

**2005**  
**Annual Report  
and Accounts**







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financial statements for the year ended 31 December 2005

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## Our Vision

*To be the insurer of choice  
providing unequalled service  
matched by superior insurance solution.*

## Our Mission

*To be the leading insurer  
providing innovative services  
exceeding customer expectations  
and delivered by a motivated workforce  
for optimal benefit to all stakeholders.*

## Our Core Values

*Professionalism  
Commitment  
Integrity  
Efficiency  
Transparency  
Innovation  
Responsiveness  
Humility*

# Financial Highlights

financial statements for the year ended 31 December 2005

**Kshs Billion**



# Company Information

financial statements for the year ended 31 December 2005



**J P N Simba**  
Chairman



**A K M Shah**  
Chief Executive

## The Board



**S M Shah**



**A Greenwood**  
(Hubris Holdings)



**J N Gitoho**



**B M Shah**



**S J Shah**

### **Registered Office**

Hughes Building  
Kenyatta Avenue  
P O Box 30065  
Nairobi 00100

### **Company Secretary**

P H Shah

### **Principal Bankers**

Commercial Bank of Africa Limited  
P O Box 30437, Nairobi 00100

Standard Chartered Bank Kenya Limited  
P O Box 30001, Nairobi 00100

### **Auditors**

Deloitte & Touche  
"Kirungii", Ring Road, Westlands,  
P O Box 40092, Nairobi 00100

## Senior Management



**Standing L to R:** P Khimasia, Head of Claims; L Mwariri, PA to CEO; E Koskei, Head of Legal Department; L Chege, Head of Finance; J Kamiri, Head of Marketing; S J Njoroge, Director (General Insurance Division)

**Seated L to R:** H Sanghrajka, Head of Information Services; N Mukuria, Human Resources Manager; A Yahya, Director (Health Division); A K M Shah, Chief Executive;

**Not in the Picture:** F Wokabi, Chief Underwriter; M Solanki, Branch Manager – Mombasa; M N Shah, Branch Manager – Nakuru; N Bachia, Branch Manager – Nyeri; J Obare, Branch Manager – Kisumu

### Head Office

Hughes Building, Kenyatta Avenue  
P O Box 30065, Nairobi 00100  
Tel: 020 286 2000

### Branch Offices

Apollo Court, Moi Avenue  
P O Box 81821  
Mombasa 80100  
Tel: 041 222 7506

Sohan Plaza, Kimathi Way  
P O Box 2443  
Nyeri 10100  
Tel: 061 203 0332

Giddo Plaza  
P O Box 12632  
Nakuru 20100  
Tel: 051 221 3412

Al-Imran Plaza, Oginga Odinga Rd.  
P O Box 637  
Kisumu 40100  
Tel: 057 202 4860

# Chairman's Statement

financial statements for the year ended 31 December 2005

I have the pleasure to present the second annual report on the achievements of A P A Insurance Limited for the year ended 31st December, 2005.

## Business Environment

The country's economy grew by 5% during the year under review. This improved performance was attributed to favourable weather conditions that were initially experienced in the first half of the year. Other factors that contributed to this growth include the improvements in the tourism, construction and the transport sectors. The average annual overall inflation declined from 14.9% in January, 2005, but rose towards the end of the year settling at 7.6% in December and was expected to continue with its upward movement as a result of the current drought which has pushed up food prices. Interest rates remained relatively stable with Treasury Bill rates which opened in January at 8.25% settling at 8.14% by year end. The Kenya Shilling appreciated against all major currencies giving rise to calls by exporters for Central Bank of Kenya to intervene.

The growth in the stock market gave great opportunities to investors where the NSE share index recorded a growth of 34.9%.

This favourable picture of last year would have continued save for the drought being experienced throughout the country. This has caused a great reduction in the production of our major export crops and the loss of large amounts of livestock, especially in the Northern parts of the country, will cause a lot of hardship.

The insurance industry saw the licensing and entry of four new companies into the already flooded market which is characterised by very stiff and unhealthy competition that has resulted in serious undercutting. The industry has strengthened its call for the establishment of an autonomous office of the commissioner and an urgent review of the Insurance Act. It is expected that the introduction of the Policyholders Compensation Fund will safeguard the interest and revive the eroded confidence of the policyholders.

## The Company

The company has continued its strides in its second year of operation and recorded an increase in its gross premium written to Shs 1.504 billion compared with Shs 1.406 billion underwritten last year. The teething problems of the merger during the first year were ironed out and the operations are now streamlined. This is reflected in higher premiums and lower costs. Our claims management and handling was enhanced resulting to a tremendous drop in the underwriting loss from Shs 87 million to Shs 21 million. This improvement is expected to continue in the current year.

Health business has attracted other players in the industry resulting in stiff competition and price undercutting. In spite of this, our health division has continued to grow steadily and maintained the lead position in the market. With the collapse of some of the Health Management Organisations, many were left without medical covers. We benefited from these as many corporates chose to insure with A P A. Our reputation and professionalism played a major part in their decision to insure with us. The collapse of the HMO's has left a vacuum in the market. We are packaging products in response to client needs that will soon be released to take care of this vacuum. Claims administration has been enhanced by the modern claims processing facilities at Amini Management (EA) Limited which is now fully operational.

Our general business has maintained a good market share and continues to strive for more. Last year, the company launched new products which include; Floriculture, Cattle insurance and Vetcare for both the agricultural and livestock industries. The company is developing further products that will be targeted at particular sectors and these will be released into the market in due course.

We are proud of our treaties which are with AAA rated Reinsurers and are the best in the region. Our reinsurers have provided us with excellent capacity which has given us competitiveness in our market. We have continued to retain more and our reinsurance costs are one of the lowest in the market. Our customer service has been improved by the increased capacities and efficiencies supported by our IT system. This is now being implemented at our Mombasa branch. The same will be rolled out to all our remaining branches in the current year. Once the system is fully implemented we will have seamless processing and all branches will transact online.

As part of providing better customer service and improved conditions for our operations, new offices will be built in Nairobi and Mombasa. The company will relocate its head office to Westlands after completion of the construction of the planned building. The estimated cost will be over Shs 300 million. This will give the company sufficient space for better services and future expansion.

### Investments and Assets

The implementation of the Central Depository System at the Nairobi Stock Exchange was finalised and all the counters immobilised. This has led to increased trading on the stockmarket. The values of shares have risen tremendously. This was notable in several stocks such as Kenya Airways, Mumias and in the successful rights issue of Uchumi Supermarkets shares. The initial public offer of Kengen and other companies' anticipated shares listing is much awaited. This is expected to increase trading volumes. As a company, we have continued to maintain our share in the stockmarket as part of our overall investment strategy and our portfolio grew to over Shs 1.086 billion up from Shs 571 million.

Our properties appreciated and investment in the treasury bills and bonds grew substantially especially with the improved interest rates during the year. Our other investment portfolio continued to do well to bring our overall total assets base to Shs 3.024 billion at the close of the year compared to Shs 2.440 billion in the previous year. The total shareholders funds rose to Shs 878 million from the original Shs 425 million.

