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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	
Executive management	Mrs. Rita Thatthi	- Principal Officer / CEO
	Ms. Eva Wambui	- Claims Manager
	Ms. Winfred Muoki	- Legal Manager
	Mr. James Mwaura	- Manager (Finance)
	Mr. Lawi Kariuki	- Manager
Company secretary	Commercial Registrars P.O. Box 49925-00100 Nairobi	
Head office and registered office	Tausi Court, Tausi Road Off Muthithi Road, Westlands P.O. Box 28889-00200 City Square Nairobi, Kenya Tel: 3746602/3/17 Mobile: 0729145888/0735145020 Fax: 3746618	
Independent auditor	RSM Ashvir Certified Public Accountants 1st Floor, Reliance Centre, Woodvale Grove, Westlands P.O. Box 349, 00606 Nairobi, Kenya.	
Principal banker	Prime Bank Limited, Nairobi	

CHAIRMAN'S STATEMENT

It is my pleasure to present to you the Annual Report and Financial Statements for Tausi Assurance Company Limited for the year 2008.

OPERATING ENVIRONMENT

The Kenyan economy showed resilience in the face of post election violence. However, the economic growth rate was less than 3.5% in 2008, down from the projected 7%. The average inflation rate increased from 9.8% in December 07 to 27% in December 08.

High crude oil prices, drought, global meltdown in the financial sector , losses at the Stock exchange have all contributed to a slow down in the economy with agriculture, trade, manufacturing , tourism, transport suffering the effects.

THE INSURANCE INDUSTRY

With 43 Insurance Companies in the market, competition is very intense. The consequences of uneconomic premium rates and over-reliance on investment income have finally manifested in form of shrinking income levels and a mismatch between the cost of insurance and risk exposure. There is little doubt that a return to the basics for long term profitability is necessary and risks ought to be covered with rates based on exposure.

The Motor portfolio continues to be severely loss making due to frequent road accidents , motor thefts, high cost of third party injury claims and own damage claims.

The Insurance Act is under review and the enactment of appropriate legislation and creation of a legal frame work are vital for the industry prosperity.

THE COMPANY'S PERFORMANCE

During the year, the Company recorded a profit of Ksh.12.1m before tax as compared to Ksh.2.6m in 2007. The restructuring process of the Company, embarked upon in 2006, has borne fruit as is visible from a keen study of the Company's financials. The balance portfolio of the business underwritten has improved with reduction of the percentage of loss making portfolios like Motor, Liability, Workmen's Compensation and increase in the more lucrative business such as Fire, Marine and Miscellaneous insurance. Pruning of loss making accounts is done regularly to recover profit making trends and to ensure long term sustainability.

The effect of the global credit crises is seen in the total income of the Company, where a loss of (Ksh38m) from the underperforming stock market has been taken through the Profit and Loss account. Although the investment income decreased by Ksh.3.2m in 2008 due to a decrease in the interest income from Government securities, there was an increase in the investment returns from bank deposits, loans receivable, rental income and dividend income. The commissions earned in the year 2008 were very impressive at Ksh.74m as opposed to Ksh.47m the previous year. Incurred claims for the year 2008 reduced by Ksh.81m from Ksh.341m in 2007 to Ksh.260m in 2008 .The overall movement in the claims liabilities indicates a decrease in the claims lodged in the year 2008 whilst the outstanding claims from prior years, mainly Motor liability claims, have increased. The old claims have been carefully reviewed and prudent reserve adjustments made where necessary. The underwriting loss has reduced from (Ksh.39.2m) in 2007 to a marginal profit of Ksh.468,522 in 2008 despite the prior year adjustments.

The Shareholders fund stands at Ksh.141.3m as at 31.12.2008 as compared to Ksh142.8m in 2007.The Company's authorised share capital has been raised to Ksh.300m in preparation to meet the statutory requirement for general insurers to raise their paid up capital to Ksh.300m by June 2010.

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

Three board committees have been established to assist the Board in performance of its duties and ensure that the Board pays attention to critical areas of the business and provides timely guidance to the Management on strategic and policy matters. The three committees are the Asset/Liability Committee, Audit Committee and the Human Resource Committee which will oversee the investments and financial performance of the Company, monitor the integrity of the financial statements and development of the Human resource policies and procedures respectively. The Committees are all chaired by non-executive directors.

In the spirit of giving back to society and to fulfil its role as a responsible corporate citizen, the Company has committed itself to helping needy persons. During the year, the Company donated funds towards the following causes:

- School bursaries
- Assistance towards construction of a school
- Sponsoring of eye surgery and kidney dialysis at the Lions Sight First Eye Hospital
- Assistance to internally displaced persons

CONCLUSION

I wish to thank our customers, all the Agents, Brokers and clients, for their sincere and loyal support of the Company and in turn, I assure them of real value in their transactions with us. I thank the Shareholders for the trust and confidence they have shown in the Board and Management of the Company.

I am grateful to my fellow directors on the Board, for their valuable counsel throughout the year. I thank the management and staff for their efforts.

Finally, I wish to thank the Government of Kenya and the Insurance Regulatory Authority for their guidance and support during the year.

RASIK KANTARIA

DIRECTORS' PROFILES

Mr. Rasik Kantaria
Chairman

Mr. Rasik Kantaria joined the Tausi Board in 1993 and was elected Chairman in March 2006.

A Bachelor of Science (Economics) graduate, Mr.Kantaria is also the Chairman of Prime Bank Limited, Leisure Lodge Beach and Golf Resort and First Merchant Bank, Malawi.

He is a Director of Deposit Protection Fund Board of Kenya.

Mr. Mukesh Patel
Director

A founding shareholder and Director of Tausi Assurance Company Limited, Mr.Mukesh Patel is also the Chairman of Automatic Controls Limited and a Director of Imperial Bank Limited.

He is a currently a Trustee and Chairman of Premier Academy Charitable Trust and Vice Chairman of Premier Club.

Mr. Patel chairs Tausi's Human Resources Board Committee.

Mr. Rapinder Singh Sehmi
Director

Mr. R. S Sehmi joined the Tausi Board in June 2006.

He is a Barrister at Law called to the Bar at Lincoln's Inn, England in 1961.

He was enrolled as an Advocate of the High Court of Kenya in 1962 and worked with the office of the Attorney General from 1962- 1974.

Mr.Sehmi has been practicing in the firm name of Mandla & Sehmi Advocates since 1974.

Mr. Shantilal Khimji Shah
Director

Mr. Shantilal Shah joined the Tausi Board in May 2005 and chairs the Audit Board Committee of the Company.

A Bachelor of Commerce (Honours) graduate, Mr.Shantilal Shah is an FCA (Chartered Accountant, UK), an FCPA (Certified Public Accountant, Kenya) and a CPS (Certified Public Secretary, Kenya).

He is also a Director of Prime Bank Limited.

Mr. Amar Rasiklal Kantaria
Director

Mr. Amar Kantaria joined the Tausi Board in June 2007 and chairs the Asset/Liability Board committee of the Company.

