

KENYA REINSURANCE CORPORATION LIMITED

Incorporated in Kenya under the Companies Act (Cap. 486)

Registration No. C 6/97

PROSPECTUS

relating to

An Offer For Sale by the Government of Kenya
of Up To 240,000,000 Fully Paid and
Issued Ordinary Shares of Kshs 2.50
Each at Kshs 9.50 Per Ordinary Share

and incorporating

An Application Form

Offer Opens at 9.00 am on 18th July 2007

Offer Closes at 3.00 pm on 31st July 2007

Admission 27th August 2007

Transaction Advisors

Lead Transaction Advisor: Dyer & Blair Investment Bank Limited in Consortium with PKF Kenya Limited and QED Actuaries and Consultants (Pty) Limited

Joint-Lead Sponsoring Brokers: Standard Investment Bank Limited and CFC Financial Services Limited

Co-Sponsoring Stockbroker: Suntra Investment Bank Limited

Reporting Accountants: PricewaterhouseCoopers

Legal Advisors: Hamilton Harrison & Mathews, Rachier & Amollo Advocates and Denton Wilde Sapte

Receiving Bank, Agent and Share Registrar: Kenya Commercial Bank Limited

Public Relations and Advertising: Lowe Scanad Kenya Limited



IMPORTANT NOTICE

If you are in doubt about the content of this document or what action you should take, you are advised to contact your investment bank, financial advisor, stockbroker, banker or other relevant professional advisor, duly authorized under the Capital Markets Act, who specialises in advising on the acquisition of shares and other securities.

Registration and Approvals

A copy of this Prospectus comprising an Offer for Sale (an "Offer") together with the attached documents required by Section 43 of the Companies Act (Cap.486) have been delivered to the Registrar of Companies in Nairobi for registration.

Application has been made to the Capital Markets Authority ("CMA") and approval has been granted by the CMA for the Offer being made to the public and for the listing of ordinary shares of Kenya Re-Insurance Corporation Limited (the "Corporation") on the Main Investment Market Segment of the Official List of the Nairobi Stock Exchange ("NSE"). As a matter of policy, the CMA assumes no responsibility for the correctness of any statements or opinions made or reports contained in this Prospectus. Approval of the Offer and listing is not to be taken as an indication of the merits of the issuer or of the securities.

Application has also been made to the Nairobi Stock Exchange Limited ("NSE") for the admission of 600,000,000 ordinary shares of the Corporation and approval has been granted by the NSE for the admission of the entire issued share capital of the Corporation on the Main Investment Market Segment of the Official List of the NSE. As a matter of policy, the NSE assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed or contained or referred to in this Prospectus.

The Government of Kenya and the Board of Kenya Re have approved the Offer.

The Directors of the Corporation (named in Part VI of this Prospectus), accept responsibility for the information contained in this document. To the best knowledge and belief of the Directors and the Vendor (who have taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

KENYA REINSURANCE CORPORATION LIMITED

(Incorporated in Kenya under the Companies Act (Cap. 486) Registration No. C 6/97)

**OFFER FOR SALE OF 240,000,000 ISSUED ORDINARY SHARES OF PAR VALUE KSHS
2.50 EACH BY THE GOVERNMENT OF KENYA AT KSHS 9.50 PER SHARE**

Rights

The Offer Shares will rank equally in all respects with the existing issued Ordinary Shares of Kshs 2.50 and will carry the right to participate in full in any dividends to be declared and paid, if any, on the ordinary share capital of the Corporation, in respect to the financial year beginning 1st January 2007.

Reporting Accountant's Opinion

This Prospectus contains statements from PricewaterhouseCoopers, the Reporting Accountants, which constitute a statement made by an expert in terms of Section 42(1) of the Companies Act. PricewaterhouseCoopers have not withdrawn their consent to the issue of the said statements in the form and context in which they are included in this Prospectus.

Legal Advisor's Opinion

Hamilton Harrison & Mathews, Rachier & Amollo and Denton Wilde Sapte, the Legal Advisors, have similarly given and not withdrawn their written consent to the inclusion in this Prospectus of their letter in Annexure III - Legal Opinion and the reference to their name, in the form and context in which they appear and have authorised the inclusion of the contents of their letter set out in Annexure III - Legal Opinion of this Prospectus.

Copies of this Prospectus may be obtained from the registered offices of Kenya Reinsurance Corporation Limited, the Lead Transaction Advisors, the Lead Stockbrokers, the Receiving Bank and any of the Authorized Selling Agents whose addresses are set out in Annexure VII of this Prospectus.

Withholding tax on dividend payments

Withholding tax at the rate of 5% will be deducted from dividend payments made to Kenya resident shareholders of the Corporation and at 10% for non-resident shareholders in terms of prevailing legislation as set out in the Kenya Income Tax Act (which is subject to revision through changes in Government policy). Non-residents may be entitled to a tax credit in their country of residence, either under domestic law or under the tax treaties referred to below.

Stamp duty

So long as the Offer Shares are listed on the NSE, no stamp, registration or similar duties or taxes are payable in Kenya in connection with the transfer of the shares in accordance with current legislation.

Tax treaties

Kenya has entered into double taxation treaties with Canada, Denmark, Germany, India, Norway, Sweden, the United Kingdom and Zambia. Treaties with Italy, Uganda and Tanzania have been signed, but are not yet in force.



LETTER FROM PERMANENT SECRETARY, TREASURY

28th June 2007

Dear Investor,

It gives me great pleasure to present this Prospectus for the Kenya Re Share Offer. The Government of Kenya, acting through the Permanent Secretary to the Treasury, is providing the public at large an opportunity to own shares in Kenya's largest locally incorporated reinsurance corporation. Upon conclusion of the Offer, the public will hold 40% of the Corporation's equity and the remaining 60% will be retained by the government.

The Government of Kenya intends to sell shares of Kenya Re to achieve its privatisation objectives which among others include broadening the shareholding in the economy and deepening the capital market. Through listing of the Corporation, the government seeks to enhance corporate governance by subjecting the Corporation to more public scrutiny through shareholders meetings, Capital Market Authority Regulations and the NSE listing requirements. Through the sale, the government will also ensure a fair return on the public investment which will be applied to finance ongoing government initiatives.

Kenya Re is one of the largest re-insurers in the region. It has a strong asset base of Kshs 11.3 billion and is currently commanding more than 21% of all domestic re-insurance premiums. Recently, the Corporation has expanded its business both in scope and geography. The Corporation reinsures risks in over 41 countries across Africa, Asia, Europe and the Middle East. Approximately 40% of its revenues is derived from international operations.

The Corporation is rated B+ (Very Good) by A.M. Best, one of the oldest and most recognised rating agencies dedicated to the insurance industry worldwide. This, coupled with prudent underwriting, has enhanced the international market's confidence in Kenya Re. As a result, the Corporation has reported considerable growth in profits and premium income from international markets, which has increased from Kshs 55 million in 1997 to Kshs 1.12 billion in 2006.

Kenya's economy grew by 6.1% in 2006 and is expected to keep growing over the next few years (*Source: Central Bank of Kenya*). As the economy grows, we expect an increase in disposable income that feeds into expansion of the insurance sector. This growth is further expected as people become more aware of the benefits of asset and life insurance. In Kenya, the life insurance underwriting sector in 2005 received premium income of Kshs. 11.03 billion made up of about 64% of gross premiums in the long term (ordinary & group life insurance) business. Individual life insurance sector grew by 13% in

2006, while the premiums received from it grew by 22%. (Source: *AKI Insurance Industry Statistics Report 2005 and Kenya Re Audited annual Accounts*)

Kenya Re received a good portion of its annual income from its large investment portfolio valued at Kshs 8.8 billion at the end of 2006. The portfolio is being restructured to enhance performance by diversifying from real estate holdings to more liquid securities such as listed shares and investment grade debt.

Kenya Re is proud of its achievements to date and looks to the future with confidence and enthusiasm. Looking forward, Kenya Re has embarked on restructuring to allow it to respond quickly and proactively to changes in the industry. The Corporation has also aligned itself with key overseas reinsurance brokers in a bid to enhance and expand its international business.

This prospectus sets out the details of the Offer for sale and the listing of the ordinary shares of Kenya Re on the Main Investment Market Segment of the Nairobi Stock Exchange. Please read the full Prospectus to obtain a better understanding of the potential rewards and risks relating to investing in Kenya Re. I recommend that potential applicants seek professional advice where necessary.

I look forward to welcoming you as a shareholder in Kenya Reinsurance Corporation Limited.

Yours sincerely,



JOSEPH K. KINYUA, CBS
Permanent Secretary, Treasury

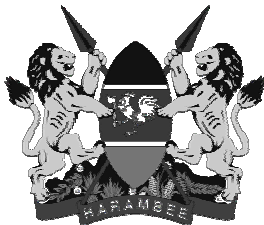


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TERMS AND DEFINITIONS

Unless otherwise stated, the words in the first column have the meaning stated opposite them in the second column. Words in the singular include the plural and vice versa, words signifying one gender include the other gender, and a reference to a person includes a reference to a corporate body (and vice versa) throughout this Prospectus, its annexure and enclosures:

“Act”	The Companies Act (Chapter 486 of the Laws of Kenya);
“Admission”	The admission of the Kenya Reinsurance Ltd Shares to the Official List of the NSE in accordance with the Listing Requirements;
“Application Form”	The application form attached to this Prospectus;
“Applicants”	The prospective investors who submit Application Forms for the Offer Shares;
“Announcement Date”	Date of announcement of the results of the allocation of Offer Shares as specified in Para 1 of the Salient Features of the Offer;
“Articles”	The Articles of Association of the Corporation;
“Authorised Cheque”	A banker’s or Authorised Selling Agents cheque;
“Authorised Selling Agent”	The authorised licensed stockbrokers, investment banks and commercial banks as set out in Annexure VII of this Prospectus. Kenya Commercial Bank is the only commercial bank acting as an Authorized Selling Agent;
“Board”	The board of directors of Kenya Re;
“Business day”	Any day other than a Saturday, Sunday or official public holiday in the Republic of Kenya;
“CDS”	Central Depository System, an electronic share transfer facility to facilitate the deposit and dealing of immobilized listed shares at the NSE;
“CDS Account”	A securities account opened on behalf of a shareholder with the CDSC Limited for purposes of recording the deposit and dealing of immobilized shares;
“CDSC Limited”	The Central Depository & Settlement Corporation Limited, a Corporation incorporated in accordance with the Act and licensed by the CMA, the operator and managing agent of the CDS;
“Closing Date”	Being the last date and time for submission of Application Forms;

“CMA”	The Capital Markets Authority of Kenya established under the Capital Markets Act (Cap 485A, Laws of Kenya);
“CMA Act”	The Capital Markets Act, Cap 485A of the Laws of Kenya;
“COMESA”	Common Market for Eastern and Southern Africa;
“Financial Services Sector”	A market sector of the NSE;
“Corporation” or “Kenya Re”	Kenya Reinsurance Corporation Limited, a public limited liability company incorporated in accordance with the Companies Act (C 6/97) to be listed on the NSE pursuant to the successful completion of the Offer;
“Corporate Investor”	A company duly incorporated under the Act, collective investment vehicle, trustees of associations, a licensed financial institution, co-operative society and any other corporate body or registered organization other than a Qualified Institutional Investor, Insurance Company or an individual or group of individuals;
“Director”	A Director of the Corporation;
“DPS”	Dividend per Kenya Re share;
“EPS”	Earnings per Kenya Re share;
“GDP”	Gross domestic product [measure of economic output];
“GOK” or “GoK”	Government of Kenya;
“IFRS”	International Financial Reporting Standards (also referred to as International Accounting Standards (IAS));
“Insurance Company”	Any locally incorporated insurance company which is licensed under the Insurance Act (Cap 487) of the Laws of Kenya. Foreign insurance companies operating in Kenya will be treated as Retail Investors;
“IPO”	Initial Public Offer;
“Kenya Re Shareholders”	The holders of ordinary shares in the Corporation;
“KShs” or “Kshs”	Kenya Shillings or the currency of the Republic of Kenya;
“Listing”	Admission of the Kenya Re shares to the Official List of the Nairobi Stock Exchange;

“NAV”	Net Asset Value;
“Net Proceeds”	The gross proceeds of this Offer in respect to the Offer Shares less commissions and expenses thereof;
“NSE”	Nairobi Stock Exchange or the Nairobi Stock Exchange Limited;
“Offer”	The invitation constituted by this Prospectus to prospective investors to subscribe for and or acquire Offer Shares on the terms and subject to the conditions set out in this Prospectus and in the Application Form;
“Offer Price”	Kshs 9.50 per Offer Share;
“Offer Shares”	The 240,000,000 shares, owned by the Vendor, being offered for sale by the Vendor to prospective investors on the terms and subject to the conditions set out in this Prospectus and in the Application Form ; these shares are to be allocated to prospective investors pursuant to the successful completion of the Offer;
“Opening Date”	Being the first date for acceptance of applications for the Offer shares;
“Para”	Paragraph in this Prospectus;
“Par Value”	The nominal value of Kenya Re shares;
“PE”	Price to earnings ratio;
“Prospectus”	This Prospectus together with its schedules and the attached Application Form;
“Qualified Institutional Investor”	Fund managers licensed by the Capital Markets Authority under the Capital Markets Act, Collective Investment Schemes licensed by the Capital Markets Authority under the Capital Markets Act, Investment Banks licensed by the Capital Markets Authority under the Capital Markets Act, Fund managers, custodians and schemes licensed by the Retirement Benefits Authority under the Retirement Benefits Act (no. 3 of 1997) and National Social Security Fund Cap 258;
“Receiving Agent/ Bank”	Kenya Commercial Bank Limited, a public corporation incorporated in accordance with the Act (Registration No. C.9/88) listed on the NSE and licensed by the Central Bank of Kenya as a commercial bank;
“Retail Investor”	Individual Investors and Corporate Investors;
“Share Registrar”	Kenya Commercial Bank Ltd;

“Shares” or “shares”

The ordinary shares of Kshs 2.50 each in the issued share capital of the Corporation;



“VAT”

Value Added Tax;

“Vendor”

The Government of Kenya through the Permanent Secretary to the Treasury.

ADVISORS TO THE CORPORATION AND VENDOR

Lead Transaction Advisor		
 <p>Dyer & Blair Investment Bank Ltd Loita House , 10th Floor PO Box 45396 - 00100 Nairobi Telephone: 3240000</p>		
in Consortium with		
 <p>PKF Kenya Limited Kalamu House Waiyaki Way PO Box 14077-00800 Nairobi Telephone: 4446616-9</p>	 <p>QED Actuarial & Consultants (Pty) Ltd Aon House 28 Fricker Road, Illovo 2196 Johannesburg South Africa Telephone:+27 11 380 9000</p>	
Joint Lead Sponsoring Stock Brokers		Co- Sponsoring Broker
<p>CFC Financial Services Ltd Head Office, 2nd Floor, CFC Centre, Chiromo Road, P. O. Box 47198 - 00100, Nairobi, Telephone:3638900/ 0721371941</p>	<p>Standard Investment Bank Ltd 16th Floor, ICEA Building, Kenyatta Avenue, P.O.Box 13714 - 00800, Nairobi Telephone: 220225</p>	<p>Suntra Investment Bank Ltd 10th Floor, Nation Centre, Kimathi Street, P.O. Box 74016 - 00200, Nairobi Telephone: 223329</p>
Legal Advisors		
<p>Hamilton, Harrison & Mathews 4th Floor, ICEA Building Kenyatta Avenue P.O.Box 30333 -00100 Nairobi Telephone: 225981/225981/311594</p>	<p>Rachier & Amollo Reinsurance Plaza, 7th Floor Taifa Road, P.O. Box 55645 -00200, Nairobi , Telephone : 212186/210613</p>	<p>Denton Wilde Sapte One Fleet Place London EC4M 7WS UK</p>
Receiving Bank & Registrars	Reporting Accountant	Advertising & PR
<p>Kenya Commercial Bank Ltd 2nd Floor, Kencom House Moi Avenue P.O Box 48400 -00100, Nairobi Telephone: 3270000</p>	<p>PricewaterhouseCoopers 7th Floor, Rahimtulla Towers Upper Hill Road P O Box 43963 -00100, Nairobi Telephone: 2855000</p>	<p>Lowes Scanad Ltd 5th Floor, The Chancery Building, Valley Road, P. O. Box 48405 - 00100 Nairobi Telephone: 2710021</p>

CORPORATE INFORMATION

DIRECTORS:

NAME	OCCUPATION	ADDRESS	NATIONALITY
Nelius Kariuki	Economist	14187 - 00800 Westlands	Kenyan
Jacob Haji Ali	Businessman	6 Rhamu Mandera	Kenyan
Dr. Iruki Kailemia	Pharmacist	29787 - 00202 Nairobi	Kenyan
Joseph Kinyua	Civil Servant	Treasury	Kenyan
Everest Lenjo	International Marketer	55042 – 00200 Nairobi	Kenyan
S. Mutwiri Ikiao	Finance Executive	67181 – 00200 Nairobi	Kenyan
Gladys Mboya	Lawyer	74041 - 00200 Nairobi	Kenyan
Mutua Kilaka	Civil Servant	Treasury	Kenyan
Eunice Mbogo	Reinsurance Executive	45354 - 00100 Nairobi	Kenyan

<p>CORPORATION SECRETARY: J. F. Otieno (Mrs) 15th Floor, Reinsurance Plaza, Taifa Road P.O. Box 30271- 00100 Nairobi GPO</p>	<p>SHARE REGISTRAR: KCB Registrars 7th Floor, Kencom House, Moi Avenue P.O. Box 48400-00100 Nairobi, GPO</p>
<p>CORPORATION AUDITORS: KPMG Kenya 16th Floor, Lonrho House Standard Street P.O. Box 40612-00100 Nairobi GPO</p>	<p>CONSULTING ACTUARIES: Eagle Africa Insurance Brokers Limited. 9th Floor, Nation Centre Kimathi Street P.O. Box 52439- 00200 Nairobi, City Square</p>
<p>CORPORATION ADVOCATES:</p>	
<p>Hamilton Harrison and Mathews 4th Floor, ICEA Building, Kenyatta Avenue Nairobi P.O. Box 30333 00100 Nairobi GPO</p>	<p>Rachier & Amollo Advocates 7th Floor, Reinsurance Plaza, Taifa Road P.O. Box 55645 00100 Nairobi GPO</p>

REGISTERED OFFICE AND HEAD OFFICE OF THE CORPORATION:

Reinsurance Plaza, 15th Floor,
Taifa Road
P. O. Box 30271
00100 Nairobi GPO

SUBSIDIARIES

Kenya Re Properties Limited
P.O. Box 30271
00100 Nairobi GPO

Wedco Limited
P.O. Box 30271
00100 Nairobi GPO

BANKERS

Kenya Commercial Bank Limited
Moi Avenue
P.O. Box 30081
Nairobi

National Bank of Kenya Limited
Harambee Avenue
P.O. Box 41862
00100 Nairobi GPO

Bank of Africa Kenya Limited
Reinsurance Plaza, Taifa Road
P.O. Box 69562 – 00400
Nairobi

Lloyds TSB Bank PLC
Fenchurch Street Branch
72 Fenchurch Street
London
EC3P3EH
United Kingdom

Citibank, NA –
P.O. Box 30711
00100 Nairobi GPO
Citibank House

SALIENT FEATURES OF THE OFFER

1. LEGAL BASIS OF THE OFFER

In accordance with the GOK's policy of divesting from commercial public enterprises, the GOK, through Treasury is making available 240,000,000 Kenya Re Shares (i.e. 40% shareholding in Kenya Re) to the public and the Corporation employees, by way of an Offer for Sale, at an Offer Price of Kshs 9.50 per share.

7,200,000 shares of the 240,000,000 shares have been reserved for the employees of Kenya Re under the Offer while a further 48,000,000 shares have been reserved for locally incorporated insurance companies. The remaining 184,800,000 shares have been reserved for the retail and Qualified Institutional Investors.

The gross proceeds of the Offer amounts to Kshs 2.28 billion. The total Offer expenses are estimated at Kshs 288,869,047. The net proceeds of the Offer, estimated at Kshs 1,991,130,953 billion, will accrue to the GoK for budgetary purposes.

2. TIMETABLE OF PRINCIPAL EVENTS

Offer Opening Date	9.00 a.m. 18th July 2007
Closing Date	3.00 p.m. 31st July 2007
Announcement Date	21st August 2007
Date for commencing Electronic crediting of CDS Accounts with Offer Shares and/or dispatch of share certificates for the Offer Shares and/or refund cheques (applicable if applications are received in excess of the number of Offer Shares)	22nd August 2007
Commencement of trading of Offer Shares on the NSE	27th August 2007

3. KEY OFFER STATISTICS

Offer Price per Offer Share	KShs	9.50
Par value of each Offer Share	KShs	2.50
Authorised share capital of the Corporation	KShs	2,000,000,000
Total number of issued shares		600,000,000
Total number of Offer Shares		240,000,000
Gross proceeds of the Offer	KShs	2,280,000,000
Net profits for the twelve (12) month period ended 31.12.2006	KShs	390,449,000
Dividend paid for the twelve (12) month period ended 31.12.2006	KShs	150,000,000
DPS for the twelve (12) month period ended 31 st December 2006	KShs/ share	0.25
EPS for the twelve (12) month period ended 31 st December 2006	KShs/ share	0.65
Implied dividend yield based on the DPS for the twelve (12) month period ended 31.12.2006		2.63%
Implied PE (historical) based on the EPS for the twelve (12) month period ended 31 st December 2006		14.62
Average NSE PE for Financial Sector for the past 6 months		20.56
Forecast full year net profits as at 31 st December 2007	KShs	536,644,000
Forecast EPS as at 31.12.2007	KShs	0.89
Forecast DPS as at 31.12.2007	KShs	0.25
Implied PE as at 31.12.2007 based on the Forecast EPS		10.62
Implied Dividend Yield as at 31.12.2007 based on the Forecast EPS		2.63%

4. KEY SHAREHOLDER DETAILS

The Government of Kenya is the sole shareholder of Kenya Re. However, this is envisaged to change once the Offer for sale is concluded.

5. REASONS FOR DIVESTITURE BY GOK AND LISTING ON THE NSE

- i. *To implement its long term reform agenda of divesting from commercial activities:* The divestiture of Kenya Re is expected to enhance private sector participation leading to increased efficiency, productivity and service delivery levels, hence creating a more sustainable re-insurer with strong financial and operating standing.
- ii. *To realize a fair return and raise revenue for the Exchequer:* The GoK has invested heavily in terms of funds and time in nurturing Kenya Re in the past. Therefore, the GoK is seeking a fair return from this divestiture for the improvement of public finances.
- iii. *To ensure as wide an ownership as possible:* This objective is behind the Government's decision to divest through the Nairobi Stock Exchange. Associating individual Kenyan investors to the development of the Kenyan economy is part of the reforming Government's agenda.
- iv. *To deepen the Kenyan Capital Market:* The decision to dispose of 40% of Kenya Re by the Government is a clear demonstration of its commitment to deepen the capital market, in line with instituted measures aimed at accelerating the growth of the capital market.

6 OFFER SHARES AND PRICE

Basis for setting the offer price

The Vendor and the Corporation in consultation with the Transaction Adviser and the Lead Sponsoring Stock Brokers have determined the issue price using the anticipated valuation parameters set out in the Key Offer Statistics Section of the Prospectus. The offer price also took into account the following factors:

- The country macro-economic outlook,
- The earning potential of the Corporation,
- The observed earnings multiples at which the shares of comparable companies in Kenya and other developing countries were shortly prior to the Offer,
- Observed capital markets performance indicators in Kenya.

7. ELIGIBILITY

The Offer is open to any member of the public including individuals, corporations, institutions and foreign investors who make an application in the required form through an Authorised Selling Agent in Kenya

8. MINIMUM APPLICATION AND ALLOCATION POLICY

- i. The allocation policy has been designed to comply with the requirements of the Capital Markets (Securities)(Public Offers, Listing and Disclosure) Regulations 2002 with regard to the share ownership structure of the Corporation to ensure that at least 25% of Kenya Reinsurance Corporation shares are held by not less than 1,000 shareholders.

- ii. The Directors wish to achieve balanced distribution of the Offer Shares between institutions, companies and individual members of the public in addition to ensuring that employees of Kenya Reinsurance Corporation participate in the Offer. In this regard, the Directors of the Corporation have determined that the Offer Shares shall be allocated applying the following allocation policy:-

Category of Applicant	Number of Offer Shares	% of Offer Shares
Employees	7,200,000	3
Insurance Companies	48,000,000	20
Qualified Institutional Investors (QII)	72,000,000	30
Retail (Corporate and individual investors)	112,800,000	47
Total	240,000,000	100

- iii. There is no maximum restriction on the total number of Offer Shares any Applicant may apply for in any category.
- iv. In the event that the total number of Offer Shares applied for by Applicants in any of the above four categories equates to the respective total number of Offer Shares reserved for that category, all valid applications will be allocated in full as per the number of Offer Shares applied for by such Applicants.
- v. In the event that the total number of Offer Shares applied for by Applicants in a particular category are below the total number of Offer shares reserved for that category, the following will apply:

All valid applications received from Applicants will be allocated in full as per the number of Offer Shares applied for taking into account the minimum number of shares that may be applied for by any Applicant in each category

The balance of Offer Shares will be available for allocation to Applicants in the other categories which are over subscribed, and such excess Offer Shares will be aggregated and the pool of excess Offer Shares available will be allocated pro-rata to the excess shares applied for in the other categories.

- vi. Applicants in any over-subscribed category may receive fewer Offer Shares than the number applied for. Applicants will be allocated 100 Offer Shares in the first instance and thereafter in multiples of 100 Offer Shares on a pro rata basis, rounded down to the nearest 100 shares, until all shares in the category, plus remaining unallocated balances from the other categories, if any, are fully exhausted.

In the event that the results of the subscription make the above policy impractical then an amendment of the allotment policy shall be made with the approval of the Capital Markets Authority and such amendment will be announced within twenty four hours of the grant of such approval.

- vii. The Vendor will not exercise the “greenshoe” option whereby in case of an oversubscription the Vendor increases the number of shares allotted to applicants up to a maximum of 15% of the Offer shares.

- viii. In the event of any doubt whatsoever as to the eligibility of an Applicant in a particular category, the decision of the Vendor will be final. An aggrieved applicant may appeal to the CMA for the determination. The decision of the CMA shall be final and binding on all relevant parties.
- ix. The Minimum application size for each category and any application for additional Offer Shares above the indicated minimum shall be as provided in the table below:

Category of Applicant	Minimum Application Size	Thereafter in multiples of
Employees	2,000	1,000
Insurance Companies	100,000	10,000
Qualified Institutional Investors (QII)	100,000	10,000
Retail (Corporate and individual investors)	2,000	1,000

- xi. Locally registered Life and General Insurance companies who are members of the Association of Kenya Insurers (AKI) can only apply for the shares reserved for insurance companies.
- xii. Foreign registered Life and General insurance companies will only be able to apply for shares reserved for the retail investors as corporate bodies.
- xiii. An applicant shall only qualify to apply for the Kenya Re IPO shares in one category

MINIMUM AGGREGATE SUBSCRIPTION AND APPLICATIONS

The Corporation shall not proceed with the Offer unless valid applications for the Offer Shares are received from not less than 1,000 applicants (excluding employees and directors of the Corporation) for a total consideration of KShs 375,000,000 representing 62.5% of the Offer Shares.

9. APPLICATION OF PROCEEDS

The net proceeds from the sale of the Offer Shares will accrue to the Government of Kenya through Treasury.

10. STOCK EXCHANGE LISTING

The Nairobi Stock Exchange has given permission for the whole of the issued share capital of the Corporation to be admitted to the Official List of the Nairobi Stock Exchange Main Investment Market Segment (MIMS). Dealings in the Shares of the Corporation are expected to commence on 27th August 2007.

11. FOREIGN INVESTORS

The Capital Markets Authority (Foreign Investors) Regulations 2002 define a 'foreign investor' as being 'any person who is not a local investor or an East African investor'.

Foreign investors may apply for shares in Kenya Re, subject to certain restrictions set out

below. The offer of Shares to foreign investors may be affected by laws and regulatory requirements of the relevant jurisdictions. Any foreign investors wishing to apply for the Offer Shares must satisfy themselves as to the full observance of the laws of the relevant territory and governmental and other consents to ensure that all requisite formalities are adhered to and pay any issue, transfer or other taxes due in such territory. Foreign investors are advised to consult their own professional advisers as to whether they require any governmental or other consent or need to observe any applicable legal or regulatory requirements to enable them to apply for and purchase the Offer Shares

Regulation 3 (1) of the Foreign Investors Regulations provides that:

- (i) *“Every listed Company shall reserve at least twenty-five per centum of its ordinary shares for investment by local investors in the issuer or listed Company”.*
- (ii) The shares to be reserved should be the percentage of the ordinary shares already listed on the securities exchange.
- (iii) Regulation 3(3) of the Foreign Investors Regulations goes on to provide that:

“Any proportion of the voting shares of a listed Company in excess of twenty - five per centum reserved for local investors, shall be a free float available for investment by, among others, foreign investors without restrictions except as provided under the Capital Markets (Take-overs and Mergers) Regulations 2002”.
- (iv) Where, in the case of public offering, the per centum reserved for local investors is not subscribed for in full by local investors, the issuer may with the prior written approval of the Authority, allot the shares so remaining to East African investors and foreign investors.
- (v) Regulation 4 (1) the Foreign Investors Regulations imposes a duty on a listed Company to maintain a register of shareholders at all times with an indication of whether they are foreign, East African or local investors.
- (vi) Certificates for shares owned by foreign investors must be deposited with an authorised depository in Kenya in accordance with the regulations. Any foreign investor who wishes to apply for shares should obtain guidance from an authorised agent before completing and lodging an application form.

In light of the above, Kenya Re reserves the right to treat as invalid any application or purported application to purchase the Offer Shares which appear to Kenya Re or its agents to have been executed, effected, or dispatched in a manner which may involve a breach of any applicable legal or regulatory requirement of any jurisdiction outside Kenya.

12. GOVERNING LAW

This Prospectus and any contract resulting from the acceptance of an application to purchase shares of Kenya Re shall be governed by and construed in accordance with the Laws of Kenya and it shall be a term of each such contract that the parties thereto and all other interested parties submit to exclusive jurisdiction of the courts of Kenya.

PART I: KEY INFORMATION

The following information is derived from and should be read in conjunction with, the full text of this Prospectus. Potential investors should read the whole Prospectus and not just rely on the key or summarised information.

1.1 LEGAL STATUS

The Kenya Reinsurance Corporation Ltd. was established in December 1970 under the State Reinsurance Corporation Act of the Laws of Kenya Chapter 485. Initially, the Corporation was referred to as the State Reinsurance Corporation of Kenya. The name was later changed to Kenya Reinsurance Corporation under the provision of the 1977 Statute Law (Miscellaneous Amendments) Act.

On 13th March 1997, Kenya Reinsurance Corporation Limited was incorporated as a public limited liability company under the Companies Act (Chapter 486 of the Laws of Kenya). All the rights, duties, obligations, assets and liabilities of Kenya Reinsurance Corporation were transferred to the newly incorporated company by virtue of Section 3 of the Kenya Reinsurance Corporation Act (Chapter 487A of the Laws of Kenya).

1.2 APPLICABLE LAW

Kenya Re is incorporated under the Companies Act.

Also, Kenya Re has to comply with the following principal laws that affect its operations:

- **State Corporations Act** - (Cap.446 of the Laws of Kenya) that defines “a company incorporated under the Companies Act owned or controlled by GoK or a State Corporation” as a State Corporation – Kenya Re is deemed to remain a State Corporation and is subject to the provisions of this Act.

By virtue of Legal Notice No 59 dated 25th February 1987, the President of the Republic of Kenya exempted Kenya Re from the provisions of the State Corporations Act in anticipation of its operational autonomy in the liberalised business environment. However, in June 2002, the State Corporations Act was amended and the full exemption was in effect revoked. Thus, Kenya Re continues to be subject to Section 5, 10A, 11, 13, 14, 18 to 29 of the State Corporations Act. These provisions relate to the following:

- Section 5: This section provides for control of certain powers of a state corporation by the Minister responsible for the state corporation (i.e. Minister of Finance) and the Treasury.
- Section 5(2) provides that the power of a state corporation to borrow money in Kenya or elsewhere shall be exercised only with the consent of the Minister responsible for the state corporation and subject to such limitations and conditions as may be imposed by the Treasury.
- Section 5(3) provides that a state corporation may employ such number of staff on such terms and conditions of service as the Minister may approve.

- Section 5(4) provides that a state corporation requires the Minister’s approval for purposes of establishing pension, gratuity, provident or other funds for the state corporation’s employees and dependants.
 - Sections 11: This provision requires Kenya Re to prepare and submit to the Minister of Finance and the Treasury for approval, not later than the end of February in every year, estimates of Kenya Re’s revenue and expenditure for the following financial year. The estimates are to include proposals for the funding of all projects to be undertaken by Kenya Re or the implementation of which will continue during the financial year. The section further provides that no annual estimates and proposals for funding projects shall be implemented until they have been approved by the Minister of Finance with the concurrence of the Treasury.
 - Section 13: This provision requires a state corporation to obtain the approval of the Minister responsible for the state corporation and the Treasury before disposing of the assets of the corporation by way of sale or otherwise where such disposal has not been taken into account in the estimates mentioned in Section 11.
 - Section 14: Section 14(3) requires that the accounts of every state corporation be audited and reported annually in accordance with the Public Audit Act, 2003, while the Companies Act requires that the shareholders appoint a person duly qualified under the Accountants Act as an auditor for a company.
 - Sections 18 to 29: These provisions provide for the powers of the Inspector-General Corporations to inspect and investigate a state corporation and proceedings arising there from.
- **Insurance Act**
 - After the listing of the Shares, Kenya Re will also have to comply with the **CMA Act**.

