. Based on the estimate of the financial effect of the contigencies and the corresponding obligation from the third parties, no loss is anticipated.

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT

Class of insurance business	Engineer-ing	Fire Domestic	Fire Industrial	Public Liability	Marine	Motor Private	Motor Commer-cial	Personal Accident	Theft	Workmens' Compensa-tion	Miscella-neous	2007 Total	2006 Total
	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
Gross premiums written	18,101,910	18,700,491	67,039,754	4,871,395	85,695,884	76,153,377	66,419,540	12,784,179	61,715,755	63,862,310	25,233,584	500,578,179	701,694,152
Change in gross unearned premiums	734,041	2,618,286	6,192,548	(265,365)	(10,825,534)	15,503,188	11,311,680	1,141,395	9,428,859	14,038,742	2,261,366	52,139,206	(20,429,772)
Gross earned premiums	18,835,951	21,318,777	73,232,302	4,606,030	74,870,350	91,656,565	77,731,220	13,925,574	71,144,614	77,901,052	27,494,950	552,717,385	681,264,380
Less: premiums ceded to reinsurers	(18,659,823)	(10,875,026)	(57,550,848)	(1,338,767)	(31,750,848)	(3,309,984)	(3,560,729)	(9,772,089)	(41,127,525)	(2,700,874)	(10,046,090)	(190,692,603)	(280,416,517)
Net earned premiums	176,128	10,443,751	15,681,454	3,267,263	43,119,502	88,346,581	74,170,491	4,153,485	30,017,089	75,200,178	17,448,860	362,024,782	400,847,863
Gross claims paid	(16,670,481)	(4,864,000)	(31,371,009)	(241,654)	(27,695,652)	(48,585,403)	(42,398,290)	(180,939)	(28,808,861)	(33,224,473)	(9,648,116)	(243,688,878)	(276,088,592)
Changes in gross outstanding claims	896,592	297,120	2,332,270	(3,402,147)	(1,509,230)	3,560,342	(33,983,410)	19,450	(440,879)	(64,830,034)	(587,863)	(97,647,789)	(138,413,723)
Less: reinsurance recoverable	15,095,062	2,205,005	32,320,657	19,450	10,200,616	2,435,489	3,054,871	111,421	12,723,687	4,163,393	909,565	83,239,216	102,683,810
Net claims incurred	(678,827)	(2,361,875)	3,281,918	(3,624,351)	(19,004,266)	(42,589,572)	(73,326,829)	(50,068)	(16,526,053)	(93,891,114)	(9,326,414)	(258,097,451)	(311,818,505)
Commissions receivable	5,242,060	2,829,989	13,807,659	317,755	8,866,078	75,359	85,509	2,668,129	10,182,060	162,790	2,666,058	46,903,446	63,239,881
Commissions payable	(3,632,026)	(3,627,795)	(16,466,866)	(969,795)	(14,974,586)	(7,433,494)	(6,667,605)	(2,553,525)	(12,071,314)	(12,120,096)	(2,547,155)	(83,064,257)	(108,356,093)
Expenses of management	(3,870,231)	(3,998,210)	(14,333,259)	(1,041,516)	(18,321,984)	(16,281,773)	(14,200,656)	(2,733,288)	(13,194,975)	(13,653,914)	(5,395,000)	(107,024,807)	(95,096,486)
Total expenses and commissions	(2,260,197)	(4,796,016)	(16,992,466)	(1,693,556)	(24,430,492)	(23,639,908)	(20,782,752)	(2,618,684)	(15,084,229)	(25,611,220)	(5,276,097)	(143,185,618)	(140,212,698)
Underwriting (loss) / profit	(2,762,896)	3,285,860	1,970,906	(2,050,644)	(315,256)	22,117,101	(19,939,090)	1,484,733	(1,593,193)	(44,302,156)	2,846,349	(39,258,287)	(51,183,340)