A Bachelor of Arts (Honours) graduate, Mr. Amar Kantaria is also an MBA in International Management.

Currently the Executive Director of Prime Bank Limited, Mr.Kantaria is also a Director of Kenya Community Development Fund and Treasurer of the Rotary Club Nairobi.

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31st December 2008, which disclose the state of affairs of the company.

Incorporation

The company is incorporated in Kenya under the Kenyan Companies Act as a private company limited by shares, and is domiciled in Kenya. The address of the registered office is set out on page 2.

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 (loss) / profit for the year of Shs. (1,811,657) (2007: Shs. 2,669,626) has been deducted from / added to 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 2.

Auditor

The company's auditor, HLB Ashvir changed its name to RSM Ashvir. RSM Ashvir has expressed its willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act, subject to the approval by the Commissioner of Insurance in accordance with Section 56(4) of the Insurance Act (Cap. 487).

By order of the board

AMAR KANTARIA
Director

Nairobi, 17th April 2009

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 profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that 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 preparation and fair presentation of these financial statements, which are free from material misstatement whether due to fraud or error, that have been prepared in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. They also accept responsibility for:

i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
ii) selecting and applying appropriate accounting policies; and
iii) making accounting estimates and judgements that are reasonable in the circumstances.

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 2008 and of its loss and cash flows for the year then ended.

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

Approved by the board of directors on 17th April 2009 and signed on its behalf by:

Amar Kantaria
Director

Mukesh Patel
Director

MANAGEMENT TEAM

Standing: (From left)
Crispus Gisemba - Assistant Manager, James Mwaura – Manager (Finance), Nelson Omolo – Assistant Manager, Lawi Kariuki – Manager, Johnson Wambugu – Assistant Manager, Steven Ogunde – Assistant Manager.

Sitting: (From left)
Eva Wambui – Manager Claims, Rita Thatthi – CEO-Principal Officer, Winfred Muoki – Legal Manager

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

We have audited the accompanying financial statements of Tausi Assurance Company Limited set out on pages 11 to 39 which comprise the balance sheet as at 31st December 2008, 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 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 depend on the auditor's 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, the auditor considers internal control relevant to the company'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 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 2008 and of its loss 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:

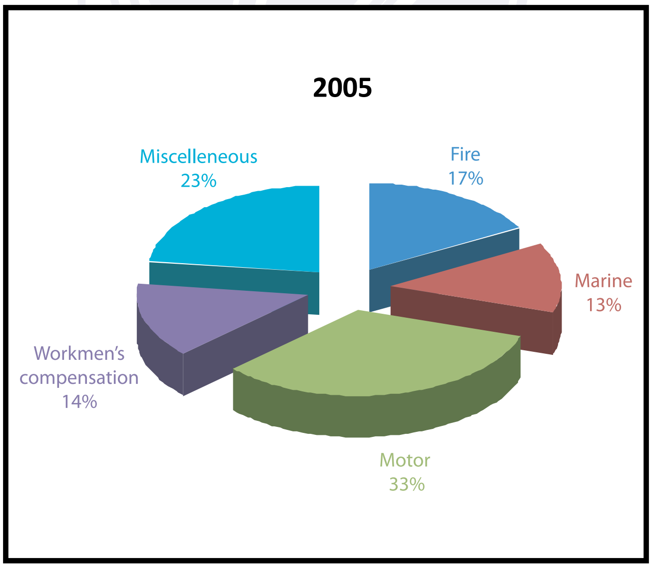
i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and
iii) the company's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

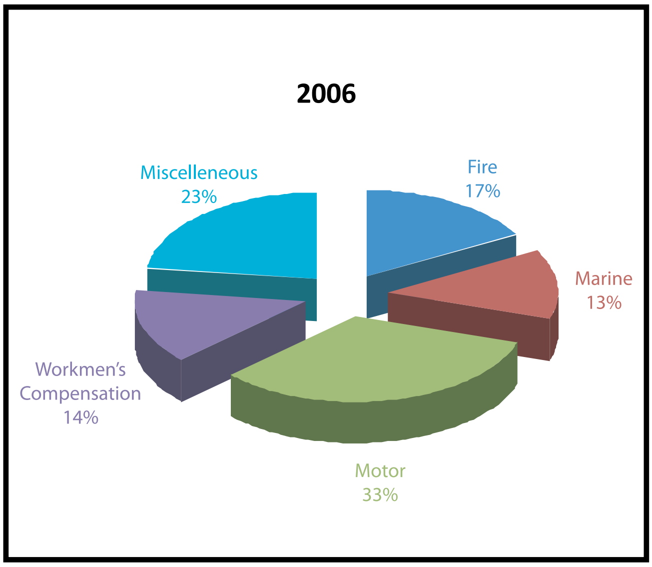
RSM Ashir
Certified Public Accountants
Nairobi