1.3 SHARE CAPITAL

The authorised share capital of the Corporation is Kshs 2,000,000,000 made up of 800,000,000 shares of Kshs 2.50 each. The issued and fully paid up share capital of the Corporation is Kshs 1,500,000,000/- divided into 600,000,000 Ordinary shares, each of par value Kshs 2.50.

The Corporation has authorised but un-issued capital amounting to 200,000,000 ordinary shares of KShs 2.50 each. The Corporation has not made any commitments to issue any of the un-issued share capital and no persons have preferential subscription rights for this capital.

The Corporation has not issued any shares that do not represent share capital.

The Directors believe that the issued fully paid up share capital of the Corporation is adequate for the purposes of the business of the Corporation for the foreseeable future.

1.4 SHAREHOLDING STRUCTURE PRE AND POST OFFER

Shareholder	Pre-Offer		Post-Offer Assuming full subscription	
	No of Shares	%	No of Shares	%
Permanent Secretary, Treasury, GOK	5,99,999,976	100%	360,000,000	60.00%
*Nelius Kariuki *Jacob Haji Ali *Dr. Iruki Kailemia *Everest Lenjo *S. Mutwiri Ikiao *Gladys Mboya	4 4 4 4 4 4	0%	0	0%
Public	0	0.00%	240,000,000	40.00%
Total	600,000,000	100.00%	600,000,000	100.00%

**In trust of GoK*

As at the date of this Prospectus, it is hereby recorded as follows:-

- 1) there has not been any change in the controlling shareholders of Kenya Re in the previous three financial years;
- 2) there has been no change in the percentage ownership held by any major shareholder during the past three years;
- 3) there is no known person who is in any way directly or indirectly interested in 10% or more of Kenya Re's share capital;
- 4) post Offer, Kenya Re's major shareholders will have the same voting rights as those of every other shareholder of the Corporation;
- 5) after the successful conclusion of the Offer, the Directors propose to increase the size of the Corporation's board by appointing two additional independent directors who will serve as directors until the next Annual General Meeting at which they will be eligible for reappointment by the shareholders;
- 6) there are no arrangements, the operation of which may at a subsequent date, result in a change in control of Kenya Re.

1.5 MOVEMENT OF SHARE CAPITAL

The only alteration to the authorised share capital of the Corporation in the three years preceding the date of this Prospectus are as follows:

- i. By an ordinary resolution of the members passed on 29th June 2004, the authorised share capital of the Corporation was increased from Kshs. 1,000,000,000/= to Kshs. 2,000,000,000/= divided into 200,000,000 shares of Kshs 10/- . 50,000,000 bonus ordinary shares of Kshs. 10.00 each were allotted to the Permanent Secretary – Treasury; and
- ii. By an ordinary resolution of the members passed on the 31st May 2007, each of the 200,000,000 ordinary shares of par value Kshs 10 were sub-divided into 800,000,000 ordinary shares of Kshs 2.50 each .

1.6 CORPORATE STRUCTURE

Kenya Re is both an operating company providing all classes of reinsurance business and investment activities, and a holding company with two subsidiaries whose details are as follows:

1.6.1 WEDCO LIMITED

Corporation Number:	C. 13288
Status:	Private limited corporation
Date of Incorporation:	13 th January 1975
Country of Incorporation:	Kenya
Place of business:	L.R. No. 209/8770 Reinsurance Plaza, Taifa Road P.O. Box 30271- 00100 Nairobi
Corporation's principal activity:	To purchase and otherwise acquire for investment and management; lands, dwelling houses, flats, offices, workshops, buildings and premises and other property of any tenure and any interest therein and to; create, sell and deal in freehold and leasehold ground rents and to; make advances upon the security of land or house or other property or any interest therein and generally to deal in, traffic by way of sale, lease, exchange or otherwise with land and house property and any other property whether movable or immovable
Nominal Share Capital:	Kshs 20,000/- divided into 1000 ordinary shares of Kshs 20 each
Issued Share Capital:	Kshs 20,000/-

1.6.2 KENYA RE PROPERTIES CORPORATION LIMITED

Corporation Number:	C. 12574
Status:	Private limited corporation
Date of Incorporation:	18 th April 1974
Country of Incorporation:	Kenya
Place of business:	L.R. No. 209/8770 Reinsurance Plaza, Taifa Road P.O. Box 30271-00100 Nairobi
Corporation's principal activity:	To purchase and otherwise acquire for investment and management lands, dwelling houses, flats, offices, workshops, buildings and premises and

other property of any tenure and any interest therein and to create, sell and deal in freehold and leasehold ground rents and to make advances upon the security of land or house or other property or any interest therein and generally to deal in, traffic by way of sale, lease, exchange or otherwise with land and house property and any other property whether movable or immovable

Nominal Share Capital: Kshs 20,000/- divided into 1000 ordinary shares of Kshs 20 each

Issued Share Capital: Kshs 20,000/-

These two subsidiaries, Wedco Limited and Kenya Re Properties Corporation Limited, are 100% owned by Kenya Re and both are dormant. Wedco ltd was formed in order to hold the Kisumu Plaza while the rest of the properties held by Kenya Reinsurance Corporation were to be transferred to Kenya Re Properties Corporation. The transfers were never effected.

1.7 HISTORICAL FINANCIAL SUMMARY

The table below shows the summarized performance of Kenya Re from the year 2002 to 2006. The growth in premium is attributed to the growth in international business which is discussed elsewhere in this Prospectus. The significant decline in profit before tax in 2006 is largely explained by the one off provision of Kshs 150 Millions made in respect to the long standing balances with cedants and reinsurers.

	2006	2005	2004	2003	2002
	Kshs (Mn)				
Gross premium	3,034.7	2,612.7	1,823.4	1,679.7	1,339.2
Net written premium	2,711.5	2,288.8	1,628.8	1,537.3	1,230.6
Net earned premium	2,791.6	2,111.4	1,718.2	1,486.8	1,212.6
Investment Income	753.1	490.9	584.8	341.4	465.2
Total income	3,544.7	2,866.6	2,303.1	1,828.2	1,677.9
Claims incurred	(1,522.5)	(923.5)	(766.3)	(457.8)	(770.1)
Commissions payable	(806.8)	(700.0)	(520.0)	(465.3)	(388.1)
Management expenses	(603.1)	(290.3)	(193.4)	(195.9)	(200.2)
Profit from operation	612.3	946.7	563.6	709.2	319.4
Profit before income tax	647.3	961.5	600.3	735.8	338.3
Income tax expense	(256.8)	(213.3)	(111.1)	(154.8)	(67.7)
Profit for the year	390.4	748.2	489.2	581.0	270.5

In 2006, there were a number of huge claims which were made against Kenya Re following the Tsunami and Monsoon catastrophes that hit parts of Asia. As a consequence, the claims paid during the year were significantly higher than the previous years.

1.8 PERFORMANCE FORECAST

Profit and Loss Forecast

The forecast of gross premium and profits before taxation for the Corporation for the financial year ending 31st December 2007, as adopted by the Board of Directors is as set out below. The forecast has been examined and reported on by the reporting accountants and their report has been set out in Annexure I of this Prospectus. The forecast is made subject to unforeseen circumstances arising and on the basis set out below.

Projected Profit and Loss account for the year 2007

	2007 Shs'000
Gross premium	3,244,713
Less: reinsurances	(351,156)
	<hr/>
Net written premium	2,893,557
Unearned premium b/f	452,594
Unearned premium c/f	(489,771)
	<hr/>
Net earned premium	2,856,380
Investment income	772,177
	<hr/>
Total income	3,628,557
Claims incurred	(1,634,434)
Commissions payable	(870,332)
Management expenses	(434,336)
	<hr/>
Profit from operation	689,455
Share of profit of associate	-
	<hr/>
Profit before income tax	689,455
Income tax expense	(152,811)
	<hr/>
Profit for the year	536,644
	<hr/>
Earnings per share KShs	<u>0.89</u>

Basis of forecast

The profit forecast is based on management's prudent assumptions and has been prepared on a basis consistent with the accounting policies normally adopted by Kenya Re and is based on the following principal assumptions:

US inflation rate	2.50%
GBR Inflation rate	2.70%
Kenya inflation rate	4%
Exchange rate Kshs: US\$	73
Exchange rate Kshs: £	146
Dividend payout ratio	0%
Tax rate	30%

1.9 DIVIDEND POLICY

Kenya Re has developed a dividend policy that corresponds with its new status as a Public Listed Corporation. The policy allows for a dividend payout ratio similar to those of companies in the related industry i.e. insurance companies. Directors reserve the right to declare a dividend following an assessment of the Corporation's operating results, financial position, cash requirements, expansion plans and other factors that the Directors may deem necessary for capital growth and on advice received from management.

The Directors are not obliged to declare a dividend out of the Corporation's profits and may plowback to a reserve for any purpose for which the profits of the Corporation may properly be applied.

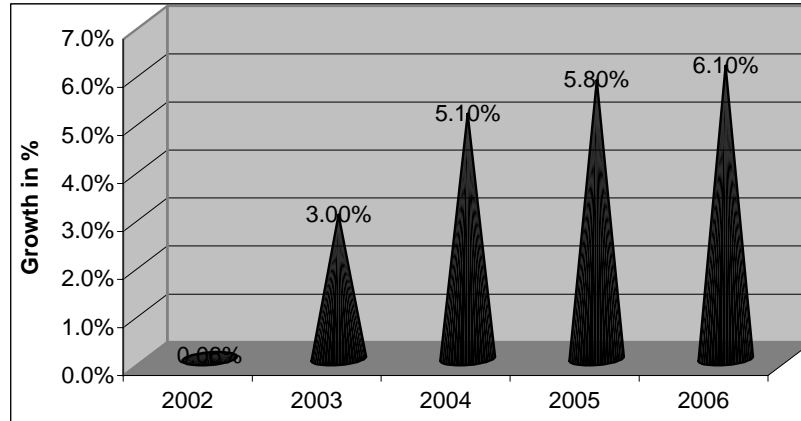
In the last five years, the Corporation has paid out dividends as shown in the table below:

Year	2002	2003	2004	2005	2006
Dividend Paid Kshs	120,000,000	120,000,000	150,000,000	150,000,000	150,000,000

PART II: KENYAN ECONOMY & NSE OVERVIEW

2.1 ECONOMIC REVIEW AND OUTLOOK

The overall health of the economy has continued to be robust. The chart below shows the Real GDP growth in the last five years.

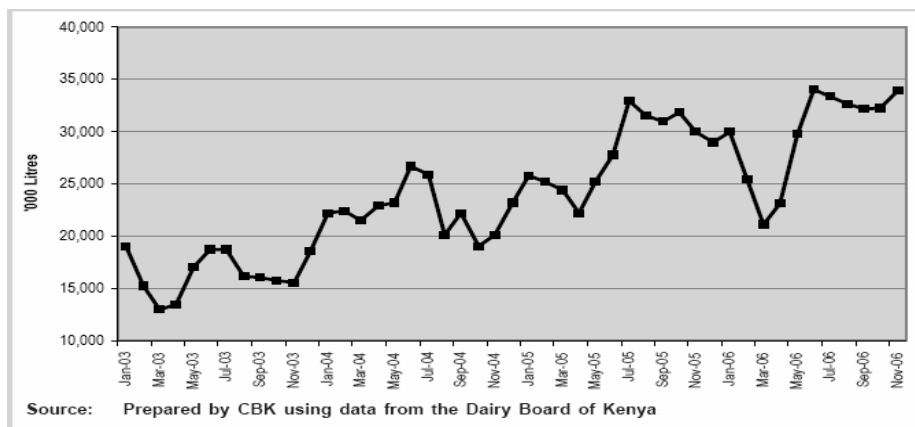


Source: *Economic Survey 2007*

According to figures published in the *Economic Survey -2007* Kenya National Bureau of Statistics, the economy grew by 6.1% in the past one year. Though agriculture was adversely affected by the drought that hit the country during the last quarter of the previous year and in the first quarter of 2006, the sector managed to grow by 5.6% compared to a growth of 7% in 2005. Tea and Coffee were the main casualty of the drought. Agriculture and Transport and Communication were the main sources of the GDP growth. Tea output fell by 5.5% in 2006 from 328,503 metric tonnes in 2005 to 310,578 metric tonnes. Although tea production improved following good rains, thereafter, the production shortfall realized during the first quarter could not be fully offset. Average prices of tea however, were better in 2006 rising from an average of US \$1,566 per tonne in 2005 to US \$2,052 in 2006.

Horticulture, coffee and dairy all recorded increased production of 2.2%, 6.0% and 6.2% respectively. Milk production has been on the rise since 2003. From a level of just under 20 million litres per month, milk production has since risen to about 34 million litres per month.

Transport and communications sector grew by 10.6% in 2006 compared to 8.7% in 2005. Total value output at current prices expanded from Kshs 329,126 million in 2005 to realizes Kshs 359,469 million in 2006.



Tourism recorded significant growth following successful marketing of the sector by the Kenya Tourism Board abroad. Tourist arrival grew by 14.5% in 2006. The year saw the number of tourists increase to 954,335 from 833,220 in 2005. Jomo Kenyatta International Airport (JKIA) remains the main entry point for tourists.

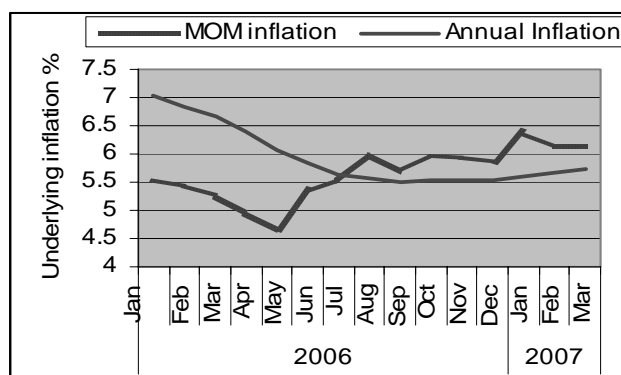
The service industry in Kenya has been growing, and was the largest contributor to the GDP. The sector contributed about 65% in 2005 and grew by 7.3%.

The manufacturing industry continued to grow as well. Growth in this sector was indicated by the increase in demand for drivers such as electricity, whose consumption went up by 5.9%. Local electricity supply also increased by 7.9%. Cigarettes production increased by 19.9% and soda ash by 2%. Cement production and consumption rose by 6.6% and 11.1% respectively.

There was also a general increase in investment in the transport sector as the number of new cars registered increased by 1.5% from 46,035 to 46,737.

2.2 INFLATION

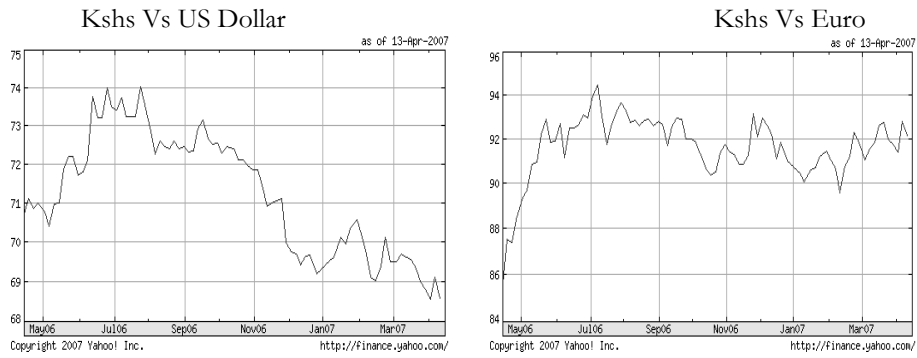
The annual overall inflation rate in 2006 was 14.5% compared to 10.4% recorded in 2005. The higher inflation was attributed to the higher international prices of oil and the drought that was experienced at the beginning of the year. During the year, the underlying month-on-month inflation rate fluctuated between 4.7% and 6.0% while the average annual inflation rate ranged between 7% and 5.5%. During the year, the average annual inflation rate actually went down from 7% at the beginning of 2006 to 5.5% at the end of the year. By the end of March 2007 the rate had risen to 5.7%.



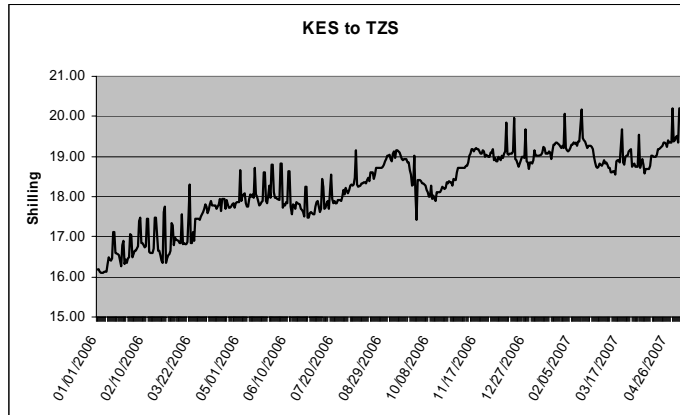
Source: Kenya Bureau of Statistics

2.3 EXCHANGE RATE

The Kenya shilling has strengthened in the past one year against all the major international currencies. The strength of the shilling was largely supported by the higher export revenues coupled with Diaspora remittances. The chart below demonstrates the strength of the shilling in the past one year. The Shilling also strengthened against the Tanzanian and Ugandan shilling over the period.

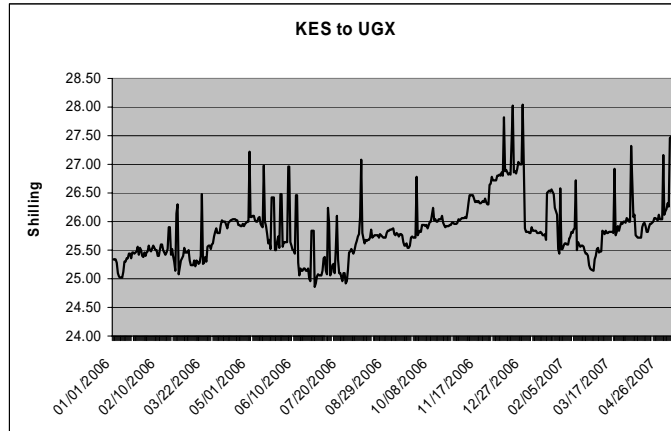


Kenya Shilling Versus Tanzania shilling



Source: Oanda website (www.oanda.com)

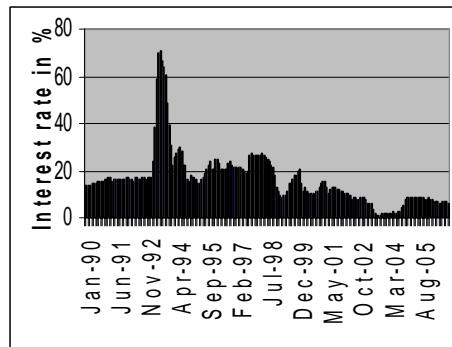
Kenya Shilling Versus Ugandan Shilling



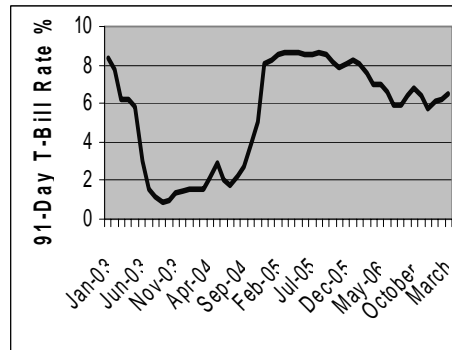
Oanda website (www.oanda.com)

2.4 INTEREST RATES

Since mid 1998, interest rates have on average been coming down. Although, interest rates declined steadily last year, the rates were still higher compared to the period between September 2003 and June 2005 when the 91-Day Treasury Bill was yielding less than 2%.



Source: Central bank of Kenya



Source: Central bank of Kenya

Last year the rate on the 91-Day Treasury Bills fell from 8.3% in January to 5.7% in December. However, the rate on the bill had risen to 6.65% by 16th April 2007.

2.5 FOREIGN RESERVES

Foreign exchange reserves have increased over the past three years. The reserves have increased from USD 2 billion in 2004 to USD 3.3 billion in February of 2007. This increase was largely driven by forex purchases in the interbank market.

2.6 BALANCE OF PAYMENTS

The economy's balance of payments had a surplus that increased to USD 612 million compared to USD 530 million in 2005. The foreign direct investment flows improved as commercial banks increased their net foreign assets. This was caused by a general increase of investment inflows from individual investors out of the country.

2.7 MONEY SUPPLY

Broad money supply has been on an increase since 2006. This has resulted mainly from an increase in private capital inflows and growth in credit extensions. Credit within the domestic market increased by 12.8%, while credit to the government increased by 5% in 2006.



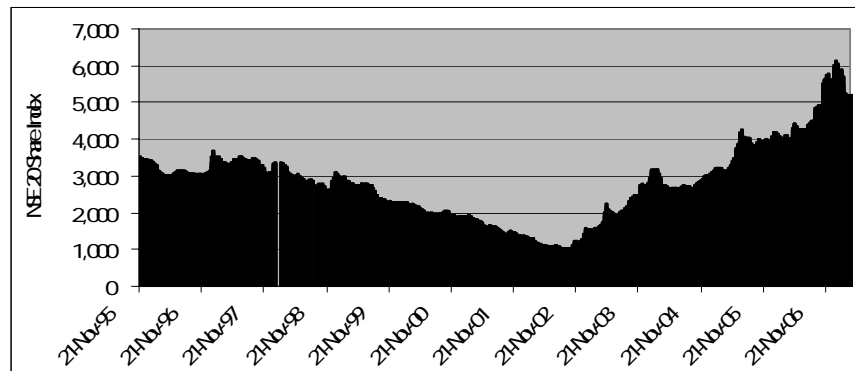
2.8 TRADE ACCOUNT

The trade account had a deficit resulting from an import expense of 28.2% compared to 6.1% in export receipts. This was driven by an increase in production input costs, imports of machinery and transport equipment to cater for the growing economy. The cost of petroleum has increased by about 90% over the last two years playing a role in the expanding trade deficit. The growth in exports was driven by agricultural products, particularly horticulture and tea.

2.9 THE STOCK MARKET REVIEW AND OUTLOOK

The Kenyan stock market has experienced significant developments in the past two decades. Notably, trading of stocks was initially done through a Call Over system. Later when the Nairobi Stock Exchange established an office in 1990, the trading system was changed to an Open Outcry System. Technological advancement has also changed the way shares are traded and settled.

The period preceding 2003 was characterised by falling stock prices as a result of the poor performance of the economy.

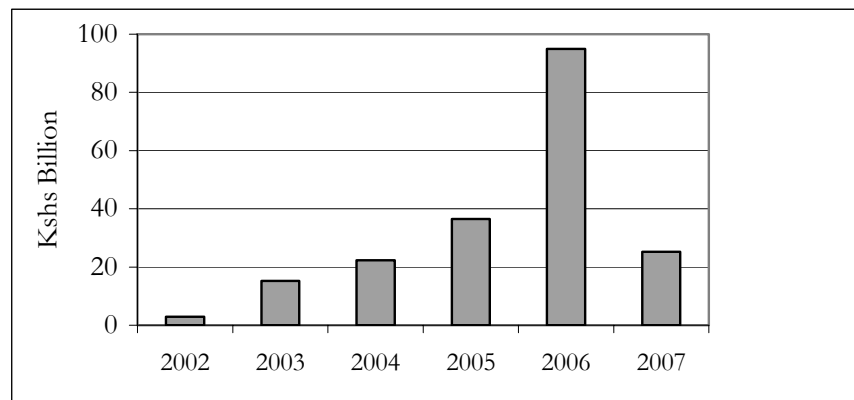


Source: Nairobi Stock Exchange

The stock market has for long been a preserve of large institutional investors and few wealthy and sophisticated individuals. Institutional investors were by and large the majority holders in most of the quoted companies. Although by the sheer size of their holdings they are still the largest holders in most quoted company shares, their influence has changed dramatically since the introduction of the Central Depository and Settlement System (CDS) and the government's implementation of the divestiture program from government run entities. In December 2005 there were only 78,300 CDS account holders¹.

The year 2006 saw KenGen, ScanGroup, Equity Bank, and Eveready list on the Nairobi Stock Exchange. The KenGen IPO had a significant impact on the stock market. First, the IPO increased considerably the public awareness on the existence of the NSE as an avenue for mobilizing savings and making long term investment. As at the end of the year June 2006, the number of CDS account holders had increased almost fivefold to 324,700 within a period of six months. Second, the duration of trading time was extended from two to three hours. Third, the huge oversubscription of the KenGen IPO demonstrated the level of liquidity and therefore the new equity absorption capacity of investors. Last but not the least, the success of the KenGen IPO is attracting other unquoted companies to the NSE. More and more companies are now showing the desire to get listed.

The year 2006 was a special one in that the NSE recorded the highest annual and daily turnover ever. The chart below demonstrates the exponential growth of equity turnover since 2002.

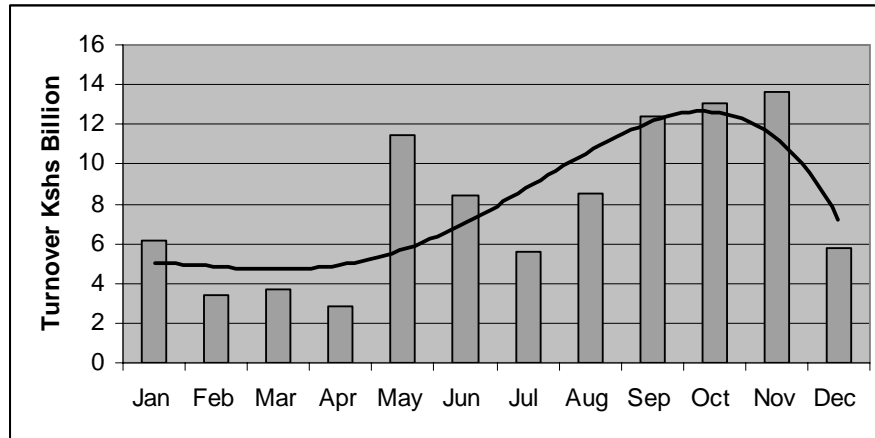


Source: Nairobi Stock Exchange (2007: Figure for the first 3months)

The turnover in 2006 was boosted by several factors, key among them strong economic performance and the high number of new issues. Inflows from the Diaspora, which amounted to about Kshs 70 billion², contributed greatly to the high liquidity that prevailed during the year. Some of the Diaspora inflows found their way to the stock market. The stock market was further boosted by the low interest rate regime that prevailed in the country. After experiencing three consecutive years of rising stock prices, most financial institutions became more convinced that the Bull Run was here to stay and this therefore made them more willing to lend funds to stock market investors. The introduction of the electronic trading system in the third quarter of 2006 – the Automated Trading System -ATS, further boosted the daily turnover. Indeed, after the introduction of the ATS, the daily turnover rose drastically. In November 2006, daily turnover hit the Kshs 1billion mark on several occasions.

¹ Source: Central Depository and Settlement Corporation

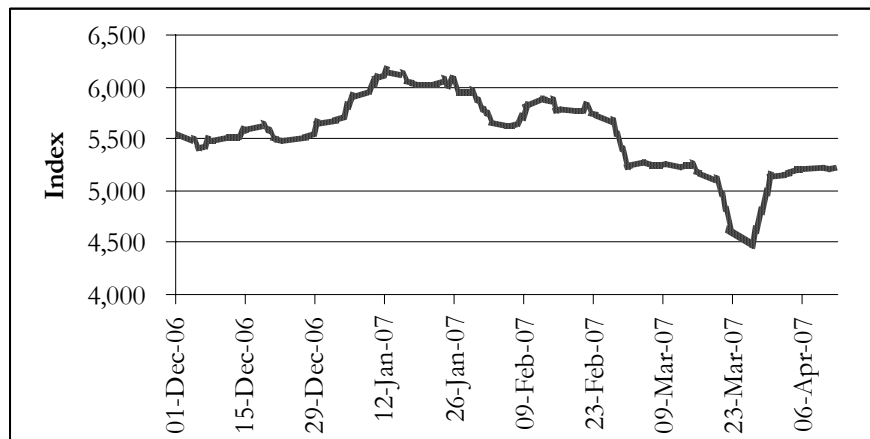
² Source: Central Bank of Kenya



Source: Nairobi Stock Exchange- Year 2006

After attaining record high levels in mid January 2007, the index experienced a decline thereafter up to mid March. The fall in stock prices was just a market correction as most prices were not supported by fundamentals. The anomaly has, however, been corrected. The market sentiments are positive.

As at 13th April 2007, there were 660,446 CDS accounts holders. This represents a huge pool of potential investors in any IPO. The macro-economic and fundamental factors remain strong and so we expect the stock market to continue to be robust in the next 12 to 18 months. However, 2007 being an election year, the stock market may not be as robust as it should be.



Source: Nairobi Stock Exchange

PART III: INSURANCE INDUSTRY OVERVIEW

3.1 KENYAN INSURANCE INDUSTRY OVERVIEW

3.1.1 Participants

There are 42 licensed insurance companies in Kenya. 21 of them write general insurance business, 6 write life insurance business while 15 write composite business. The biggest players in Life insurance sub sector are Jubilee Insurance, CFC Life, British American, Madison and Pan Africa insurance companies. On the other hand, the giants in the general business are American International Group (AIG), Blue Shield Insurance Company, Heritage A.I.I. Insurance Company, Insurance Company of East Africa (ICEA), Kenindia Assurance Company Ltd. and the Lion of Kenya Insurance Company Ltd. (*Source: AKI: Insurance Statistics Report 2005*).

This industry is regulated under the Insurance Act Cap 487 by the Commissioner of Insurance. The registered stakeholders in the industry are:

Players	No. Registered
Re-insurers	4
General Business Insurers	40
Long Term Insurers (Life)	6
Composite Insurers	15
Insurance Brokers	190
Loss Assessors	204
Insurance Surveyors	30
Loss Adjusters	18
Claims Settling Agents	2
Risk Managers	7
Insurance Agents	1534

Source: Commissioner of Insurance report 2003-5

3.1.2 Comparison with other countries

Compared to other countries like South Africa, Malaysia and Egypt, the Kenyan insurance market is relatively small.

The table below compares the size of the Kenyan insurance industry with other developing countries in 2005.

Country	Population (Million)	GDP USD Billion	Per Capita GDP USD	Gross premium (USD Million)
India	1,083.0	796.0	735.0	20,719.0
Egypt	75.0	102.0	1,360.0	915.0
South Africa	44.0	200.0	4,545.5	26,407.0
Kenya	33.4	19.7	588.3	499.0

Source: AKI; Insurance Industry Statistic Report 2005

The Kenyan insurance market is nearly one half that of Egypt while the South African Market is over 5 times that of Kenya. Kenya's Per Capita Gross Premium at USD 15 makes it obvious that it is closer to India at USD 19 than South Africa, a developing country with an average of USD 600. South African Insurance has certain tax incentives that have boosted the industry. It seems that there is a positive relationship between GDP and Gross premium.

In terms of penetration, Kenya still lags behind. Total penetration in Kenya is higher at 2.6% compared to Egypt which has a penetration of 0.95%. But when compared with India and South Africa, their penetration levels dwarf that of Kenya.

Country	Penetration
India	3.7%
Egypt	0.95%
South Africa	14.6%
Kenya	2.6%

Source: AKI; Insurance Industry Statistic Report 2005

The per Capita GDP of Kenya is much lower compared to those of countries like South Africa and Malaysia. This may partly explain why these countries have higher total insurance premium written. Although the rate of GDP growth in 2005 of Kenya was higher than those of South Africa and Egypt, one might arrive at a wrong conclusion that premiums written in Kenya ought to be higher. A point to note is that these countries have been reporting higher growth rates for longer periods of time and also that their economies have developed much more than that of Kenya. The Per Capita GDP of South Africa is about US\$ 5,108 while that of Kenya is about US\$580. The respective total premiums for South Africa and Kenya are US\$ 26.1 billion and US\$0.50 billion.

The table below compares the Kenyan insurance industry to Egypt, Malaysia and South Africa. Once again, the large Islamic population may have played a part in the lower penetration rates relative to Egypt's large GDP per capita.

Year 2005	Kenya	South Africa	Egypt	Malaysia
Nominal GDP, US\$ bn	19.38	181.1	102	130
GDP Growth, %	5.80%	5.10%	5.10%	7.10%
Population, Million	33.4	45.5	75	26
Per Capita GDP	580	5,108	1,361	4,987
Total Life Premium, US\$ bn	0.15	20.93	0.35	4.4
Life Penetration as % GDP	0.78%	11.60%	0.30%	3.40%
Total non-Life Premium, US\$ bn	0.35	5.48	0.56	2.37
Non-life penetration as % GDP	1.79%	3.00%	0.60%	1.80%
Total premium, US\$ bn	0.5	26.41	0.92	6.77
Total Penetration as % GDP	2.55%	14.60%	0.90%	5.20%

Source: AKI; Insurance Industry Statistic Report 2005

The data above emphasizes the necessity of having an insurance sector that can add more to the economic development of the country like South Africa and Malaysia.

The insurance sector is divided into two broad sub sectors namely; General and Life insurance.