### Corporate Social Responsibility

Our company continues to undertake its responsibilities to the communities of this country by engaging in activities that are beneficial to them. We have concentrated on the uplifting of the living standards of the underprivileged. We have continued to support the Runda Youth Sport Association by identifying and deploying the talents of the youths living in the 2 slums in Runda. During the year under review the company sponsored two successful and well attended eye camps in Kikuyu in Kiambu District and Mweiga in Nyeri District. In the former 100 patients were operated on for cataracts. These included children from 4 years to elderly who were over 80 years old. The eye camp at Mweiga screened over 600 patients. These were provided with medicines for the less serious eye conditions. 14 patients were transported to Nairobi and operated for cataracts. Others who did not need immediate cataract surgery are being followed up.

### Regional Expansion

Despite our unsuccessful bid for the privatisation of the National Insurance Corporation in Kampala, we have continued with pursuance of entry into the country in our commitment to regional expansion. We are in the process of registering the company in Uganda that is expected to commence its operations in the current year. We are also exploring the entry into other countries in the region. Our continued support to Reliance Insurance (T) Limited has seen them increase their production and market share in Tanzania.

### Conclusion

We have received very positive support from our clients, brokers and agents. It is with their support that we are able to command a leading place in the market and achieve the results reported. On behalf of the board, I thank you most sincerely. We shall endeavour to strengthen our relationship and enhance our customer service to meet and exceed their expectations.

I take this opportunity to thank and congratulate my fellow directors, management and staff who have given me support during the year under review. It was a challenging year but their devotion, hard work and remaining focussed on our business has achieved the reported results. I look forward for cooperation and enhanced teamwork in servicing our clients that will result in company growth and build confidence among our clients making A P A Insurance their preferred insurer. Finally, to the Office of the Commissioner of Insurance, thank you for your guidance and understanding throughout the year.

J P N Simba, MBS, OGW  
Chairman

1 March 2006



# CEO's Statement

financial statements for the year ended 31 December 2005

The benefits of the merger of the general insurance businesses of Apollo and Pan Africa have become apparent as A P A achieves the economies of scale. The issues that all mergers bring about have been resolved. The 24 months of operations of the merged company have been challenging and all of us can now look back with satisfaction at the hard work put in. The wisdom of merging the two businesses into A P A has paid off. The success that was envisaged is a reality. My sincere thanks go to the directors, advisors, the management and staff of A P A. They have taken on the burden of making a successful company which is now one of the foremost insurers in the region.

I have pleasure in reflecting on some of the achievements and looking at the challenges that the future holds for us.

- A P A's performance in the year 2005 was consistent with our objectives and expectations, despite the competition in the market. The task of managing the increasing demands from customers and meeting their expectations and corporate governance requirements raises the goal for management each year and 2005 was no exception. We continued to maintain our leadership in the health business, and being a key player in the general business. We managed to keep our stakeholders satisfied in line with our mission statement.
- Our service levels are under scrutiny and we want A P A to be the leader in client relationship. To this end our marketing was enhanced by the recruitment of additional marketing staff. They are responsible for maintenance and development of A P A products and services, broker and client relationships, and assessing risks which may impact on the achievement of our objectives. The introduction of new products and repackaging of the existing ones was well met by our clients, and it boosted our production. We achieved this by maintaining competitive prices, excellent customer service and by providing more support to our Branches.
- We value our customers. Consequently, the management has enhanced the customer service level by better claims management and processing of policy and other documents that have been supported by prompt settlement of claims when they arise. We have been responding to our customers' comments and needs and we review these to make the necessary improvement to serve them better. We have made accessibility of our products and services easy by making the information available on the internet. We are further exploring ways that will enhance our relationships.
- To take advantage of our pedigree, we are embarking on a strong marketing strategy between our divisions and working with our parent companies, viz Apollo and Pan Africa to cross market our services. Our track record of delivery in the market provides us with skills and an experience base which will help us succeed.
- Our financial performance has been exceptional. It required us to take advantage of the opportunities available in the economy. To avoid the pitfalls, our investment portfolio was further enhanced by refinements on our risk management practices.
- The adoption of the International Financial Reporting Standards (IFRS) will go a long way in providing uniformity of reporting from all the players in the market. We have already set the trend by reporting our results as required by the Regulator. These results for the year under review are encouraging. We underwrote a gross premium for KShs 1.504 billion. This places us among the top underwriters in the market and the region. The reduction of the underwriting loss from last year and the increase in our investment income is an indication of good management and this trend is expected to be better in the current year. We increased our profits and posted growth in the company's asset base.
- Information and Communications Technology (ICT) will play a major role in our business processes. It has continued to give support to the expansion of business opportunities during the year. Our integrated system is fully operational at Nairobi and is now being implemented in Mombasa. The roll out to other branches will be started soon so as to keep up with the needs of our clients. There is a continuous review of the technology and maintenance and enhancements to the system. We continue to ensure we have a competitive edge and quality service levels.
- To further improve our services, a wide area network and communication project has commenced. This will provide reliable and fast connectivity to our branches and will improve communication services.



- A P A has a business continuity management plan to ensure that key business processes continue in the event of a disaster or crisis. A disaster preparedness framework is being established. Internal controls and policies are being implemented to operate effectively and efficiently in response to any crisis. Key features of the plan include replicating key operations systems and maintaining critical communication.
- It is impossible for key performance indicators to adequately capture the diligence, dedication and professionalism of staff through the organisation that boosts our track record of performance. It is our conviction that our strength is in our staff. In recognition of this fact, we have made our staff our top priority and we are always working towards ensuring that we remain an insurer of choice not only as a business but also in the workplace.
- We have embraced an open style of management with a flat structure that enables faster decision making and accessibility of the senior leadership team. We are also aware that in order to remain competitive we have to keep our staff on a competitive edge and this has been achieved through continuous performance management, training and self-development schemes.
- To meet the company's objectives we have strived to retain highly competent, motivated and professional staff. We support our staff in not only achieving higher professional qualifications but also by exposure to workshops and seminars held by the professional bodies to which individual staff belong.
- We also recognise that it is important to have a healthy work-life balance. Staff are encouraged to enroll with social clubs where they are able to interact with business associates. Regular functions are organised at departmental and company level. Employees are encouraged to participate in activities organised by our business associates and industry bodies.
- As the company evolves from a more introspective focus on operational efficiency in recent years to a more outward looking platform for future growth, we are intent on fostering a work environment where our staff are intellectually and emotionally aligned with the group's strategy outcomes. With this aim, a three year corporate strategic business plan was done for the period 2006- 2008, where all managers participated.

The responsibility of the group's strategy is to focus on the medium and long-term growth opportunities. The plan is designed to ensure that the company improves its operations and growth for the benefit of all the stakeholders. It has taken into account all the requirements; which include marketing, staffing and capital resources.

- During the year 2005, we continued with our involvement in social investment and supported many charities with donations in various areas. This included medical, education & local economic development with an aim of alleviating poverty from our country. The management encourages all staff members to organise and participate in such activities. Our involvement with residents of the Huruma and Githogoro Slums is headed by some of our youngest staff. They plan and carry out the activities which are supported by management by way of advice and participation.

Business commitment is dependent on committed and motivated employees' performance. Management and staff are to be commended for helping deliver such a strong round performance. I thank the Board, management and staff for their contribution to our impressive full year results.

Ashok Shah  
Chief Executive Officer

1 March 2006

# Corporate Governance

financial statements for the year ended 31 December 2005

## 1. Introduction

Corporate governance is the system by which corporations are directed, controlled and held to account. This encompasses the systems, practices and procedures by which the individual corporation regulates itself in order to remain competitive, sustainable and relevant.