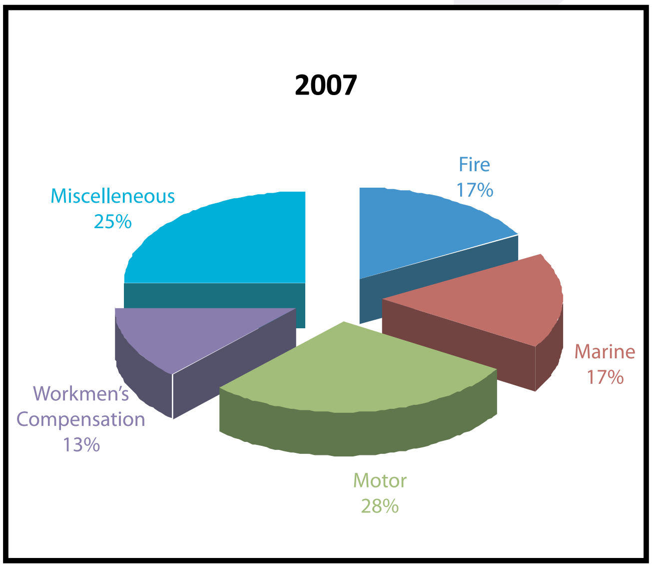
29th April 2009

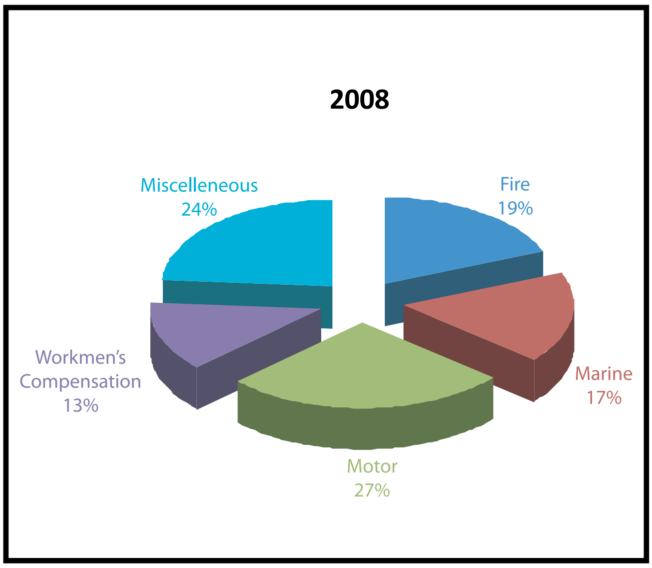
FINANCIAL HIGHLIGHTS

GROSS PREMIUM CLASSWISE









PROFIT AND LOSS ACCOUNT

	Note	2008 Shs	2007 Shs
Gross earned premiums	4	506,129,461	552,717,385
Insurance premiums ceded to reinsurers	4	(187,333,028)	(190,692,603)
Net insurance premium revenue	4	318,796,433	362,024,782
Investment income	5	58,530,040	61,762,712
Commissions earned		74,028,578	46,903,446
Changes in fair value of financial assets at fair value through profit and loss	6	(38,742,430)	(12,632,757)
Total income		412,612,621	458,058,183
Claims payable	7	260,604,786	341,336,667
Insurance claims recoverable from reinsurers	7	(60,272,107)	(83,239,216)
Net insurance claims	7	(200,332,679)	(258,097,451)
Administrative and other expenses		(115,157,176)	(114,880,357)
Commissions payable		(84,953,101)	(83,064,257)
Profit before tax	8	12,169,664	2,016,118
Tax (expense) / income	9	(13,981,321)	653,508
Net (loss) / profit for the year		(1,811,657)	2,669,626
Earnings per share			
Basic	10	-	2.14

BALANCE SHEET

	Note	2008 Shs	2007 Shs
CAPITAL EMPLOYED			
Share capital	11	124,949,400	124,949,400
Revaluation surplus	12	30,963,665	31,733,665
Retained earnings		(14,570,366)	(13,858,709)
Shareholders' funds		141,342,699	142,824,356
REPRESENTED BY:			
Assets			
Property, plant and equipment	14	112,250,664	115,108,920
Prepaid operating lease rentals	15	4,575,940	4,631,860
Intangible assets	16	685,800	396,278
Government securities held-to-maturity	17	102,000,000	101,850,000
Financial assets at fair value through profit or loss	18	79,948,611	74,679,318
Loans receivable	20	64,984,743	36,022,174
Receivables arising out of reinsurance arrangements		27,680,085	13,314,243
Receivables arising out of direct insurance arrangements		17,195,840	9,370,501
Reinsurers' share of insurance liabilities	21	257,867,529	184,834,289
Other receivables	22	26,216,663	27,162,393
Deposits with financial institutions	23	338,450,000	351,000,000
Cash and bank balances	23	48,088,088	25,765,370
Current income tax recoverable		464,482	4,805,945
Total assets		1,080,408,445	948,941,291
Liabilities			
Insurance contract liabilities	24	628,574,843	489,679,865
Unearned premium	26	205,255,694	221,191,826
Payables arising from reinsurance arrangements		60,306,351	77,305,884
Payables arising out of direct insurance arrangements		18,786,182	-
Other payables	27	10,765,060	11,871,601
Deferred income tax	19	15,377,616	6,067,759
Total liabilities		939,065,745	806,116,935
		141,342,699	142,824,356

The financial statements on pages 11 to 39 were approved for issue by the board of directors on 17th April 2009 and were signed on its behalf by:

Amar Kantaria
Director

Mukesh Patel
Director

Rita Thatthi
CEO Principal Officer

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital Shs	Revaluation surplus Shs	Retained earnings Shs	Total Shs
At 1st January 2007		124,949,400	32,503,665	(17,628,335)	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 income tax on depreciation transfer	19	-	330,000	-	330,000
At 31st December 2007		124,949,400	31,733,665	(13,858,709)	142,824,356
At 1st January 2008		124,949,400	31,733,665	(13,858,709)	142,824,356
Net (loss) for the year		-	-	(1,811,657)	(1,811,657)
Transfer of excess depreciation		-	(1,100,000)	1,100,000	-
Deferred income tax on depreciation transfer	19	-	330,000	-	330,000
At 31st December 2008		124,949,400	30,963,665	(14,570,366)	141,342,699

CASH FLOW STATEMENT

	Note	2008 Shs	2007 Shs
Cash flows from operating activities			
Profit before income tax		12,169,664	2,016,118
Adjustments for:			
Depreciation on property, plant and equipment	14	4,343,542	4,549,606
Amortisation of prepaid operating lease rentals	15	55,920	55,920
Amortisation of intangible assets	16	486,046	710,772
Fair value loss on financial assets at fair value through profit or loss		38,742,430	12,632,757
Investment income		(51,643,894)	(39,367,441)
Gain on sale of financial assets at fair value through profit and loss		(3,023,516)	(18,230,060)
Dividend income	5	(3,862,630)	(1,164,944)
Operating (loss) before working capital changes		(2,732,437)	(38,797,272)
(Increase) / decrease in:			
Insurance contract and other receivables		(91,830,427)	88,767,886
Increase / (decrease):			
Insurance contract and other payables		137,126,821	147,517,989
Provision for unearned premium		(15,936,132)	(57,771,383)
Provision for liabilities and charges			
Cash generated from operations		26,627,825	139,717,220
Income tax paid		-	-
Net cash generated from operating activities		26,627,825	139,717,220
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(1,485,286)	(2,251,162)
Purchase of intangible assets	16	(775,568)	(506,267)
Purchase of financial assets		(68,365,680)	(88,536,844)
Proceeds from disposal of financial assets		27,377,472	45,992,430
Loans (advanced) / repaid		(28,962,569)	(25,262,132)
Deposits with financial institutions		12,550,000	(86,000,000)
Investment in Government securities		(150,000)	(22,000,000)
Investment income		51,643,894	39,367,441
Dividends received		3,862,630	1,164,944
Net cash (used in) investing activities		(4,305,107)	(138,031,590)
Net increase in cash and cash equivalents		22,322,718	1,685,630
Cash and cash equivalents at 1st January	23	55,765,370	54,079,740
Cash and cash equivalents at 31st December	23	78,088,088	55,765,370

NOTES

1. Summary of significant accounting policies

The significant 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 basis of accounting as modified by the revaluation of certain items of property, plant and equipment and fair value adjustments to investment property and financial instruments. The presentation currency used in the preparation of the financial statements is the Kenya Shilling (Shs), which is the currency of the primary economic environment in which the entity operates (the functional currency).