3.1.3 General Insurance

The general insurance sector is by far the larger of the two in terms of size and market penetration. The general insurance penetration as a percentage of GDP is 1.79% while that of life is 0.78%. At the end of 2001, the gross premium written for the general business was over Kshs 16 billion. The figure had reached over Kshs 25 billion by the end of 2005. The corresponding figures for the Life business were Kshs 7.3 billion and Kshs 11 billion respectively.

The largest 8 general insurance business companies accounted for 50% of the market share in terms of gross premium. Kenindia, Blue shield, Jubilee and AIG had the largest market share in the general business. The table below summarizes the market shares.

Company	Gross Premium Kshs Million	Market share
I.C.E.A	1,022	4.0%
Lion of Kenya	1,079	4.2%
Heritage A.II	1,116	4.4%
UAP Provincial	1,400	5.5%
AIG Insurance company	1,594	6.3%
Jubilee	1,783	7.0%
Blue shield	1,921	7.6%
Kenindia	2,778	10.9%
Others	12,703	50.0%
Total	25,397	100.0%

Source: AKI; Insurance Industry Statistic Report 2005

As can be seen from the table above, other than Kenindia, the rest of the companies have market shares which are less than 10%. This implies that there is no major dominant market player or players in the industry. Out of the 38 companies that write general insurance business, 33 have a market share which is less than 5% each. On average, each of these has an average market share of 1.9%. Competition is thus very intense within the general business sector.

There are 11 main classes of general insurance business namely; Aviation, Liability, Personal Accident, Engineering, Marine, Theft, Fire Domestic, Motor Private, WCA, Fire Industrial, and Motor Commercial. Of these, the top five classes account for over 77% of the total general insurance business. As the table below shows the major classes are Motor Commercial, Personal Accident, Theft, Motor Private and Fire industrial.

Class	Gross Premium Kshs Bn	Percent of total
Fire industrial	3.5	13.6%
Motor Private	4.4	17.4%
Motor Commercial	6.7	26.4%
Personal Accident	3.9	15.2%
Theft	1.1	4.5%
Miscellaneous	5.8	22.8%
Total	25.4	100.0%

Source: AKI; Insurance Industry Statistic Report 2005

The balance of 22.8% is for the remaining seven classes. Some of the insurance classes require huge capacity to write any business. For instance, the capacity requirement for the Marine and Aviation classes are so enormous that almost no insurance company in Kenya underwrites them. In particular, the aviation class has only about 6 companies.

Some of the classes are large simply because their business lines are supported by the law. For instance the motor classes, both commercial and private are given a boost by the law. It is mandatory for all motor vehicles to take insurance cover. This is not the case with the other insurance classes, e.g. theft..

Claims

The total general insurance business net claims incurred in 2005 was Kshs 10.2 billion against a net premium earned of Kshs 17.1 billion. The claims ratio for the entire industry was lower at 49.0% compared to 56.0% in 2004. Some of the classes reported very low claims ratios while others were materially high. The fire classes reported the lowest claims ratios of 20.2% and 29.2% for the Fire Industrial and Fire Domestic respectively while Motor Private had one of the highest at 82.3%. The Workman's compensation class had a loss ratio of 95.2%.

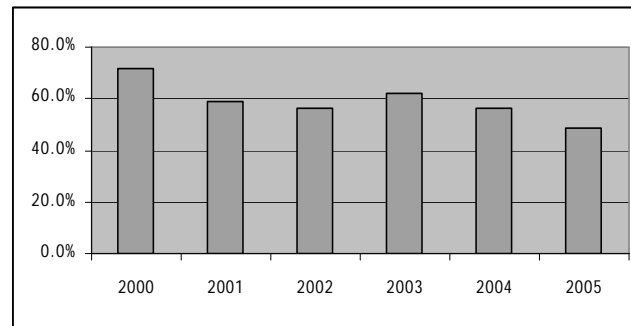
The table below summarizes the loss ratio per class in 2005.

Class of business	Net premium (Kshs Mn)	Net Claim incurred (Kshs Mn)	Loss Ratio (%)
Aviation	27.1	9.0	33.3%
Engineering	189.9	86.4	45.5%
Fire Domestic	381.8	111.4	29.2%
Fire Industrial	734.2	148.6	20.2%
Public Liability	287.1	147.6	51.4%
Marine	667.6	229.8	34.4%
Motor Private	3,971.1	3,269.9	82.3%
Motor Commercial	5,967.0	2,937.1	49.2%
Personal Accident	2,606.4	1,690.3	64.9%
Theft	719.0	369.2	51.3%
Workman's Compensation	1,146.3	1,090.7	95.2%
Miscellaneous	415.2	112.0	27.0%
TOTAL	17,,112.496	10,201.88097	48.7%

Source: AKI; Insurance Industry Statistic Report 2005

The loss ratio in 2005 might seem to be high but when compared to earlier periods, the 2005 figures are encouraging. Particularly the Motor commercial class has seen significant decline since 2000.

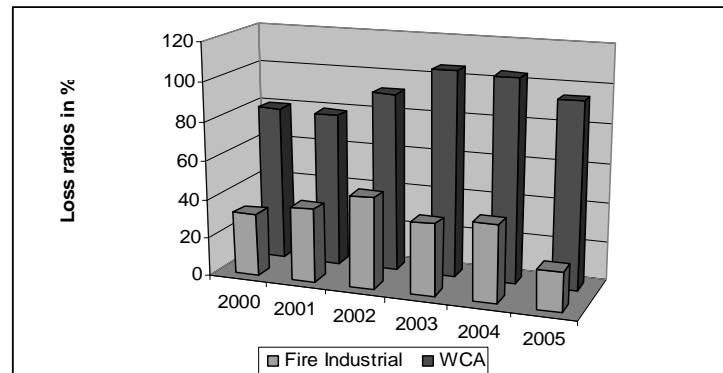
Industry average Loss ratio from 2000



Source: AKI; Insurance Industry Statistic Report 2005

The chart above demonstrates the steady decline of the average industry loss ratios since the year 2000. This is good news to insurers since this translates into higher profitability. Admittedly, the levels of insurance loss ratios are still high. Insurance companies should focus on bringing this ratio down. This can be achieved by improving on underwriting standards and controlling expenses.

Workman's Compensation and Fire Industrial loss ratios



Source: AKI; Insurance Industry Statistic Report 2005

The loss ratios in the Fire Industrial class have remained quite low while those of the workman's compensation have been above 80% on average.

The table below shows a summary of revenue accounts for the insurance industry. In absolute values, the motor classes of insurance have the highest gross premium collected. However, as a result of their huge claims and expenses incurred, the classes reported very low profits. In 2005, the two classes jointly reported gross premiums of Kshs 11.1 billion which accounted for 44% of the industry's total gross premium. However, in terms of profitability, these categories scored poorly. Motor Private reported a loss while Motor Commercial reported a profit. The combined result was a total loss of about Kshs 20 million.

Class of insurance	Gross premium Kshs Mn	Net earned premium	Incurred claims	Total expenses	Underwriting profit/loss
Aviation	170.75	27.06	9.1	0.85	18.89
Engineering	832.23	189.86	86.41	62.83	40.63
Fire Domestic	556.35	381.81	111.35	93.96	76.5
Fire Industrial	3,460.94	734.18	148.55	165.94	419.68
Public Liability	681.7	287.07	47.61	123.37	16.09
Marine	1,272.55	667.64	229.78	227.59	210.28
Motor Private	4,406.29	3,971.41	3,269.88	1,429.42	-728.16
Motor Commercial	6,707.36	5,966.98	2,937.10	2,278.34	751.54
Personal Accident	3,869.00	2,606.37	1,690.30	795.95	120.11
Theft	1,428.12	718.99	369.17	182.03	167.77
Miscellaneous	706.13	415.15	112.00	136.37	166.79
WCA	1,304.87	1,146.26	1,090.69	503.44	-447.87
Total	25,396.30	17,112.78	10,101.94	6,000.09	812.23

Source: AKI; Insurance Industry Statistic Report 2005

Although Aviation is small in size (measured by the premium collected) at Kshs 170 million in 2005, it was the most profitable. The high profitability can be attributed to the low expenses and claims incurred. Fire Industrial and Marine are also profitable with profit margins of 57.2% and 31.5% respectively as at the end of 2005.

3.1.4 Life Insurance

Market players

There are 21 insurance companies which carry out long term insurance business (these excludes deposit administration). The key players are British American, CFC Life, Cooperative, ICEA, Jubilee, Madison, Old Mutual and Pan Africa. All of these companies have market shares that exceed 6%.

COMPANY	Market share %
British American	17.83
CFC Life	10.46
Cooperative	7.73
ICEA	9.33
Jubilee	6.71
Madison	7.13
Old Mutual	7.23
Pan Africa	6.34
Others	27.24
TOTAL	100

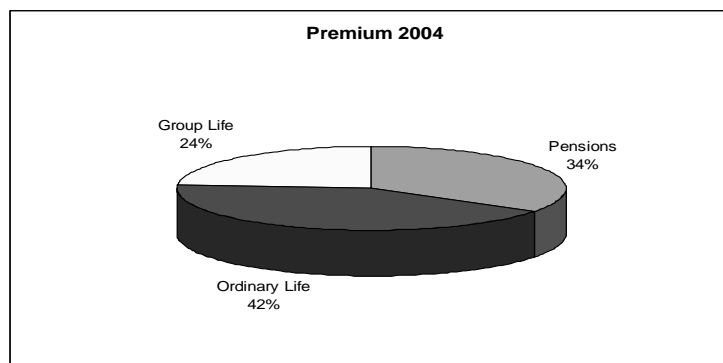
Source: AKI; Insurance Industry Statistic Report 2005

The top 8 companies control about 72% of the life business. The other 13 companies have a total market share of 27.24% which is slightly less than the market share held jointly by the top 2 companies. These are CFC Life and British American. This implies strong competition among the smaller firms.

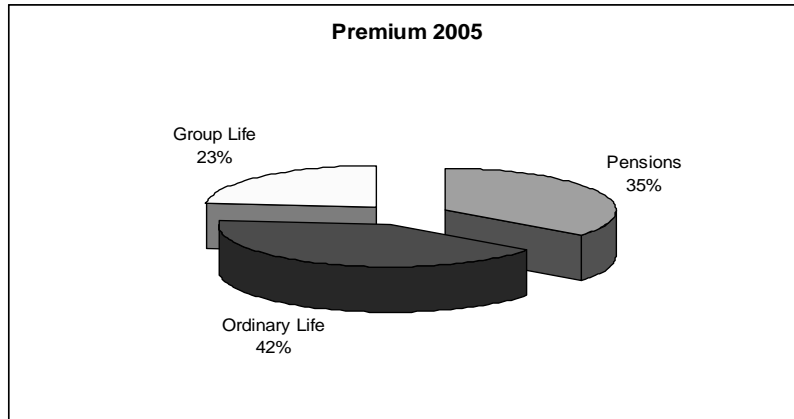
Premium Income

In 2005, the gross premium written from long term business stood at Kshs 7.2 billion. Out of this, Kshs 4.6 billion was for ordinary life while group life contributed Kshs 2.6 billion. This was an improvement over the year 2004 when the total gross premium was Kshs 6.5 billion.

On the other hand, deposit administration collected Kshs 3.4 billion and Kshs 3.8 billion in 2004 and 2005 respectively. This gives total gross premium of Kshs 11 billion in 2005 and Kshs 10 billion in 2004. The chart below shows premium distribution in the two years under review.

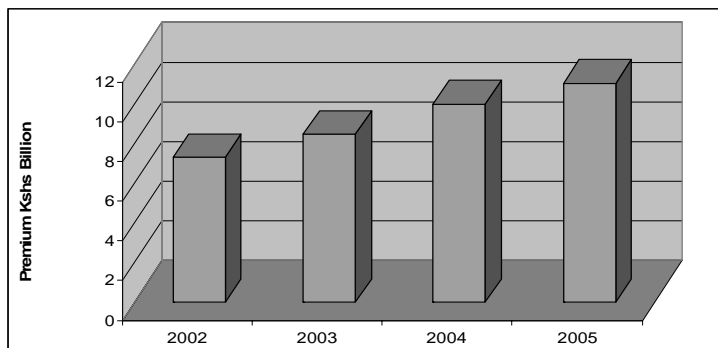


Source: AKI; Insurance Industry Statistic Report 2005



Source: AKI; Insurance Industry Statistic Report 2005

By and large, there has been a notable increase in premium recorded over the last four years. In the year 2002, gross long term business premium stood at Kshs 7.3 billion. Four years later the figure had grown to Kshs 11.103 billion, an annual average compounded growth of 14.8%.

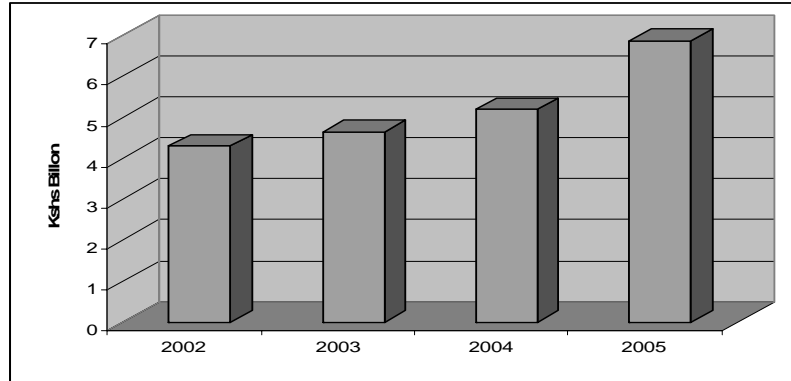


Source: AKI; Insurance Industry Statistic Report 2005

Life penetration as a percentage of GDP in Kenya remains low at 0.78% compared to 11% in South Africa. There are several factors that are attributed to the low penetration. First, Kenya has a low per capita income and most of its people cannot afford the luxury of taking an insurance cover which they find to be high given their levels of income. Second, the insurance sector has a poor image. In the past, some unscrupulous players have been involved in unethical insurance practices that dented the public image of the industry. Third, most people are simply ignorant of the existence of the insurance products. Insurance industry players have to share the blame for this. For this, they have not taken their time to educate the masses on the benefits of insurance products. Lastly, there are very few incentives for taking a life cover.

Claims

The claims and benefits paid out by the life cover have also recorded considerable growth in tandem with the growth in premiums. The period between 2002 and 2005 reported annual growth in claims of 17.6%. The chart below illustrates this growth. In 2002 the figure was Kshs 4.2 billion.

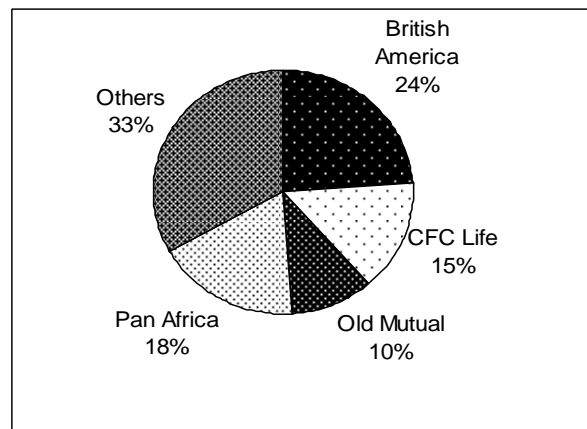


Source: AKI; Insurance Industry Statistic Report 2005

Over the period the growth in claims and benefits have outpaced the growth in premiums.

Ordinary Life

In group life the key players are British American, CFC life, Old Mutual and Pan Africa with market shares of 23.77%, 14.9%, 10.13% and 18.21% respectively. Interestingly, the top companies in Life business also happen to be among the top in Ordinary Life Insurance. These top companies control over 67% of the market share. Of the 42 insurance companies registered in Kenya, 19 insurance companies write ordinary life business. In 2005 they collected gross premium of Kshs 4.6 billion which was about 25% of the total premium collected by the whole industry.



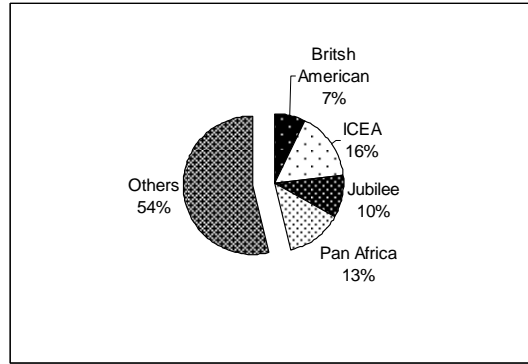
Source: AKI; Insurance Industry Statistic Report 2005

Reassurance in ordinary life is very small meaning that the retention rate is high. For instance, out of the total of Kshs 4.6 billion gross premiums written in 2005, only Kshs 60 million was passed on as reinsurance. The reinsurance amount was thus a paltry 1.3% of the premium. The average loss ratio in ordinary life stood at 60.5% while that of the general insurance business sector stood at 48.7%. Claims and benefits were Kshs 2.7 billion or 59.7% of the premium. The expense ratio (defined as the Total expenses/Net premiums) for the companies undertaking ordinary life business averaged 76.3% in 2005. Although this ratio seems to be low, some companies reported very high ratios. For instance, Jubilee, Mercantile and Trinity had expense ratios of 143.5%, 146.7% and 200% respectively. On the other hand, the expense ratios of ICEA, Kenindia and Madison were 38%, 37.6% and 58.7% respectively. The expense ratios for these companies are low because they are able to utilise the economies of scale due to their large size.

Group Life

There are 21 companies that write group life. The dominant companies in terms of gross premium written are British American, ICEA, Jubilee and Pan Africa. These companies control about 46% of the gross premium written. The rest of the companies each control an average market share of 3.6%. The chart below illustrates this dominance.

Group life premiums



Source: AKI; Insurance Industry Statistic Report 2005

The average commission ratio for group life was 6.9% in 2005. With the exception of First Assurance, Apollo and Geminia whose ratios of commission were exceedingly high at 66.1%, 35.2% and 36.2% respectively, the rest of the companies reported much lower rates. The average loss ratio in this category of insurance stood at 67.3% at the end of 2005. Most companies in this category of insurance had loss ratios lower than the category's average level with the exception of a few outliers. The few include Mercantile (105%), Kenya Alliance (151.7%) and First Assurance (171%). The expense ratio was much lower at 50.4%. This brings the combined ratio (Loss Ratio + Expense Ratio) to 117.8% for group life.

Deposit Administration Business

There are 14 insurance firms that undertake the business of deposit administration. The main players and their market shares are as tabulated below

Company	Life fund Kshs Million	Market Share
ICEA	9,101.70	43.10%
CFC Life	3,613.20	17.10%
Jubilee	2,926.20	13.90%
Kenindia	2,385.90	11.30%
Heritage	684.7	3.20%
British American	630.3	3.00%
Madison	588.3	2.80%
Apollo	372.2	1.80%
UAP	260.7	1.20%
Kenya Alliance	159.2	0.80%
Mercantile	172.3	0.80%
Pan Africa	166.4	0.80%
Blue Shield	43.7	0.20%
Co-operative	3.6	0.00%
TOTAL	21,108.50	100.00%

Source: AKI; Insurance Industry Statistic Report 2005

As the table above shows, there are just four main players in the administration of funds. These are Jubilee, Kenindia, ICEA and CFC life. The rest of the insurance firms have low market shares (less than 4%).

The funds under the administration of the insurance firms as at the end of 2005 totaled Kshs 21 billion. This was a significant increase from the beginning of the year when the funds were Kshs 18.4 billion. The increase was largely attributed to the contributions for the year which amounted to Kshs 3.4 billion.

Compared to underwriting, administration of funds business carries lower risk. The risks that administrators of funds face are mainly related to market risks. As such, there is more certainty in achieving positive return when compared to insurance underwriting.

3.1.5 Challenges faced by insurance firms

Too Many Players

As we mentioned earlier, there are 42 insurance companies operating in Kenya. Most of them write general business. Only a few specialize in life insurance. As a result of the large number of insurance companies compared to the total gross premium written, insurance companies compete fiercely among themselves for business. The market share of each of them is quite low at around 2.0%. Most of these companies are small and are of similar size.

Lack of Innovation

The insurance products that are in the market today were designed many years ago. Quite often, new risks emerge which require to be covered. However, local insurance companies fail to tailor products meant to cover these new risks. As a result, such business opportunities remain untapped locally. In such cases, those seeking to be insured are forced to take the business outside the country.

Low Capitalization

As stated elsewhere in this Prospectus, the minimum capital requirement for setting up a life insurance company is Kshs 50 Million while the capital required for setting up a general insurance company is Kshs100 Million. In order to start an insurance company that does life and general business, a firm would require a minimum capital of Kshs 150 Million. For an insurance company, such capital is inadequate. This is evidenced by the collapse of several insurance companies in the recent past. In the past 7 years, however, only 3 insurance companies were placed under statutory management. Had these companies been well capitalized, they wouldn't have been declared bankrupt. The collapse of these institutions has had a negative impact on the insurance industry in general. The image of the industry has been dented.

However, the 2007 Finance Bill proposes to raise the minimum capital requirement to Kshs 150 million and Kshs 300 million for life and general insurance respectively.

Underwriting Standards

There are many benefits to be accrued as a result of adhering to the internationally accepted underwriting standards. This notwithstanding, the standards are not adhered to by many firms in Kenya. The failure has resulted in many of these firms underestimating the level of risk they cover. This in turn has led to underestimating the premium charged for those risks. There is need for insurance companies to stick to professional practices.

Fraudulent Claims

In the past, insurance companies have had to undergo very tough times and incur huge payouts in claims. Some of these claims have proved to have been fraudulent. This has forced the insurance firms to rethink the way they handle claims. One of the milestones in this respect was the introduction of the two pay cheque system whereby the claimant and the attorney are issued with different cheques.

Exorbitant Awards by Courts

Insurers have in the recent past been reeling under huge court awards. Insurance companies have complained that the awards have been unrealistically high and should the court system continue making such awards, the insurers may find themselves making losses.

3.1.6 Barriers To Entry

Capital requirement

There are no major barriers for registering an insurance or reinsurance company in Kenya. The minimum capital requirement to start an insurance company for both life and general business is less than Kshs 150 Million while the capital requirement for a reinsurance company is Kshs 500 Million. These figures for capital requirement are not large and hence do not pose as barrier to entry. Perhaps higher capital requirement may be called for.

However, the 2007 Finance Bill proposes to raise the minimum capital requirement to Kshs 150 million and Kshs 300 million for life and general insurance respectively.

Regulation

Insurance and reinsurance businesses are regulated by the government through the Ministry of Finance. For any firm to do insurance or reinsurance business, it has to get approval from the government. In addition, professionals in the industry have to be licensed. These professionals include insurance assessors, brokers and agents.

3.2 THE KENYAN REINSURANCE INDUSTRY

3.2.1 Participants

Kenya Re is 100% owned by the Government of Kenya. The Corporation was formed to serve the interests of Kenya by boosting the local reinsurance capacity. Though locally incorporated, the Corporation serves many countries in Africa and other international markets.

ZEP Re (PTA Re) was formed under the auspices of COMESA member countries. Unlike Kenya Re, which was formed with the intention of boosting reinsurance capacity in Kenya, ZEP Re's target markets are countries that constitute the COMESA region. Member countries of COMESA, reinsurance and insurance companies are the main shareholders of ZEP Re. Kenya Re is the largest shareholder in ZEP Re, controlling about 24% of its share capital.

Africa Re came into existence with the patronage of the African Union (formerly the Organization of African Unity-OAU). The corporation was founded thirty years ago. The objective of the corporation is to cater for the reinsurance needs of insurance, reinsurance and retrocession companies in Africa. Africa Re is by far the biggest of the three. It has offices in Nairobi, Johannesburg, Port Louis, Lagos (Headquarters), Abidjan, Cairo and Casablanca. Africa Re attracts business from both Africa and the international markets. Its major shareholders are the ADB, African states and local insurance companies.

East Africa Re is owned by major insurance companies. It therefore has a captive market. Its main shareholders are First Chartered Securities Limited, which holds an equity stake of 30 percent, and Jubilee Insurance of Kenya, with an equity stake of 20 percent. IFC's investment represents 15 percent of East Africa Re's ordinary share capital. The other shareholders are Kenindia Assurance Corporation and Pan Africa Insurance Corporation, two of the top ten insurance companies in Kenya.

The table in the next page shows the net premium written and their respective pre-tax operating income of Africa Reinsurance Corporation, Kenya Re, PTA Re and East Africa Re in the years 2004 and 2005 respectively. By and large, Africa Re is the largest of the four reinsurers since it conducts its business across the whole African continent and enjoys a 5% compulsory treaty cessions in all the African countries it does business.

Reinsurance Corporation	Net Reinsurance Premiums Written			Pretax Operating Income (\$ Mil.)	
	2005	2004	% Change	2005	2004
Africa Re Corporation Ltd	295.5	269.0	9.9	17.2	10.4
Kenya Reinsurance Corporation Ltd	31.4	24.1	30.6	9.4	8.2
PTA Reinsurance Corporation	19.0	18.8	1.0	1.8	2.0
East Africa Reinsurance Corporation Ltd	13.9	11.8	17.3	1.0	0.6
Total	359.8	323.7	11.2	29.4	21.2
Reinsurance Corporation	Total Adjusted Shareholders' Funds (\$ Mil.)			ROR (%)	
	2005	2004	% Change	2005	2004
Africa Re Corporation Ltd	168.6	139.5	20.9	5.9	4.6
Kenya Reinsurance Corporation Ltd	78.2	56.2	39.2	28.6	28.4
PTA Reinsurance Corporation	15.0	12.4	21.0	9.2	10.5
East Africa Reinsurance Corporation Ltd	10.3	9.3	11.3	6.3	6.0
Total	272.1	217.4	25.2.2	18.1	17.4

Source: Standard and Poor's

Total adjusted shareholders' funds = capital + shareholders' reserves (including claims equalization reserve and any excess or deficiency of market value of investments over the balance sheet value)

ROR = $\frac{\text{pre-tax operating income}}{\text{total revenue}}$ (total revenue = net premiums earned + net investment income + other income)

3.2.2 Compulsory Ceding

Kenya Re enjoys 18% compulsory ceding of all treaty insurance business from all insurance companies in Kenya. When the compulsory ceding was introduced, it was meant to help Kenya Re build local capacity for reinsurance. This objective has largely been achieved. After the IPO the corporation will be 40% owned by the public and the rest will be held by the Government. The compulsory ceding is to end in the year 2011 or when the Corporation is fully privatized. This may expose Kenya Re to a reduction of the premium it collects since insurance firms will no longer be obligated to reinsure with Kenya Re. However, this may not turn out to be the case because, currently, Kenya Re accounts for more than 21% of the local market share of premium collected. This means that Kenya Re can survive without the compulsory treaty cessions.

3.2.3 International versus Locally Registered Reinsurance Firms

Locally registered reinsurance firms operate under the Insurance Act. These firms carry out their business as stipulated in the Act. They report to the Commissioner of Insurance under the Ministry of Finance. International reinsurance companies operating in Kenya but incorporated outside Kenya are free to take their business wherever they wish. The ability to diversify their business across the globe allows them to reduce exposure to country risk. Hence this ability gives a competitive advantage to foreign incorporated reinsurance companies compared to locally incorporated ones.

3.2.4 Reinsurance Rates

Reinsurance premiums have in the past been very competitive as a result of the premiums in the primary insurance market decreasing due to increased competition in both the life and general insurance markets. Despite the reduction in the premiums, claims have remained constant. This has had a negative impact on profitability on underwriting. The global reinsurance market practice also means that it is not often possible for highly rated re-insurers to gain preferential pricing and terms over re-insurers with lower ratings writing the same risk. As a consequence, re-insurers with high ratings are not typically rewarded with better business, which partly accounts for the rating compression in recent years. .

As a result of this fluctuation in insurance premiums, a premium rating committee has been set up by the Commissioner of Insurance. This committee is composed of re-insurers, insurance brokers and insurance companies who monitor the local and international trends in insurance and reinsurance rates and determine the risks faced by the industry. Once the rates have been agreed upon, they are filed with the Commissioner of Insurance. These then form the base rates recommended by the Commissioner of Insurance.

3.3 GLOBAL REINSURANCE MARKET

3.3.1 Market Size³

In 2005, the global reinsurance market was worth around USD 149.5 billion, in terms of net premium income, with the bulk accounted for by property and casualty risks. The premiums have decreased by around 8% from 2004 premiums of \$162.6 billion. The reinsurance market is highly concentrated with the Top 10 players holding a global market share of more than 60%. There are approximately 220 reinsurance organisations globally.

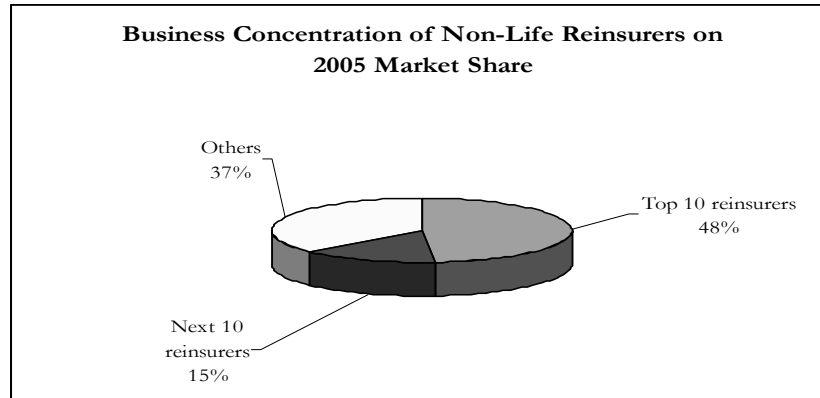
Rank	Corporation	Country	Net reinsurance premiums written 2005 US\$ Millions	Net reinsurance premiums written 2004
1	Munich Re	Germany	22,602.80	26,400.10
2	Swiss Re (1)	Switzerland	21,203.60	25,766.90
3	Berkshire Hathaway Re	U.S.	10,041.00	10,580.00
4	Hannover Re	Germany	9,190.80	10,125.90
5	GE Insurance Solutions (1)	U.S.	6,697.00	8,173.00
6	Lloyd's	U.K.	6,566.80	6,375.70
7	XL Re	Bermuda	5,012.90	4,149.30
8	Everest Re	Bermuda	3,972.00	4,531.50
9	Reinsurance company of America Inc.	U.S.	3,863.00	3,342.50
10	Partner Re	Bermuda	3,615.90	3,852.70
	Total		92,765.80	103,297.60

Source: Standard and Poor's

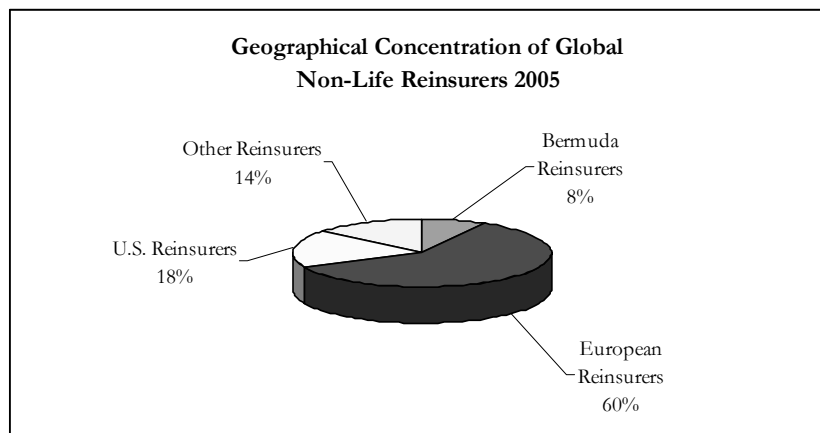
Munich Re and Swiss Re held 30% of the global reinsurance market in 2005. The top five held nearly 40%. Swiss Re's market share is expected to increase in 2006 to an estimated 25% of global life and 16% of global non-life premiums following the acquisition of GE Insurance Solutions (all except North American life and health reinsurance business).

³ Source: Standard and Poor's

The size of the global players has also increased because of consolidations. In 2001, only the 17 global reinsurance companies wrote more than \$1 billion in net reinsurance premiums, but at the end of 2005 all top 40 reinsurance companies wrote above \$1 billion.



Source: Standard and Poor's



Source: Standard and Poor's

3.3.2 Industry Trends⁴

Standard and Poor's Rating Agency maintained a stable outlook on the global reinsurance market during 2006 and into 2007 reflecting that the number of re-insurer upgrades and downgrades will be relatively in equilibrium. Global re-insurers offer strong financial security to their cedants as evidenced by the significant number of 'A' and 'AAA' rated companies (46% and 20%, respectively). The ratings on the re-insurers are based upon prudent underwriting by management in the future. Global re-insurers also benefit from the support of the capital markets that helped recapitalize in 2005 and backed the formation of a new class of entrants over the past year.

The Global Reinsurance Market underwent high degrees of volatility in 2005 due to the sheer magnitude of insured catastrophe losses with global loss estimates of about \$80- \$90 billion. In the wake of the three hurricanes that hit the US Gulf Coast in August 2005, Hurricane Katrina is expected to account for about \$50 - \$60 billion of these losses, nearly double the estimated figures for the events of September 11.

⁴ *Source: Standard and Poor's*

Large re-insurers that had diversified their capital base such as Munich Re and Swiss Re managed to close 2005 with positive operating profits, as they were able to offset their 2005 hurricane losses with profits from other operating divisions including life, property/casualty business and primary insurance operations as well as being geographically diversified.

From an earnings perspective, mid sized and small re-insurers with a more substantial focus on property and other short tail lines of business (marine, energy) outperformed the market. This was due to the significant challenges faced by the global Reinsurance companies in the past decade; such as, properly controlling subsidiaries in different geographical areas; balancing large market shares in different markets; updating technology platforms to improve transparency and exposures in the organisation and incorporating different cultures from the acquisitions frenzy of the late 1990's and early 2001.