The Board of A P A Insurance Limited follows principles of openness, integrity and accountability in its stewardship of the Company's affairs. It recognises the developing nature of corporate governance and assesses the Company's compliance with generally accepted corporate practice on a regular basis, directly and through its Board committees and Management. The role of the Board is to ensure conformance by focusing on and providing the Company overall strategic direction and policy-making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The Board is also responsible for the overall system of internal control and for reviewing its effectiveness. The controls are designed to both safeguard the Company's assets and ensure the reliability of financial information.

Set out below are the key features of the existing corporate governance practices within the Company.

## 2. Board of Directors

The Board of Directors consists of three executive directors and four non-executive directors who have been chosen for their business acumen and wide range of skills and experience. The Chairman is a non-executive director and the Board meets formally four times a year.

The Board is responsible for setting the direction of the Company through the establishment of strategic objectives, key policies and the approval of budgets. It monitors the implementation of strategies and policies through a structured approach to reporting by executive management and consequent accountability.

The non-executive directors are actively involved in and bring strong independent judgement on Board deliberations and discussions. These directors have a wide range of knowledge and experience of local and international markets that is applied to the formulation of strategic objectives and decision making.

All Directors have access to the advice and services of the Company Secretary and are entitled to obtain independent professional advice at the Company's expense. A senior management team, comprising executive directors, divisional directors and senior managers meets regularly to consider issues of operational and strategic importance to the Company.

The Board meets regularly and retains full and effective control over the Company. To assist the Board in the discharge of its responsibilities a number of Board committees have been established, details of which are provided below:-

### a. The Remuneration Committee

The Remuneration Committee consists of three non-executives and the Chief Executive Officer. Its primary objective is to ensure that the right calibre of management is recruited and retained. To achieve this it ensures that Directors and senior executives are appropriately rewarded for their contributions to the Company's performance, with specific focus on incentive payments and longer term remuneration structures.

The Committee also considers, at an overall level, remuneration levels and conditions of service of staff to ensure that these are fair, appropriate and in line with the Company's remuneration philosophy.

# Corporate Governance

financial statements for the year ended 31 December 2005

**b. Audit Committee**

The Audit Committee comprises two non-executive directors and a professional nominated under the shareholders agreement. The Committee is responsible for, inter alia, developing and advising on audit and financial controls and compliance issues of the Company. This is keeping in line with best practice and as an important step towards raising standards of corporate governance. It also defines the scope of the internal audit function and acts as a liaison between the external auditors and management.

**c. Investment Committee**

The board has an investment committee comprising two non-executive directors, including the chairman, and two executive directors, including the Chief Executive Officer. This Committee is responsible for determining and monitoring the Company's overall investment strategy.

**d. Credit Control Committee**

The company has a Credit Control Committee which is chaired by the Head of finance. The other members of this Committee are:-

- Chief Executive Officer
- Divisional director - General Insurance Division
- Divisional director – Health Division
- Head of the Accounts Department
- Credit Controller (who acts as the Secretary to the Committee)

The Committee meets weekly. Its main responsibilities are:-

- To ensure that all monies owed to the Company are promptly collected in accordance with the stipulated credit terms and other arrangements.
- Take appropriate measures for dealing with defaulters
- Recommend to the Board, through the Managing Director; write off of any uncollectible debts.

**3. Internal Control**

The Company has implemented and maintains internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard and maintain accountability of the Company's assets. Such controls are based on established policies and procedures and are implemented by trained personnel with appropriate segregation of duties. The effectiveness of the system of internal controls are monitored regularly through operational meetings and the annual external audit.

**4. Social Responsibilities**

The Board is conscious of the Company's social responsibilities. Particular attention is given to the needy in the country. The Company encourages staff to participate and actively supports them in various causes.

# Customer Relations & Social Responsibility

financial statements for the year ended 31 December 2005



## Runda Youth Sports Association

### Top: Getting ready for the match

The Runda Youth team poses for a photograph just before a match during the tournament sponsored by A P A Insurance Limited. The boys won the match 3-2 to lift the cup.

### Bottom: Who will lift the trophy?

The match officials from A P A Insurance Limited keenly follow the match with the trophies, donated by the company, on display awaiting the winners.



## A visit to Mji wa Huruma

### Top: This is how it is done

Mr Martin Karuga assists Jane Wanjiru of Cheleta Primary School to plant maize at the school garden during the visit by employees of A P A Insurance Limited. The members of staff also participated in cleaning the compound, cooking and serving food and drinks to the families from the village. They later distributed clothes and medicines donated by the members of staff.



### Bottom: Hi! Ashok

Pupils of Cheleta Primary School familiarise themselves with the Chief executive, Mr Ashok Shah. Mr Shah had earlier announced the launch of a bursary fund to pay secondary school fees for top KCPE pupils from the village.



## Keep the City Clean

### Top: Can't beat me

Master Kimani of Githogoro Slum tries to outdo the CEO of A P A Insurance Limited as his fellow mates give courage during the clean up exercise at the village.

### Bottom: Everyone pitches in

A P A Insurance staff members give a hand in cleaning up the Githogoro slum with everyone wanting to scoop the dirt in their pursuit of maintaining a clean environment.

# Customer Relations & Social Responsibility

financial statements for the year ended 31 December 2005

## The A P A Golf Day in Nyeri

### Top: Watch the birdie

A participant prepares to putt at the 18th hole during the Golf Tournament sponsored by A P A Insurance Limited at Nyeri Golf Club where a total of 50 players from Nyeri, Nanyuki, Aberdares and Nyahururu participated.

### Bottom: Congratulations

Executive Director, Shashikant Shah, presents a prize to one of the winners of the tournament.



## The A P A ER Card Launch

### Top: Another Innovative Product from A P A

Health Division Director, Ms Atia Yahya, displays the A P A ER Card during the launch. The Card covers the insured for the first 48 hours of hospitalisation after an emergency resulting from accidents and illnesses, and is accepted in all major hospitals in Kenya.

### Bottom: How Does it Work?

Chairman, John Simba explains how the A P A ER Card works to one of our clients during the launch as Atia and Ashok listen.



## The Eye Camp at Mweiga

### Top: Please Look Here

Chairman, JPN Simba and Directors BM Shah and SM Shah are very keen as an eye specialist from Lions First Eyesight Hospital examines one of the six hundred patients who turned up for the check up at an eye camp in Mweiga, Nyeri, sponsored by A P A Insurance Limited.

### Bottom: Wishing You Quick Recovery

General Division Director Mr SJN Njoroge and Public Relations Officer Mrs Jackie Wanyoike present flowers to some of the patients discharged after being operated at Lions First Eyesight Hospital.



# Report of the Directors

financial statements for the year ended 31 December 2005

The directors submit their report together with the audited financial statements for the year ended 31 December 2005 which disclose the state of affairs of the Company.

## Principal Activities

The principal activity of the company is the transaction of general insurance business.

## Results and Dividends

	Shs'000
Profit before taxation	459,416
Taxation credit	728
	<hr/>
Profit for the year transferred to revenue reserve	<u>460,144</u>

The directors recommend the payment of Shs 18,000,000 dividend in respect of the year.

## Financial Risk Management Objectives and Policies

The company's activities expose it to a variety of financial risks, including loss risk (claims), credit risk and the effects of changes in debt and equity market prices, and interest rates. The company's overall risk management programme focuses on the acceptable level of loss risk and the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance within the limited options available in Kenya to hedge against such risks.

## Directors

The current board of directors is shown on page 4.