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 judgement in the process of applying the accounting policies adopted by the company. Although such estimates and assumptions are based on the directors' best knowledge of the information available, actual results may differ from those estimates. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

b) New and revised standards

i) Adoption of new and revised standards

The following new and revised standards and interpretations became effective for the first time but are not applicable to the company's operations:

- IFRIC 11 and IFRS 2 - Group and Treasury Share Transactions
- IFRIC 12 - Service Concession Agreements
- IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IAS 39 and IFRS 7 - Reclassification of financial assets

The adoption of the above has not had an effect on the company's accounting policies or disclosures.

ii) New and revised standards and interpretations which have been issued but are not effective

For the period beginning 1st January 2009, 15 International Financial Reporting Standards have been issued with amendments that result in changes in presentation, recognition or measurement principles, while another 9 have been amended for editorial or terminology changes. In addition, IAS 1 - Presentation of Financial Statements has also been amended. Amendments to IAS 1 will affect the presentation format of the financial statements of the company. In addition, the issue of a new standard IFRS 8 - Operating Segments (effective 1st January 2009), amendments to IFRS 3 - Business Combinations (effective 1st July 2009), IFRIC 13 - Customer Loyalty Programmes (effective 1st July 2008), IFRIC 15 - Agreements for the Construction of Real Estates (effective 1st January 2009) and IFRIC 16 - Hedge of a Net Investment in a Foreign Operation (effective 1st October 2008) will not have any material effect on the company's accounting policies and disclosures.

c) Insurance contracts

i) Classification

The company issues insurance contracts that transfer insurance risk or financial risk or both from the insured to the insurer. The company carries on general insurance business and its insurance contracts are classified into categories in accordance with the provisions of the Insurance Act. Classes of general insurance include: engineering, fire - domestic risks and industrial and commercial risks, liability, marine, motor - private and commercial vehicles, personal accident, theft, workmen's compensation and employers' liability, and miscellaneous (i.e. class of insurance not included under those listed above).

Motor insurance business means the business of affecting and carrying out contracts of insurance against loss of, or damage to, or arising out of or in connection with the use of motor vehicles, inclusive of third party risks but exclusive of transit risks.

NOTES (CONTINUED)

c) Insurance contracts (continued)

i) Classification (continued)

Personal accident insurance business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class or becoming incapacitated in consequence of disease or of disease of a specified nature.

Fire insurance business means the business of affecting and carrying out contracts of insurance, otherwise than incidental to some other class of insurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business.

ii) Recognition and measurement

a) Premium income

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.

b) Claims

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.

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

Estimates of salvage recoveries from disposal 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.

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.

c) Commissions payable

A proportion of commissions payable is deferred and amortised over the period in which the related premium is earned. Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the year end.

d) Liability adequacy test

At each balance sheet date, the company performs liability adequacy tests to ensure the adequacy of 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 the assets backing such liabilities are used. Any deficiency is immediately charge to profit or loss by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

NOTES (CONTINUED)

c) Insurance contracts (continued)

ii) Recognition and measurement (continued)

e) <u>Reinsurance contracts held</u>

Contracts entered into by the company with reinsurers under which the company is compensated for losses on insurance contracts issued by it are classified as reinsurance contracts held. Contracts issued by the company that do not meet the classification requirements of insurance contracts are classified as financial assets. Insurance contracts entered into by the company under which the contract holder is another insurer (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. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

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 asset to its recoverable amount and recognises that impairment loss in the profit and loss account. The company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost.

d) Revenue recognition

Premium income is recognised in accordance with the policy set out in (c)(ii)(a) above.

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

Rental income is accounted on an accrual basis.

Dividend income is recognised when the right to receive the payment is established.

Interest income is accounted on a time proportion basis using the effective interest method.

e) Property, plant and equipment

All categories of property, plant and equipment are initially recognised at 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, plant and equipment are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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 expenses are charged to the profit and loss account in the year in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus. All other decreases are charged to the profit and loss account. Annually, the difference between depreciation charge 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 reserve to retained earnings.

NOTES (CONTINUED)

e) Property, plant and equipment (continued)

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

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

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

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 reserve relating to that asset are transferred to retained earnings.

f) Intangible assets

Software licence costs for software that is not an integral part of the related hardware and computer development costs that are directly associated with the production of software products that will generate economic benefits in excess of costs are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and 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 finite useful life using an annual rate of 33.3%. Costs associated with software maintenance and annual licence fees are charged to the income statement in the year in which they are incurred.

g) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into the functional currency, Kenya Shillings, using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into the functional currency using the exchange rate prevailing as at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in the foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised on a net basis in the profit and loss account, except for differences arising on retranslation of available-for-sale assets which are taken to equity.

h) Retirement benefit obligations

Defined contribution

The company operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered guaranteed scheme managed by an insurance company. A defined contribution plan is a plan under which the company pays fixed contributions into a seperate fund, and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The company's contributions are charged to the profit and loss account in the year to which they relate.

NOTES (CONTINUED)

h) Retirement benefit obligations (continued)

Defined contribution (continued)

The company and the employees also contribute to the National Social Security Fund (NSSF), 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.

i) Borrowing costs

Borrowing costs, net of any temporary investment income on those borrowings, that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset. The net borrowing cost capitalised is either the actual borrowing cost incurred on the amount borrowed specifically to finance the asset; or in the case of general borrowings, the borrowing cost is determined using the overall weighted average cost of the borrowings on all outstanding borrowings during the year less any specific borrowings directly attributable to the asset and applying this rate to the borrowing attributable to the asset. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised in the profit or loss in the year in which they are incurred.

j) Leases

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.

k) Income taxes

Income tax expense is the aggregate amount charged / (credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current income tax is the amount of income tax payable on the taxable profit for the year and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax

Deferred income tax is provided in full on all temporary differences except those arising on 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 income tax is determined 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 and laws enacted or substantively enacted at the balance sheet date and expected to apply when the related deferred income tax liability is settled.

Deferred income 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 tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

NOTES (CONTINUED)

l) Financial instruments

The company classifies its financial instruments into the following categories:

i) **Financial assets or financial liability at fair value through profit or loss** which comprise financial assets or financial liabilities designated by the company at fair value through profit or loss and which are managed and their performance evaluated on a fair value basis in accordance with the company's investment strategy.

ii) **Held-to-maturity investments** which comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the company has a positive intention and ability to hold to maturity.

iii) **Loans and receivables** which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and excludes assets which the entity intends to sell immediately or in the near term or those which the entity upon initial recognition designates at fair value through profit or loss or as available-for-sale.

iv) **Available-for-sale financial assets** which comprise non-derivative financial assets that are designated as available-for-sale, and not classified under any of the other categories of financial assets.

v) **Financial liabilities** measured at amortised cost which comprise all financial liabilities except those financial liabilities at fair value through profit or loss.

i) Financial assets

All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the transaction. Financial assets carried at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the profit and loss account. All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction cost.

Subsequently, held-to-maturity investments and loans and receivables are carried at amortised cost using the effective interest method, while all other financial assets are carried at their fair values, without deduction for transaction costs that may be incurred on sale. The fair value for quoted shares is determined using the quoted bid price at the balance sheet date while that of non-quoted shares is determined using valuation techniques.

A financial asset is considered impaired if there is objective evidence of impairment. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. In the case of held-to-maturity investments and loans and receivables, the recoverable amount is the present value of the expected future cash flows, discounted using the asset's effective interest rate.

Changes in fair value of financial assets at fair value through profit or loss are recognised in the profit and loss account.

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 of sale, the cumulative gain or loss recognised in equity is recognised in the profit or loss account.