Many re-insurers have been unable to generate enough internal capital to fund their operational needs over a substantial period of time and are looking into the capital markets to fund capital shortfalls and for future growth. Investor interest in reinsurance has been strong. In 2005, U.S. and Bermudian re-insurers raised \$10 billion through share and debt issuance. In addition, another \$10-\$12 billion of mostly private equity capital has been and is in the process of being raised to fund a large number of reinsurance ventures and a few so called sidecar vehicles.

Over the past 10 years there were significant changes in market participants in the non-life global reinsurance companies. AXA Re, Overseas Partners, Centre Solutions, and Trenwick went into run-off. Many larger reinsurance companies exited the market due to poor results such as St. Paul and CNA, while others left due to a large amount of consolidation in the late 1990's. Although market players have changed, the top global reinsurance companies have remained unchanged, with Munich Re, Swiss Re, Berkshire Hathaway, Hannover Re, and Lloyd's consistently ranked top six.

The overall reinsurance market in the 2 largest life reinsurance markets, the U.S. and U.K., has continued to shrink. In the U.S. the market has shrunk by 50%, to its lowest level in the last 8 years. This is partly due to the increases in reinsurance prices, which have increased by up to 10%, in spite of improved mortality in population as a whole. There were several reasons for this: aggressive competition among the re-insurers during the early decade led to unsustainable pricing wars, re-insurers tying up increasing amounts in their costs and capital in collateral to cover reserves. This is reflected in the pricing and consolidation of re-insurers reducing re-insurer capacity to allow more pricing power to the remaining market players. Unable to pass the re-insurer price increase in the primary market, the cedant retains more of the premium which could increase the reserve strain on the retained risk. Securitisation of excess reserve has made this strain easier to absorb. For smaller companies Letters of Credit have become a viable option.

PART IV: LEGAL AND REGULATORY FRAMEWORK

4.1 DEVELOPMENT OF REGULATORY FRAMEWORK

Reinsurance is treated as part of the insurance industry and as such operates under the same regulatory framework.

The Insurance Act (1984) and various regulations coupled with the Insurance (Amendment) Act 1994 were introduced by the Government as an endeavor to strengthen the insurance industry and to give greater protection to insurance consumers against a background of financial scandals and failures in the banking industry.

4.2 LEGAL ENVIRONMENT

The Commissioner of Insurance has recently taken measures to establish stricter regulation and control of intermediaries particularly in the areas of premium remittance and professional conduct of business.

The setting of the minimum paid-up capital for reinsurance companies of Kshs. 500 million was aimed at ensuring the financial stability of the industry to avoid a situation whereby too many weak re-insurers are formed and inadequately capitalized. However, this has now become a major barrier to entry into the industry.

The reactionary nature and approach of the Insurance Act having been precipitated by the financial scandals and failures in the banking industry has in some instances been a limiting factor in the growth and development of insurance companies.

The restriction of insurance companies to establish subsidiaries limits integration and formation of strategic alliances. Restriction in investment of funds affects flexibility and maximization of returns.

Both insurance and reinsurance companies are required by law to follow certain minimum investment mix. The table below gives a summary of the minimum investment assets an insurer or a reinsurer may hold at one time.

Categories	Minimum legal limits
i) First category Government Securities	20%
ii) Second category Mortgage loans, Bonds, Debentures and quoted shares, Instruments of title to immovable property in Kenya, Deposits in banks or financial institutions	65%
iii) Third category Fixed Assets, Debtors, Unquoted shares, Inventories	15%

Source: Insurance Act

4.3 SELF REGULATION

The industry develops self-regulatory rules through the Association of Kenya Insurers (AKI). One of the most important recent developments in the insurance industry was the adoption in January 1998 of AKI's new constitution. The new constitution of the Association of Kenya Insurers is particularly significant in two aspects; one, the establishment of more effective organization structure; and two; the establishment of an in-built mechanism for self-regulation through a new code of practice to which all insurers are signatories. The Code of Practice for all its members is "to help curb unfair trade practices and to safeguard and uplift the reputation of insurer". It is intended that the adoption of the Code of Practice by all insurers will in particular contain the very destructive practice of under-cutting in rates that has adversely affected profit margins in underwriting.

4.4 COMMISSIONER OF INSURANCE

The role of the Commissioner of Insurance is spelt out in the Insurance Act of Kenya of 1987, chapter 487. The Act has given the Commissioner a wide range of regulatory powers over the insurance industry. These powers include:

- The formulation and enforcement of insurance industry standards
- Standardization of compulsory insurance contracts
- Approval of tariffs and rates of insurance
- Ensuring compliance of the act by insurance companies
- Investigating insurance companies where there is reason to suspect lack of compliance
- Responding to shareholders and policy holders complaints
- Suspend or seek a court order to wind up part or a whole company

After so much lobbying by the Association of Kenya Insurers, the Office of the Commissioner of Insurance has been converted to an autonomous regulatory body called Insurance Regulatory Authority. As a result, the Office has been empowered to carry out its mission.

4.5 REINSURANCE CONTRACTS

With respect to reinsurance contracts, the commissioner may request for submission of treaty contracts and other reinsurance contracts that may need to be certified by a principal officer. Under this regulation, any contract that is found to be unfavourable or not in the interests of the economy, insurance industry or public interest, will be subject to modifications at the time of renewal or may not be renewed at all.

4.6 PLACING RISKS WITH RE-INSURERS

The requirement that all business be placed locally, means that no one can insure in the international market. However, the Commissioner of Insurance can give an exemption to this where it can be proved that the local companies do not have the capacity to place that business. A case in point is the aviation class, where the local capacity is severely limited.

The commissioner also prohibits fronting, whereby the local insurer will act as a front for its foreign parent or partner corporation, restricting the way reinsurance arrangements can be done. Currently, an insurer must reinsure a minimum 33% with local reinsurance companies.

The Commissioner goes further and stipulates the way they should reinsure the 33%:

18% Kenya Reinsurance Corporation Ltd
10% PTA Reinsurance Corporation
5% Africa Reinsurance Corporation

PART V: BUSINESS OVERVIEW

5.1 BACKGROUND AND HISTORY

The establishment of Kenya Re was necessitated by Government desire to address the unsatisfactory conditions that were then prevailing in the local insurance sector. Specifically, Kenya Re was established to pursue the following objectives:

- ❑ Increase retention capacity within the country so as to reduce the need to purchase reinsurance covers from external re-insurers,
- ❑ Help in regulating the insurance sector, a function which is now performed by the office of the Commissioner of Insurance,
- ❑ Contribute towards the growth and development of local expertise in insurance and reinsurance fields, and
- ❑ Generate funds for investment in the national economy.

The Corporation commenced underwriting business in January 1971. It initially began underwriting fire risk only. During the first year of operation, it netted Kshs.5.9 million as premium income and realized an underwriting profit of Kshs 328, 818.

In January 1972, the Corporation expanded its business portfolio when it started underwriting accident class of business covering the whole range of risks; such as burglary, cash in transit, personal accident and workman's compensation. Between 1973 and 1974, the Corporation commenced underwriting marine and aviation, motor and life classes of business.

Prior to the year 2000, Kenya Re's business covered compulsory policy and treaty cessions, as well as optional reinsurance. Compulsory policy cessions were phased out as well as a part of compulsory treaty cessions.

The treaty cessions are currently at 18%, but may be phased out in the future. However, Kenya Re is adopting competitive market-driven strategies and has continued to declare increased profits year after year.

Currently Kenya Re is a fully-fledged re-insurer offering the full range of reinsurance services to insurance companies in Africa, Middle East and Asia.

5.2 KEY MILESTONES

YEAR	Milestone
December 1970	State Reinsurance Corporation was established.
January 1971	State Reinsurance Corporation commenced operations with a share capital of Kshs 250,000 and a staff of 8. Only involved in underwriting fire and general accident reinsurance. Cessions were 10%.
1973	Began underwriting aviation and marine. Cessions were 10% and 15% respectively.
1974	Motor business started with 10% legal cessions.
1977	The State Reinsurance Corporation Act was amended. Corporation's name changed to Kenya Reinsurance Corporation (Kenya Re).
	Compulsory cessions to Kenya Re were raised to 25% for all classes of business.
	Commenced business on the international market.
1978	Kenya Re started building its headquarters at the Reinsurance Plaza.
1979	Started underwriting life reinsurance.
1980	Earned the country Kshs 55 million in foreign exchange.
	Financed the construction of the Maendeleo ya Wanawake House.
1993 to 2001	Voluntary retirement exercises, which reduced the number of staff to current optimal level of 110 employees.
1997	Conversion into a limited liability company under the Companies Act (Cap 486) with all the shares owned by the Government to pave way for an intended privatization of the Corporation.
2000	Compulsory cessions to Kenya Re lowered from 25% to 18%.
2005	Rated B+ (Very Good) by A. M. Best.
2006	Kenya Re B+ rating reaffirmed.

5.3 CORPORATE VISION

The corporate vision of Kenya Re is to be a world-class reinsurer and market leader in Africa offering quality reinsurance and ancillary services.

5.4 CORPORATE MISSION

The corporate mission of Kenya Re is to provide quality reinsurance and insurance services to its clients in Kenya, Africa, Middle East, Asia and the rest of the world. In doing this, the Corporation:

- Is focused on customers and committed to growth, profitability and satisfactory returns to shareholders through professionalism and use of modern technology.
- Continues to attract, develop and retain a pool of qualified and experienced staff so as to maintain its competitive edge.
- Endeavours to be socially responsible and environmentally conscious by observing high ethical standards in all its business practices.

5.5 CORE VALUES

Management of Kenya Re pledges that all organizational activities and decisions will be based on and guided by the following values:

- Commitment to professionalism
- Customer satisfaction
- Quality service
- Development of human resource
- Social responsibility
- Concern for environment
- Integrity

5.6 CORE STRENGTHS

- Increasing presence in Africa and International Markets
- Large Underwriting capacity
- Technical know-how (qualified staff)
- International Rating
- High levels of reciprocity in the market

5.7 FUNCTIONS OF KENYA RE

To implement its corporate mission, Kenya Re has the following functions:-

- (a) To transact reinsurance business through treaty and facultative cessions in respect of all or some classes of insurance.
- (b) To create and administer pools for the various risks for the account and to the interest of African insurance and reinsurance markets.
- (c) To provide technical expertise to national, regional and sub-regional African insurance and reinsurance institutions.
- (d) To generate funds for investment in the national economy.
- (e) To promote contacts and business cooperation among national insurance and reinsurance institutions.

- (f) To undertake such other activities including the writing of direct insurance, and provide such other services as may advance its purpose.

In carrying out its functions, the Kenya Re cooperates with local, regional and sub-regional insurance, reinsurance and development institutions worldwide.

5.8 REINSURANCE BUSINESS

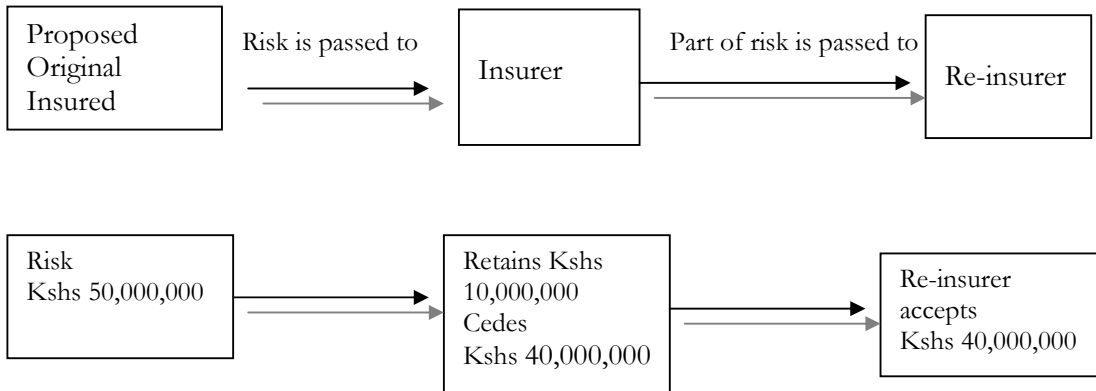
Functions of Reinsurance

Reinsurance provides four essential functions:

1. Smoothing: It helps to stabilize direct insurers' earnings when unusual and major events occur, by assuming the high layers of these risks or relieving them of accumulated individual exposures thereby limiting their payout when losses occur.

2. Capacity: Reinsurance allows insurers to increase the maximum amount they can insure for a given loss or category of losses, by enabling them to underwrite a greater number of larger risks, without burdening their need to cover their solvency margin, and hence their capital base. A Corporation grows only when it has sufficient capacity to accept risks with large sums involved. Growth means a process of going beyond capacity. Steady growth and stability can be achieved only with creation of capacity for the reinsured as a result of insurance facility. If there was no reinsurance the insurer would be able to accept only small sums insured.

The following diagram explains the transaction:



3. Liquidity: Reinsurance makes substantial quantities of liquidity available to insurers in the event of major loss events. Kenya Re helps its ceding companies to define their reinsurance needs and devise the most effective reinsurance program and to plan better for their capital adequacy and solvency margin.

4. Geographical Spread of Risk: The basic principle of insurance and reinsurance is to make the law of large numbers operate as far as possible by achieving a “spread” of risk. The reinsured retains what he can pay and passes over the balance to re-insurers all over the world. This can be done by reciprocal exchange of business. Thus, an insurance corporation can diversify the balance of its portfolio by spreading its size through reinsurance.

In developing countries, reinsurance companies are formed to prevent foreign exchange drain when insurance companies have to obtain reinsurance in foreign markets. As reinsurance is an international trade, it can conserve, preserve and earn foreign exchange for the country.

5.8.1 Market presence

Kenya Re writes business in Africa, the Middle East and Asia. However, the principal market of the Corporation is the Kenyan insurance market. It controls over 21% of the local market (*Source: AKI : Insurance statistics Report 2005 and Kenya Re*).

5.8.2 International business

Besides local underwriting, Kenya Re also underwrites business in the international markets. Kenya Re has written business in various international markets namely; Burundi, Bangladesh, Cameroon, Uganda, DRC, Ethiopia, Eritrea, Ghana, Iran, India, Indonesia, Jordan, Kuwait, Korea, Lebanon, Madagascar, Morocco, Nepal, Nigeria, Rwanda, Sudan, Senegal, Syria, Thailand, Tanzania, Tunisia, Togo, UAE, Zambia, Zimbabwe, Algeria, South Africa, Malawi, Mauritius, Italy, Japan, Malaysia, Maldives, Pakistan, Turkey and the United Kingdom.

Over the last few years Kenya Re has also opened up new business markets, in the Middle East and Asia. In total, Kenya Re does business in over 41 countries across the globe.

The table below summarizes the geographical presence of Kenya Re in the global business:

Region	Number of Countries	Number of companies
Kenya	1	46
Africa	22	80
Overseas	18	40
TOTAL	41	166

Source: Kenya Re

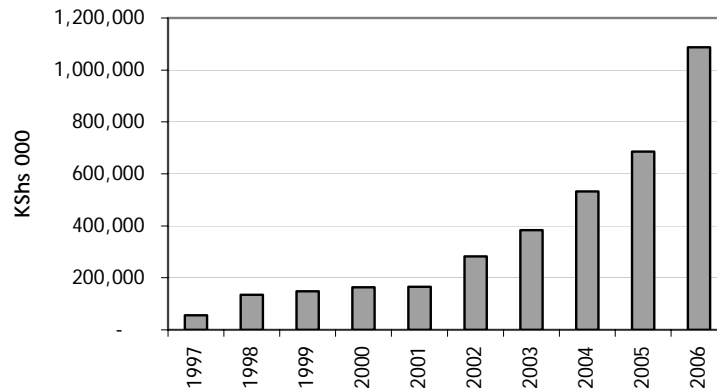
Kenya Re has realized considerable growth of international business premium income from Kshs 55 million in 1997 to over Kshs 1.08 billion in 2007. This is a result of prudent underwriting and growing confidence of international markets.

The net premium collected in Kshs from the 41 countries is given in the table below:

Jurisdictions	2006	2005	2004	2003
Kenya	512,786,366	461,629,045	215,759,256	643,502,044
Africa	246,948,994	126,101,291	145,376,073	90,319,746
Overseas	47,143,033	105,088,708	158,160,005	147,610,104
Total	806,878,393	692,819,043	519,295,334	881,431,893

Source: Kenya Re

Growth in gross premium in international markets



Source: Kenya Re

5.8.3 Competitive Strengths

Kenya Re has a strong presence in Kenya and the East African economy. It has established a name for itself within the insurance market as a leader in reinsurance business and through its extensive investment portfolio. Earlier in the year, Kenya Re put in place aggressive marketing strategies to capture the African markets as well as retain its existing market within Kenya.

The rating obtained from AM Best has added to its credibility within the international insurance and reinsurance markets. Kenya Re has automated most of its operations and is continually upgrading or improving on its systems and processes.

5.8.4 Marketing

Marketing has not traditionally received serious focus due to the fact that the Corporation had from its inception been mandated by statute to receive cessions. However, with the imminent withdrawal of the compulsory cessions, management has embarked on a deliberate marketing onslaught on strategically identified areas for business expansion, acquisition and market retention. The marketing strategies are tailored to take care of both local and international business and are given a twin approach:

- (a) At the Managing Director and departmental heads levels, and
- (b) At the Strategy & Business Development Division level.

Kenya Re intends to increase its business development and marketing as part of its overall strategy. The marketing strategies it intends to put forward over its five-year plan are described below:

- a) Intensify marketing activities locally and internationally through;
 - i. market penetration
 - ii. market development
 - iii. product development strategies
- b) Increase the level of customer service and focus in all departments of the Corporation.
- c) Emphasize and intensify personal selling in Kenya Re's marketing communication strategy.
- d) Pursue a competition oriented pricing strategy in all markets.

PART VI: DIRECTORS, MANAGEMENT AND CORPORATE GOVERNANCE

6.1 DIRECTORS AND MANAGEMENT

Kenya Reinsurance Corporation Ltd. has a Board of Directors headed by a non-executive chairman, and a management team under a managing director. The organisation structure is as presented in the chart after the list.

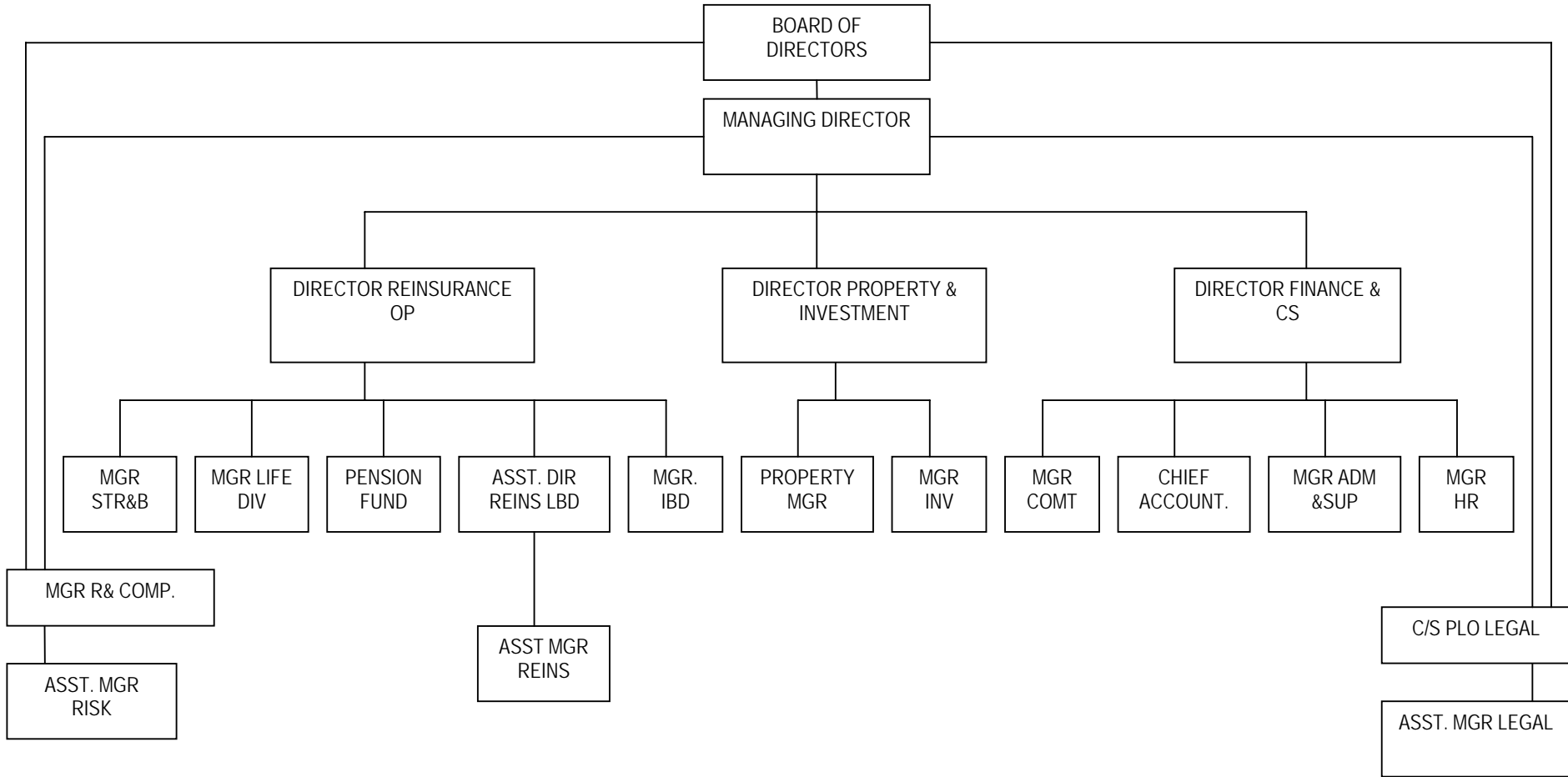
6.2 BOARD OF DIRECTORS

The Board of Directors of the Corporation consists of a non-executive chairman and seven (7) non-executive directors who are appointed by the Minister for Finance under the provisions of the State Corporations Act. The Board is responsible for the overall management and control of the operations of the Corporation. The Managing Director, who is recruited by the Board and formally appointed by the Minister for Finance, has overall responsibility for effective performance of the Corporation. There is one executive director and seven non-executive directors.

Senior managers who supervise and oversee the day-to-day operations of various departments and divisions of the Corporation assist the Managing Director.

The current Board of Directors consists of: -

<input type="checkbox"/> Nelius Kariuki	-	Chairman (Non-executive Director)
<input type="checkbox"/> Eunice Mbogo	-	Managing Director (executive Director)
<input type="checkbox"/> Jacob Haji Ali	-	Director (Non - executive Director)
<input type="checkbox"/> Dr. Iruki Kailemia	-	Director (Non - executive Director)
<input type="checkbox"/> Joseph Kinyua	-	Director (Non - executive Director)
<input type="checkbox"/> Everest Lenjo	-	Director (Non - executive Director)
<input type="checkbox"/> S. Mutwiri Ikiao	-	Director (Non - executive Director)
<input type="checkbox"/> Gladys Mumbua Mboya	-	Director (Non - executive Director)
<input type="checkbox"/> Mutua Kilaka	-	Alternate Director to Joseph Kinyua



A brief profile of the directors of the Corporation is set out below.

NELIUS KARIUKI, NON-EXECUTIVE CHAIRMAN

Mrs. Kariuki, a Kenyan national aged 56 years, is a holder of a Bachelors degree (Economics) and a Masters degree (Economics) from the University of Nairobi. Mrs. Kariuki, an economist by profession, has considerable working experience in macro economic policy formulation having worked in various positions in the Kenya Civil Service rising to the position of Principal Economist prior to retirement in 1990. In addition, she has written various research papers on public finance. Mrs Kariuki was appointed to the Board as a non executive director, on 18th December 2003 and was appointed non-executive chairman on 4th January 2007.

She is also the managing director of Nelleen Development Company Limited, a private company. In addition, she is a member of the Kenya Economic Forum, the Kenya Consumers Organization, the Kenya Business and Professional Women’s Club and the Institute of Directors. Mrs. Kariuki also serves on the Board of Governors of Githunguri Girls High School and Muranga Teachers Training College.

EUNICE MBOGO, MANAGING DIRECTOR- EXECUTIVE DIRECTOR

Mrs. Mbogo, a Kenyan national aged 41 years, holder of a Bachelor of Commerce degree and a Masters degree in Business Administration from the University of Nairobi, is an Associate of the Chartered Insurance Institute and a Fellow of the Chartered Insurance Institute. Mrs Mbogo has considerable local working experience in the insurance industry having previously held senior positions with American Life Insurance Company (Kenya) Limited (now AIG Kenya Limited) and British American Insurance Company Limited. She was appointed managing director of the Corporation in March 2007.

JOSEPH KINYUA, NON-EXECUTIVE DIRECTOR

Mr. Kinyua was appointed the Permanent Secretary, Treasury, 1st July 2004. Mr. Kinyua, a Kenyan national aged 55 years, holds a Bachelors degree and a Masters degree in Economics from the University of Nairobi. Mr. Kinyua is a career economist having held various senior positions in the Central Bank of Kenya, International Monetary Fund, Ministry of Planning and National Development Ministry of Agriculture and Ministry of Finance. He is also a non-executive director of various companies such as Kenya Commercial Bank Limited, Kenya Airways Limited and the NSSF. He is a non-executive director of all state corporations and the other corporations with government shareholding.

GLADYS MBOYA , NON EXECUTIVE DIRECTOR

Mrs. Mboya, a Kenyan national aged 39 years, holds a Bachelor of Laws degree (LLB) from the University of Wales, Aberystwth, UK, a Diploma in Law from Kenya School of Law, and is currently pursuing a Masters of Business Administration degree from the University of Warwick, UK. Mrs. Mboya is an advocate of the High Court of Kenya, a certified public Secretary and currently the Managing Partner at Mboya & Wangong’u Advocates. She is also a member of the Chartered Institute of Arbitrators, the Gender Committee of the Law Society of Kenya and a board member of the Child Welfare Society (Nairobi Branch). Mrs. Mboya was appointed to the Board on 4th January 2007.

JACOB H. ALI, NON-EXECUTIVE DIRECTOR

Mr. Ali, a Kenyan national aged 51 years, is a businessman. He was a legal assistant with ICDC between 1977 and 1991. He has attended a course in management at Kenya Institute of Education. Currently he is in private business. He was appointed a Director of the Corporation on 18th December 2003. His appointment as Director was extended for another three years from 4th January 2007

IRUKI KAILEMIA, NON-EXECUTIVE DIRECTOR

Dr. Iruki Kailemia, a Kenyan national aged 53 years, was appointed a Director of the Corporation on 18th December 2003. He holds a Bachelors degree in Pharmacy from the University of Nairobi. He initially worked as a pharmacist at Kenyatta National Hospital from 1978 – 1980, before joining Sandoz Pharmaceuticals – a Swiss Multinational Company, where he worked from 1980 to 1995.

EVEREST LENJO, NON-EXECUTIVE DIRECTOR

Mr. Everest Lenjo, a Kenyan national aged 56 years, joined the Corporation's Board of Directors on 4th January 2007. He holds a BBA (International Trade & Marketing) from City University of New York and an MBA (Corporate Finance) from St. John's University Queens New York. He has worked with Caltex Oil Kenya since 1982 and is currently still working for the company as Regional fuels/ Transport Broker.

S. MUTWIRI IKIAO, NON-EXECUTIVE DIRECTOR

Mr. Ikiao, a Kenyan national aged 57 years, holds a Bachelors degree (Economics & Government) from University of Nairobi and a Diploma in banking from the Institute of Bankers (London). He has considerable working experience in banking and insurance having held various senior positions such as General Manager (Finance and Administration) with Intra Africa Assurance Company Limited. Mr. Ikiao was appointed to the Board on 4th January 2007. He is also a non-executive director of Kenya Industrial Estates Limited and Williamson Development Co. Limited.

MUTUA KILAKA, NON-EXECUTIVE DIRECTOR

Mr. Kilaka, a Kenyan national aged 54 years, holds a Bachelor of Arts degree from the University of Nairobi. He is a career civil servant having held various positions; such as, District Officer, District Commissioner, Deputy Provincial Commissioner, Under Secretary /Principal Finance & Establishment Officer, Deputy Secretary/Finance and Chief Finance Officer. He was appointed the Financial Secretary, Ministry of Finance in December 2005. Mr. Kilaka is an alternate director to the PS Treasury on the Boards of Directors of National Water Conservation and Pipeline Corporation, National Social Security Fund and the Postal Corporation of Kenya.

None of the above directors has been declared bankrupt or has been a director, shareholder, or officer of an insolvent company and none of the above directors are involved in any criminal proceedings or have committed any serious offence that may be considered inappropriate for the management of a listed company.

6.3 EXECUTIVE MANAGEMENT

The functional directors of the Corporation include:

1) MR. EVANS JUMBA (48 yrs.); DIRECTOR- REINSURANCE OPERATIONS

Mr. Evans Jumba joined the Corporation as a Management Trainee in Life Division in 1983 and has 23 years working experience. Mr. Jumba has risen through the ranks to Manager Life & Pensions Unit and International Business Unit. Currently he is the Director of Reinsurance Operations.

He holds a B.Com (Insurance Option) Hons. from the University of Nairobi. He is an ACII, London and also holds a Certificate in Actuarial Science from City University London. He has attended various Courses in Insurance locally and overseas. He has also been associated with the development of the Diploma offered by the College of Insurance.

2) MR. NYAKUNDI MOGERE (39 yrs.); DIRECTOR -FINANCE

Mr. Mogere joined the Corporation on 3rd March 1998 as an Accountant and was deployed in Finance department. Mr. Mogere is a 1993 Bachelor of Commerce (Accounting Option) graduate and has an MBA majoring in Finance in year 2002 both from the University of Nairobi. He qualified as CPA (K) in 1998.

Prior to joining the Corporation Mr. Mogere had worked with the Auditor General Corporation for 3 years as an auditor and Kenya Power & Lighting Company as an accountant for one year. In 2002, Mr. Mogere was appointed to the position of Investment Officer and subsequently as a Manager in-charge of Investment Division in October 2005. Currently he is heading Finance Division, a position he has held from 8th January 2007. He has a total of 14 years working experience.

3) MR. MICHAEL J. MBESHI (44 yrs.); DIRECTOR- PROPERTY & INVESTMENTS

Mr. Mbeshi joined the Corporation on 19th October 1994 as a Premises Officer and was deployed in Property Department. Mr. Mbeshi has risen through ranks to his current position of Director (Property & Investments) within Property & Investments department. Mr. Mbeshi holds a Bachelor of Arts (Land Economics) from the University of Nairobi. He is a member of the Institute of Surveyors of Kenya. He is currently pursuing an MBA with ESAMI (Eastern and Southern African Management Institute). Prior to joining Kenya Re Mr. Mbeshi had worked with Urban Valuers and Ministry of Lands and Settlement for 6 years. He has a total of 18 years working experience.

4) MR. JADIAH MWARANIA (43 yrs.); ASSISTANT DIRECTOR (REINSURANCE OPERATIONS)

Mr. Mwarania graduated from the University of Nairobi in 1990 with a Bachelor of Commerce (Marketing Option) and MBA in year 2003 respectively. He is an ACII and FCII holder and a Chartered Insurer. He has attended both Local and International courses relating to Insurance and Reinsurance. He is a Fellow Member of the Insurance Institute of Kenya (FIK) and an Associate Member of the Kenya Institute of Management (KIM).

Mr. Mwarania has worked in various divisions within the Reinsurance Department having been transferred from Local Business Unit in year 2000 to Marketing and Business Development. He briefly worked in Claims Management Unit and in year 2003 was appointed to head the newly created division of Marketing and Business Development.

In year 2005 Mr. Mwarania was re-designated to the level of Asst. Director (Reinsurance) and deployed to head Local Business Division. He has a total of 16 years working experience.

5) MRS. JANE F. OTIENO (44 yrs.); CORPORATION SECRETARY

Mrs. Jane Otieno joined the Corporation on 3rd July 1995 initially as a Legal officer within the Legal department. Prior to that she worked in the Conveyancing Department at the Nairobi City Council, initially as a Legal Counsel in the Town

Clerk's Department and later as Acting Principal Counsel - Housing Development and Management Department, until the time she joined Kenya-Re.

Mrs. Otieno graduated from the University of Nairobi in 1986 with a Bachelor of Laws. She is an Advocate of the High Court of Kenya, a Commissioner for Oaths, a Notary Public and a Certified Public Secretary (CPSK).

Mrs. Otieno is currently the head of the Legal Department and Secretary to the Board of Directors of the Corporation and has a total of 20 years working experience.

No changes in the chief executive or senior management of Kenya Re have been planned or are expected within 24 months of the date of the Offer, unless such changes are required by and authorised by Kenya Re's Board or shareholders.

6.4 CRITERIA FOR APPOINTMENT OF DIRECTORS AND SUITABILITY OF DIRECTORS

Kenya Reinsurance Corporation's directors were appointed by GoK as the only shareholder.

None of the directors has ever:

- had a petition under any bankruptcy laws pending or threatened against him;
- been involved in any criminal proceedings in which he was convicted with any criminal offence and no such proceedings are threatened against him in Kenya or elsewhere;
- been the subject of any ruling of a court of competent jurisdiction or any governmental body that permanently or temporarily prohibit such director from acting as an investment adviser or as a director or employee of a stockbroker, dealer or any financial service institution or engaging in any type of business practice or activity; and
- been declared bankrupt or has been a director, shareholder, or officer of an insolvent company and none of the directors are involved in any criminal proceedings.