## Auditors

Deloitte & Touche have expressed their willingness to continue in office. At the Annual General Meeting a proposal will be made to authorise Deloitte & Touche to continue in office in accordance with the Companies Act, (Cap 486).

By Order of the Board

**P H Shah**  
Secretary

1 March 2006

# Statement of Directors' Responsibilities

financial statements for the year ended 31 December 2005

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the company's financial affairs and of its operating results. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

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.

J P N Simba  
Director

A K M Shah  
Director

1 March 2006

# Independent Auditors' Report

financial statements for the year ended 31 December 2005

We have audited the financial statements on pages 17 to 38 for the year ended 31 December 2005 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

## Respective Responsibilities of Directors and Auditors

As described on page 15, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

## Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

## Opinion

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the company at 31 December 2005 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

**Deloitte & Touche**  
**Certified Public Accountants**

29 March 2006

# Income Statement

financial statements for the year ended 31 December 2005

	Notes	2005 Shs'000	2004 Shs'000
<b>Gross written premiums</b>		<u>1,504,366</u>	<u>1,406,873</u>
Gross earned premiums	2	1,429,682	1,305,286
Less: reinsurance premiums ceded		<u>(165,153)</u>	<u>(243,320)</u>
<b>Net earned premiums</b>		1,264,529	1,061,966
Investment income	3	530,239	144,042
Commissions earned		22,764	38,383
Other income	4	<u>8,988</u>	<u>11,108</u>
<b>Net income</b>		1,826,520	1,255,499
Net claims incurred	5	(900,483)	(823,650)
Operating and other expenses	6	(315,394)	(254,665)
Commissions payable		<u>(151,227)</u>	<u>(133,272)</u>
<b>Profit before tax</b>		459,416	43,912
Taxation credit	8	<u>728</u>	<u>19,077</u>
<b>Profit for the year after tax</b>		<u>460,144</u>	<u>62,989</u>

# Balance Sheet

financial statements for the year ended 31 December 2005

	Notes	2005 Shs'000	2004 Restated Shs'000
<b>Capital Employed</b>			
Share capital	10	150,000	150,000
Share premium		93,840	93,840
Revaluation reserve		8,981	1,694
Retained earnings		625,305	165,161
Proposed dividends		-	15,000
<b>Shareholders' Funds</b>		<b>878,126</b>	<b>425,695</b>
<b>REPRESENTED BY:</b>			
<b>Assets</b>			
Property, vehicles and equipment	13	95,027	89,332
Intangible assets	14	10,822	13,899
Investment property	15	426,500	411,500
Deferred income tax	28	15,956	18,351
Current income tax prepayment		13,583	13,473
Investment in associate	16	27,101	27,385
Investment in joint venture	17	2,933	2,867
Equity investments at fair value through profit and loss	18	1,086,399	571,436
Loans receivable	19	63,391	53,203
Receivables arising out of reinsurance arrangements		155,029	114,643
Receivables arising out of direct insurance arrangements		356,511	433,621
Reinsurers' share of insurance liabilities	20	364,243	343,992
Deferred acquisition costs	21	60,635	41,116
Other receivables	22	42,937	55,335
Government securities held to maturity	23	250,755	186,347
Deposits with financial institutions		9,902	13,241
Commercial paper		22,337	19,944
Cash and bank balances		20,843	30,433
<b>Total Assets</b>		<b>3,024,904</b>	<b>2,440,118</b>
<b>Liabilities</b>			
Insurance contract liabilities	26	1,260,163	1,003,445
Provisions for unearned premiums and unexpired risks	27	664,615	649,596
Payables arising from reinsurance arrangements		74,353	229,213
Other payables	29	91,037	94,281
Bank overdraft		56,610	37,888
<b>Total Liabilities</b>		<b>2,146,778</b>	<b>2,014,423</b>
<b>Net Assets</b>		<b>878,126</b>	<b>425,695</b>

The financial statements on pages 17 to 38 were approved by the Board of Directors on 1st March 2006 and signed on its behalf by:

J P N Simba  
Director

A K M Shah  
Director

# Statement of Changes in Equity

financial statements for the year ended 31 December 2005

	Notes	Share Capital Sh'000	Share Premium Sh'000	Revaluation Reserve Sh'000	Retained Earnings Sh'000	Proposed Dividends Sh'000	Total Sh'000
At 1 January 2004		150,000	93,840	-	117,172	-	361,012
Revaluation gain on freehold land and buildings	13	-	-	2,420	-	-	2,420
Deferred tax on revaluation gain	28	-	-	(726)	-	-	(726)
Net profit for the year		-	-	-	62,989	-	62,989
Dividends -final proposed	9	-	-	-	(15,000)	15,000	-
<b>At 31 December 2004</b>		<u>150,000</u>	<u>93,840</u>	<u>1,694</u>	<u>165,161</u>	<u>15,000</u>	<u>425,695</u>
At 1 January 2005		150,000	93,840	1,694	165,161	15,000	425,695
Revaluation gain on freehold land and buildings	13	-	-	10,410	-	-	10,410
Deferred tax on revaluation gain	28	-	-	(3,123)	-	-	(3,123)
Net profit for the year		-	-	-	460,144	-	460,144
Dividends -2004 final paid	9	-	-	-	-	(15,000)	(15,000)
<b>At 31 December 2005</b>		<u>150,000</u>	<u>93,840</u>	<u>8,981</u>	<u>625,305</u>	<u>-</u>	<u>878,126</u>

# Cash Flow Statement

financial statements for the year ended 31 December 2005

	Notes	2005 Sh'000	2004 Sh'000
<b>Operating Activities</b>			
Net cash generated from operations	32(a)	116,420	89,557
Interest received		28,133	13,272
Income tax paid		(110)	(13,473)
Net cash generated from operating activities		<u>144,443</u>	<u>89,356</u>
<b>Investing Activities</b>			
Purchase of property and equipment	13	(3,915)	(12,381)
Additions to intangible assets	14	(497)	(1,235)
Purchase of investment property	15	-	(803)
Investment in joint venture	17	-	(5,000)
Purchase of quoted shares	18	(158,324)	(283,684)
Loans advanced	19	(7,222)	(19,257)
Loans repaid	19	7,339	14,699
Net investment in government securities		(17,406)	126,597
Net investment in commercial paper		(2,393)	(19,944)
Proceeds from disposal of property and equipment		35	145
Proceeds from disposal of quoted shares		68,291	147,538
Proceeds from disposal of investment property		-	15,596
Net cash used in investing activities		<u>(114,092)</u>	<u>(37,729)</u>
<b>Financing Activities</b>			
Dividends paid	9	(15,000)	-
Net cash used in financing activities		<u>(15,000)</u>	<u>-</u>
Increase in cash and cash equivalents		<u>15,351</u>	<u>51,627</u>
<b>Movement in Cash and Cash Equivalents</b>			
At start of year	32(b)	145,711	94,084
Increase		15,351	51,627
At end of year	32(b)	<u>161,062</u>	<u>145,711</u>

# Accounting Policies

financial statements for the year ended 31 December 2005

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

(a) **Basis of Accounting**

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings thousands (Shs '000), and prepared under the historical cost convention, as modified by the revaluation of certain property and equipment, and the carrying of investment property and equity investments at fair value and impaired assets at their recoverable amounts.