Changes in the carrying values and impairment losses of held-to-maturity investments and loans and receivables are recognised in the profit and loss account. Reinsurance receivables and receivables related to insurance contracts not collectible are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the profit and loss account in the year of recovery.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the company has transferred substantially all risks and rewards of ownership.

NOTES (CONTINUED)

l) Financial instruments (continued)

i) Financial assets (continued)

The directors classify financial assets as follows:

* Cash in hand, demand deposits with banking institutions, loans receivable, reinsurance receivables and receivables related to insurance contracts, including amounts due from agents, brokers and insurance contract holders are classified as 'loans and receivables'.

* Government securities and term deposits are classified as 'held-to-maturity investments'.

* Investments in quoted securities are classified as 'at fair value through profit or loss'. The fair value is determined using the quoted bid price at the balance sheet date.

ii) Financial liabilities

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit or loss, which are initially recognised at fair value and the transaction costs are expensed in the profit and loss account.

Subsequently, all financial liabilities are carried at amortised cost using the effective interest method except for financial liabilities through at fair value through profit or loss which are carried at fair value.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged or cancelled or expires.

Borrowings, insurance contract liabilities, payables arising from reinsurance arrangements and other liabilities are classified as financial liabilities by the directors and are carried at amortised cost.

m) 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.

n) Cash and cash equivalents

Cash and cash equivalents include cash in hand and demand and term 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, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and which are not encumbered, net of bank overdrafts. In the balance sheet, bank overdrafts are included as borrowings under current liabilities.

o) Dividends

Dividends on ordinary shares are recognised as a liability in the year in which they are declared. Proposed dividends are accounted for as a separate component of equity until they have been declared at an annual general meeting.

p) Comparatives

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

NOTES (CONTINUED)

2. Critical accounting estimates and judgements

In the process of applying the accounting policies adopted by the company, the directors make certain estimates and judgements that may affect the carrying values of assets and liabilities in the next financial period. Such estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The directors evaluate such estimates and judgements at each financial reporting date to ensure that they are still believed to be reasonable under the prevailing circumstances based on the information available.

Critical accounting estimates and judgements made by the directors that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include:

i) The ultimate liability arising from claims made under insurance contracts
Estimates made in the determination of outstanding claims under insurance contracts including an estimate of Claims Incurred But Not Reported (IBNR). Such estimates are made on the basis of the best information available at the time the records for the year are closed. The amount of claims outstanding provision net of amounts recoverable under reinsurance contracts at the year end amounted to Shs. 451,027,672 (2007: Shs. 382,308,138).

ii) Income taxes
Estimates made in determining the income tax expense for transactions for which the ultimate determination of the income tax expense is uncertain in the ordinary course of business.

iii) Impairment losses
Estimates made in determining the impairment losses on financial assets and non-financial assets. Such estimates include the determination of the net realisable value or the recoverable amount of the asset. Moreover, in determining whether an impairment loss should be recognised in the income statement for financial assets and non-financial assets, judgement is made as to whether there is a measurable decrease in their estimated future cash flows.

3. Risk management objectives and policies

The company's activities expose it to a variety of risks which include insurance risk and financial risk (credit, liquidity and market risks). The company's overall risk management policies are set out by the board and implemented by management, and focus on the unpredictability of changes in the business environment and seek to minimise the potential adverse effects of such risks on the company's performance by setting acceptable levels of risk. The company has developed policies on underwriting, reinsurance, credit and has defined criteria for the approval of intermediaries and reinsurers. The company does not hedge against any risks.

a) 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.

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

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 insured.

i) Underwriting

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

Reinsurance is used to manage insurance risk. Reinsurance arrangements include excess of loss and stop-loss coverage. The effect of such reinsurances is that the company should not suffer total net insurance losses of more than Shs. 18,500,000 in any one year.

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

Year ended 31st December 2008	Class of Insurance						
	Motor Shs	Fire Shs	Theft Shs	Workmen's compensation Shs	Marine Shs	Others Shs	Total Shs
Gross earned premiums	136,754,415	94,806,127	66,025,042	66,445,892	86,616,571	55,481,414	506,129,461
Less: Premiums ceded to reinsurers	(5,761,247)	(73,551,410)	(40,334,207)	(3,181,744)	(33,212,190)	(31,292,230)	(187,333,028)
Net earned premiums	130,993,168	21,254,717	25,690,835	63,264,148	53,404,381	24,189,184	318,796,433
Gross earned premiums - %	27.02%	18.73%	13.05%	13.13%	17.11%	10.96%	100%
Premiums ceded to reinsurers - %	3.08%	39.26%	21.53%	1.70%	17.73%	16.70%	100%
Net earned premiums - %	41.09%	6.67%	8.06%	19.84%	16.75%	7.59%	100%

Year ended 31st December 2007	Class of Insurance						
	Motor Shs	Fire Shs	Theft Shs	Workmen's 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%

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

a) Insurance risk (continued)

ii) Claims

a) 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.

b) 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 liability 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:

Year	Class of Insurance				
	Motor	Fire	Workmen's compensation	Marine	Others
2008	5%	1%	5%	2.5%	5%
2007	5%	1%	5%	2.5%	5%
Minimum prescribed rates by Commissioner of Insurance	5%	1%	1%	3%	5.0%

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

b) Financial risk

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation, and is managed on a company-wide basis. Key areas where the company is exposed to credit risk are:

- loans receivable;
- receivables arising out of reinsurance arrangements;
- receivables arising out of direct insurance arrangements;
- insurance contract liabilities;
- payables arising out of reinsurance arrangements.

Exposure to credit risk on loans receivable is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral against loans in the form of mortgage interests over property and other registered securities over assets.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institution.

The company has reinsurance arrangements in place to minimise its exposure to claims. 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. Credit risk on receivables arising out of reinsurance arrangements is managed by assessing the creditworthiness of reinsurers on an annual basis by reviewing their financial strength prior to finalisation of any contract.

Credit risk on receivables arising out of direct insurance arrangements is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting the credit limit and the credit period for each customer. The utilisation of the credit limits and the credit period is monitored by management on a monthly basis.

Due to the inherent nature of Government securities, these are considered to have minimal credit risk. For other assets which are not material, credit risk is not managed.

The credit exposure of the company as at the balance sheet date is as follows:

	Fully performing	Past due but not impaired	Past due and impaired	Total
31st December 2008	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Financial assets at fair value through profit or loss	79,949	-	-	79,949
Loans receivable	64,985	-	-	64,985
Government securities held-to-maturity	102,000	-	-	102,000
Deposits with financial institutions	303,450	-	35,000	338,450
Receivables arising out of reinsurance arrangements	26,963	717	-	27,680
Receivables arising out of direct insurance arrangements	12,893	-	4,303	17,196
Reinsurers' share of insurance liabilities	257,868	-	-	257,868
Other receivables	26,217	-	-	26,217
Bank balances	48,088	-	-	48,088
	922,412	717	39,303	962,432

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

b) Financial risk (continued)

i) Credit risk (continued)

31st December 2007	Fully performing Shs'000	Past due but not impaired Shs'000	Past due and impaired Shs'000	Total Shs'000
Financial assets at fair value through profit or loss	74,679	-	-	74,679
Loans receivable	36,022	-	-	36,022
Government securities held-to-maturity	101,850	-	-	101,850
Deposits with financial institutions	316,000	-	35,000	351,000
Receivables arising out of reinsurance arrangements	12,193	1,121	-	13,314
Receivables arising out of direct insurance arrangements	4,385	-	4,986	9,371
Reinsurers' share of insurance liabilities	184,834	-	-	184,834
Other receivables	27,162	-	-	27,162
Bank balances	25,765	-	-	25,765
	782,891	1,121	39,986	823,998

ii) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the company's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The company manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls.