6.5 CORPORATE GOVERNANCE

Kenya Re has set up Board committees in order to align the interests of the shareholders with those of the management and therefore eliminate any conflict of interest that may arise. The Board committees are set up by the non-executive Board of directors. Directors are required to disclose all conflicts of interest to the Board. The Corporation also maintains a good balance between protecting longer term interest of shareholders against the interests of other stakeholders such as employees, clients and creditors. The Board performs an annual evaluation of its role, whether it has met the objectives set at the beginning of the year and to set challenges for the following financial year.

The following committees have been set up to advance good governance:

6.5.1 Audit Committee

The role of the audit committee is to assist the Board of Directors in the discharge of its responsibilities for financial reporting, and maintaining a system of internal control in the Corporation. The committee supports the Board in overseeing corporate governance process.

The audit committee is composed of directors who are independent of the management of the Corporation and are free of any relationship that, in the opinion of the Board of Directors, would interfere with their exercise of independent judgment as committee members. The committee has a minimum of three independent non-executive directors.

The audit committee provides assistance to the corporate directors in fulfilling their responsibility to the shareholders, reporting practices of the Corporation and the quality and integrity of its financial reports.

The following are the members of the Audit Committee;

- i. Everest Lenjo- Chairman
- ii. S. Mutwiri Ikiao
- iii. Mutua Kilaka
- iv. Dr. Iruki Kailemia

6.5.2 Remuneration and Nomination Committee

The Remuneration Committee is comprised of two non-executive directors, the corporation secretary, the directors of reinsurance, property and investments and finance and corporate services, the manager of human resources and the manager of risk and compliance.

The responsibilities of the Committee are to review and recommend issues relating to:

- Training needs
- Staff placement as relates to transfers, redeployment and job rotation
- Recruitment
- Promotions and demotions
- Discipline
- Staff welfare

The Staff Committee has the following Board members;

- i. Gladys Mboya- Chairperson
- ii. Jacob H. Ali
- iii. Mutua Kilaka

6.5.3 Risk Management and Internal Controls

The Board recognizes that corporate objectives can only be achieved by managing risks while ensuring that an optimal return is obtained for the risk taken. A risk management program has been put in place to assist the Board of Directors to understand business risk issues and key performance indicators affecting the ability of the Corporation to achieve its objectives. The Board is satisfied that the program is adequate to ensure that significant risks faced by the Corporation are minimized. Defined procedures have been implemented to ensure that internal control systems provide reasonable assurance that assets are safeguarded, transactions authorized and recorded properly, and that material errors are detected earlier on and prevented.

6.6 EMPLOYEES

The total number of staff as at 28th February 2007 was 115. All of them are permanent employees except for 7 who are on contract.

There have been no material changes in the staff levels in the past 5 years. The Corporation had proposed to reduce its workforce in 2006 and had put in place a proposal which outlined the rationale for the reduction. However, the planned reduction did not take place in 2006. The staff rationalization has been put on hold pending a work audit exercise to ascertain the exact needs of the Corporation.

The Directors believe that training and development of its employees is fundamental to the long term prospects of the Corporation and accordingly, appropriate resources are invested in these activities.

PART VII: PERFORMANCE OVERVIEW

7.1 REINSURANCE PREMIUMS

A larger proportion of the total premium received from General insurance business is passed on to re-insurers compared to Life business. Approximately 35% of the total general insurance business has been passed on to reinsurers on average over the last 5 years while approximately 8.58% of the total life business has been placed with reinsurance companies. Kenya Re's share of the total general insurance premium pool is 7.41% and 4% of the total life insurance premium pool on average.

Kenya Re's Life Reinsurance gross premiums increased from Kshs 313.5 million in 2000 to Kshs 387.6 million in 2005.

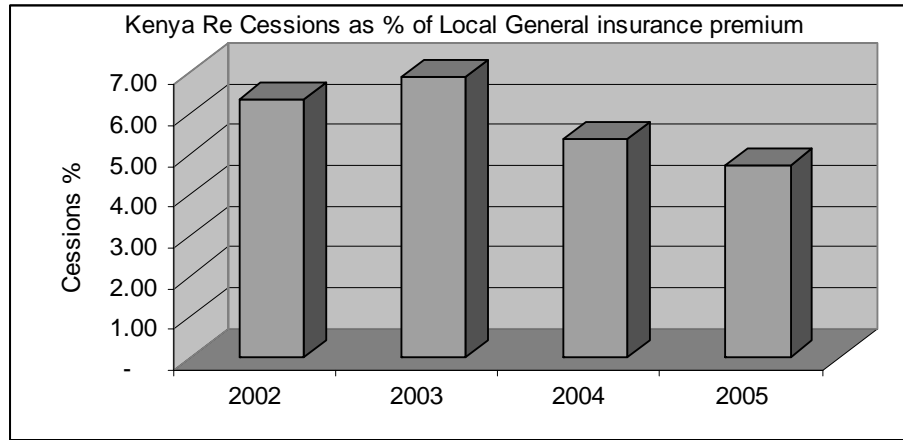
7.1.1 Local Insurance and Re-insurance Market size – General Business

The table below shows the magnitude of Kenya Re's reinsurance market as compared to the insurance and reinsurance markets in Kenya.

Kenya's Insurance & Reinsurance Local Market Size

	2002	2003	2004	2005
	KShs 000s			
Gross General Insurance Premiums	18,675,518	20,695,724	24,062,779	25,013,455
Market Growth (%)	15.83	10.82	16.27	3.95
Reinsurance Market Premiums	6,663,861	7,600,480	7,208,084	7,391,936
Reinsurance Premiums as a % of Insurance Premiums	35.68	36.72	29.96	20.36
Kenya Re - Local Market Cessions	1,186,768	1,428,941	1,290,953	1,185,985
Kenya Re Local Market Reinsurance Premiums Share	17.81	18.80	17.91	16.04
Market Retention	82.19	81.20	82.09	83.96
Kenya Re Share as a % of Local General Insurance Premiums	6.35	6.90	5.36	4.74

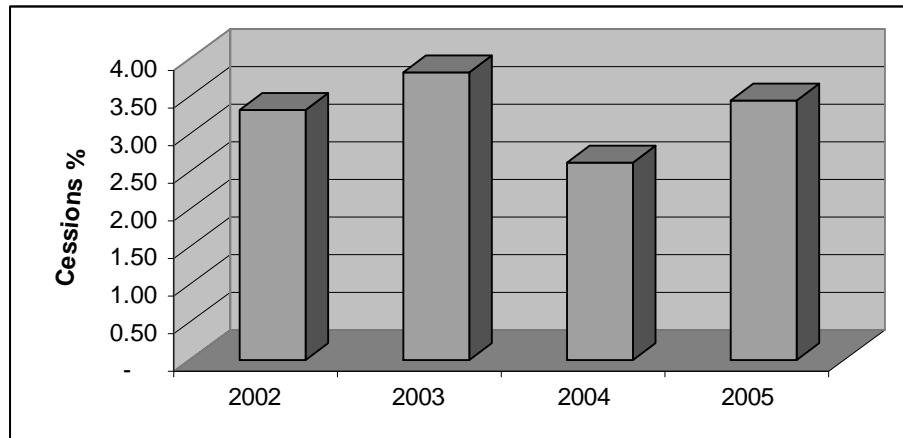
Source: Kenya Re and AKI: Insurance Industry Statistics 2005 Report and Insurance of Commissioner Report 2005



Source: Kenya Re Audited accounts and AKI: Insurance Industry Statistics 2005 Report

7.1.2 Local Insurance and Re-insurance Market size – Life Business

Although the share of Kenya Re’s local business as a percentage of the total business has been declining, the absolute volume of business has actually increased over the period. The growth in international business has been the main reason for the decline in the share of local business.



Source: Kenya Re Audited accounts and AKI: Insurance Industry Statistics 2005 Report

Kenya's Insurance & Reinsurance Local Market Size				
	2002	2003	2004	2005
	KShs 000s	KShs 000s	KShs 000s	KShs 000s
Gross Life Insurance Premiums	7,236,900	8,520,015	10,021,707	11,292,810
Market Growth (%)	2.32	17.73	17.63	12.68
Reinsurance Market Premiums	650,651	358,566	702,958	845,855
Rein Prem. as a % of Ins. Prem.	8.99	4.21	7.01	2.33
Kenya Re - Local Market Cessions	238,928	324,492	260,934	387,590
Kenya Re Local Market Rein. Prem. Share (%)	36.72	90.50	37.12	45.82
Market Retention (%)	63.28	9.50	62.88	54.18
Kenya Re cessions as % of Local Life Insurance Premium	3.30	3.81	2.60	3.43

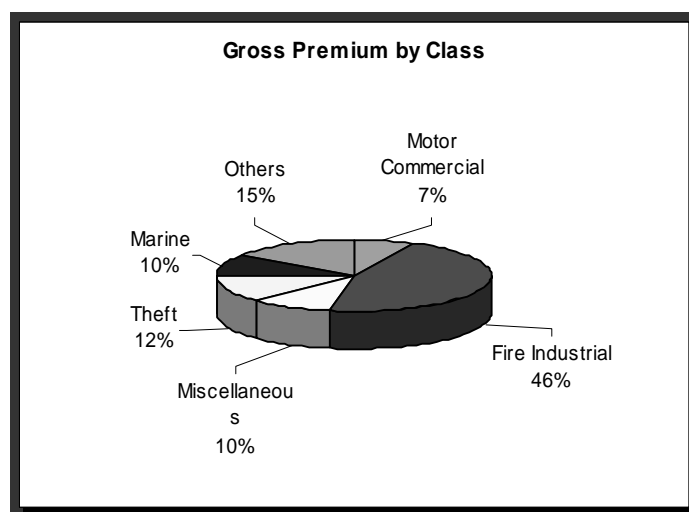
Source: Kenya Re Audited accounts and AKI: Insurance Industry Statistics 2005 Report

Business written by type of Reinsurance

7.1.3 Product Analysis of Kenya Re

Kenya Re transacts in over 12 classes of insurance business. These are: engineering, fire industrial, fire domestic, public liability, personal accident, marine, aviation, motor private, motor commercial, theft, workman compensation and life business.

The pie chart below shows the percentage of gross premiums contributed by the major class of businesses

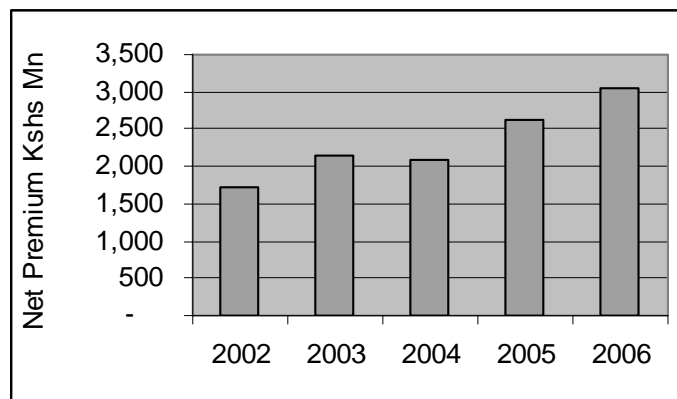


Source: Kenya Re

Marine and Aviation – There is a huge potential for business in these products. At the moment, 70% are directly insured in overseas markets. The Kenyan Insurance Act states that no marine or aviation business shall be placed in the open markets without express authority from the Commissioner’s office. Marine and aviation business has remained insignificant over the period because the business from marine and aviation pose high risks and liabilities to the Corporation, hence it has attempted to limit the amount of business written in the two areas.

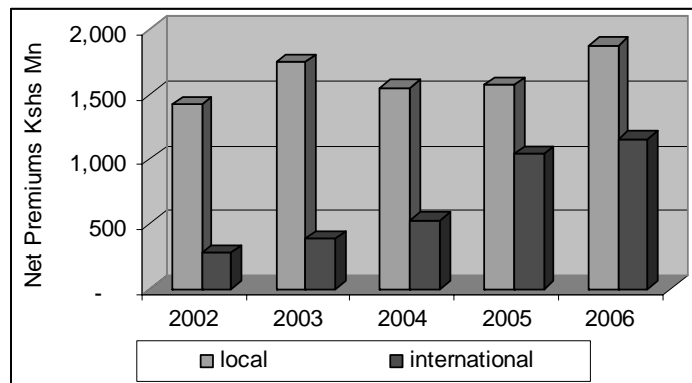
Fire – Due to related low GDP levels in the country, most people prefer not to insure in spite of high levels of awareness on the importance of protection against fire. Fire, especially industrial fire, has contributed significantly to the total premiums over the period ranging between 39% and 44% of the total premiums written. The growth in fire premiums has been mainly due to the increasing risk companies in Kenya have been facing, and the need to ensure that companies holding easily inflammable stocks are insured adequately.

The underwriting business of Kenya Re has recorded considerable growth in the last five years. The total net premium both for the life and general business grew from Kshs 1.7 billion in 2002 to Kshs 3.03 billion by the end of 2006. The chart below shows the consistent growth in underwriting business.



Source: Kenya Re

The net premium grew by an average of 15.5% annually. The growth is largely attributed to Kenya Re’s foray into the international arena. The net premiums have grown at an annual compounded average rate of 7.1%, while the international business has been growing at an annual rate of rate of 42.3%.



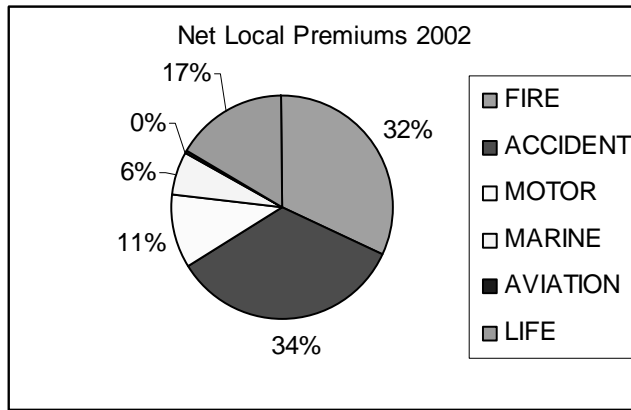
Source: Kenya Re

In 2002, the net premium from international business accounted for 16.5% of the total net premiums. At the end of 2006, this had grown to 38.1%. The international business was given a boost in 2005 when the Corporation was rated B+ by A.M. Best.

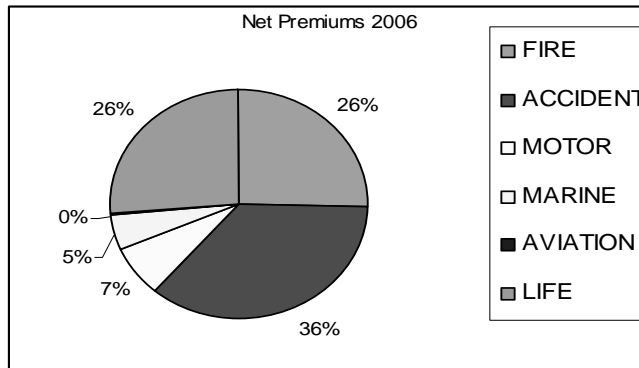
7.1.4 Local Business

In the local market, Fire and Accident classes account for the largest share of net premiums received. In 2006, they jointly contributed a total of 61% of the local net premium received. Fire accounted for 25.5% while Accident accounted for 35.6%. The contribution of these two classes has remained relatively stable since 2002 when they jointly accounted for 65.8%.

Life accounts for 26.4% of the net local premium. The period under review has seen the contribution of life grow from 16.5% to 26.4% at the end of 2006.



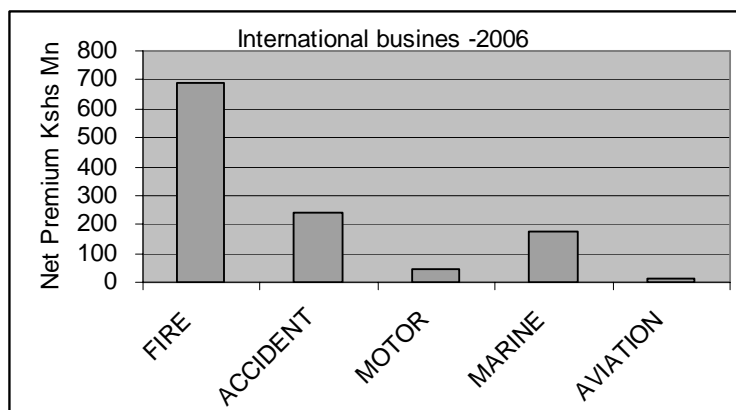
Source: Kenya Re's Audited Annual Accounts



Source: Kenya Re's Audited Annual Accounts

7.1.5 International Business

As we noted earlier, the international business of Kenya Re has been growing appreciably from Kshs 282 million in 2002 to Kshs 1,156 million in terms of net premium by the end of 2006. The class of Fire is the major contributor to the premium having contributed 59.4% in 2006, followed by accident at 20.6%. Kenya Re does not carry out life business in the international market.



Source: Kenya Re

First three months of 2007

As at the end of March 2007, Kenya Re had received a gross premium of Kshs 630 million and a net premium of Kshs 482 million. After paying out commissions, claims and other expenses, Kenya Re realized a net profit of Kshs 212 million.

In the international business, Kenya Re received Kshs as premium and paid out Kshs 129.4 million as claims and commissions realizing a profit of Kshs 23 million.

7.1.6 Pension Scheme

Kenya Re operates a closed defined benefit pension scheme for all its employees. The pensions contributions made are 7.5% by the employee and 15% by Kenya Re on the basic salary. Kenya Re administers the fund in house. Genesis Kenya Investment Management Limited carries out the investment of the funds assets. The last actuarial valuation was carried out in December 2004 by Alexander Forbes Financial Services (East Africa) Limited. This valuation disclosed a past service actuarial deficit of Kshs 27.325 million. The level of funding was at 87.3%. This had improved from the previous actuarial deficit of Kshs. 41.515m and a funding level of 74.2%. Contract employees are not eligible for pension, but the terms of contract provides for gratuity equivalent to 31% of the basic salary.

7.1.7 Kenya Re Retrocession Arrangements

It is important for insurers and reinsurers to manage the spreading of accepted risks with caution. This includes further spreading of risks by way of retroceding parts of risks accepted to other reinsurers who do not already hold the same risks. This principle is consistent with the proverbial eggs that should not be kept in one basket.

For all the life risks accepted, prior to March 2004, Kenya Re retains the entire risks below the reinsurance sum assured of KShs 1,000,000 and reinsures the sum assured in excess of this amount. For all risks accepted since March 2004, Kenya Re retains the risks below the reinsurance sum assured of KShs 1,500,000 and reinsures the sum assured in excess of this amount.

All amounts in excess of these surplus levels are retroceded 100% to other reinsurers. Five percent of the retroceded amount is placed with Africa Re and 95% is retroceded to Swiss Re. This applies to both group and individual risks. There are currently no form of accumulative or catastrophe risk retrocession agreements in place for the Kenya Re Life business.

7.2 INVESTMENT AND PROPERTY MANAGEMENT

The property and investment department is charged with the responsibility of overseeing the investment functions of Kenya Re. Investment is an integral part of Kenya Re's business, as the reinsurance premium income has to be reinvested to build up reserves and pay claims as they occur. The Insurance Act stipulates the classes of assets that can be invested into and the holdings of each class relative to the whole portfolio. Kenya Re has created a property and investment manual to streamline the investment process by defining and guiding investment operations within the department. The objectives of each type of asset class are stated in the manual in addition to the department policies and procedures for handling the assets.

Over the years, the Corporation's policy laid emphasis on maintaining steady growth in all aspects of investments and every class of business. This policy made it possible for the Corporation to be among a handful of state corporations that have consistently made profits. In this case, the investment income has contributed significantly to the corporation's profit.

The investments portfolio has increased over the period, with the exception of properties, which has reduced from 50% to 42%. The overall portfolio increased by 6% in 2005 from 2004. The growth in the portfolio is mainly attributed to investments in Government Securities which increased by Kshs. 367.5 million (24.9%) and Nairobi Stock Exchange (NSE) quoted shares which grew by Kshs. 313.3 million (37%) in 2005.

7.2.1 Investment Properties

Investment properties comprise office buildings held to earn rentals and capital appreciation and land acquired for development of office property and housing projects.

The rental properties and land investments can be classified as:

- Office blocks and residential properties
- Developments for sale
- Undeveloped land

A valuation of the properties was carried out as at 31st December 2005 by Tysons Ltd, an independent valuation firm. The basis of the valuation was open market value.

The asset composition is shown below:

Investment Property Valuation	2006
(i) Commercial Properties	
Reinsurance Plaza – Nairobi	1,000,000,000
Anniversary Towers	1,100,000,000
Kenya Re Towers	750,000,000
Reinsurance Plaza – Kisumu	250,000,000
	3,100,000,000
(ii) Undeveloped Plots	
Upper Hill Plot LR No 209/12922	45,000,000
Upper Hill Plot LR No 209/12923	35,000,000
Proposed Transit Hotel J.K.I.A	90,000,000
LR. NO. 209/11976 (Upper hill)	45,000,000
LR. NO. 21194 (Kiambu Road)	200,000,000
	415,000,000
Total	3,270,000,000

i) **Commercial properties**

Reinsurance plaza – Nairobi

It is a prestigious commercial building located in the Central Business District of Nairobi City with ample car parking around it. It is a well designed, constructed and luxuriously finished building, making it among one of the most sought after commercial buildings in Nairobi.

Anniversary Towers

It is a modern commercial building within the City Centre of Nairobi with high quality finishes. The property is fully let to state corporations, other government agencies, and embassies, each on lease for five (5) years and one month.

Kenya Re Towers

The property is fully occupied. The location has continued to attract commercial property investors who are escaping from traffic congestion currently experienced in the Central Business District.

Kisumu Reinsurance plaza

It is a prestigious commercial building located in the heart of Kisumu City along Oginga Odinga Street which has high shopper traffic. The building provides office accommodation and had voids levels of less than 5% at the time of inspection.

Reinsurance Plaza, Mombasa

Mombasa Plaza is a nine (9) storey office block, 35 parking bays and pent house with a lettable area of 48,405 square feet located along Machakos Road in Mombasa Island. This property has not been included in the table above as it had been earmarked for sale in 2006.

ii) **Undeveloped plots**

Upper Hill Plot L.R. No. 209/12922

It is a large ideally located vacant plot within the Hill Area ripe for development of a mix of improvements. Demands for such plots were once high but this slackened with the availability of several similar plots in the neighborhood. These have led to lower prices of plots in the neighborhood.

Upper Hill Plot L.R. No. 209/12923

A vacant plot also ideally located within the Hill Area ripe for development of a mix of improvements. Demand for such plots has slackened with the availability of several similar plots in the neighbourhood. This has led to lower prices of plots in the neighbourhood.

Proposed Transit Hotel J.K.I.A Plot L.R. No. 9042/7222

This is a proposed site for a large hotel strategically located along the passenger terminal road to Jomo Kenyatta International Airport and therefore would enjoy the benefits of an International Airport such as duty free shops, etc. The plot therefore has a premium value which has been reflected in the valuation. Due to its proximity to the airport, authorities may restrict the height of the building that may be developed thereon to at most four storeys.

Upper Hill Plot L.R No.209/11976

This property was purchased from Kenya Times Media Trust on 21st September 1993 for Kshs. 97,000,000/-.

On 13th November 2003, the Commissioner of Lands wrote to Kenya Re advising the Corporation that they could not transfer the undeveloped plot. The Commissioner advised Kenya Re to develop the plot and if not, return it to the GoK. In addition, the Commissioner

indicated that the plot had originally been reserved for use by the Ministry of Health for the future expansion of the Kenyatta National Hospital.

Subsequently on 15th March 2004, a caveat was registered against the title for the plot by the Registrar of Titles claiming an interest pursuant to Section 65 (1) E of the RTA.

The Corporation's lawyers have advised that Kenya Re has indefeasible title under Section 23 (1) of the RTA as there is no fraud or misrepresentation which has been alleged against the Corporation.

The Corporation's lawyers wrote to the Registrar of Titles on 17th November 2004 demanding that the caveat be removed. The Registrar has not taken any action and the caveat is still in place.

Kiambu Road Plot L.R No.12236

This property was purchased from Sceneries Limited ("Sceneries") on 18th July 1997 for Kshs. 550,000,000 which was fully paid. The Agreement for sale provided that the sale did not include a portion of the land measuring 2.5 acres which was to be excised from the main plot at the cost of Sceneries and retransferred to Sceneries.

The transfer to Kenya Re was registered on 2nd July 1997.

It later emerged that at the time of the sale there was a pending case filed in court by a shareholder who was a 25% shareholder in Sceneries (HCCC Number 4232 of 1991). It is claimed that there was a caveat that had been registered against L.R No. 216/8("the original plot"). Sceneries was the registered proprietor of the original plot whose title was about to be surrendered to allow for amalgamation/consolidation of the original plot and L.R No. 12261 to create the subject property i.e L.R No. 12236.

It is alleged that the caveat was removed vide a raising order dated 4th July 1997 supposedly issued in HCCC No. 4232 of 1991. The Deputy Registrar has since confirmed vide his letter of 30th September 1997 that there was no raising order issued by the court in respect to the said case.

Kenya Re was later joined in the said suit and an order was issued by the High Court which restrains Kenya Re from disposing of the subject property.

In addition, the Principal Registrar of Titles issued summons to Kenya Re on 8th December 2004 under Section 60 of the RTA for the return of the original title deed for the subject property for purposes of being rectified, corrected or cancelled. The summons are said to be based on the Registrar's findings that the title deed was issued in error and without proper authority. Kenya Re through its lawyers wrote to the Registrar on 16th December 2004 declining to release the title deed on the basis that they were the duly registered proprietors whose interests were protected by Section 23 (1) of the RTA and for purporting to issue summons in a matter that was already before the Court.

The Corporation's lawyers have previously advised that the loss arising from the suit, if any, should only extend to 25% of the value of the property as this is the share of the aggrieved shareholder in Sceneries.

The Corporation has already made full provision in its books in the event that the titles are cancelled and accordingly there will be no impact on the financial position of the Corporation.

7.2.2 Properties for Sale

i. Development for sale

Development for sale comprise of housing projects developed by the Corporation specifically for sale. Below we discuss each of these developments.

Meru Housing Scheme

This project is set out on a 25-acre plot and consists of 93 bungalows, 4 shops cum flats and 1 nursery school.

Meru Housing Scheme			
Type	Description	Number of units	Price/Unit (KShs)
A	3 Bedroom	30	1,575,000
B	3 Bedroom	50	1,312,500
Q	3 Bedroom	13	2,187,500
	Shop cum flat	4	4,375,000
	Nursery School	1	13,125,000

Source: Kenya Re

As at 28th February 2007, no sale agreements had been executed with respect to only 11 units. For all the other units the sale agreements had been executed and the transactions were either complete or ongoing.

There is a planned expenditure of Kshs 25,000,000.00 for the paving of the roads within the estate which will take place during the current and the next financial year..

Villa Franca Housing Project

This project has been completed and the Nairobi City Council has issued occupation certificates.

Villa Franca Housing Project		
Description	Number of Units	Price/Unit (KShs)
2 B/R Flats	80	1,300,000
2 B/R Bungalow	37	1,800,000
3 B/R Bungalow	106	2,000,000– 2,500,000
3 B/R Maisonette	80	2,700,000– 2,900,000
4 B/R Maisonette	78	2,800,000– 3,000,000
Shop cum Flat	13	4,500,000
Supermarket cum Flat	1	12,000,000

Source: Kenya Re

As at 28th February 2007, no sale agreements had been executed with respect to 5 units. For all the other units, the sale agreements have been executed and the transactions were either complete or ongoing

South C Flats

South "C" Flats by Type and Price		
Description	Number of Units	Price/Unit (Kshs)
2 B/R	64	3,500,000
3 B/R	48	4,100,000
Shop	3	6,000,000

Source: Kenya Re

As at 28th February 2007, no sale agreements had been executed with respect to only 10 units. For all the other units the sale agreements had been executed and the transactions were either complete or ongoing.

Plainsview Estate

Plainsview Estate		
Description	Number of Units	Price/Unit (Kshs)
2 B/R	48	2,500,000

As at 28th February 2007, no sale agreements had been executed with respect to only 8 flats. For all the other flats, the sale agreements had been executed and the transactions were either complete or ongoing.

- ii. Undeveloped plots for sale

Ngong Road Plot L.R No. 21194

This plot is situated on Ngong Road next to the Second World War Memorial Cemetery. It is a residential piece of land measuring approximately 59.87 acres.

Eldoret Municipality/Block 15/16

This plot is situated on Kipkaren Road within Eldoret Municipality. It measures approximately 67.63 acres.

Eldoret Municipality/Block 15/1832

This plot is situated next to Kipkaren site and service scheme housing estate within Eldoret Municipality. It measures approximately 6.58 acres.

LR. No. MN/1/9141 (Shanzu, Mombasa)

This plot is situated north east of the new Mombasa-Malindi Road in Shanzu area. It measures approximately 17.3 acres.

7.2.3 Mortgages

Kenya Re has two mortgage schemes:

- (i) Employee scheme

Under this scheme, eligible employees are advanced loans to purchase or build houses. Kenya Re only advances these loans to the staff members who meet the laid down requirements and regulations. The maximum loan allowable ranges from Kshs 1,000,000 to

Kshs 13,000,000 for the different grade employees. Maximum loan duration is 25 years and the mortgage finance is up to 100% of the property value or five times the employees gross annual salary whichever is lower. The interest charged on the loan is 5% per annum for the duration of the employment and is convertible into commercial mortgage rates if the employment service is less than 10 years.

(ii) Commercial Scheme

As stated at section 7.7.2 of this Prospectus, the Corporation also develops properties for sale to the public. Interested buyers of these properties are able to seek mortgage financing from the Corporation. The prospective buyers who are able to meet the mortgage terms must fill in a questionnaire and then pay a deposit, which ranges between 20% and 30% of the value of the property being mortgaged. The mortgage loans are usually advanced at an interest rate of 14% per annum. The purchasers also must take a mortgage protection cover. This should be taken with a reputable insurance company. Kenya Re offers mortgage protection cover, as well as fire and accident insurance. The Corporation through a registry in its legal department usually retains the title of the property until the mortgage balances are cleared.

7.2.4 Treasury Bills and Bonds

Investments in government securities have increased over the years. In 2004 the investment activities were separated from accounting department and allocated to an investment manager. This ensures that investment opportunities are adequately explored resulting in increased returns from securities. The Corporation has curtailed investment in real estate thus releasing more funds for investment in government securities.

7.2.5 Unquoted Shares

The breakdown of unquoted shares is shown below at the cost the shares were bought at:

Company	Number of shares	Cost
		Kshs
Industrial Development Bank (ordinary)	1,275,000	25,500,000
Africa Reinsurance Corp. (ordinary)	2,200	11,806,668
P.T.A Reinsurance (ordinary)	2,000	111,291,444
Consolidated Bank Limited (ordinary)	120,000	2,400,000
Consolidated Bank Limited (preference shares)	430,000	8,600,000
African Insurance Organization (AIO)/ SOFTWARE PROJECT (ordinary)	5	1,842,475
TOTAL		161,440,587

Source: Kenya Re

7.2.6 Quoted Shares

The table below summarises the holdings of quoted shares as at 31st December 2006.

Company	Cost	Total Market Value 31.12.2006
	Kshs	Kshs
Bamburi Cement Ltd	648,828	230,381,745
Unilever Tea (k) ltd	342,745	1,728,400
E.A.Breweries Ltd	19,754,843	1,254,716,860
E.A.Portland Cement Ltd.	1,968,495	109,937,664
Barclays Bank Of Kenya.	43,107,164	161,686,140
Kenya Commercial Bank.	92,183,543	367,986,515
B.O.C Kenya Ltd.	428,487	960,000
Kenya Power & Lighting Company	4,743,933	13,500,000
Kenya Electricity Generating Co.	22,492,286	17,500,860
British American Tobacco (K)	61,614,720	59,100,000
Mumias Sugar Co. Ltd	25,310,234	26,500,000
KPLC (Preferred Shares)	142,105	123,620
TOTAL	272,532,582	2,244,121,804

Source: Kenya Re

7.2.7 Summary of the Investment Portfolio

The Corporation's investment pattern over the past decade has reflected a bias towards land and investment properties. These are not readily marketable but rent reviews and possible capital appreciation provide some hedge against inflation and contribute to reasonable yields. The table below summarise the asset classes of the investments made by Kenya Re as at 31st December 2006.

Asset Class	Amount (Kshs)	Weight
Government Securities	2,122,318,289	22.50%
Equity	2,244,121,804	23.79%
Mortgages Loans	615,483,651	6.53%
Investment Properties	3,270,000,000	34.67%
Short-term Deposits	558,559,383	5.92%
Land and Building Held for sale**	621,000,000	6.58%
Total	9,431,483,127	100.00%

Source: Kenya Re

**The table below gives a breakdown of the assets held for sale. These assets are classified in the balance sheet as inventories

As shown in the table above, investment properties comprise 34.67% of the total investments. Equities at 23.79% form the second highest investment closely followed by government securities at 22.50%.

A key target of the Corporation in determining its investments portfolio has been to ensure a match between total technical reserves with investments in liquid and near liquid securities in order to achieve an improved rating for the year 2006. As part of this conversion the Board has agreed to the disposal of the following properties, which the Corporation projects to finalise in 2008.