(b) **Adoption of New International Financial Reporting Standards**

In 2005 several new and revised standards became effective for the first time and have been adopted by the company where relevant to its operations. The adoption of these new and revised standards had no effect on the amounts reported for the current or prior years. This only resulted in changes in presentation and disclosure associated with the following standards:

- IAS 10 has affected the presentation of proposed dividends
- IAS 16 has introduced disclosure of comparative figures for movements in property and equipment
- IAS 24 has introduced the disclosure of the compensation of key management personnel
- IFRS 4 Insurance contracts has resulted in changes in presentation of revenues, expenses, assets and liabilities relating to underwriting business

The company continues to apply the same accounting policies for the recognition and measurement of obligations arising from insurance contracts and investment contracts with discretionary participation features that it issues and reinsurance contracts that it holds. The company developed its accounting policies for insurance contracts before the adoption of IFRS 4 and in the absence of a specific standard for insurance contracts. The directors used their judgement in developing a set of accounting policies for the recognition and measurement of rights and obligations arising from insurance contracts issued and reinsurance contracts held that provides the most useful information to users of the company's financial statements.

(c) **Income recognition**

Premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premiums. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relate to the unexpired terms of policies in force at the balance sheet date, and is calculated on the 1/24th method on written premiums less reinsurance commissions and other acquisition costs

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

Investment income is stated net of investment expenses. Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset. Dividends are recognised as income in the period in which the right to receive payment is established. Rental income is recognised as income in the period in which it is earned.

(d) **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"). Outstanding claims are not discounted.

# Accounting Policies

financial statements for the year ended 31 December 2005

## (e) Commissions Payable and Deferred Acquisition Costs

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

## (f) Property and Equipment

All property and equipment is initially recorded at cost. Freehold land and buildings are subsequently restated to market value based on annual valuations by independent external valuers. All other property and equipment is stated at historical cost less depreciation.

Increases in the carrying amount of land and buildings arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the income statement.

Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset.

Each year the difference between depreciation based on the revalued carrying amount of an item of property and equipment (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Freehold land is not depreciated. Depreciation is calculated on other property and equipment on the straight line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

• Leasehold buildings	50 years
• Furniture, fixtures, fittings & office equipment	8 years
• Motor vehicles	4 years
• Computer equipment	3 years

Asset residual values and their estimated useful lives are reviewed at each balance sheet date and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts. Upon disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

## (g) Investment Property

Investment property comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined annually by external independent valuers. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Investment properties are not subject to depreciation. Changes in their carrying amount between balance sheet dates are recorded, net of deferred tax, through the income statement.

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

# Accounting Policies

financial statements for the year ended 31 December 2005

## (h) Other Investments

The company classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

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

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

### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the company intends to sell in the short term or those that it has designated as at fair value through profit of loss or available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

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

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities – other than those that meet the definition of loans and receivables – that the Group's management has the positive intention and ability to hold to maturity.

### (iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Purchases and sales of investments are recognised on trade date – the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the company has also transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as net realised gains/losses on financial assets.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis.

# Accounting Policies

financial statements for the year ended 31 December 2005

(i) **Cash and Cash Equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities in the balance sheet.

(j) **Translation of Foreign Currencies**

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

(k) **Accounting for Leases**

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the company as a lessee are classified as finance leases. All other leases are classified as operating leases. Payments made under operating leases are charged to income on the straight-line basis over the term of the lease.

(l) **Impairment of Financial Assets**

The company assesses at each balance sheet date whether there is objective evidence that a financial asset (or group of financial assets) is impaired. Impairment losses are recognised if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and that those events have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The impairment loss so recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

(m) **Employee Entitlements**

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the balance sheet date. The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(n) **Income Tax**

Tax expense/(income) comprises current tax and deferred tax. Tax is recognised as an expense/(income) and included in the income statement, except to the extent that the tax arises from a transaction which is recognised directly in equity.

Current tax is computed in accordance with the Kenyan income tax laws applicable to insurance companies.

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred tax.

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

# Accounting Policies

financial statements for the year ended 31 December 2005

(o) **Retirement Benefit Obligations**

The company operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered funds, which are funded from contributions from both the company and employees. The employees of the company are also members of the statutory National Social Security Fund ("NSSF").

The company's contributions to the defined contribution scheme and NSSF are charged to the income statement as they fall due.

(p) **Dividends**

Dividends on ordinary shares are charged to equity in the period in which they are declared.

(q) **Comparatives**

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. Note (b) above describes changes to International Financial Reporting Standards during the year.

# Notes to the Financial Statements

financial statements for the year ended 31 December 2005

## 1. Incorporation and Registered Office

The company is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The address of its registered office is Hughes Building, Kenyatta Avenue, Nairobi.

## 2. Gross Earned Premiums

The company underwrites general insurance business only. This has been analysed into several sub-classes of business based on the nature of the assumed risks as shown below:

	2005 Shs'000	2004 Shs'000
Motor	401,837	332,735
Fire	140,399	154,654
Personal accident	577,421	552,291
Other	310,025	265,606
	<u>1,429,682</u>	<u>1,305,286</u>

## 3. Investment Income

	2005 Shs'000	2004 Shs'000
Interest from government securities	18,124	6,371
Bank deposit interest	3,599	1,389
Loan interest receivable	6,410	5,512
Rental income from investment properties	35,413	27,743
Dividends receivable from equity investments	26,763	16,662
Fair value gains on investment property (note 15)	15,000	2,000
Realised gains on sale of available for sale financial assets	25,332	52,324
Fair value gains on financial assets at fair value through profit or loss (note 18)	399,598	32,041
	<u>530,239</u>	<u>144,042</u>

## 4. Other Income

	2005 Shs'000	2004 Shs'000
Gain on disposal of property and equipment	-	145
Loss on disposal of investment property	-	(1,707)
Share of (decrease)/increase in associate's net assets	(284)	3,369
Share of profit/(loss) in joint venture	66	(2,133)
Profit commission	-	5,151
Miscellaneous income	9,206	6,283
	<u>8,988</u>	<u>11,108</u>

# Notes to the Financial Statements

financial statements for the year ended 31 December 2005

<b>5. Claims Incurred</b>	<b>2005</b>	<b>2004</b>
	<b>Shs'000</b>	<b>Shs'000</b>
General insurance business:		
Motor	347,910	284,135
Fire	(6,014)	7,099
Personal accident	414,708	425,801
Other	143,879	106,615
	<u>900,483</u>	<u>823,650</u>
<b>6. Operating and Other Expenses</b>	<b>2005</b>	<b>2004</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Staff costs (note 7)	125,520	120,714
Auditors' remuneration	2,815	2,050
Directors emoluments - fees	1,245	1,660
- other	33,636	37,306
Depreciation (note 13)	8,595	7,741
Amortisation (note 14)	3,574	3,475
Impairment charge for doubtful receivables		
- premium debtors	23,699	12,516
Operating lease rentals - land and buildings	4,010	4,680
Repairs and maintenance expenditure	1,930	3,551
Other	110,370	60,972
	<u>315,394</u>	<u>254,665</u>
<b>7. Staff Costs</b>	<b>2005</b>	<b>2004</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Staff costs include the following:		
salaries and wages	118,359	113,564
social security benefit costs	274	288
retirement benefit costs	6,887	6,862
	<u>125,520</u>	<u>120,714</u>
<b>8. Taxation</b>	<b>2005</b>	<b>2004</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Deferred tax credit (note 28)	(728)	(17,005)
Prior year deferred taxation (note 28)	-	(2,072)
Total tax credit	<u>(728)</u>	<u>(19,077)</u>

The company's current tax charge is computed in accordance with income tax rules applicable to general insurance companies. A reconciliation of the tax charge is shown below:

# Notes to the Financial Statements

financial statements for the year ended 31 December 2005

8. Taxation (continued)	2005 Shs'000	2004 Shs'000
Profit before tax	459,416	43,912
Tax calculated at a tax rate of 30%	137,825	13,174
Less: tax effect of income not subject to tax	(142,082)	(32,927)
Add: tax effect of expenses not deductible	3,530	2,748
Prior year under provision	(1)	(2,072)
Tax credit	(728)	(19,077)

## 9. Dividends

At the annual general meeting to be held later in the year, a final dividend in respect of the year ended 31 December 2005 of Shs 12/- per share amounting to a total of Shs 18,000,000 is to be proposed. No interim dividend was paid during the year. Payment of dividends is subject to withholding tax at the rate of 5% or 10%, depending on the residence of the individual shareholders.