The table overleaf 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 (CONTINUED)

3. Risk management objectives and policies (continued)

b) Financial risk (continued)

ii) Liquidity risk (continued)

At 31st December 2008	**90 days**	**1 year**	**1 - 5 years**	**Over 5 years**
	Shs '000	**Shs '000**	**Shs '000**	**Shs '000**
Assets				
Financial assets at fair value through profit or loss	-	-	-	79,949
Loans receivable	-	9,879	44,438	10,668
Government securities held-to-maturity	-	20,000	70,000	12,000
Deposits with financial institutions	61,000	237,450	5,000	35,000
Receivables arising out of reinsurance arrangements	27,680	-	-	-
Receivables arising out of direct insurance arrangements	-	-	-	-
Reinsurers' share of insurance liabilities	6,757	79,158	-	171,953
Other receivables	-	26,217	-	-
Current tax recoverable	-	4,806	-	-
Cash and bank balances	48,088	-	-	-
	143,525	377,510	119,438	309,570
Liabilities and shareholders' funds				
Insurance contract liabilities	61,617	566,958	-	-
Payables arising from reinsurance arrangements	60,306	-	-	-
Unearned premium	16,988	188,268	-	-
Other payables	1,590	10,765	-	-
Current income tax	-	4,466	-	-
Deferred tax	-	15,378	-	-
	140,501	785,835	-	-
Net liquidity gap	**3,024**	**(408,325)**	**119,438**	**309,570**

At 31st December 2007				
Assets				
Financial assets at fair value through profit or loss	-	-	-	74,679
Loans receivable	-	11,015	25,009	-
Government securities held-to-maturity	-	19,850	75,000	7,000
Deposits with financial institutions	30,000	286,000	-	35,000
Receivables arising out of reinsurance arrangements	13,314	-	-	-
Receivables arising out of direct insurance arrangements	4,385	-	-	4,986
Reinsurers' share of insurance liabilities	8,669	74,797	-	101,368
Other receivables	-	27,162	-	-
Current tax recoverable	-	4,806	-	-
Cash and bank balances	25,765	-	-	-
	82,133	423,630	100,009	223,033
Liabilities and shareholders' funds				
Insurance contract liabilities	50,678	439,002	-	-
Payables arising from reinsurance arrangements	77,306	-	-	-
Unearned premium	22,910	198,282	-	-
Other payables	-	11,872	-	-
Deferred tax	-	6,279	-	-
	150,894	655,435	-	-
Net liquidity gap	**(68,761)**	**(231,805)**	**100,009**	**223,033**

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

b) Financial risk (continued)

iii) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: currency risk, interest rate risk and other price risk.

a) 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:

Had the weighted average interest rates been 1% higher / lower, with all other variables held constant, post-tax profit would have increased / decreased by Shs. 5,054,347 (2007: Shs. 4,888,722).

b) Currency risk

Currency risk arises on financial instruments that are denominated in foreign currency. 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.

c) Other price risk

Other price risk arises on financial instruments because of changes in the price of a financial instrument. The company is exposed to other price risk on its investment in quoted shares. If the price of financial assets through profit or loss decreased / increased by 5 percentage points, with other factors remaining constant, profit would decrease / increase by Shs. 3,997,431 (2007: Shs. 3,733,966).

c) 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 commensurately 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:

	2008 Shs	2007 Shs
Capital held	124,949,400	124,949,400
Required minimum capital	100,000,000	100,000,000

NOTES (CONTINUED)

4. Net insurance premium revenue

The premium income of the company, analysed between the principal classes of business is as follows:

Year ended 31st December 2008	**Gross Shs**	**Reinsurance Shs**	**Net Shs**
Motor	136,754,415	(5,761,247)	130,993,168
Workmen's compensation	66,445,892	(3,181,744)	63,264,148
Marine	86,616,571	(33,212,190)	53,404,381
Others	216,312,583	(145,177,847)	71,134,736
	506,129,461	(187,333,028)	318,796,433

Year ended 31st December 2007	**Gross Shs**	**Reinsurance Shs**	**Net Shs**
Motor	169,387,785	(6,870,713)	162,517,072
Workmen's compensation	77,901,052	(2,700,874)	75,200,178
Marine	74,870,350	(31,750,848)	43,119,502
Others	230,558,198	(149,370,168)	81,188,030
	552,717,385	(190,692,603)	362,024,782

5. Investment income

	2008 Shs	**2007 Shs**
Interest income		
Government securities	9,623,045	12,023,634
Bank deposits	31,123,533	26,099,501
Loans and receivables	6,281,638	1,244,306
Net rental income	4,615,678	3,000,267
Gain on sale of financial assets at fair value through profit or loss	3,023,516	18,230,060
Dividend income	3,862,630	1,164,944
	58,530,040	61,762,712

6. Changes in fair value

These comprise changes in fair value of:

Financial assets designated by the company at fair value through profit or loss	(38,742,430)	(12,632,757)

7. Net insurance claims

The claims of the company, analysed between the principal classes of business is as follows:

Year ended 31st December 2008	**Gross Shs**	**Reinsurance Shs**	**Net Shs**
Motor	145,953,222	(9,777,159)	136,176,063
Workmen's compensation	23,929,647	(985,374)	22,944,273
Theft	24,659,269	(13,263,702)	11,395,567
Others	66,062,648	(36,245,872)	29,816,776
	260,604,786	(60,272,107)	200,332,679

NOTES (CONTINUED)

7. Net insurance claims (continued)

Year ended 31st December 2007	**Gross Shs**	**Reinsurance Shs**	**Net Shs**
Motor	121,406,761	(5,490,360)	115,916,401
Workmen's compensation	98,054,507	(4,163,393)	93,891,114
Theft	29,249,740	(12,723,687)	16,526,053
Others	92,625,659	(60,861,776)	31,763,883
	341,336,667	(83,239,216)	258,097,451

8. Profit before tax expense / income

(a) Items charged

The following items have been charged in arriving at profit before tax expense / income:	**2008 Shs**	**2007 Shs**
Staff costs (Note 8(b))	62,326,982	58,345,376
Depreciation on property, plant and equipment	4,343,542	4,549,606
Amortisation of prepaid operating lease rentals	55,920	55,920
Amortisation of intangible assets	486,046	710,772
Auditors' remuneration		
Current year	1,400,000	1,403,594

(b) Staff costs

The following items are included in staff costs:

Pension costs		
Defined contribution scheme	2,458,259	2,007,491

9. Tax expense / income

Current income tax	4,341,463	-
Deferred income tax (Note 19)	9,639,858	(653,508)
Income tax expense / (credit)	13,981,321	(653,508)

The tax on the company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

Profit before income tax	12,169,664	2,016,118
Tax calculated at the statutory tax rate of 30%	3,650,899	604,835
Tax effect of:		
Expenses not deductible for tax purposes	13,173,193	4,124,201
Income not subject to tax	(2,842,771)	630,001
Deferred tax adjustment	-	(6,012,546)
Income tax expense / (credit)	13,981,321	(653,508)

NOTES (CONTINUED)

10. 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.