<i>LAND HELD FOR SALE</i>	KSHS
L.R No. 21194 (Ngong Road, Nairobi)	250,000,000
Eldoret Municipality/Block 15/16	25,000,000
LR. No. MN/1/9141 (Shanzu, Mombasa)	12,000,000
Eldoret Municipality/Block 15/1832	4,000,000
<i>BUILDING FOR SALE</i>	
Reinsurance Plaza, Mombasa	170,000,000
South C Sports Complex	160,000,000
TOTAL	621,000,000

PART VIII: STRATEGIC PLANS AND FUTURE PROSPECTS

8.1 ECONOMIC AND TRADING PROSPECTS

The sublime climate of most financial markets forestalled the decline initially predicted to occur within the year. A number of analysts who were expecting a clear cut return to soft cycle in 2006, have had to review their predictions following the natural catastrophes that ravaged the South coast of the United States, the Gulf of Mexico and the Caribbean, as well as the Tsunami and Asian Monsoon rains which may have caused the largest insured damages.

These losses could lead to capacity contraction, especially in the retrocession market. There is no doubt that the cedants would radically change their approach to the writing of catastrophe risks. It is even probable that market players – insurers and re-insurers could be constrained to adopt new forms of risk transfer, if the available traditional capacity is reduced, compelling them to opt for bank loans so as to prop up their balance sheets. However, some observers believe that, as was the case after the acts of 11 September 2001, the aftermath of these losses will be characterised by an increase in the cost of insurance. This could trigger the inflow of capital in search of better returns on investment, thus creating new opportunistic capacities and price stability.

8.2 CHALLENGES FACING THE INSURANCE AND REINSURANCE SECTOR

The Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) by the Government of Kenya has laid the foundation for economic growth of 6.1% in Kenya's real GDP in 2006. The Government has committed to maintaining a stable macroeconomic framework, reforming the financial sector and strengthening its regulation to increase savings and investment, and establishing a competitive environment that is able to attract increased private investment in productive sectors. The ERSWEC ends in December 2007, ushering in the longer term Vision 2030.

The major challenge for the insurance industry in Kenya is increasing penetration in the life sub – sector. Marketing techniques and improving perceptions have been highlighted as important strategies in achieving this. As foreign firms enter the market particularly in life underwriting, local insurers must improve efficiency and marketing strategy in order to survive. In addition, service delivery must improve, particularly in the reliability and responsiveness of operators.

8.3 CHALLENGES FACING KENYA RE

Rising costs for reinsurers, particularly in relation to catastrophes in East and Central Africa in 2005, as well as foreign exchange risk will pose a challenge for Kenya Re's underwriting performance. This will particularly be relevant as the Corporation continues to attempt to expand by increasing market share in East and West Africa, as well as competing with South Africa based players in Southern African markets.

The penetration in the Francophone countries has been a challenge and the Corporation has recruited a French speaking underwriter to reinforce the continuing efforts.

While the domestic reinsurance sector has not exhausted capacity, primary insurers still pursue foreign contracts due to perceived capacity and service level constraints on the part of local reinsurers. In order to tap this outward flow of business, the Corporation has deliberately established service level standards to match international standards. In addition, a close working relationship with key overseas reinsurance brokers continues to give added benefit.

Nonetheless, accelerated globalization will lead to significant reinsurance business going to overseas markets as domestic primary insurers look beyond Kenya Re and other local market participants.

As has been emphasized by rating agencies and industry observers, Kenya Re must continue efforts in reducing the ratio of income derived from investments relative to core underwriting activities. This will require further advances in the Corporation's operating efficiency to insulate the balance sheet from fluctuations in the real estate market.

On its part, Kenya Re expects to consolidate in 2007 the gains it has made in the previous years from year 2001. Management envisages an increase of 16% in gross premium assuming that the cost of reinsurance covers would stabilize. However, if the hardening materializes, the increases could be much higher

However, the impact of Kenya Re's presence within African continent, especially South of the Sahara, aided by the ratings from AM Best (B+) is increasingly being felt.

All the key indicators such as the Nairobi Stock Exchange 20 share index, agriculture, tourism and strong recovery of manufacturing sectors show that the country's economy growth momentum is firmly on track.

The sector continues to be under pressure due to hefty claim awards particularly to public service vehicle accident victims and the HIV/AIDS epidemic.

Going forward, the Corporation will face challenges that include the new reinsurance companies established in traditional markets such as Tanzania, Rwanda, Uganda and Arab the World (Takafu).

PART IX: RISK FACTORS

Kenya Re is subject to various risks through its operations. Prior to making an investment decision, investors should consider the risks associated with the industry in which the Corporation operates as well as those relating specifically to the Corporation.

Although Kenya Reinsurance Corporation has in place systems, controls and procedures designed to mitigate the risks to which it is exposed, there can be no assurance that such risks will not occur. A number of the risks referred to below could have a material adverse effect on the Corporation.

The following is a summary of potential risks and does not purport to indicate the likelihood of such risks materialising. The risks set out below may not be exhaustive. Additional risks and uncertainties may arise or become material in the future.

9.1 INDUSTRY SPECIFIC RISKS

9.1.1 Insurance risk

Life insurance risk

Life insurance risk arises through the firm's exposure to mortality, morbidity and experience factors such as persistency and unforeseen expenses. It is important that businesses adopt a local risk management framework. The Corporation's framework is reviewed fairly frequently. The overall retrocession programme is assessed centrally to manage the risk exposures of the Corporation as a whole.

Most insurance companies have been using UK based mortality and morbidity rates which are inherently different to the Kenyan experience. The mortality rates in developing countries are typically higher. Actual experience could therefore be significantly different from the assumptions used in the pricing of the risks.

General insurance risk

General insurance risk arises from the following:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations
- Unexpected claims arising from a single source
- Inaccurate pricing of risk when underwritten
- Inadequate reinsurance protection or other risk transfer techniques
- Inadequate reserves.

Corporation-wide policies exist for underwriting, claims management, retro-cessions and reserving, and operate within the group's risk management framework.

Mechanisms have been put in place in each of the business units to identify, quantify and manage accumulated exposures within the limits of the Corporation's risk appetite.

Retrocession arrangements are only placed with providers that meet minimum security standards. The adequacy of the general insurance reserves is ultimately determined and approved by the consulting actuaries. The reserves are subject to audit and peer review.

Reinsurers' operating results are potentially more volatile than those of primary insurers.

Kenya Re holds sufficient reserves to meet plausible loss scenarios. The Corporation mitigates these risks through a system of internal controls, internal audit and compliance functions and other measures such as back-up procedures, contingency planning and insurance.

The underwriting activities of insurance-licensed entities in geographical areas outside Kenya expose the Corporation to the possibility that actual claims experience will exceed that anticipated in the setting of premium rates. Kenya Re avoids or takes on a minimal amount of risk in geographical areas that are prone to natural and catastrophic disasters.

9.1.2 Asset and Liability Management (ALM)

Kenya Re sets out the minimum ALM principles that the respective business units are required to adopt. It can then monitor adherence to this policy. In this regard the Corporation has a framework for matching assets with appropriate liabilities, approaches to take when liabilities cannot be matched and the monitoring processes that are required. Further details on specific areas of ALM risk are given below:

Cash flow and liquidity risk

Liquidity risk is the risk that the Corporation does not have sufficient available assets to meet its obligations as and when they fall due. Each business unit is required to identify sources of liquidity risk and implement systems to monitor and control potential exposures. At a Corporation wide level, liquidity is maintained at a prudent level and consistent with the expectations of the regulatory authority and the investment community.

Interest rate risk and maturity periods

Interest rate risk arises primarily from differences in interest rates and maturities between the Corporation's investments and its liabilities. For example, long-term debt and fixed income securities are sensitive to fluctuations in interest rates. Exposure to interest rate risk is monitored through several measures, including Value-at-Risk analysis, position limits, scenario testing, stress testing and asset and liability matching using measures such as duration. On certain categories of long-term business, interest rate risk is reduced through close matching of assets and liabilities e.g. short-term business, such as the general insurance business.

9.1.3 Property price risk

Kenya Re's investment portfolio contains a high percentage of property investments, which are subject to large fluctuations in market prices. However, the Corporation is divesting its property investments in order to bring their holdings in line with set guidelines. In addition, it should be noted that the property portfolio currently consists of a wide range (by type and location) which does help mitigate some of the risk.

9.1.4 Risk from Competition

Competition could affect Kenya Re's market share, business, operation results or financial condition. Some of Kenya Re's competitors are large in size and financially stronger. Their strength notwithstanding, Kenya Re still enjoys a local market share of more than 21%. This is a result of the confidence that Kenya Re has imparted in the local industry. The growth of its international business attests to its solid reputation.

9.2 COMPANY SPECIFIC RISKS

9.2.1 Risk related to Market Perception of Kenya Re

Kenya Re is vulnerable to market perception, which is very important in the insurance industry. Kenya Re has been viewed as a state corporation that has imposed compulsory cessions on insurers in the past. The compulsory cessions are to end either in 2011, or following privatization, whichever is earlier. This poses as a risk to Kenya Re as with the end

of the compulsory cessions, Kenya Re will have to rely on the relationships it has built and its reputation.

Kenya Re's reputation will depend on its total impact on society and its stakeholders. Kenya Re will improve on its relationships with stakeholders as follows:

- Stake-holders engagement and dialogue: Project positive image through employees and clients; have regular and improved communication with clients and stakeholders; disseminate information on the Corporation through regular press briefings, both formal and informal; take positive leadership in technical matters within the insurance industry in Kenya; support production of technical materials for the insurance industry and be seen as a responsible corporate citizen by supporting selected environmental and social causes.
- Cultivate sensitivity to stakeholders: Map out stakeholders needs, interests and concerns, involve stakeholders in programs that address their needs and maintain regular communication between management and stakeholders

On the international scene, Kenya Re has an increasing portfolio of international business. The Corporation will continue to nurture its international outlook to be ranked as an international re-insurer.

9.2.2 Asset Liability Matching Risk

Failure to adequately match assets to liabilities could result in the need to supplement reserves. This would increase servicing costs or other costs for this capital. To this end, Kenya Re has ensured that it maintains certain ratios of its assets to liabilities.

The amount or timing of cash flows from assets could differ from the assumptions used in the actuarial valuation. Therefore, sufficient cash is maintained to ensure the availability of funding of its liabilities. The Corporation sets limits on the minimum proportion of maturing funds available to meet claims arising from unexpected levels of claims. Similarly the majority of the assets held to match long-term insurance contracts are money-market instruments which are highly liquid.

9.2.3 Risk related to the experience based on the assumptions used

The corporation's Embedded Value (EV) depends to a large extent on whether its actual experience is consistent with its underwriting, claims and pricing assumptions at the time the contract is taken. The Corporation monitors its actual experience against the actuarial assumptions to determine the amount it will ultimately pay to meet its liabilities. The Corporation has the assumptions that it bases its calculations on checked and re-evaluated at least every three years by the actuaries.

9.2.4 Operational Risk

Operational risk arises from inadequately controlled internal processes or systems, human error, external events, and any other risks that the Corporation is exposed to, other than the financial risks described above and the strategic and group risks considered below. Operational risks include, for example, information technology, information security, human resources, project management, outsourcing, tax, legal, fraud and compliance.

Line management in business units has primary responsibility for the effective identification, management, monitoring and reporting of operational risks to the business unit executive management team. Business unit executive management teams need to be satisfied that material risks that fall outside pre-set appetite levels are mitigated and reported at an acceptable level. Impact assessments are made against financial, operational and reputational criteria and are reported on a quarterly basis by the business units.

The risks assessed by business units as having the highest impact are escalated to the executive management team on a regular basis so as to effectively manage the firm's overall risk.

9.2.5 Risks associated with the listing

The transition from a state Corporation into a listed public entity needs to be managed successfully in order to achieve the desired financial benefits. Cultural changes and education will be required to increase awareness to the requirements of being a listed Corporation.

The ordinary shares have no prior public market and no assurance can be given that an active market will develop. The price of the ordinary shares may be volatile and affected by a number of factors, some of which may be beyond the control of Kenya Re. Any future shares issues, if made, could have a material adverse effect on the price of the ordinary shares and dilute shareholding. To manage this risk, Kenya Re will consult with financial and investment advisors prior to any future divestures.

9.2.6 Deficit in the defined benefit pension scheme

Kenya Re provides retirement benefits for its employees through a defined benefit scheme. The Corporation also contributes to a statutory defined contribution scheme, the National Social Security Fund (NSSF). Contributions are determined by the local statute. The closed defined benefit scheme is not fully funded and has a small deficit of Kshs 30 Million. This could result in Kenya Re having to make additional contributions to the fund to reduce the deficit. However, the deficit may also be covered by returns from the fund's assets.

9.2.7 Credit Risk

Credit risk is the risk of loss in the value of financial assets due to counter-parties failing to meet part or all of their obligations, or changes to the market value of assets caused by changed perceptions of the creditworthiness of those counter-parties.

The management of credit risk includes monitoring of aggregate group exposures to individual counter-parties. The aggregate exposure is then measured against centrally set limits based on the credit ratings issued by companies such as Standard and Poor's.

To manage this risk, Kenya Re has developed strict guidelines and policies that outline criteria that needs to be met by counterparties with whom they do business.

9.3 SYSTEMIC RISKS

9.3.1 Political Risk

With the upcoming elections, if unfairly conducted, the national economic conditions could deteriorate. This would have an impact on the direct insurance premiums written, which would in turn affect the reinsurance business. The negative impact on the economy would also hurt the firm's investment portfolios, property and equity in particular. Kenya Re also faces political risk from its international business operations. The Corporation has mitigated against such risk by diversifying its business into different countries.

9.1.4 Market risk

Market risk is based on a firm's sensitivity to adverse changes in values of financial instruments resulting from fluctuations in foreign currency exchange rates, interest rates, property prices and equity prices. Market risks arise in business units due to fluctuations in the value of liabilities arising from products sold against the value of investments held. By diversifying into different sectors of the economy, the potential of this risk is lessened. Kenya Re has diversified its sources of revenue by investing in real estate and property, quoted and unquoted shares and in government securities.

An investment department was set up to be responsible for the investment activities and is streamlining all these activities and structuring the portfolio to better match investments and liabilities, thus reducing market risk.

9.1.5 Foreign currency exchange risk

Due to Kenya Re's current international reinsurance business portfolio, it is exposed to some degree of foreign currency exchange risk. The non-domestic reinsurance contracts are backed up by foreign fixed deposit investments, which are held in hard currency (British Pound and US Dollar). The Corporation currently does not hedge against this currency exposure and changes in exchange rates can result in volatility in the corporation's earnings, which are reported in Kenyan Shillings.

9.1.7 Regulatory and Legal Risks

Changes in financial services and taxation laws, regulations and government policies could have an adverse effect. The Corporation has set up systems to ensure that they are in compliance with all stated regulatory and legal requirements and has ensured that it has access to competent lawyers.

PART X: STATUTORY AND GENERAL INFORMATION

10.1 MEMORANDUM OF ASSOCIATION- MAIN OBJECTS

The Corporation's principal objects (as set out in its Memorandum of Association) are:

- (1) To carry on and transact in any manner whatsoever whether in Kenya or elsewhere, reinsurance and insurance business of all kinds, classes, nature and description whatsoever.
- (2) To carry on any class or classes of insurance business specified in the Insurance Act, Chapter 487, Laws of Kenya, as amended from time to time including the reinsurance of any such business.
- (3) To carry on business as consultants, advisers and managers in relation to insurance, life assurance and pension policies, schemes and trusts and to act as risk managers, risk surveyors and loss adjusters.
- (4) To carry on the business of insurance and reinsurance brokers reinsurance and insurance and underwriting agents, in particular for business comprising general, life assurance and pension schemes

10.2 GENERAL EXTRACTS FROM ARTICLES OF ASSOCIATION

These refer to certain provisions, inter-alia, to the following effect:

(i) **Share Capital and Variation of Rights**

Article 7

Except as required by law, no person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share or any interest in any fractional part of a share or (except only as by these Articles or by law otherwise provided) any other rights in respect of any shares except an absolute right to the entirety thereof in the registered holder.

Article 8

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine.

Article 9

The Company may by special resolution create and sanction the issue of Preference shares which are, or at the option of the Company are to be, liable to be redeemed, subject to and in accordance with the provisions of the Statutes. The special resolution sanctioning any such issue shall also specify by way of an addition to these Articles the terms in which and the manner in which any such Preference shares shall be redeemed.

Article 10

If, at any time, the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class, or with the sanction of a special resolution passed after a separate general meeting of the holders of the shares of the class. To every such separate general meeting the provisions of these Articles relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum shall be Two persons at least holding or representing by proxy one-third of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll and if at any adjourned meeting of such holders a quorum is not present, the holders present shall form a quorum.

Article 11

The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(ii) Increase of Capital

Article 54

The Company may, from time to time by ordinary resolution, increase the share capital by such sum, to be divided into shares of such amount, as the resolution shall direct, or, in default of such direction, as the Directors shall determine.

Article 55

Subject to any direction to the contrary that may be given by the resolution sanctioning the increase of capital, all new shares shall, before issue, be offered to such persons as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of the same in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which, by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares, cannot, in the opinion of the Directors, be conveniently offered under this Article. Notwithstanding the foregoing, the provisions of this regulation shall not apply to the issue of unallotted shares by the Company for the purposes of acquisition of another company's shares or business for which the Directors shall have the general authority to issue unallotted shares for that purpose, except where such issue of shares would result in a shareholder (as a result of being issued shares for the acquisition) gaining control of the Company in which case such issue will require the approval by the Members by way of a special resolution of a general meeting.

Article 56

Members shall only be entitled to receive, pursuant to the foregoing provision, shares of the same class as the class of shares then held by them immediately before such offer.

Article 57

The new shares shall be subject to the same provisions with reference to the payment of calls, lien, transfer, transmission, forfeiture and otherwise as the shares in the original share capital

(iii) Alteration and Reduction Of Capital

Article 58

The Company may, by ordinary resolution:

- (a) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- (b) Sub-divide its existing shares, or any of them, into shares of smaller amount than is fixed by the Memorandum of Association subject, nevertheless, to the provisions of the Act;
- (c) Cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any persons;

And may, by special resolution:

- (d) Reduce its share capital, any capital redemption reserve fund and any share premium account in any manner and with, and subject to, any incident authorised and consent required, by law.

(iv) Transfer of Shares

Article 26

Subject to the provisions hereinafter contained, shares in the Company shall be transferable by written instrument in any common form executed by or, on behalf of the transferor and the transferee; provided that the Directors may dispense with execution by the transferee in any case in which they think fit to do so. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register in respect thereof.

Article 27

The Directors may decline to register the transfer of a share (not being a fully paid share) to a person of whom they do not approve, and they may also decline to register the transfer of a share on which the Company has a lien.

Article 28

The Directors may also refuse to register any instrument of transfer of shares, if:-

- (a) the registration fee of Kenya Shillings 500/- (or such lesser fee (if any) as the Directors may from time to time prescribe as the registration fee) is not paid to the Company in respect thereof; or
- (b) it is not accompanied by the certificate for the shares to which it relates, and such other evidence as the Directors may reasonably require to show the rights of the transferor to make the transfer; or
- (c) it is of shares of more than one class; or
- (d) the transferee named therein is:-
 - (i) an infant person; or
 - (ii) a person incapable by reason of mental disorder of managing and administering his property and affairs; or
 - (iii) a partnership in its partnership name; or
- (e) in the case of a transfer to joint holders, they exceed Four in number.

Article 29

If the Directors refuse to register a transfer they shall within Two months after the date on which the transfer was lodged with the Company send to the transferee notice of the refusal.

Article 30

The registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine, provided always that such registration shall not be suspended for more than Thirty days in any year.

Article 31

The Company shall be entitled to charge a fee not exceeding Kenya Shillings 500/- on the registration of every probate, letters of administration, certificate of death or marriage, power of attorney, or other instrument.

(v) Votes of Members

Article 76

Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands every member present in person shall have one vote, and on a poll every member present in person or by proxy shall have one vote for each share of which he is the holder.

Article 77

In the case of joint holders the vote of the senior who tends a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the Register.

Article 78

A member incapable by reason of mental disorder of managing and administering his property and affairs may vote, whether on a show of hands or on a poll, by his receiver, or other person authorised by any Court of competent jurisdiction to act on his behalf, and such person may on a poll vote by proxy.

Article 79

No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.

(vi) Corporations

Article 87

Any Corporation which is a member of the Company may, by resolution of its Directors or other governing body, appoint such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members of the Company. The production at a meeting of a copy of a resolution certified by one Director (other than the appointee if he himself shall be a Director) and the Secretary, if any, of such Corporation to be a true copy of the resolution, shall be accepted by the Company as sufficient evidence of the validity of his appointment. The person so appointed shall be entitled to exercise the same powers on behalf of such Corporation as it could exercise if it were an individual member of the Company.

(vii) Untraced Members

Article 88

(a) The Company may sell (in such manner and for such price as the Directors think fit) any shares or stock of a member or any share or stock to which a person is entitled by transmission if:

- i. for a period of 7 years no cheque or warrant sent by the Company in the manner authorized by these Articles has been cashed; and
 - ii. no communication has been received by the Company from the member, or any other person entitled, and during such period at least 7 dividends in respect of the shares or stock in question have been declared payable by the Company; and
 - iii. the Company has at the expiration of the said period of 7 years by advertisement in a newspaper having national circulation given notice of its intention to sell such share or stocks; and
 - iv. the Company has not during the period of 7 years preceding and 6 months after the advertisement received any information reasonably satisfactory to the Directors as to either of the actual whereabouts or of the actual existence of the member or entitled person; and
 - v. the Company (if being then listed on a Securities Exchange) has given notice to the Security Exchange on which it is listed and the Capital Markets Authority of its intention to make the sale and such Security Exchange and the Capital Markets Authority have approved the sale.
- (b) To give effect to any such sale the Directors may appoint any person to execute as transferor an instrument of transfer of such shares or stock.
- i. The instrument of transfer shall be as effective as if it had been executed by the registered holder of, or the person entitled by transmission to such shares or stock and the title of the transferee shall not be affected by any irregularity or invalidity of the proceedings.
 - ii. The net proceeds of the sale shall belong to the Company which shall be obliged to account to the member or other person entitled for an amount equal to the net proceeds (after deducting the expenses of the advertisement and transaction costs of the Company properly incurred) and the Company shall enter the name of the former member or other person in the books of the Company as a creditor for that amount.
 - iii. No trust shall be created in respect of the debt, no interest shall accrue or be payable in respect of it and the Company shall not be required to account for any money earned on the net proceeds, which may be employed in the business of the Company or invested in such investments as the Directors think fit.
 - iv. If after a further period of seven years from the date of the instrument of transfer referred to above no claim has been made by the former member or person previously entitled to the net proceeds, the net proceeds shall become the absolute property of the Company and no person shall have any claim whatsoever against the Company arising there from.

(viii) Directors

Article 89

Unless and until otherwise from time to time determined by an ordinary resolution of the Company, the number of Directors (excluding alternates) shall not be less than Five (5) nor more than Eleven (11) in number. The first Directors shall be appointed by the Subscribers to the Memorandum of Association, or a majority thereof, by notice in writing. If at any time the number of Directors falls below the minimum number fixed by or in accordance with these Articles, the remaining Directors may act for the purpose of convening a general meeting or for the purpose of bringing the number of Directors to such minimum, and for no other purpose.

Article 90

The Board shall cause to be kept a Register of the Directors' holdings of shares and debentures of the Company and of its subsidiaries or holding Company (if any) required by

the Act, and shall cause the same to be available for inspection during the period and by the persons prescribed, and shall produce the same at every annual general meeting as required by the Act.

Article 91

The Directors shall be paid out of the funds of the Company by way of remuneration for their services such sums as the Company may from time to time by ordinary resolution determine and such remuneration shall be divided among them in such proportion and manner as the Directors may determine and, in default of such determination within a reasonable period, equally. Subject as aforesaid, a Director holding office for part only of a year shall be entitled to a proportionate part of a full year's remuneration. The Directors shall also be entitled to be repaid by the Company all such reasonable travelling (including hotel and incidental) expenses as they may incur in attending meetings of the Board, or of committees of the Board, or general meeting, or which they may otherwise properly incur in or about the business of the Company.

Article 92

Any Director who by request performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the Board may determine.

Article 93

Directors shall not be required to hold any share qualification but shall be entitled to receive notice of and to attend and speak at all General Meetings of the Company or at any separate meeting of the holders of any class of Shares of the Company.

Article 105

- (1) A Director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company shall declare the nature of his interest at a meeting of the Directors in accordance with Section 200 of the Act.
- (2) A Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine and no Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser, or otherwise, or from being interested whether directly or indirectly in any contract or arrangement proposed to be entered into or in fact entered into by or on behalf of the Company; nor shall any such contract or arrangement in which any Director shall be so interested be avoided, nor shall any Director so contracting, or being interested, be liable to account to the Company for any profit realised by him from such contract or arrangement in which he shall be so interested by reason of such Director holding that office or the fiduciary relation thereby established.
- (3) No Director shall vote as a Director in respect of any contract or arrangement in which he is interested and, if he does vote, his vote shall not be counted but he shall, nevertheless, be counted in the quorum present at the meeting. These prohibitions may, at any time, be suspended or relaxed, to any extent, by the Company in general meeting and they shall not apply:-
 - (a) to any arrangement for giving a Director any security for advances or by way of indemnity or to any allotment to or any contract or arrangement for the underwriting or subscription by a Director of shares or securities of the Company or any of its subsidiaries; or

- (b) to any contract or dealing in which the Director is interested by reason only of his being a director or other officer, employee or nominee of any government or corporation or company which, being a member of the Company or holding shares in a corporation or company which is a member of the Company, is interested in such contract or dealing whether directly or indirectly and this exception shall not cease to have effect merely by reason of the fact that the Director is also a shareholder or creditor of any such government, corporation or company or of any corporation or company in which it is interested.
- (4) A Director, notwithstanding his interest, may be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any such office or place of profit under the Company or whereat the terms of any such appointment are arranged and he may vote on any such appointment or arrangement other than his own appointment or the arrangement of the terms thereof.
- (5) Any Director may act by himself or his firm in a professional capacity for the Company, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director; provided that nothing herein contained shall authorise a Director or his firm to act as Auditor to the Company.
- (6). A general notice given to the Directors by any Director to the effect that he is a member of any specified Company or firm and is to be regarded as interested in any contract which may thereafter be made with that company or firm shall be deemed a sufficient declaration of interest in regard to any contract so made but no such notice shall be of effect unless either it is given at a meeting of the Directors or the Director takes reasonable steps to secure that it is brought up and read at the next meeting of the Directors after it is given.

(ix) Appointment of Directors in General Meeting

Article 110

Subject to Article 100 at each Annual General Meeting one third of the Directors for the time being other than the Managing Director and any other Director being at the time in the employment of the Company or any of its Subsidiaries for the time being, or, if their number is not a multiple of three, the number nearest to but not greater than one-third shall retire from office. A Director retiring at a meeting shall retain office until the close of the meeting, whether adjourned or not.

Article 111

The Directors to retire in every year shall be those who, being subject to retirement by rotation, have been the longest in office since their election or appointment, but as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

Article 112

A retiring Director shall be eligible for re-election

(x) Alternate Directors

Article 94

Any Director may with the consent of the Board (such consent not to be unreasonably withheld), appoint any person to be an Alternate Director of the Company, and may at any time remove any Alternate Director so appointed by him from office. An Alternate Director so appointed shall not be entitled to appoint an alternate to himself and shall not as such be entitled to receive any remuneration from the Company. Every person acting as an Alternate Director shall be an officer of the Company, and he shall not be deemed to be the agent of the Director by whom he was appointed.

Article 95

An Alternate Director shall be entitled to receive notices of all meetings of the Board and to attend and vote as a Director at any such meeting at which the Director appointing him is not personally present, and generally to perform all the functions of his appointor as a Director in his absence, including that of being counted as part of a quorum at any such meeting.

(xi) Proceedings of the Board

Article 118

The Directors may meet together for the despatch of business, adjourn, and otherwise regulate their meetings, as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes, the Chairman shall have a second or casting vote. A Director may, and the Secretary on the requisition of a Director shall, at any time summon a meeting of the Directors. It shall be necessary to give notice of a meeting of Directors to any Director for the time being absent from Kenya.

Article 119

The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors, and unless so fixed shall be Three Directors present either personally or by Alternate, provided that one person whether a Director or not, although a duly appointed Alternate for any number of Directors, shall not constitute a quorum

(xii) Borrowing Powers

Article 101

The Directors may exercise all the powers of the Company to borrow or raise money and to mortgage or charge its undertaking, property and uncalled capital and to issue debentures, debenture stock, legal and equitable mortgages and charges and other securities whether outright or as security (principal or collateral) for any debt, liability or obligation of the Company or any third party

(xiii) Dividends and Reserves

Article 132

The Company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Directors.

Article 133

The Directors may from time to time pay to the members such interim dividends (including therein the fixed dividends payable upon any preference or other shares at stated times) as appear to the Directors to be justified by the profits of the Company.

Article 134

No dividend shall be paid otherwise than out of profits.

(xiv) **Payment of scrip dividends**

Article 148

The Company in general meeting may upon the recommendation of the Directors resolve that it is desirable to capitalise any part of the amount for the time being standing to the credit of any of the Company's reserve accounts or to the credit of the profit and loss accounts or otherwise available for distribution, and accordingly that such sum be set free for distribution amongst the members who would have been entitled thereto if distributed by way of dividend and in the same proportions on condition that the same be not paid in cash but be applied either in or towards paying up any amounts for the time being unpaid on any shares held by such members respectively or paying up in full unissued shares or debentures of the Company to be allotted and distributed credited as fully paid up to and amongst such members in the proportion aforesaid, or partly in the one way and partly in the other, and the Directors shall give effect to such resolution: Provided that a share premium account and a capital redemption reserve fund may, for the purposes of this Article, only be applied in the paying up of unissued shares to be issued to members of the Company as fully paid bonus shares.

(xv) **Unclaimed dividends**

Article 142

All dividends, interest or other sum payable and unclaimed for 12 months after having become payable may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends unclaimed for a period of 7 years after having been declared or become due for payment shall be forfeited and be paid by the Company to the Investor Compensation Fund in accordance with Section 18 (ee) of the Capital Markets Act (Cap 485A) and shall cease to remain owing by the Company

10.3 STATUTORY LICENCES

Kenya Re has all the relevant trade licenses and business permits to operate within its fields of operation.

10.4 INVESTMENTS

Kenya Re has made no principal investments during the current financial year. There have been no other major investments made in any other undertakings over the last five financial years and during the current financial year, nor has there been any acquisition or proposed acquisition by the Company or any of its Subsidiaries in the business undertaking of any other company, business or fixed asset.

10.5 PROPERTY AND OTHER ASSETS

The value of the Property owned by Kenya Re is set out at Section 7.7. The value of the other assets of Kenya Re as at 31st December 2006 is as follows:

Asset	Total Net Book Value (less depreciation) KShs 000
Furniture & Fixtures	10,747
Equipment	28,115
Computers and IT	9,748
Motor Vehicles	3,815
TOTAL	52,465

Kenya Re has not acquired nor disposed any material asset within the past five years except for the following:

- (a) sale of the various properties listed in Section 12.16.1 which are part of its properties that are held; and
- (b) purchase of a motor vehicle for Euros 78,470 from D.T Dobie which was concluded in February 2002. D.T . Dobie had given a 2 year warranty which has since expired.

10.6 RELATED PARTY AGREEMENTS

The Fund Manager for Kenya Re’s pensions scheme is Genesis Kenya Investment Management Limited (“Genesis”) appointed as such under an agreement dated the 1st January 2006. The managing director of Genesis is Mr. Charles Ogalo who was a director of Kenya Re until December 2006 when he resigned from his directorship at Kenya Re.

The main terms of the contract with Genesis are set out below:

Agreement	Party	Consideration	Term and Termination
Investment Management Agreement dated 1 st January 2006	Genesis Kenya Investment Management Limited	0.20% of the value of the fund under management payable quarterly in arrears and a performance element amounting to 10% of the income above a performance hurdle of 8% (on a time weighted basis) to be charged annually	Indefinite term. Termination is by 4 weeks notice.

Apart from the above contract and the related party transactions disclosed in in note 28 of the Reporting accountant report there are no other related party agreements.

10.7 MATERIAL AGREEMENTS

The following is a summary of material contracts entered into by the Corporation:

(a) **Life Retrocession Treaty with Swiss Re Life and Health Southern Africa Limited**

- Execution

The Agreement was originally signed by Union Reinsurance Company and Kenya Re on 8th February 1980 and 21st March 1980 respectively.

However, by an addendum signed on 15th September 1997, Swiss Re Life and Health Southern Africa Limited took over all the rights and obligations of Union Reinsurance Company from 1st January 1998.

- Scope

Swiss Life has agreed to grant automatic cover of Kshs. 9,000,000.00 on any one life for all retrocessions made by Kenya Re. Kenya Re on its part is required to pay a retrocession premium calculated as provided in the Treaty.

- **Term and Termination**
The agreement is for an unlimited duration until terminated by either of the parties by issuing a 3 months notice to end on 31st December of any year.

- **Governing Law and Dispute Resolution**
The Agreement is silent on the governing law but provides that dispute resolution is by arbitration. The seat of arbitration is specified as being the town in which the defendant party is domiciled.