During the year, the company adopted revised IAS 10 which affected the presentation of proposed dividends. In accordance with IAS 10, proposed dividends are no longer shown as a component of equity. The prior year balance has not been restated as the transitional provisions of the revised standards allow a prospective application of the revised standard.

## 10. Share Capital

The total authorised number of ordinary shares is 1,500,000 with a par value of Shs 100/- per share. At 31 December 2005 1,500,000 ordinary shares were in issue (2004: 1,500,000 ordinary shares). All issued shares are fully paid up.

## 11. Revaluation Reserve on Land and Buildings

The revaluation reserve represents solely the surpluses on the revaluation of buildings and freehold land (included within property and equipment), net of deferred tax.

Movements in the revaluation reserve are shown in the statement of changes in equity on page 19.

## 12. Retained Earnings

The retained earnings balance represents the amount available for distribution to the shareholders of the company, except for cumulative fair value gains on the company's investment properties amounting to Shs 17,000,000 (2004: Shs 2,000,000) whose distribution is subject to restrictions imposed by legislation.

# Notes to the Financial Statements

financial statements for the year ended 31 December 2005

## 13. Property and Equipment

	Buildings and freehold land Sh'000	Motor vehicles Sh'000	Fittings and equipment Sh'000	Total Sh'000
<b>Cost or Valuation</b>				
At 1 January 2004	60,000	4,542	17,730	82,272
Additions	-	1,345	11,036	12,381
Revaluation surplus	2,000	-	-	2,000
At 31 December 2004	62,000	5,887	28,766	96,653
At 1 January 2005	62,000	5,887	28,766	96,653
Additions	-	-	3,915	3,915
Revaluation surplus	10,000	-	-	10,000
Disposals	-	-	(35)	(35)
At 31 December 2005	72,000	5,887	32,646	110,533
Comprising:				
Cost	60,000	5,887	32,646	110,533
Valuation – 2004	2,000	-	-	-
Valuation – 2005	10,000	-	-	-
At 31 December 2005	72,000	5,887	32,646	110,533
<b>Depreciation:</b>				
At 1 January 2004	-	-	-	-
Charge for the year	420	1,471	5,850	7,741
Elimination on revaluation	(420)	-	-	(420)
At 31 December 2004	-	1,471	5,850	7,321
At 1 January 2005	-	1,471	5,850	7,321
Charge for the year	410	1,472	6,713	8,595
Elimination on revaluation	(410)	-	-	(410)
At 31 December 2005	-	2,943	12,563	15,506
Net book value at 31 December 2005	72,000	2,944	20,083	95,027
Net book value at 31 December 2004	62,000	4,416	22,916	89,332

Buildings and freehold land were last revalued during 2005, by CB Richard Ellis, independent valuers, on the basis of the market value for existing use. The next valuation is due to be carried out in 2006.

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2005 Shs'000	2004 Shs'000
Cost	60,000	60,000
Accumulated depreciation	(830)	(420)
Net book amount	59,170	59,580

# Notes to the Financial Statements

financial statements for the year ended 31 December 2005

<b>14. Intangible Assets</b>	<b>2005</b>	<b>2004</b>
	<b>Shs'000</b>	<b>Shs'000</b>
At start of year	13,899	16,139
Additions	497	1,235
	<u>14,396</u>	<u>17,374</u>
Amortisation	(3,574)	(3,475)
	<u>10,822</u>	<u>13,899</u>

<b>15. Investment Property</b>	<b>2005</b>	<b>2004</b>
	<b>Shs'000</b>	<b>Shs'000</b>
At start of year	411,500	426,000
Additions	-	803
Disposals	-	(17,303)
Fair value gains	15,000	2,000
	<u>426,500</u>	<u>411,500</u>

<b>16. Investment in Associates</b>	<b>2005</b>	<b>2004</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Reliance Insurance Company (T) Limited		
At start of year	27,385	24,016
Fair value (losses)/gains	(284)	3,369
	<u>27,101</u>	<u>27,385</u>

This comprises 204 ordinary shares of Tanzania Shillings 1,000,000 each representing 34% shareholding.

<b>17. Investment in Joint Venture</b>	<b>2005</b>	<b>2004</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Amini Management E.A Limited		
At start of year	2,867	-
Investment during the year	-	5,000
Fair value gains/(losses)	66	(2,133)
	<u>2,933</u>	<u>2,867</u>

This comprises 50,000 ordinary shares of Kenya Shillings 100/- each representing 50% equity interest in a joint venture with African Life Health (PTY) Limited.

# Notes to the Financial Statements

financial statements for the year ended 31 December 2005

<b>18. Equity Investments at Fair Value Through Profit or Loss</b>	<b>2005</b>	<b>2004</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Investment in quoted shares		
At start of year	571,436	350,925
Additions	158,324	283,684
Disposals	(42,959)	(95,214)
Fair value gains	399,598	32,041
	<u>1,086,399</u>	<u>571,436</u>
<b>19. Loans Receivable</b>	<b>2005</b>	<b>2004</b>
	<b>Shs'000</b>	<b>Shs'000</b>
<b>Mortgage Loans</b>		
At start of year	48,000	42,469
Loans advanced	-	16,051
Loan repayments	(3,732)	(10,520)
	<u>44,268</u>	<u>48,000</u>
Add:		
Adjustment of loans to fair value	10,305	-
	<u>54,573</u>	<u>48,000</u>
<b>Maturity Profile of Mortgage Loans</b>		
Loans maturing		
Within 1 year	3,316	4,136
In 1 – 5 years	9,617	12,233
In over 5 years	41,640	31,631
	<u>54,573</u>	<u>48,000</u>
Lending commitments		
Mortgage loans approved by the directors but not disbursed at 31 December 2005	9,310	-
	<u>9,310</u>	<u>-</u>
<b>Other Loans</b>		
At start of year	5,203	6,176
Loans advanced	7,222	3,206
Loan repayments	(3,607)	(4,179)
	<u>8,818</u>	<u>5,203</u>
<b>Maturity profile of Other Loans</b>		
Loans maturing:		
Within 1 year	4,315	2,453
In 1 – 5 years	4,503	2,750
	<u>8,818</u>	<u>5,203</u>
<b>Book Amount of:</b>		
- Mortgage loans	54,573	48,000
- Other loans	8,818	5,203
	<u>63,391</u>	<u>53,203</u>
Total loans receivable at 31 December		

There is no concentration of credit risk with respect to mortgage and other loans.