	2008 Shs	2007 Shs
Net (loss) / profit attributable to shareholders	(1,811,657)	2,669,626
Weighted average number of ordinary shares in issue during the year	1,249,494	1,249,494
Basic earnings per share	-	2.14

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

11. Share capital

	No. of ordinary shares	Issue and paid up capital Shs
At 1st January 2008 and 31st December 2008	1,249,494	124,949,400
At 1st January 2007 and 31st December 2007	1,249,494	124,949,400

The total number of authorised ordinary shares is 3,000,000 (2007: 2,000,000) with a par value of Shs. 100 each.

12. Revaluation surplus

The revaluation surplus arose on the revaluation of freehold land and 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%.

13. Fair value reserve

Gains or losses on available-for-sale financial assets are recognised, net of deferred income tax, directly in the fair value reserve and are transferred to the profit and loss account on disposal of the asset. The reserve is not distributable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Property, plant and equipment

	Buildings	Motor vehicles	Furniture & fittings	Computers, copiers & faxes	Total
	Shs	Shs	Shs	Shs	Shs
At 1st January 2007					
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
Year ended 31st December 2008					
Opening carrying value	102,900,000	311,340	9,635,974	2,261,606	115,108,920
Additions	-	-	930,612	554,674	1,485,286
Depreciation charge	(2,100,000)	(77,835)	(1,320,823)	(844,884)	(4,343,542)
Closing carrying value	100,800,000	233,505	9,245,763	1,971,396	112,250,664
At 31st December 2008					
Cost or valuation	105,000,000	848,600	19,870,689	13,323,437	139,042,726
Accumulated depreciation	(4,200,000)	(615,095)	(10,624,926)	(11,352,041)	(26,792,062)
Net carrying value	100,800,000	233,505	9,245,763	1,971,396	112,250,664

NOTES (CONTINUED)

14. Property, plant and equipment (continued)

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

	Building Shs
2008	
Cost	50,000,000
Accumulated depreciation	(7,000,000)
	43,000,000
2007	
Cost	50,000,000
Accumulated depreciation	(6,000,000)
	44,000,000

15. Prepaid operating lease rentals

Prepaid operating lease rentals are recognised at historical cost and subsequently amortised over the lease period.
The movement in prepaid operating lease rentals is as follows:

	2008 Shs	2007 Shs
Cost		
At 1st January and 31st December	5,000,000	5,000,000
Amortisation		
At 1st January	368,140	312,220
Charge for the period	55,920	55,920
At 31st December	424,060	368,140
Net book value		
At 31st December	4,575,940	4,631,860

16. Intangible assets

	Software costs	
	2008 Shs	2007 Shs
Cost		
At 1st January	2,132,317	1,626,050
Additions	775,568	506,267
At 31st December	2,907,885	2,132,317
Amortisation		
At 1st January	1,736,039	1,025,267
Charge for the year	486,046	710,772
At 31st December	2,222,085	1,736,039
Net book value		
At 31st December	685,800	396,278

17. Government securities held-to-maturity

Treasury bonds	102,000,000	101,850,000

Treasury bonds amounting to Shs. 55 million (2007: Shs. 37,850,000) 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 (CONTINUED)

18. Financial assets at fair value through profit or loss

	2,008 Shs	2,007 Shs
Quoted securities:		
At 1st January	74,679,318	26,537,603
Additions	68,365,680	88,536,844
Disposals	(24,353,956)	(27,762,372)
Fair value (loss)	(38,742,430)	(12,632,757)
At 31st December	79,948,611	74,679,318

19. Deferred income tax

Deferred income tax is calculated using the tax rate of 30% (2007: 30%). The movement on the deferred income tax account is as follows:

	2008 Shs	2007 Shs
At 1st January	6,067,759	7,051,267
Charge / (credit) to profit and loss account (Note 9)	9,639,858	(653,508)
(Credit) to equity	(330,000)	(330,000)
At 31st December	15,377,616	6,067,759

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

	At 1st January 2008	Charged / (Credited) to profit & loss	(Credited) to equity	At 31st December 2008
	Shs	Shs	Shs	Shs
Deferred income tax asset				
Excess depreciation over capital allowances	29,999	(6,690)	-	23,309
Provision for liabilities and charges	(362,795)	(122,898)	-	(485,693)
Tax losses carried forward	(9,769,445)	9,769,445	-	-
	(10,102,241)	9,639,857	-	(462,384)
Deferred income tax liability				
Revaluation surplus	16,170,000	-	(330,000)	15,840,000
Net deferred tax liability	6,067,759	9,639,857	(330,000)	15,377,616

20. Loans receivable

	2008 Shs	2007 Shs
Mortgage loans	62,414,364	33,209,300
Other loans	2,570,378	2,812,874
Total loans	64,984,743	36,022,174

NOTES (CONTINUED)

21. Reinsurers' share of insurance liabilities

	2008 Shs	2007 Shs
Reinsurers' share of:		
- Unearned premium (Note 26)	80,320,358	77,462,562
- Notified claims outstanding (Note 25)	171,952,880	101,367,904
- Claims incurred but not reported (Note 25)	5,594,291	6,003,823
	257,867,529	184,834,289

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.

22. Other receivables

Deposits	500,000	500,000
Prepayments	1,334,728	1,268,742
Sundry debtors	6,267,447	532,610
Deposits with courts	12,341,950	12,572,621
Accrued interest	5,772,537	12,288,420
	26,216,663	27,162,393

23. Cash and cash equivalents

Cash and bank balances	48,088,088	25,765,370
Deposits with financial institutions	338,450,000	351,000,000
	386,538,088	376,765,370

Fixed deposits amounting to Shs. 35 million (2007: Shs. 35 million) 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:

Cash and bank balances	48,088,088	25,765,370
Deposits with financial institutions	30,000,000	30,000,000
	78,088,088	55,765,370

24. Insurance contract liabilities

Short-term non-life insurance contracts:		
- Claims reported and claims handling expenses	604,794,951	462,898,621
- Claims incurred but not reported	23,779,892	26,781,244
Total gross insurance liabilities (Note 25)	628,574,843	489,679,865

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 2008 and 2007 are not material.