(b) Reinsurance Treaty for Fire and Allied Perils Excess of Loss

- **Parties**
The reinsurance cover has been arranged through J.B Boda Reinsurance Brokers Private Limited of India. The reinsurance has been provided by the following organizations:

- (i) General Insurance Corporation of India, Mumbai, India
- (ii) Bimeh Iran-Iran Insurance Company, Iran
- (iii) Malaysian Reinsurance Berhad, Kuala Lumpur, Malaysia
- (iv) Societe Centrale de Reassurance, Morocco
- (v) Trust International Insurance Company Limited, Bahrain
- (vi) Labuan Reinsurance (L) Limited, Malaysia
- (vii) Asian Reinsurance Corporation, Bangkok, Thailand
- (viii) PT Tugu Reinsurasi (Tugu Re), Indonesia

- **Scope**
The cover is with respect to all fire and allied perils and CAR/Engineering business assumed by Kenya Re in respect of the 18% compulsory treaty acceptances, optional treaty and facultative acceptances from the Kenyan market, the African Region, Middle East and Asian region including losses occurring in respect of compulsory policy cessions attaching prior to 1st January 2000.

Kenya Re on its part is required to pay a total premium of Kshs. 57,559,600.00 per annum which is payable in two equal instalments on 1st January 2007 and 1st July 2007. There is provision for slight adjustments based on the gross net premium income actually received by Kenya Re.

- **Term and Termination**
The cover is for 12 months from 1st January 2007. The treaty is silent on the right of termination.

- **Governing Law and Dispute Resolution**
The treaty is governed by Kenyan law and dispute resolution is by arbitration. The seat of arbitration is specified as Nairobi, Kenya.

(c) Reinsurance Treaty for Fire and Allied Perils Excess of Loss

- **Parties**
The reinsurance cover has been arranged through J.B Boda Reinsurance Brokers Private Limited of India. The reinsurance has been provided by the following organizations:

- (i) General Insurance Corporation of India, Mumbai, India
- (ii) Bimeh Iran-Iran Insurance Company, Iran
- (iii) Malaysian Reinsurance Berhad, Kuala Lumpur, Malaysia
- (iv) Societe Centrale de Reassurance, Morocco

- (v) Trust International Insurance Company Limited, Bahrain
- (vi) Labuan Reinsurance (L) Limited, Malaysia
- (vii) Arab Reinsurance Company, Lebanon
- (viii) Asian Reinsurance Corporation, Thailand
- (ix) Societe Tunisienne de Reassurance, (Tunis Re), Tunisia
- (x) PT Tugu Reinsurasi (Tugu Re), Indonesia

- **Scope**

The cover is with respect to all business written in Kenya Re's fire and engineering departments.

Kenya Re on its part is required to pay a total retrocession premium of Kshs. 49,728,200.00 per annum which is payable in two equal instalments on 1st January 2007 and 1st July 2007. There is provision for slight adjustments based on the gross net premium income actually received by Kenya Re.

- **Term and Termination**

The cover is for 12 months from 1st January 2007. The treaty is silent on the right of termination.

- **Governing Law and Dispute Resolution**

The treaty is governed by Kenyan law and dispute resolution is by arbitration. The seat of arbitration is specified as Nairobi, Kenya.

(d) Reinsurance Treaty for Marine Cargo/Hull Excess of Loss

- **Parties**

The reinsurance cover has been arranged through J.B Boda Reinsurance Brokers Private Limited of India. The reinsurance has been provided by the following organizations:

- (i) General Insurance Corporation of India, Mumbai, India
- (ii) African Reinsurance Corporation, Nairobi, Kenya
- (iii) Malaysian Reinsurance Berhad, Kuala Lumpur, Malaysia
- (iv) Labuan Reinsurance (L) Limited, Malaysia
- (v) Asian Reinsurance Corporation, Thailand
- (vi) PT Tugu Reinsurasi (Tugu Re), Indonesia

- **Scope**

The cover is with respect to all cargo and hull business written by Kenya Re.

Kenya Re on its part is required to pay a total premium of Kshs. 20,000,000.00 per annum which is payable in two equal instalments on 1st January 2007 and 1st July 2007. There is provision for slight adjustments based on the gross net premium income actually received by Kenya Re.

- **Term and Termination**

The cover is for 12 months from 1st January 2007. The treaty is silent on the right of termination.

- **Governing Law and Dispute Resolution**

The treaty is silent on the governing law.

(e) **Reinsurance Treaty for Miscellaneous Accident Excess of Loss**

• Parties

The reinsurance cover has been arranged through J.B Boda Reinsurance Brokers Private Limited of India. The reinsurance has been provided by the following organizations:

- (i) General Insurance Corporation of India, Mumbai, India
- (ii) Societe Centrale de Reassurance, Morocco
- (iii) Labuan Reinsurance (L) Limited, Malaysia
- (iv) Asian Reinsurance Corporation, Thailand
- (v) Malaysian Reinsurance Berhad, Kuala Lumpur, Malaysia
- (vi) Trust International Insurance Company Limited, Bahrain
- (vii) Societe Tunisienne de Reassurance, (Tunis Re), Tunisia
- (viii) Bimeh Iran-Iran Insurance Company, Iran
- (ix) PT Tugu Reinsurasi (Tugu Re), Indonesia

• Scope

The cover is with respect to all miscellaneous accident business including liability business but excluding CAR/Engineering business assumed by Kenya Re in respect of the 18% compulsory treaty acceptances, optional treaties and facultative acceptances from the Kenyan market and the African region, Middle East and Asian regions.

Kenya Re on its part is required to pay a total premium of Kshs. 10,578,100.00 per annum which is payable in two equal instalments on 1st January 2007 and 1st July 2007. There is provision for slight adjustments based on the gross net premium income actually received by Kenya Re.

• Term and Termination

The cover is for 12 months from 1st January 2007. The treaty is silent on the right of termination.

• Governing Law and Dispute Resolution

The treaty is governed by Kenyan law and dispute resolution is by arbitration. The seat of arbitration is specified as Nairobi, Kenya

10.8 EMOLUMENTS OF DIRECTORS

KShs	2004	2005	2006
Directors	6,968,730/-	8,139,000/-	13,984,000/-

The estimates of fees to be paid to Directors for the financial year ending 31st December 2007 under arrangements in force as at the date of this Prospectus is Kshs 14,220,000.

There are no arrangements whereby any of the Directors have or have agreed to waive future emoluments and there has been no arrangement for the waiver of emoluments during the past financial year.

10.9 DIRECTORS AND MANAGERS' INTEREST

No directors of Kenya Re directly or indirectly own any beneficial interest in Kenya Re shares at the date of this Prospectus.

No directors of Kenya Re have had any unusual dealings with Kenya Re or been involved in any transactions which were not related to Kenya Re's business.

Below is a table showing the outstanding loans advanced by Kenya Re to its current directors and senior managers together with details of the security given:-

Names Of Directors & Managers	Particulars of Property Charged	Sum Secured (Kshs.)	Redemption Balance (Kshs.)
Nelius W Kariuki	L.R 7752/180	10,800,000.00	9,672,864.10
Erastus W Muchiri	Nairobi/Block 13767/53 – Avenue Park	4,250,000.00	2,927,599.65
Evans A. Jumba	Nairobi/Block 82/3343	4,446,000.00	3,081,192.20
Jadiah M Mwarania	Nairobi/Block 1870/111/162 – Westlands	8,900,000.00	7,434,303.65
Mark O.Okeyo	L.R. NO. 13324/71 – South C	3,264,000.00	1,922,798.30
Michael Mbeshi	L.R. NO. 2/424 Kilimani	5,350,000.00	3,205,346.80
Consolata W Kihara	Nairobi/Block 90/571 – Loresho	5,500,000.00	4,854,065.55
Esther N Kimanzi	Nairobi/Block 72/2216 – Uhuru gardens	3,500,000.00	2,679,988.95
Jane F Otieno	Nairobi/Block 93/400 – Golden Gate	4,500,000.00	3,478,715.00
Nyakundi Mogere	LR. NO. 60/354 Ngei Estate	5,700,000.00	5,700,000.00
John Mbugua	L.R. NO. 209/11088/29	5,200,000.00	4,930,054.30

10.10 EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Name of Director	Date of Contract	Term	Notice Period	Benefits	Other details
Eunice Mbogo	26 th March 2007	3 years from 16 th April 2007	3 months	Usual benefits, including car, medical insurance, education, housing and holiday	Bonuses may be paid as the Board may determine. There is no compensation payable on early termination

All other directors of Kenya Re are non-executive directors and do not have any service contracts. Each director is entitled to allowances in accordance with the Guidelines on Terms and Conditions of Service for State Corporations', Chief Executive Officers, Chairmen and Board Members, Management Staff and Unionisable Staff. A copy of these guidelines is available for inspection as set out in Section 10.16 of this Prospectus.

10.11 Litigation: Suits of Material Importance

10.11.1 HCCC No 4232 of 1991 Sceneries Limited vs. a shareholder of Sceneries Ltd and Kenya Re

The Corporation purchased L.R No 12236 from Sceneries Limited at a purchase price of Kshs 550,000,000/=. The Corporation obtained a title deed dated 22nd July 1997. After receipt of the title deed, it was discovered that the property had been subject to litigation between Sceneries Limited and one of its shareholders.

It is alleged by the shareholder that prohibitory orders as well as orders restraining Sceneries Limited from selling the said property had been issued. After the Corporation was enjoined in the suit, the court issued temporary orders to the effect that the Corporation can continue to remain as the registered proprietor of the piece of the piece of land but be restrained from disposing it in any manner. An application has been made to have the Corporation removed from the suit and have the injunctive orders lifted.

Subsequently, on the 8th of December 2004, the Commissioner of Lands issued summons under S.60 (1) of the Registration of Titles Act of his intention to cancel the title. The advocates on record for the Corporation have duly challenged the validity of the summons. It is expected that the summons raised by the Commissioner of Lands may precipitate further litigation.

The Corporation's lawyers have advised that the loss arising from the suit, if any, should only extend to 25% of the value of the property as this is the share of the shareholder in Sceneries Limited.

10.11. 2 HCCC No. 1175 of 2001 Kenya National Assurance vs. Kenya Re

This involved a claim by Kenya National Assurance for Kshs. 138,450,114/-. Kenya Re has filed a counterclaim for Kshs. 207,691,122.35 for payments due to it from KNAC under compulsory cessions, Treaties, Life and FAC/R.

Kenya Re has applied for judgment to be entered in its favour in respect of the counterclaim.

Meanwhile, Kenya Re has already made a provision of Kshs. 108,000,000/- in its books with respect to the amount it was owed by KNAC.

10.11. 3 CMCC No. 4462 of 2005 Copy Cat Limited vs. Kenya Re

This is a suit instituted against Kenya Re on the 25th day of April 2005 claiming the sum of Kshs 2,396,706.00 being an agreed price for supply and installation of a Computer Server.

In its defense, the Corporation is contending that the Plaintiff was negligent in the installation of the server which occasioned the Corporation to a loss tentatively quantified to be in excess of Kshs 12,000,000.00. The Corporation intends to file a counterclaim in respect of this loss. Kenya Re is currently pursuing an out of court settlement.

10.11.4 HCCC No. 156 of 2007 Kenya Institute of Management vs Kenya Re

The Plaintiff has filed suit and is seeking an injunction to stop Kenya Re from selling the property known as L.R No. 209/11154 to any other person and an order for specific performance of an alleged contract of sale.

The matter was adjourned on the 7th June 2007 and will now be heard on 18th July 2007.

The Corporations' lawyers have advised that the probability of success of the plaintiff's claim is low as the alleged contract which they are seeking to enforce does not conform to the statutory requirements.

10.12 Material Indebtedness

As at the date of this Prospectus, Kenya Re had entered into an overdraft facility agreement with Kenya Commercial Bank Limited, by virtue of which Kenya Commercial Bank Limited has provided overdraft facilities of Kshs. 15 million to Kenya Re. These facilities are secured by a lien over a fixed deposit of Kshs 23,900,000.00. As at 31st March 2007 the overdraft balances stood at Kshs. 11,470,248/.

10.13 Insurances

Kenya Re has various insurance policies in force covering the Corporation for usual risks, valid until 31st December 2007. The aggregate annual premiums payable on these policies were Kshs 10,606,578 for the year 2007

10.14 General information

- There are no founders' management or deferred shares in the capital of the Corporation.
- The share capital of the Corporation is not divided into different classes of shares and all shares carry equal rights.
- There is no un-issued share or loan capital of the Corporation under option or agreed conditionally or unconditionally to be put under option.
- No share or loan capital of the Corporation has been issued to the public or otherwise within the period since incorporation of the Corporation or is now proposed to be issued, fully or partly paid for consideration other than for cash.
- The Directors of the Corporation are not aware of any shareholder, Director, member of the Corporation's management, supervisory or administrative bodies that intends to subscribe for more than 5% of the Offer.
- No commission, discount, brokerage or other special terms have been granted by the Corporation within the periods since incorporation in connection with the issue or sale of any share or loan capital.
- There is no contractual arrangement with any controlling shareholder.
- Kenya Re has not entered into any material contracts with an related party otherwise than in the normal course of business
- There is no power enabling the Directors, in the absence of an independent quorum, to vote remuneration for themselves.
- Save for salaries and benefits received by the Directors of the Corporation under Service contracts, no amount of benefit has been paid or given within the two preceding years, nor is intended to be paid or given to any promoter.
- Save as disclosed in Section 10.7, there are no transactions which are or were unusual in their nature or conditions or significant to the business of the Corporation, effected during the current or immediately preceding year or any earlier financial year which remain outstanding or unperformed.

- Except as disclosed in section 10.11 of this Prospectus, there is no material litigation or claims of material importance pending or threatened against the Corporation.
- KPMG have been the Corporation's Auditors during the past two years. Previously, the Corporation's Auditors were Ernest & Young
- The borrowing powers of the Board have not been exceeded in the past two years.
- There is no arrangement pursuant to which any future dividends of the Corporation have been waived or have been agreed to be waived
- There have been no material changes in the business of Kenya Re during the past five years.
- The Corporation does not do direct business with the ultimate individuals or companies that seek insurance cover from insurance companies. As such, it is the policy of the Corporation not to engage in Research and Development activities with respect to the development of new insurance products.
- Kenya Re is not in breach of any of its loan covenants in regard to the maximum debt capacity
- There will be no dilution resulting from the Offer for Sale

10.15 Expenses of the Offer

The total estimated expenses of the Offer and Listing based on the full subscription of the Offer is estimated at Kshs 288,869,047 and will be settled from the gross proceeds.

Item	Original Cost of the Transaction	Revised Cost of Transaction	Reasons
Lead Transaction a Advisors	16,820,000	25,381,260	KNAC related work
Registrar services	1,566,000	5,925,000	Software licence fee
Receiving Bank	18,025,000	71,795,184	Reimbursables
Legal Advisors	7,530,568	12,041,000	KNAC related work
Reporting Accountants	5,687,000	3,566,350	Change in Accounting period to December
Printing	29,348,000	19,056,853	
Advertising and Public Relations	21,460,000	57,700,000	Extension of the Transaction period
Lead and co-sponsoring fee	12,180,000	600,000	
Brokerage commission	43,840,000	43,840,000	
CMA fee	7,308,000	7,308,000	
NSE fee	4,872,000	4,872,000	
Other expenses	11,700,000	14,900,000	
Forensic Investigation		21,883,400	Initially unforeseen
Total	180,336,568	288,869,047	
Expenses per share	0.30	0.48	
Expenses as a % of gross proceeds	7.91%	12.67%	

Kenya Re will a half of all the advertising expenses associated with the Kenya Re IPO amounting to Kshs 28,850,000 and all the expenses related to the due diligence work carried out on Kenya National Assurance (2001) limited. The Vendor will pay the rest of the expenses.

10.16 Documents available for inspection

The following documents, or copies thereof, will be available for inspection at Kenya Re's registered office, 15th Floor, Reinsurance Plaza, Taifa Road, Nairobi, for the period that the offer is open, during normal business hours:

- The memorandum and articles of association of Kenya Re;
- Copies of any special or ordinary resolutions amending the memorandum and articles of association or the Corporation's share capital within the last five years;
- Copies and summaries of the material contracts set out in section 10.7;
- Directors' service contracts and letters of appointment of senior managers;
- Guidelines on Terms and Conditions of Service for State Corporations', Chief Executive Officers, Chairmen and Board Members, Management Staff;
- The audited final accounts (including all notes, reports or information required by the Companies Act) for the Corporation for the year ended 31st December 2006 and for the preceding 4 years;
- The rating document by A M Best;
- The property, plant and equipment valuations as at 31st December 2005;
- Actuarial valuation and Embedded value reports
- List of immoveable property in which Kenya Re has a legal or beneficial interest;
- The written consent of the reporting accountants to the publication of their reports dated 28th May 2007, the texts of which are included in Section 10, and references thereto, in the form and context in which they appear in this Prospectus;
- The legal opinion, which is included in Annexure III;
- The written statement, signed by the reporting accountants as required by Section 42 of the Companies Act;
- The written consents of the transaction advisers, legal advisers, reporting accountants and joint-lead sponsoring stockbrokers named in this Prospectus to act in those capacities;
- The approval of the CMA relating to the offer and the listing; and
- The admission by the NSE relating to the listing.

ANNEXURE I: REPORTING ACCOUNTANT'S REPORT



PricewaterhouseCoopers
Certified Public Accountants
The Rahimtulla Tower
Upper Hill Road
P O Box 43963
00100 Nairobi
Kenya
Telephone +254 (20) 285 5000
Facsimile +254 (20) 285 5001
www.pwc.com

The Directors
Kenya Reinsurance Corporation Limited
Reinsurance Plaza
Taifa Road
P O Box 30271
NAIROBI

5 June 2007

**Subject: PROSPECTIVE FINANCIAL INFORMATION FOR THE YEAR TO 31
DECEMBER 2007**

Dear Sirs

We have examined the prospective financial information of Kenya Reinsurance Corporation Limited set out on pages 108 to 111 for the year to 31 December 2007 in accordance with the International Standard on Assurance Engagements applicable to the examination of prospective financial information. Management is responsible for the prospective financial information including the assumptions set out in Section D on which it is based.

This prospective financial information has been prepared for inclusion in Kenya Reinsurance Corporation initial public offering information memorandum. The prospective financial information has been prepared using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, readers are cautioned that this prospective financial information may not be appropriate for purposes other than that described above.

Comments on assumptions

The assumptions record Kenya Re's equity investment in PTA Reinsurance Corporation (PTA Re) at its historic cost of Shs 111 million. Kenya Re's accounting framework, International Financial Reporting Standards, require that the investment in PTA Re is recorded in Kenya Re's financial statements using the equity method of accounting. Under the equity method, the investment in an associate should initially be recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the associate. The profit or loss of the investor includes the investor's share of the profit or loss of the associate. As at 31 December 2006, the net assets of the associate amounted to Kshs 253 million. The net assets and the profit forecasts do not therefore include the effects of accounting for PTA Re using the equity method of accounting.

Conclusion

Based on our examination of the evidence supporting the assumptions, other than as discussed in the paragraph above:

- i. nothing has come to our attention which causes us to believe that the assumptions detailed on page 5 of this report do not provide a reasonable basis for the prospective financial information.
- ii. in our opinion the prospective financial information is properly prepared on the basis of the underlying assumptions and is presented in accordance with the measurement principles of International Financial Reporting Standards.

Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the prospective financial information since other anticipated events frequently do not occur as expected and the variation may be material. We express no opinion as to how closely the actual results will correspond to those projected by management.

Yours faithfully

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers
Certified Public Accountants
Nairobi, Kenya

KENYA REINSURANCE CORPORATION LIMITED

A PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2007

	2007
	Shs'000
Gross premium	3,244,713
Less: reinsurances	<u>(351,156)</u>
Net written premium	2,893,557
Unearned premium b/f	452,594
Unearned premium c/f	<u>(489,771)</u>
Net earned premium	2,856,380
Investment income	<u>772,177</u>
Total income	3,628,557
Claims incurred	(1,634,434)
Commissions payable	(870,332)
Management expenses	<u>(434,336)</u>
Profit from operation	689,455
Share of profit of associate	<u>-</u>
Profit before income tax	689,455
Income tax expense	(152,811)
Profit for the year	<u><u>536,644</u></u>

KENYA REINSURANCE CORPORATION LIMITED**B PROSPECTIVE BALANCE SHEETS FOR THE YEAR TO 31 DECEMBER 2007**

	2007
	Shs'000
ASSETS	
Property and equipment	16,485
Non-current assets held for sale	316,729
Investment in associate	-
Intangible asset	3,599
Deferred income tax	35,391
Government securities	2,604,600
Available-for-sale financial assets	2,481,275
Mortgage loans	780,589
Investment properties	3,270,000
Tax recoverable	73,689
Sundry debtors	96,365
Due from cedants and reinsurers	1,630,587
Inventories	340,812
Short term deposits	608,058
Cash and bank balances	41,214
	<hr/>
Total assets	12,299,393
	<hr/>
Capital and reserves	
Share capital	1,500,000
Revaluation and other reserves	2,161,436
Retained earnings	2,998,695
Proposed dividends	-
	<hr/>
Shareholders' funds	6,660,131
	<hr/>
Non-current liabilities	
Long-term contract liabilities	2,406,718
Outstanding claims	2,091,861
Unearned premiums	489,771
Amounts due to cedants and reinsurers	455,891
Defined benefit liability	32,297
Sundry creditors	162,724
	<hr/>
Total liabilities	5,639,262
	<hr/>
Total equity and liabilities	12,299,393
	<hr/>

KENYA REINSURANCE CORPORATION LIMITED**C CASH FLOW FORECASTS FOR THE YEAR TO 31 DECEMBER 2007**

	2006
	Shs 000
Cash flow from operating activities	
Net profit before tax	670,804
Depreciation	36,980
Amortisation of intangible assets	1,440
Movement in:	
- unearned premiums	37,177
- outstanding claims	284,058
- long term contract liabilities	326,083
- inventories	142,740
- due from/to cedants and re-insurers	(165,191)
- sundry debtors	(7,122)
- sundry creditors	(83,607)
Cash generated from operations	1,048,017
Tax paid	(204,000)
	<hr/>
Net cash from operating activities	844,017
	<hr/>
Cash flows from investing activities	
Purchase/sale of property and equipment	(1,000)
Net purchase of government securities	(455,696)
Mortgage loans	(165,106)
Purchase of intangibles	-
	<hr/>
Net cash flow (used in)/from investing activities	(621,802)
	<hr/>
Cash flows from financing activities	
Dividends paid on ordinary shares	(150,000)
	<hr/>
Increase in cash and cash equivalents	72,215
At start of the year	1,084,838
	<hr/>
Cash and cash equivalents at the end of the year	1,157,053
	<hr/>

KENYA REINSURANCE CORPORATION LIMITED

D KEY ASSUMPTIONS UNDERLYING THE FORECAST TO YEAR ENDING 31 DECEMBER 2007

Economic assumptions:

Exchange rates: *Source: Central Bank of Kenya*

Year	Kenya Shillings against US Dollar	Kenya Shillings against Sterling Pound
Annual average exchange rate	73	146

Operational assumptions:

Income statement

- a) Gross premium will grow at an average rate of 7% based on historical experience. Reinsurance premium will be at an average rate of 16% of gross premium written based on historical experience.
- b) The overall claims loss ratio will be 41%.
- c) Any surplus arising from the long term business will be retained as a liability and not availed for distribution.
- d) Commission payable is estimated at 30% of gross premiums
- e) Overheads consist largely of salaries and are estimated to escalate in line with inflation rate.
- f) Provision for taxation has been recognised at a tax rate of 20%. This is based on a historic effective rate of about 22% and the effect of reduced tax rate of 20% following the initial listing. VAT rate is assumed to remain at 16%.
- g) Dividend Policy
The dividend payout is targeted to remain at Shs 150 million based on historic payments.

Balance sheet assumptions

- a) Non current assets held for sale are not going to be sold by end of the forecast year
- b) Listed shares share price will increase by 5%
- c) There will be no revaluation gains/losses on investment properties
- d) Amounts due from cedants will remain at 53% of gross premium.
- e) Amounts due to cedants will remain at 12% of gross premium

The Directors
Kenya Reinsurance Corporation Limited
Reinsurance Plaza
Taifa Road
P O Box 30271
NAIROBI

28 May 2007

Subject: REPORTING ACCOUNTANTS' REPORT ON KENYA REINSURANCE CORPORATION LIMITED

Dear Sirs

We are pleased to submit our Accountants' Report in accordance with the requirements of Section 6 and Part A of the Third Schedule to the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 (hereafter referred to as "the Regulations").

As directors of Kenya Reinsurance Corporation Limited (Kenya Re), you are responsible for the Information Memorandum to be issued on or about 28 June 2007 and for all information contained therein, and for the financial statements and information to which this Accountant's Report relates and from which it has been prepared.

A) FINANCIAL INFORMATION

The information required by the Third Schedule of the Regulations to be disclosed in the Information Memorandum is set out in Appendix I on page 117 to 146 of this report. The appendix forms an integral part of this report. The information has been compiled in accordance with International Standard on Related Services 4410, Engagements to Compile Financial Statements ("ISRE 4410"), from the audited financial statements of Kenya Re for the years ended 31 December 2002, 2003, 2004, 2005 and 2006. As required by ISRE 4410, we have made enquiries of management about the operations of the company and its accounting principles and practices, and have applied that knowledge in compiling the financial statements. We have also applied knowledge obtained from carrying out review procedures on the financial statements, the scope and results of which are reported in Section B below.

In compiling the information in Appendix 1, we have effected a number of adjustments to the information presented in the audited financial statements; details of those amendments are summarised in Section C below.

All of the financial statements from which the financial information in Appendix I was compiled received an unqualified audit opinion. The audit opinion for the year ended 31 December 2006 contained a reference to the following matter:

Fraud irregularities

As disclosed in note 37 to the financial statements, there were allegations of fraud covering years 2003 to 2006 which were inspected by the Inspectorate of State Corporations, Kenya Anti-Corruption Commission and Forensic Investigators. The investigations have so far confirmed a loss of Kshs 36,000,000. The loss has not been accounted for in these financial statements as the matter is currently in court of law. However, investigations are still going on. The extent of loss will only be ascertained on conclusion of the investigations.

The Controller and Auditor General was the auditor of Kenya Re for the 5 years ended 31 December 2006. The Controller and Auditor General appointed KPMG to perform the audits for the two years ended 31 December 2006 and Ernst & Young to perform the audits for the three years ended 31 December 2004 on his behalf. (KPMG, Ernst & Young and the Controller and Auditor General are hereafter referred to as “the Kenya Re auditors”). We have not audited the financial statements from which the financial information in Appendix I was compiled, and accordingly express no assurance thereon.

B) REVIEW PROCEDURES

We have conducted a review of the audited financial statements of Kenya Re for the five years ended 31 December 2006. We conducted our review in accordance with the International Standard on Review Engagements 2400, Engagements to Review Financial Statements (“ISRE 2400”). The objective of the review engagement is to enable us to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standards. This Standard requires that we plan and perform the review with an attitude of professional scepticism, and to obtain sufficient evidence primarily through enquiry and analytical procedures to be able to draw conclusions.

Our review procedures were limited primarily to inquiries of Kenya Re management and the Kenya Re auditors that we considered necessary, a review of the report issued by PricewaterhouseCoopers on 30 April 2007 following a forensic investigation carried out at the request of the company, a review of the company’s accounting policies, analytical procedures applied to financial data and review of other documentation that we considered necessary.

We identified the following matters during the course of our review:

- 1) *Amounts receivable from / payable to cedants and reinsurers*
 - a) Amounts receivable from / payable to cedants and reinsurers include certain long outstanding and unreconciled balances. The completeness and recoverability of these amounts, and in particular balances totalling approximately Shs 150 million, can only be confirmed when pending reconciliations with counterparties are completed.
 - b) Certain balances receivable from and payable to individual cedants and reinsurers were presented on a gross basis in the audited financial statements, even though a right of offset existed between the balances.

2) *Investment in unquoted shares*

The corporation owns shares in PTA Reinsurance Company Limited (PTA Re) and Africa Reinsurance Company Limited (Africa Re), both of which were accounted for at cost in the audited financial statements.

- a) The corporation held between 24% and 34% of the issued shares of PTA Re in the years ended 31 December 2002 to 2006, acquired at a cost of Shs 111 million. International Accounting Standard 28, Investment in Associates, requires that the investment in PTA Re is recorded in Kenya Re's financial statements using the equity method of accounting. Under the equity method, the investment in an associate should initially be recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the associate. The profit or loss of the investor includes the investor's share of the profit or loss of the associate.
- b) The corporation held 0.22% of the shares of Africa Re in the years ended 31 December 2002 to 2006, acquired at a cost of Shs 11.8 million. International Accounting Standard 39, Financial Instruments: Recognition and Measurement, requires that such investments be carried at their fair value. However management are unable to assess the fair value of the shares and have reported the investment at cost in the financial statements at the respective balance sheet dates.

3) *Accounting for obligation in respect of the company pension scheme*

An actuarial assessment of the company's retirement benefit obligation was not carried out for the financial years ended 31 December 2002 and 2003 as required by International Accounting Standard 19, Employee Benefits. Consequently, a defined benefit asset/liability was not recognised in the 2002 and 2003 financial statements. From 2004 a defined benefit liability and a related deferred income tax asset were recognised in the financial statements.

4) *Accounting for investment properties*

Kenya Re's accounting policies require that the company's investment properties are stated at their market value at each balance sheet date. No property valuation was carried out as at 31 December 2002, 2003, 2004 and 2006. An independent valuation of the properties was carried out at 31 December 2005 and the resultant values recorded in the 2005 and 2006 balance sheets.

A review carried out in accordance with ISRE 2400 is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. However based on our review, other than for the effect of the matters set out above, nothing has come to our attention that causes us to believe that the audited financial statements of Kenya Re for the five years ended 31 December 2006 do not give a true and fair view in accordance with International Financial Reporting Standards.

C) EFFECT OF ADJUSTMENTS MADE TO INFORMATION PRESENTED IN THE AUDITED FINANCIAL STATEMENTS

In compiling the information in Appendix 1, we have effected a number of adjustments to the information presented in the audited financial statements. The impact of these adjustments is set out below; the adjustments are based on unaudited information provided to us by management.

As noted in section B), not all the matters that came to our attention have been adjusted for as information was not available in some cases.

a) Adjustments that impact profit as reported in the audited financial statements:

Notes		2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2002 Shs'000	Total Shs'000
	Profit / (loss) after tax as reported in the audited financial statements	505,470	733,332	452,503	554,459	251,663	2,245,764
1	Long outstanding balances with cedants and reinsurers	(150,000)	-	-	-	-	(150,000)
2	Kenya Re's share of net profits of its associate, PTA Reinsurance Company	34,979	14,838	36,653	26,568	18,881	131,919
	Profit / (loss) after tax as reported in Appendix 1	390,449	748,170	489,156	581,027	270,544	2,227,683

b) Reclassification in the income statement that did not impact profit as reported in the audited financial statements:

Notes		2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2003 Shs'000	Total Shs'000
	Income tax expense reported within management and reclassified to income tax expenses in Appendix 1	56,400	-	-	-	-	56,400

c) Adjustments impacting total assets in the balance sheet:

Notes		2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2002 Shs'000
	Total assets as reported in the audited financial statements	12,808,160	11,616,471	10,293,761	8,954,924	8,032,663
1	Less: long outstanding balances with cedants and reinsurers	(150,000)	-	-	-	-
2	Add: Kenya Re's share of net assets of associate, PTA Reinsurance Company	142,483	107,504	87,427	43,235	12,475
3	Less: impact of offsetting of balances due to/from cedants and reinsurers	(1,536,485)	(1,346,290)	(1,416,570)	-	-
	Total assets as reported in Appendix 1	11,264,158	10,377,685	8,964,618	8,998,159	8,045,138

d) Adjustments impacting total liabilities in the balance sheet:

Notes		2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2002 Shs'000
	Total liabilities as reported in the audited financial statements	6,646,885	6,174,924	5,927,577	4,924,386	5,363,209
3	Less: impact of offsetting of balances due to/from cedants and reinsurers	(1,536,485)	(1,346,290)	(1,416,570)	-	-
	Total liabilities as reported in Appendix 1	5,110,400	4,828,634	4,511,007	4,924,386	5,363,209

D) CONSENT

We consent to the inclusion of this report in the Kenya Re Information Memorandum to be issued on or about 28 June 2007 in the form and context in which it appears.