# Notes to the Financial Statements

financial statements for the year ended 31 December 2005

20.	<b>Reinsurers' Share of Insurance Liabilities</b>	<b>2005</b>	<b>2004</b>
		<b>Shs'000</b>	<b>Shs'000</b>
	Reinsurers' share of:		
	unearned premiums	87,984	147,651
	- notified claims outstanding	274,951	181,513
	- claims incurred but not reported	1,308	14,828
		<u>364,243</u>	<u>343,992</u>

Amounts due from reinsurers in respect of claims already paid by the company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the balance sheet. Movements in the above reinsurance assets are shown in note 26.

21.	<b>Deferred Acquisition Costs</b>	<b>2005</b>	<b>2004</b>
		<b>Shs'000</b>	<b>Shs'000</b>
	At start of year	41,116	36,235
	Additions	60,635	41,116
	Amortisation charge	(41,116)	(36,235)
	At end of year	<u>60,635</u>	<u>41,116</u>

22.	<b>Other Receivables</b>	<b>2005</b>	<b>2004</b>
		<b>Shs'000</b>	<b>Shs'000</b>
	Due from related companies (note 33)	2,052	22,719
	Staff advances	1,018	1,975
	Sundry deposits and prepayments	2,180	2,506
	Rental receivables	28,853	23,433
	Other	8,834	4,702
		<u>42,937</u>	<u>55,335</u>

23.	<b>Government Securities held to Maturity</b>	<b>2005</b>	<b>2004</b>
		<b>Shs'000</b>	<b>Shs'000</b>
	Treasury bills and bonds maturing		
	- within 1 year	186,927	139,925
	- in 1 – 5 years	49,453	26,438
	- after 5 years	14,375	19,984
		<u>250,755</u>	<u>186,347</u>

## 24. Weighted Average Effective Interest Rates

The following table summarises the weighted average effective interest rates realised during the year on the principal interest-bearing investments.

	<b>2005</b>	<b>2004</b>
Mortgage loans	11%	10%
Government securities	7%	5%
Deposits with financial institutions	8%	4%

Deposits with financial institutions have an average maturity of three months (2004: three months)

# Notes to the Financial Statements

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## 25. Insurance Contract Liabilities

	2005 Shs'000	2004 Shs'000
Short term non-life insurance contracts		
- claims reported and claims handling expenses	918,408	746,975
- unexpired risk provision	65,495	60,129
<b>Total – short term</b>	<b>983,903</b>	<b>807,104</b>

## 26. Movements in Insurance Liabilities and Reinsurance Assets

	2005			2004		
	Gross Shs'000	Reinsurance Shs'000	Net Shs'000	Gross Shs'000	Reinsurance Shs'000	Net Shs'000
Notified claims	928,488	181,513	746,975	862,814	150,205	712,609
Incurring but not reported	74,957	14,828	60,129	49,995	9,589	40,406
<b>Total at beginning of year</b>	<b>1,003,445</b>	<b>196,341</b>	<b>807,104</b>	<b>912,809</b>	<b>159,794</b>	<b>753,015</b>
Cash paid for claims settled in year	837,759	107,012	730,747	855,907	86,346	769,561
Increase in liabilities						
- arising from current year claims	727,773	156,586	571,187	644,869	106,442	538,427
- arising from prior year claims	366,703	30,344	336,359	301,674	16,451	285,223
	1,094,476	186,930	907,546	946,543	122,893	823,650
<b>Total at end of year</b>	<b>1,260,162</b>	<b>276,259</b>	<b>983,903</b>	<b>1,003,445</b>	<b>196,341</b>	<b>807,104</b>
Notified claims	1,193,359	274,951	918,408	928,488	181,513	746,975
Incurring but not reported	66,803	1,308	65,495	74,957	14,828	60,129
<b>Total at end of year</b>	<b>1,260,162</b>	<b>276,259</b>	<b>983,903</b>	<b>1,003,445</b>	<b>196,341</b>	<b>807,104</b>

# Notes to the Financial Statements

financial statements for the year ended 31 December 2005

## 27. Provisions for Unearned Premiums and Unexpired Risks

These provisions represent the liability for short term business contracts where the company's obligations are not expired at the year end. The unexpired risk provision relates to insurance contracts for which the company expects to pay claims in excess of the related unearned premium provision. Movements in the two reserves are shown below:

	2005			2004		
	Gross Shs'000	Reinsurance Shs'000	Net Shs'000	Gross Shs'000	Reinsurance Shs'000	Net Shs'000
Unearned premium provision						
At beginning of year	649,596	147,651	501,945	497,990	97,632	400,358
Increase in the year (net)	15,019	(59,667)	74,686	151,606	50,019	101,587
At end of year	<u>664,615</u>	<u>87,984</u>	<u>576,631</u>	<u>649,596</u>	<u>147,651</u>	<u>501,945</u>

## 28. Deferred Income Tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2004: 30%). The movement on the deferred income tax account is as follows:

	2005 Shs'000	2004 Shs'000
At start of year	(18,351)	-
Income statement credit (note 8)	(728)	(17,005)
Prior year deferred tax (note 8)	-	(2,072)
Deferred tax on revaluation surplus	3,123	726
At end of year	<u>(15,956)</u>	<u>(18,351)</u>

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

	1.1.05 Shs'000	Charged (credited) to income statement Shs'000	Charged (credited) to equity Shs'000	31.12.05 Shs'000
Property and equipment:				
- on historical cost basis	(26)	(391)	-	(417)
- on revaluation surpluses	726	-	3,123	3,849
Provisions	(920)	(1,468)	-	(2,388)
Tax losses carried forward	(18,131)	1,131	-	(17,000)
Net deferred tax liability	<u>(18,351)</u>	<u>(728)</u>	<u>3,123</u>	<u>(15,956)</u>

# Notes to the Financial Statements

financial statements for the year ended 31 December 2005

## 29. Other Payables

	2005 Shs'000	2004 Shs'000
Accrued expenses	9,614	14,752
Accrued leave costs	7,959	3,061
Rental deposits	11,337	4,716
Other liabilities	62,127	71,752
	<u>91,037</u>	<u>94,281</u>

## 30. 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 any outstanding litigation in this respect will not have a material effect on the financial position or profits of the company.

The company is subject to solvency requirements as specified in the Insurance Act in respect of its insurance and investment contracts, and had complied with those regulations at 31 December 2005 and 2004.