NOTES (CONTINUED)

25. Movement in insurance liabilities and reinsurance assets

	2008			2007		
	Gross Shs	Reinsurance Shs	Net Shs	Gross Shs	Reinsurance Shs	Net Shs
Short-term insurance business						
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 1st January	489,679,865	107,371,727	382,308,138	385,354,699	113,266,973	272,087,726
Cash paid for claims settled in year	(191,654,582)	(60,272,107)	(131,382,475)	(243,688,878)	(83,239,216)	(160,449,662)
Increase in liabilities						
- arising from current year claims	155,212,000	66,179,965	89,032,035	128,522,000	42,057,904	86,464,096
- arising from prior year claims	175,337,560	64,267,586	111,069,974	219,492,044	35,286,066	184,205,978
At 31st December	628,574,843	177,547,171	451,027,672	489,679,865	107,371,727	382,308,138
Notified claims	604,794,951	171,952,880	432,842,071	462,898,621	101,367,904	361,530,717
Incurred but not reported	23,779,892	5,594,291	18,185,601	26,781,244	6,003,823	20,777,421
At 31st December	628,574,843	177,547,171	451,027,672	489,679,865	107,371,727	382,308,138

26. Provision for unearned premium

	2008			2007		
	Gross Shs	Reinsurance Shs	Net Shs	Gross Shs	Reinsurance Shs	Net Shs
At 1st January	221,191,826	77,462,560	143,729,266	320,488,223	124,619,751	195,868,472
Net increase in the period	(15,936,132)	2,857,798	(18,793,930)	(99,296,397)	(47,157,191)	(52,139,206)
At 31st December	205,255,694	80,320,358	124,935,336	221,191,826	77,462,560	143,729,266

NOTES (CONTINUED)

27. Other payables

	2008 Shs	2007 Shs
Accrued expenses	5,178,468	7,779,951
Withholding tax on commission	411,919	72,528
Other liabilities	5,174,673	4,019,122
	10,765,060	11,871,601

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 2008 and 31st December 2007.

29. Commitments
Operating lease commitments

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

Not later than 1 year	-	-
Later than 1 year and not later than 5 years	960,000	1,440,000
	960,000	1,440,000

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.

i) Transactions with related parties

Gross premiums written:		
- Other related parties	10,170,410	8,102,513
Net claims incurred:		
- Other related parties	376,164	146,744
Loans receivable:		
i) Mortgage loans		
- Staff	1,048,285	1,289,630
ii) Other loans		
- Staff	236,381	176,394

NOTES (CONTINUED)

30. Related party transactions (continued)

ii) Outstanding balances with related parties

	2008 Shs	2007 Shs
Outstanding premium:		
- Other related parties	1,129,645	58,723
Claims payable:		
- Other related parties	-	240,000
Other receivables from related parties (Note 22)		
- Other related parties	443,835	2,063,582
Deposits with financial institutions	75,000,000	80,000,000
Mortgage loans receivable:		
- Staff	1,048,285	1,289,630
Other loans receivable:		
- Staff	236,381	176,394

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

All related party transactions are at arm's length on terms and conditions as offered to other clients. There are no impairment provisions held against any related party balances.

iii) Directors' remuneration

Directors' remuneration		
- As executives (included in Note 30(iv))	1,500,000	1,900,000
- Fees	1,100,000	1,125,000
	2,600,000	3,025,000

iv) Key management compensation

Salaries and other employment benefits	22,647,379	22,910,516
Post-employment benefits	564,660	626,425
	23,212,039	23,536,941

v) Contingencies

Guarantees	830,801	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 contingencies and the corresponding obligation from the third parties, no loss is anticipated.

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT

Appendix 1

Class of insurance business	Engineering	Fire Domestic	Fire Industrial	Public Liability	Marine	Motor Private	Motor Commercial	Personal Accident	Theft	Workmens' Compensation	Miscellaneous	2008 Total	2007 Total
	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
Gross premiums written	18,538,196	20,596,300	73,018,582	7,267,587	81,239,074	74,254,337	55,547,285	10,732,519	64,606,839	64,009,883	17,524,931	487,335,533	500,578,179
Change in gross unearned premiums	656,129	399,564	791,681	(259,199)	5,377,497	2,854,711	4,098,082	538,655	1,418,203	2,436,009	482,596	18,793,930	52,139,206
Gross earned premiums	19,194,325	20,995,864	73,810,263	7,008,388	86,616,571	77,109,048	59,645,367	11,271,174	66,025,042	66,445,892	18,007,527	506,129,461	552,717,385
Less: premiums ceded to reinsurers	(15,957,178)	(9,643,701)	(63,907,709)	(2,669,255)	(33,212,190)	(2,742,499)	(3,018,749)	(7,393,067)	(40,334,207)	(3,181,744)	(5,272,730)	(187,333,028)	(190,692,603)
Net earned premiums	3,237,147	11,352,163	9,902,554	4,339,133	53,404,381	74,366,549	56,626,619	3,878,107	25,690,835	63,264,148	12,734,797	318,796,433	362,024,782
Gross claims paid	(10,101,974)	(5,619,784)	(21,119,531)	(1,342,249)	(12,671,051)	(37,407,725)	(36,075,900)	(496,828)	(27,087,541)	(34,812,881)	(4,919,117)	(191,654,582)	(243,688,878)
Changes in gross outstanding claims	(787,522)	(2,173,503)	732,820	974,295	(6,750,613)	(20,573,760)	(51,895,837)	(1,391,855)	2,428,272	10,883,234	(395,735)	(68,950,204)	(97,647,789)
Less: reinsurance recoverable	6,747,404	1,819,628	17,519,624	183,715	9,410,353	1,212,957	8,564,202	373,587	13,263,702	985,374	191,561	60,272,107	83,239,216
Net claims incurred	(4,142,092)	(5,973,659)	(2,867,087)	(184,239)	(10,011,311)	(56,768,528)	(79,407,535)	(1,515,096)	(11,395,567)	(22,944,273)	(5,123,291)	(200,332,679)	(258,097,451)
Commissions receivable	7,503,078	3,211,395	27,722,120	679,221	17,973,547	(835)	(191)	2,154,707	10,639,636	(261)	4,146,161	74,028,578	46,903,446
Commissions payable	(3,763,083)	(4,042,711)	(18,524,966)	(1,450,162)	(14,238,267)	(7,321,718)	(5,550,009)	(2,130,000)	(12,798,249)	(13,238,377)	(1,895,559)	(84,953,101)	(83,064,257)
Expenses of management	(4,072,959)	(4,525,138)	(16,042,646)	(1,596,735)	(17,848,740)	(16,314,149)	(12,204,091)	(2,358,003)	(14,194,533)	(14,063,378)	(3,850,339)	(107,070,709)	(107,024,807)
Total expenses and commissions	(332,964)	(5,356,454)	(6,845,492)	(2,367,676)	(14,113,460)	(23,636,702)	(17,754,291)	(2,333,296)	(16,353,146)	(27,302,016)	(1,599,737)	(117,995,232)	(143,185,618)
Underwriting (loss) / profit	(1,237,909)	22,050	189,975	1,787,218	29,279,609	(6,038,681)	(40,535,207)	29,715	(2,057,878)	13,017,860	6,011,769	468,522	(39,258,287)