## 31. Commitments

### Capital Commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	2005 Shs'000	2004 Shs'000
Property and equipment	<u>7,204</u>	<u>6,435</u>

### Operating Lease Commitments

	2005 Shs'000	2004 Shs'000
The future minimum lease payments under non-cancellable Operating leases are as follows:		
Not later than 1 year	5,187	5,180
Later than 1 year and not later than 5 years	17,960	18,951
Later than 5 years	-	4,195
	<u>-</u>	<u>4,195</u>

# Notes to the Financial Statements

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32. (a) Cash Generated from Operations	2005 Shs'000	2004 Shs'000
Reconciliation of profit before tax to cash generated from operations;		
Profit before tax	459,416	43,912
Adjustments for:		
Interest income	(28,133)	(13,272)
Depreciation (note 13)	8,595	7,741
Amortisation of intangible assets (note 14)	3,574	3,475
Adjustments for loans to fair value	(10,305)	-
Profit on sale of property and equipment	-	(145)
Gains on sale of quoted and unquoted shares	(25,332)	(52,324)
Loss on sale of investment property	-	1,707
Change in fair value of investment property	(15,000)	(2,000)
Change in fair value of investment in unquoted shares	(399,598)	(32,041)
Share of (profit)/loss in joint venture	(66)	2,133
Change in fair value of investment in associate	284	(3,369)
Changes in:		
- technical provisions	271,737	155,674
- trade and other payables	(158,104)	(164,678)
- trade and other receivables	9,352	142,744
Cash generated from operations	<u>116,420</u>	<u>89,557</u>

## (b) Cash and Cash Equivalents

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

	2005 Shs'000	2004 Shs'000
Cash and bank balances	20,843	30,433
Deposits with financial institutions	9,902	13,241
Treasury bills & bonds maturing within the next 1 year	186,927	139,925
Borrowings	(56,610)	(37,888)
	<u>161,062</u>	<u>145,711</u>

# Notes to the Financial Statements

financial statements for the year ended 31 December 2005

## 33. Related Parties

The company is controlled by Apollo Insurance Company Limited, incorporated in Kenya, which owns 60.03% of the company's shares. The remaining shares are held by PA Securities Limited, also incorporated in Kenya. In the normal course of business, insurance policies are sold to related parties at terms and conditions similar to those offered to major clients.

	2005 Shs'000	2004 Shs'000
<b>i) Transactions with related parties</b>		
Gross earned premiums:		
- Parent Limited	170	192
- Other related parties	447	14
	<u>447</u>	<u>14</u>
<b>ii) Outstanding balances with related parties</b>		
Mortgages advanced to staff	54,573	48,000
Premiums receivable from related parties	748	1,802
Due from Apollo Insurance Company Limited	2,741	19,656
Due from Reliance Insurance Company (T) Limited	922	-
Due from Amini Management (EA) Limited	7,654	7,291
Due from PA Securities Limited	1,477	1,349
Due from Gordon Court Limited	2,052	-
	<u>2,052</u>	<u>-</u>
<b>iii) Loans to directors of the company</b>		
At start of year	2,225	-
Loans advanced during the period	3,750	2,408
Loan repayments received	(1,826)	(183)
	<u>4,149</u>	<u>2,225</u>
<b>iv) Directors' and senior management remuneration</b>		
Directors' fees	1,245	1,660
Directors' other remuneration	38,088	37,306
Remuneration to key management personnel	30,419	23,982
	<u>30,419</u>	<u>23,982</u>
<b>Total</b>	<u>69,752</u>	<u>62,948</u>

The loans to directors were given on commercial terms and at prevailing market rates

# Notes to the Financial Statements

financial statements for the year ended 31 December 2005

## 34. Risk Management Objectives and Policies

The company's activities expose it to a variety of financial risks, including insurance risk, financial risk, credit risk, and the effects of changes in property values, debt and equity market prices, foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place, which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

This section summarises the way the company manages key risks:

### Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The company has 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.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical local and type of industry covered.

### 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 interest rate risk and equity price risk.

# Appendix

## Underwriting Revenue Account for the year ended 31 December 2005

Class of Insurance Business	Aviation Shs''000	Engi- neering Shs''000	Fire Domestic Shs''000	Fire Industrial Shs''000	Liability Shs''000	Marine & Transit Shs''000	Motor Private Shs''000	Motor Commercial Shs''000	Personal Accident Shs''000	Theft Shs''000	Workmen's Compensation Shs''000	Miscella- -neous Shs''000	Total 2005 Shs''000	Total 2004 Shs''000
Gross premium written	53,838	36,987	20,319	135,341	22,283	54,019	135,512	267,383	601,127	54,059	55,940	67,558	1,504,366	1,406,873
Change in gross UPB	(10,628)	(6,005)	(3,808)	(11,453)	(4,273)	(2,489)	23,200	(24,258)	(23,906)	124	(8,928)	(2,260)	(74,684)	(101,587)
Gross earned premium	43,210	30,982	16,511	123,888	18,010	51,530	158,712	243,125	577,221	54,183	47,012	65,298	1,429,682	1,305,286
Less: reinsurance payable	(32,948)	(16,129)	(3,264)	(43,386)	(5,298)	(11,860)	(5,199)	(11,398)	(22,346)	(9,418)	(2,054)	(1,854)	(165,154)	(243,320)
<b>Net earned premiums</b>	<b>10,262</b>	<b>14,853</b>	<b>13,247</b>	<b>80,502</b>	<b>12,712</b>	<b>39,670</b>	<b>153,513</b>	<b>231,727</b>	<b>554,875</b>	<b>44,765</b>	<b>44,958</b>	<b>63,444</b>	<b>1,264,528</b>	<b>1,061,966</b>
Gross claims paid	4,847	8,825	13,738	10,759	(636)	14,759	143,764	127,998	426,075	24,750	54,723	916	830,518	855,906
Change in gross o/s claims	129	(1,711)	(3,777)	(54,668)	2,995	(3,488)	(3,363)	54,698	(24,991)	(30,137)	28,287	(1,022)	(37,048)	54,088
Less: Reinsurance recoverable	640	2,213	92	27,843	6,569	5,665	4,936	19,877	13,624	21,699	3,318	538	107,014	(86,344)
<b>Net claims incurred</b>	<b>5,616</b>	<b>9,327</b>	<b>10,053</b>	<b>(16,066)</b>	<b>8,928</b>	<b>16,936</b>	<b>145,337</b>	<b>202,573</b>	<b>414,708</b>	<b>16,312</b>	<b>86,328</b>	<b>432</b>	<b>900,484</b>	<b>823,650</b>
Commissions receivable	(6,052)	(3,647)	(338)	(22,880)	(2,995)	(3,376)			(792)	(550)	(682)	(319)	(41,631)	(38,383)
Commissions payable	1,757	7,747	2,981	32,384	3,607	8,473	14,571	24,126	52,935	5,250	9,709	6,554	170,094	133,272
Expenses of management	10,629	7,684	4,488	27,627	4,588	11,100	28,141	55,875	69,967	11,173	11,612	14,129	257,013	230,963
<b>Total expenses and commissions</b>	<b>6,334</b>	<b>11,784</b>	<b>7,131</b>	<b>37,131</b>	<b>5,200</b>	<b>16,197</b>	<b>42,712</b>	<b>80,001</b>	<b>122,110</b>	<b>15,873</b>	<b>20,639</b>	<b>20,364</b>	<b>385,476</b>	<b>325,852</b>
<b>Underwriting profit/(loss)</b>	<b>(1,688)</b>	<b>(6,258)</b>	<b>(3,937)</b>	<b>59,437</b>	<b>(1,416)</b>	<b>6,537</b>	<b>(34,536)</b>	<b>(50,847)</b>	<b>18,057</b>	<b>12,580</b>	<b>(62,009)</b>	<b>42,648</b>	<b>(21,432)</b>	<b>(87,536)</b>

### Key ratios

	2005	2004
Loss ratio: (net claims incurred/net earned premium)	71.21%	77.56%
Commissions ratio (commissions payable/gross premium written)	10.87%	9.47%
Expense ratio (management expenses/gross written premium)	17.08%	16.42%

# Our Headquarters

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**P O Box 30065 Nairobi 00100, Kenya**  
**Tel: 254 20 286 2000 Fax: 254 20 286 2200**  
**Website: [www.apainsurance.org](http://www.apainsurance.org)**  
**Email: [info@apainsurance.org](mailto:info@apainsurance.org)**

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