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers
Certified Public Accountants
Nairobi, Kenya

Appendix 1

Financial information

Income statements for the five years ended 31 December 2006

	Notes	2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2002 Shs'000
Gross premium		3,034,743	2,612,737	1,823,380	1,679,703	1,339,207
Less: reinsurances		(323,205)	(323,894)	(194,547)	(142,429)	(108,638)
Net written premium		2,711,538	2,288,843	1,628,833	1,537,274	1,230,569
Unearned premium b/f		532,679	355,270	444,671	394,224	376,304
Unearned premium c/f		(452,594)	(532,679)	(355,270)	(444,671)	(394,224)
Net earned premium		2,791,623	2,111,434	1,718,234	1,486,827	1,212,649
Investment income	2	753,096	490,928	584,829	341,372	465,215
Fair value gains on:						
- investment properties		-	244,361	-	-	-
- non-current asset held for sale		-	19,913	-	-	-
Total income		3,544,719	2,866,636	2,303,063	1,828,199	1,677,864
Claims incurred		(1,522,512)	(923,518)	(766,321)	(457,807)	(770,146)
Commissions payable		(806,761)	(699,998)	(520,009)	(465,304)	(388,119)
Management expenses		(603,138)	(290,323)	(193,391)	(195,867)	(200,229)
Write off of inventory	4	-	(6,142)	(259,704)	-	-
Profit from operation	3	612,308	946,655	563,638	709,221	319,370
Share of profit of associate		34,979	14,838	36,653	26,568	18,881
Profit before income tax	3	647,287	961,493	600,291	735,789	338,251
Income tax expense	5	(256,838)	(213,323)	(111,135)	(154,762)	(67,707)
Profit for the year		390,449	748,170	489,156	581,027	270,544

Balance sheets for the five years ended 31 December 2006

	Notes	2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2002 Shs'000
ASSETS						
Property and equipment	6	52,465	88,054	239,432	283,008	332,261
Non-current assets held for sale	7	316,729	316,729	-	-	-
Prepaid operating lease rentals	8	-	-	12,789	12,947	13,105
Investment in associate	9	253,774	218,795	198,718	154,526	123,766
Intangible asset	10	5,039	1,663	3,325	4,988	-
Deferred income tax	11	35,391	19,803	16,219	-	-
Government securities	12	2,122,318	1,838,717	1,471,217	1,496,589	1,183,866
Available-for-sale financial assets	13	2,257,771	1,755,529	1,291,741	1,283,523	563,260
Mortgage loans	14	615,484	392,701	329,207	320,253	313,447
Investment properties	15	3,270,000	3,270,000	3,682,470	4,205,991	4,205,991
Sundry debtors	16	89,245	52,602	28,712	146,419	208,490
Current income tax recoverable		3,850	-	123,513	-	-
Due from cedants and reinsurers	17	1,154,898	1,124,784	412,813	352,323	300,242
Inventories	18	483,552	808,730	556,168	446,703	602,783
Short term deposits	26	558,559	397,334	447,852	251,210	157,581
Cash and bank balances	26	45,083	92,244	150,442	39,679	40,346
Total assets		11,264,158	10,377,685	8,964,618	8,998,159	8,045,138
LIABILITIES						
Long-term insurance contract liabilities	22	2,122,659	1,816,070	1,658,357	1,533,817	1,363,116
Outstanding claims		1,961,124	1,916,779	1,989,907	2,249,483	2,240,015
Unearned premiums		452,594	532,679	355,270	444,671	394,224
Deferred income tax		-	-	-	4,556	46,566
Bank overdraft	25	-	-	-	-	4,074
Dividends payable		-	-	-	120,000	120,000
Amounts due to cedants and reinsurers		295,395	294,455	255,719	213,339	850,560
Defined benefit liability	23	32,297	32,127	33,836	-	-
Sundry creditors	24	246,331	201,190	217,918	223,501	277,915
Current income tax payable		-	35,334	-	135,019	66,738
Total liabilities		5,110,400	4,828,634	4,511,007	4,924,386	5,363,208
NET ASSETS						
		6,153,758	5,549,051	4,453,611	4,073,773	2,681,930
Capital and reserves						
Share capital	19	1,500,000	1,500,000	1,500,000	1,000,000	1,000,000
Revaluation and other reserves	20	2,049,473	1,685,214	1,187,944	1,197,806	106,285
Retained earnings		2,454,285	2,213,837	1,615,667	1,775,967	1,525,645
Proposed dividends	21	150,000	150,000	150,000	100,000	50,000
SHAREHOLDERS' FUNDS		6,153,758	5,549,051	4,453,611	4,073,773	2,681,930

Statements of changes in equity for the five years ended 31 December 2006

	Notes	Share capital Shs'000	Capital and contingency reserves Shs'000	Translation reserves Shs'000	Revaluation reserves Shs'000	Fair value reserves Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
At 1 January 2002		500,000	60,406	(21,336)	102,215	-	1,777,644	-	2,418,929
Net profit for the year		-	-	-	-	-	270,544	-	270,544
Issue of shares	19	500,000	-	-	-	-	(500,000)	-	-
Proposed dividends	21	-	-	-	-	-	(50,000)	50,000	-
Share reserves of associate		-	-	4,366	248	-	-	-	4,614
Realisation of revaluation Reserves		-	-	-	(39,614)	-	27,457	-	(12,157)
At 31 December 2002		1,000,000	60,406	(16,970)	62,849	-	1,525,645	50,000	2,681,930
At 1 January 2003		1,000,000	60,406	(16,970)	62,849	-	1,525,645	50,000	2,681,930
Profit for the year		-	-	-	-	-	581,027	-	581,027
Final dividend for 2002	21	-	-	-	-	-	-	(50,000)	(50,000)
Proposed dividends 2003	21	-	-	-	-	-	(100,000)	100,000	-
Fair value gains on quoted investments	13	-	-	-	-	856,624	-	-	856,624
Realisation of revaluation Reserves		-	-	-	(29,120)	-	29,120	-	-
Share reserves of associate		-	-	4,192	-	-	-	-	4,192
Transfer of fair value gains		-	-	-	-	259,825	(259,825)	-	-
At 31 December 2003		1,000,000	60,406	(12,778)	33,729	1,116,449	1,775,967	100,000	4,073,773
At 1 January 2004 as previously stated		1,000,000	60,406	(12,778)	33,729	1,116,449	1,775,967	100,000	4,073,773
Prior year adjustments									
-defined benefit liability	23	-	-	-	-	-	(33,836)	-	(33,836)
-deferred income tax thereon		-	-	-	-	-	10,151	-	10,151
As restated		1,000,000	60,406	(12,778)	33,729	1,116,449	1,752,282	100,000	4,050,088
Net profit for the year							489,156	-	489,156
Issue of shares	19	500,000	-	-	-	-	(500,000)	-	-
Final dividend for 2003	21	-	-	-	-	-	-	(100,000)	(100,000)
Proposed dividends 2004	21	-	-	-	-	-	(150,000)	150,000	-
Fair value adjustments on:									
-quoted share	13	-	-	-	-	209,896	-	-	209,896
-disposal of quoted shares		-	-	-	-	(203,068)	-	-	(203,068)
Share reserves of associate		-	-	7,539	-	-	-	-	7,539
Realisation of revaluation Reserves		-	-	-	(24,229)	-	24,229	-	-
At 31 December 2004		1,500,000	60,406	(5,239)	9,500	1,123,277	1,615,667	150,000	4,453,611

Statements of changes in equity for the five years ended 31 December 2006 (continued)

	Notes	Share capital Shs'000	Capital and contingency reserves Shs'000	Translation reserves Shs'000	Revaluation reserves Shs'000	Fair value reserves Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
At 1 January –2005		1,500,000	60,406	(5,239)	9,500	1,123,277	1,615,667	150,000	4,453,611
Net profit for the year		-	-	-	-	-	748,170	-	748,170
Final dividend for 2004	21	-	-	-	-	-	-	(150,000)	(150,000)
Proposed dividends 2005	21	-	-	-	-	-	(150,000)	150,000	-
Fair value adjustments on:									
- quoted investments	13	-	-	-	-	508,139	-	-	508,139
- disposal of quoted shares		-	-	-	-	(23,738)	-	-	(23,738)
Share reserves of associate		-	-	5,239	-	-	-	-	5,239
Revaluation of properties		-	-	-	7,630	-	-	-	7,630
At 31 December 2005		1,500,000	60,406	-	17,130	1,607,678	2,213,837	150,000	5,549,051
At 1 January 2006		1,500,000	60,406	-	17,130	1,607,678	2,213,837	150,000	5,549,051
Net profit for the period		-	-	-	-	-	390,449	-	390,449
Dividends paid	21	-	-	-	-	-	-	(150,000)	(150,000)
Proposed dividend	21	-	-	-	-	-	(150,000)	150,000	-
Fair value adjustments on:									
- quoted securities	13	-	-	-	-	404,156	-	-	404,156
- disposal of quoted shares		-	-	-	-	(39,897)	-	-	(39,897)
At 31 December 2006		1,500,000	60,406	-	17,130	1,971,937	2,454,285	150,000	6,153,759

Cash flow statements for the five years ended 31 December 2006

	Notes	2006	2005	2004	2003	2002
		Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Cash flow from operating activities						
Net profit before tax		612,308	946,656	563,638	709,221	319,370
Adjustment for:						
Changes in fair value of quoted shares		-	-	-	-	(173,350)
Depreciation		49,022	50,937	48,686	55,405	55,957
Amortisation of prepaid lease rentals	8	-	158	158	158	158
Amortisation of intangible assets	10	2,383	1,662	1,663	1,662	-
Gain on sale of shares		(51,212)	(40,792)	(233,154)	(101,715)	(1,295)
Loss on disposal of property and equipment		-	-	-	-	(12)
Equipment write off		-	18	(7)	-	-
Impairment of unquoted equity	13(i)	25,500	-	-	-	-
Fair value gains on:						
- investment properties		-	(244,361)	-	-	-
- non current assets held for sale		-	(19,913)	-	-	-
Movement in:						
- unearned premiums		(80,085)	177,409	(89,400)	50,447	17,919
- outstanding claims		44,345	(73,128)	(338,143)	-	(613,591)
- long term contract liabilities		306,589	158,732	219,697	191,699	184,759
- inventories		325,177	390,190	414,057	156,080	106,039
- due from/to cedants and re-insurers		(29,175)	(673,237)	(18,115)	(689,302)	295,199
- sundry debtors		(36,642)	(23,890)	137,784	122,280	(62,174)
- sundry creditors		45,310	(18,435)	(5,584)	(54,414)	(20,626)
Cash generated from operations		1,213,520	632,006	701,280	441,527	108,353
Tax paid		(311,610)	(59,079)	(396,881)	(140,023)	(28,945)
Net cash from operating activities		901,910	572,927	304,399	301,504	79,408
Cash flows from investing activities						
Purchase/sale of property and equipment		(13,431)	6,132	(5,103)	(6,151)	(9,529)
Purchase of shares		(179,032)	-	(20,500)	238,077	21,934
Sale of shares		66,760	61,405	252,264	-	-
Net purchase of government securities		(322,304)	(213,601)	(106,800)	(237,691)	(57,107)
Mortgage loans		(222,783)	(163,493)	(29,031)	(67,016)	128,261
Purchase of intangibles	10	(5,759)	-	-	(6,651)	-
Net cash flow (used in)/from investing activities		(676,549)	(309,557)	90,830	(79,434)	20,295
Cash flows from financing activities						
Dividends paid on ordinary shares		(150,000)	(150,000)	(220,000)	(50,000)	-
Increase in cash and cash equivalents		75,361	113,370	175,229	172,064	99,704
At start of the year	26	1,009,477	896,107	720,878	548,807	449,103
Cash and cash equivalents at the end of the year	26	1,084,838	1,009,477	896,107	720,871	548,807

Notes

1 Significant accounting policies

(a) Basis of preparation

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards, which comprise standards and interpretations approved by the International Accounting Standards Board. The financial statements have been prepared on historical cost basis, except for property and equipment other than furniture and fittings, non current assets held for sale, investment properties and available for sale financial assets measured at fair value. Other financial assets and liabilities and non-financial assets are stated at amortised cost or historical cost.

All monetary figures appearing in these financial statements, unless otherwise indicated are stated in thousands of Kenya shillings (Shs'000).

The preparation of financial statements in conformity with International Financial Reporting Standards requires directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. The estimates and assumptions are based on the directors' best knowledge of current events, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(b) Underwriting results

(i) General insurance business

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. The underwriting results for general business are determined on an annual basis from 1 October to 30 September. The directors have assessed the impact of accounting for underwriting basis from 1 October to 30 September against the result of 1 January to 31 December and are of the opinion that this does not give rise to material differences. The incurred cost of claims, acquisition costs and expenses of management are charged against the earned proportion of premiums, net of reinsurance as follows:

- Earned premiums are net written premium for the period after accounting for unearned premium. Unearned premiums represent the proportion of net premiums written in the year that are attributable to future risks and are determined on the basis of 40% of net premiums written.
- 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") in respect of Motor, Fire and Accident which is calculated at 5% of gross premiums written less reinsurances.

Notes (continued)

1 Significant accounting policies (continued)

- Management expenses are allocated in the ratio of premium written in each class of business. Up to 2004, a portion of management expenses relating to costs of managing investments were also allocated to investment income

(ii) Long term insurance business

- The full annual premium income is recognised in respect of both individual and group life after making provisions for policy lapses and other terminations on policy anniversary dates.
- Claims arising are recognised on notification.
- Expenses and commission are allocated to the long term business as incurred.
- The long term insurance business is assessed annually by the Corporation's consulting actuaries. Surpluses arising on the advice of the actuaries are either included in the profit and loss or carried as part of long term business insurance contract liabilities.

(iii) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses as well as investment income from assets backing such liabilities are used. Any deficiency is immediately charged to the income statement by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision), using an actuary.

(iv) Reinsurance contracts held

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

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

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

(v) Receivables and payables related to insurance contracts

Receivables and payables related to insurance contracts are recognised when due. These include amounts due to/from agents, brokers and insurance contract holders. When the Corporation gathers objective evidence that an insurance receivable is impaired, an impairment loss is calculated and recognised in the income statement.

Notes (continued)

1 Significant accounting policies (continued)

(vi) Classification of insurance and investment contracts

The Corporation issues contracts that transfer insurance risks or financial risk or both.

Insurance contracts are those contracts that transfer significant risk. Such contract may also transfer financial risks.

Investment contracts are those contracts that transfer financial risk with no significant risk.

(c) Intangible assets

Costs associated with maintaining the computer software programs are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Software development costs recognised as assets are amortised using the straight-line method over a period of four years.

(d) Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(e) Investment properties

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are treated as long term investments and carried at fair value, representing market value determined annually by external independent valuers. Investment properties are not subject to depreciation. Changes in their carrying amount between balance sheet dates are processed, net of deferred tax, through the profit and loss account.

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

(f) Property and equipment

Property and equipment are stated at cost or revaluation less depreciation and any impairment in value. Increases in carrying amounts arising from revaluation are credited to revaluation reserve. Decreases that offset previous increases of the same asset are charged against revaluation reserve and all other decreases are charged to the profit and loss account.

Depreciation is calculated on the straight-line basis, at annual rates estimated to write off carrying values of the assets over their estimated useful lives. The annual depreciation rates in use are:

Freehold buildings	2%
Motor vehicles	25%
Computers	25%
Office furniture, fixtures and equipment	12.5%
Furniture and equipment	25%

Notes (continued)

1 Significant accounting policies (continued)

(f) Property and equipment (continued)

Assets residual values and useful lives are reviewed at each balance sheet and adjusted if appropriate.

The carrying value of property and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

(g) Leases

Leases on assets under which all risks and benefits of ownership are effectively 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 period of their lease.

(h) Financial assets

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

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

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Corporation provides money directly to a debtor with no intention of trading the receivable. These include mortgage advances to customers and placements with other banks.

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Corporation's management has the positive intention and ability to hold to maturity. Were the Corporation to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include treasury bills, treasury bonds and government stock.

Notes (continued)

1 Significant accounting policies (continued)

(iv) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates. Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date the date on which the Corporation commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Corporation has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement.

(i) Impairment of financial assets

The Corporation 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 particular impairment policies for each category of financial asset are described below:

(i) Held-to-maturity

The recoverable amount of held-to-maturity financial assets carried at amortised cost is calculated as the present value of estimated future cash flows discounted at the original effective interest rate. Receivables with a short duration are not discounted. An impairment loss for these assets can be reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Loans and receivables

Loans and receivables are shown at the gross amount adjusted for any provision for impairment losses.

A provision for loan impairment is established if there is objective evidence that the Corporation will not be able to collect all amounts due according to the original contractual terms of the loan. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount.

Notes (continued)

1 Significant accounting policies (continued)

(ii) Loans and receivables (continued)

In addition, a portfolio impairment provision is made to cover losses that have been incurred but not reported at the balance sheet date. The Corporation sets the portfolio impairment with reference to past experience taking into account the effect of current conditions that did not affect the period on which the historic loss is based and to remove the effect of conditions in the historical period that do not exist currently. These factors include, but are not limited to, the economic environment, the shape of the portfolio with reference to a range of indicators and management actions taken to proactively manage the portfolio.

When a loan is deemed uncollectable, it is written off against the related provision for impairment. Subsequent recoveries are credited to the provision for loan losses in the income statement.

(iii) Available-for-sale

When a decline in the fair value for available-for-sale financial assets has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the income statement even though the asset has not been derecognised. The amount of cumulative loss that is recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement. If the fair value of the financial asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be reversed with the amount of reversal being recognised in the income statement.

(j) Impairment of non-financial assets

The carrying amounts of the Corporation's non-financial assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes (continued)

1 Significant accounting policies (continued)

(k) Revenue recognition

Investment income is stated net of investment expenses and comprises of profit or loss on disposal of trading investments, interest, rents and dividends. Income on investments held by the long term business is taken up in the long term revenue accounts. The revenue recognition criteria is as follows:

- (i) Interest income is recognised as the interest accrues (using the effective yield on the asset).
- (ii) Dividends income is recognised when the shareholder's right to receive the payment is established.
- (iii) Rental income is accounted for on a straight-line basis over the lease term on ongoing leases.

(l) Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value and treasury bills maturing within three months from date of acquisition.

(m) Foreign currency transactions

Transactions in foreign currencies during the period 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 the balance sheet date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

(n) Bad and doubtful debts

Specific provision is made for all known debts. An estimate is made for doubtful receivables based on review of all outstanding amounts at the year-end. Bad debts are written off in the year in which they are identified.

(o) Taxation

Tax on the income statement for the year comprises current income tax and the change in deferred income tax. Current income tax is provided for on the basis of the results for the period as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred income taxation 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. Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilised.

Deferred income tax is calculated on the basis of the tax rates currently enacted.

Notes (continued)

1 Significant accounting policies (continued)

(p) Employee benefits

(i) Pension obligations

The Corporation operates a defined benefits pension scheme for all its employees, the assets of which are held in trustee administered funds. The retirement plans are funded by payments from both employees and the Corporation. The calculation is performed by a qualified actuary using the projected unit credit method. The defined benefit obligation is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods and the benefits are discounted to determine its present value and the fair value of its plan assets are deducted.

To the extent that any cumulative unrecognised actuarial gains and losses exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average working lives of the employees participating in the plan.

The Corporation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by the local statute and are currently limited to KShs 200 per employee per month.

The Corporation's contributions to the defined benefits pension scheme are charged to the income statement in the period to which they relate.

(ii) Employee entitlements

The monetary liability for employees accrued annual leave entitlement at the balance sheet date is recognized as an accrued expense.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange of these benefits. The Corporation recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(q) Dividends

Dividends are charged to equity in the year in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(r) Provisions

Provisions are recognised when the corporation 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.

Notes (continued)

1 Significant accounting policies (continued)

(s) Offsetting of financial assets and liabilities

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

2 Investment income

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Change in fair value of quoted shares	-	-	-	-	173,809
Gain/(loss) on sale of inventory	121,335	(36,347)	(49,431)	(93,589)	(61,505)
Rent income	221,766	222,702	232,072	207,064	206,784
Interest income	263,191	224,423	160,185	159,236	175,185
Dividend income	78,616	62,105	47,969	39,559	45,954
Gain on sale of quoted shares	51,734	40,732	233,154	101,715	1,295
Other income	30,490	16,503	30,101	24,521	19,752
Foreign exchange (loss)/gain	(14,036)	(39,190)	18,017	-	-
Apportioned management expenses	-	-	(87,238)	(97,134)	(96,059)
	753,096	490,928	584,829	341,372	465,215

3 Profit before taxation

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Profit before tax is stated after charging:					
Depreciation on property and equipment	49,022	50,937	48,686	55,405	55,957
Amortisation of leasehold land (Note 8)	-	158	158	158	158
Amortisation of intangible assets (Note 9)	2,383	1,662	1,663	1,662	-
Salaries and wages	237,682	167,223	149,538	141,545	143,825
Pension costs - Defined benefits plan	18,348	14,877	12,768	22,786	11,548
Social security costs	255	232	237	241	247
Auditors' remuneration	3,200	2,950	2,700	2,800	2,700
Directors' emoluments:					
- As executive	11,784	8,541	5,109	4,539	6,307
- Fees	2,220	2,749	3,600	3,600	-
And after crediting:					
Gain on disposal of property and equipment	-	-	-	-	12

Notes (continued)

4 Write off of inventory

The inventory write off in 2005 relates to Eldoret Town plot and Shanzu plot impairments while the write off of inventory in the 2004 relates to write-off of undeveloped parcels of land located on Kiambu Road, Upper Hill and Mbagathi Way that were under ownership dispute.

5 Income tax expense

a) Income statement charge

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Current income tax	272,426	216,908	121,759	196,773	54,879
Deferred income tax credit	(15,588)	(3,585)	(10,624)	(42,011)	12,828
	<u>256,838</u>	<u>213,323</u>	<u>111,135</u>	<u>154,762</u>	<u>67,707</u>

b) Reconciliation of tax expense

The tax on the general profit before tax differs from the theoretical amount that would arise using the basic tax rates as follows:

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Profit before tax	762,308	946,656	563,639	709,221	319,371
Tax calculated at statutory income tax rate of 30%	228,692	283,996	169,092	212,766	95,811
Tax effects of:					
Prior year under provision	34,878	-	31,993	(203)	6,016
Net tax effects of non deductible expenses and exempt income	(6,732)	(70,674)	(89,950)	(57,801)	26,704
Income tax expense	<u>256,838</u>	<u>213,323</u>	<u>111,135</u>	<u>154,762</u>	<u>67,707</u>

Notes (continued)

6 Property and equipment

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cost or valuation					
Freehold buildings	-	-	135,748	135,748	135,748
Motor vehicles	18,929	18,929	18,929	18,930	18,929
Computers	72,339	60,229	60,062	57,734	53,973
Furniture and fixtures	37,679	36,357	31,531	29,351	27,045
Equipment	577,055	577,055	575,937	575,337	575,337
	706,002	692,570	822,207	817,100	811,032
Accumulated depreciation					
Freehold buildings	-	-	18,451	15,736	13,021
Motor vehicles	15,114	13,207	17,564	16,199	13,658
Computers	62,591	58,040	56,264	54,508	47,282
Furniture and fixtures	26,932	24,691	22,240	19,525	17,116
Equipment	548,900	508,578	468,256	428,124	387,694
	653,537	604,516	582,775	534,092	478,771
Net book amount					
Freehold buildings	-	-	117,297	120,012	122,727
Motor vehicles	3,815	5,722	1,365	2,731	5,271
Computers	9,748	2,189	3,798	3,226	6,691
Furniture and fixtures	10,747	11,666	9,291	9,826	9,929
Equipment	28,155	68,477	107,681	147,213	187,643
	52,465	88,054	239,432	283,008	332,261

The property and equipment other than fixtures and fittings were revalued in January 2005. The revaluation amounts have been incorporated in these financial statements. The valuation was undertaken by independent professional valuers, Tysons Ltd. The valuation surplus was credited to relevant reserves. The bases of valuation were:

Freehold building	-	Open market value
Equipment	-	Open market value
Others	-	Depreciated replacement cost

Notes (continued)**7 Non-current assets held for sale**

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cost or valuation					
At start of year	340,662	-	-	-	-
Transfer from property and equipment (Note 6)	-	135,748	-	-	-
Transfer from prepaid operating lease rentals (Note 8)	-	15,000	-	-	-
Transfer from inventories	-	170,000	-	-	-
Revaluation surplus	-	19,913	-	-	-
At end of year	340,662	340,661	-	-	-
Depreciation					
At start of year	23,933	-	-	-	-
Transfer from property and equipment	-	21,563	-	-	-
Transfer from prepaid operating lease rentals (Note 8)	-	2,369	-	-	-
At end of year	23,933	23,932	-	-	-
Net book value	316,729	316,729	-	-	-

The above assets are presented as held for sale following the decision of the Corporation to sell them. The properties were professionally valued in January 2005.

8 Prepaid operating lease rentals

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cost					
At start of year	-	15,000	15,000	15,000	15,000
Transfer to non-current assets held for sale (Note 7)	-	(15,000)	-	-	-
At end of year	-	-	15,000	15,000	15,000
Accumulated amortisation					
At start of year	-	2,211	2,053	1,895	1,737
Amortised during the year	-	158	158	158	158
Transfer to non-current assets held for sale (Note 7)	-	(2,369)	-	-	-
At end of year	-	-	2,211	2,053	1,895
Net book value	-	-	12,789	12,947	13,105

Notes (continued)

9 Investment in associate

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	218,795	198,718	154,526	123,766	100,271
Share of profits	34,979	14,838	36,653	26,568	18,881
Share of translation reserve	-	5,239	7,539	4,192	4,366
Share of revaluation reserves	-	-	-	-	248
Net book value	253,774	218,795	198,718	154,526	123,766

The corporation had the following beneficial interest in PTA Reinsurance company;

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 31 December	23%	30%	28%	26%	24%

Financial information of the associate

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Total assets	2,193,734	2,193,734	1,714,527	1,425,545	1,043,429
Liabilities	1,561,153	1,561,153	1,178,551	925,171	554,090
Shareholders' funds	1,215,829	1,044,045	862,676	643,828	484,210
Profit before tax	171,784	83,703	141,355	94,886	62,519

10 Intangible assets

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cost					
At start of year	6,650	6,650	6,650	6,650	-
Additions	5,759	-	-	-	-
At end of year	12,409	6,650	6,650	6,650	6,650
Accumulated amortization					
At start of year	4,987	3,325	1,662	-	-
Amortised during the year	2,383	1,662	1,663	1,662	-
At end of year	7,370	4,987	3,325	1,662	-
Net book value	5,039	1,663	3,325	4,988	-

Notes (continued)

11 Deferred tax

The net deferred tax asset/(liability) is attributable to the following items:

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Deferred tax assets/(liability):					
Accelerated capital allowances	14,112	(5,194)	9,834	9,212	(17,785)
Leave pay provisions	5,288	3,602	4,349	-	-
Exchange differences	4,211	11,757	(8,115)	(13,768)	(28,782)
Defined benefit liability	9,689	9,638	10,151	-	-
Other provision	2,091	-	-	-	-
	35,391	19,803	16,219	(4,556)	(46,567)

12 Government securities - Held to maturity

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Securities maturing:					
Within 91 days	481,196	568,888	297,813	-	-
Between 91 days and 1 year	97,048	7,750	102,199	592,017	391,904
Between 1 and 5 years	1,544,074	1,262,079	1,071,205	904,572	791,962
	2,122,318	1,838,717	1,471,217	1,496,589	1,183,866
Held under lien					
Treasury bonds	701,200	433,575	428,050	428,050	433,000

13 Available for sale – financial assets

(i) Quoted shares

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	1,716,380	1,252,591	1,244,373	524,027	370,857
Fair value gain	404,156	508,139	209,896	856,624	173,809
Additions	179,032	-	20,499	11,993	-
Disposal of shares	(55,447)	(44,351)	(222,177)	(148,271)	(20,639)
At end of year	2,244,121	1,716,379	1,252,591	1,244,373	524,027

All quoted shares are stated at market value

Notes (continued)**(ii) Unquoted shares**

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	39,150	39,150	39,150	39,233	39,692
Impairment	(25,500)	-	-	(83)	(459)
At end of year	13,650	39,150	39,150	39,150	39,233
Total quoted and unquoted shares	2,257,771	1,755,529	1,291,741	1,283,523	563,260

14 Mortgage loans

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Mortgages maturing:					
Within 1 year	91,230	42,227	23,185	100,453	160,633
Between 1 and 5 years	364,918	168,910	169,110	129,782	111,255
After 5 years	159,481	181,564	136,912	90,018	41,529
	615,629	392,701	329,207	320,253	313,447
Comprising of:					
Staff mortgages	200,071	166,105	167,488	160,616	262,644
Commercial mortgages	462,638	266,708	161,719	159,637	50,803
Impairment provision	(47,080)	(40,112)	-	-	-
Net mortgage loans	615,629	392,701	329,207	320,253	313,447

Notes (continued)

15 Investment properties

	2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2002 Shs'000
At start of year	3,270,000	3,682,470	4,205,991	4,205,991	4,205,991
Transfer to inventory	-	(637,500)	(523,521)	-	-
Revaluation surplus	-	225,030	-	-	-
	<u>3,270,000</u>	<u>3,270,000</u>	<u>3,682,470</u>	<u>4,205,991</u>	<u>4,205,991</u>
At end of year	3,270,000	3,270,000	3,682,470	4,205,991	4,205,991

- i) Investment properties comprise office buildings held to earn rentals and capital appreciation and land acquired for development of office property and housing projects. During the years 2004 and 2005, the Corporation transferred properties valued at KShs 523,521,165 and KShs 637,500,000 respectively to inventory in order to appropriately reflect the intended use.
- ii) The valuation of investment properties was last carried out by Tysons Ltd, professional independent valuers as at 31 December 2005. The basis of valuation was open market value. The fair value gains arising from the revaluation were charged to the profit and loss account.

16 Sundry debtors

	2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2002 Shs'000
Rent receivable	17,397	7,922	(481)	10,712	31,533
Staff advances	35,784	33,149	25,935	-	-
Interest receivable on deposits	-	-	-	14,911	2,106
Privatisations costs	-	-	-	120,000	128,618
Other debtors	36,064	11,531	3,258	796	46,233
	<u>89,245</u>	<u>52,602</u>	<u>28,712</u>	<u>146,419</u>	<u>208,490</u>
	89,245	52,602	28,712	146,419	208,490

17 Balances due from cedants and reinsurers

	2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2002 Shs'000
Local companies	574,431	470,991	226,648	293,533	282,615
International companies	890,062	813,538	387,843	260,464	201,462
	<u>1,464,494</u>	<u>1,284,745</u>	<u>614,491</u>	<u>553,997</u>	<u>484,077</u>
Less: provision for impairment	(309,595)	(159,595)	(201,678)	(201,678)	(183,835)
	<u>1,154,898</u>	<u>1,124,784</u>	<u>412,813</u>	<u>352,319</u>	<u>300,242</u>
	1,154,898	1,124,784	412,813	352,319	300,242

Notes (continued)

18 Inventories

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Housing units for sale	192,552	513,730	292,351	446,703	602,783
Land held for sale	291,000	295,000	263,817	-	-
Total inventories at lower of cost and net realizable value	483,552	808,730	556,168	446,703	602,783

19 Share capital

	2006	2005	2004	2003	2002
Authorised share capital:					
Ordinary shares of Kshs 10 each (Shs'000)	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:					
Ordinary shares of Kshs 10 each (Shs'000)	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
	Number of shares ('000)	Number of shares ('000)	Number of shares ('000)	Number of shares ('000)	Number of shares ('000)
Movement in issued share capital					
At start of year	150,000	150,000	100,000	100,000	100,000
Issue of Bonus shares	-	-	50,000	-	-
At end of year	150,000	150,000	150,000	100,000	100,000

20 Revaluation and other reserves

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Revaluation reserves	17,130	17,130	9,500	33,729	62,849
Fair value reserve	1,971,937	1,607,678	1,123,277	1,116,449	-
Capital reserves	10,785	10,785	10,785	10,785	10,785
Contingency reserves	49,621	49,621	49,621	49,621	49,621
Translation reserves	-	-	(5,239)	(12,778)	(16,970)
	2,049,473	1,685,214	1,187,944	1,197,806	106,285

Revaluation reserve relates to property and equipment. The reserve is non-distributable.

Fair value reserve includes the cumulative net change in the fair value of available-for-sale investments.

Contingency reserve is to cater for contingent liabilities that may arise on tax amount not yet agreed on. The amounts in contingency reserve are an appropriation of retained earnings.

Capital reserves is an appropriation of retained earnings and is distributable.

Notes (continued)

21 Proposed dividends

	2006 Shs	2005 Shs	2004 Shs	2003 Shs	2002 Shs
Proposed dividend per share	-	1.00	1.00	1.00	0.50

The proposed dividends are calculated on the number of ordinary shares in issue at the respective balance sheet dates. Payment of the dividends is subject to withholding tax at the rate of 5%.

22 Insurance contract liabilities

	2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2002 Shs'000
Actuarial liability	1,737,259	1,170,688	922,916	853,669	1,083,067
Surplus	385,400	645,382	735,441	680,148	280,049
Total	2,122,659	1,816,070	1,658,357	1,533,817	1,363,116

23 Defined benefit liability

The Company operates a funded defined benefit plan for almost of its employees. The Scheme is open to new entrants. Scheme members' contributions are a fixed percentage of pensionable pay with the Company responsible for the balance of the cost of benefits accruing. The Scheme is established under trust. The Scheme funds are invested by the Company in a variety of asset classes comprising Government securities, property and stocks and shares.

Notes (continued)

23 Defined benefit liability (continued)

The actuarial valuation results at 30 September 2006 and 31 December 2005, respectively, are as follows:

	2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2002 Shs'000
Present value of funded obligations	348,357	276,435	214,334	-	-
Fair value of Scheme assets	(254,730)	(212,913)	(180,498)	-	-
Net under funding in funded plan	93,627	63,523	33,836	-	-
Unrecognised actuarial loss	(61,330)	(31,395)	-	-	-
Net liability in the balance sheet	32,297	32,127	33,836	-	-

The 2004 numbers are as restated in 2005 financial statements comparatives. The prior year adjustment was to recognise the defined benefit liability which had previously not been accounted for as required by IAS 19.

	2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2002 Shs'000
Notes to the income statement					
Current service cost net of employees' contributions	9,112	10,588	-	-	-
Interest on obligation	(23,170)	(24,074)	-	-	-
Expected return on plan assets	(18,144)	(20,635)	-	-	-
Net actuarial losses/gains recognised in the period	348	-	-	-	-
Total included in staff costs in respect of Scheme	(14,486)	(14,027)	-	-	-
Actual return on plan assets	27,791	14,223	-	-	-
Reconciliation					
Net liability at start of period					
- as previously stated	32,128	-	-	-	-
- prior year adjustment	-	33,836	-	-	-
-as restated	32,128	33,836	-	-	-
Net expense recognised in the income statement	14,486	14,027	-	-	-
Employer contributions	(14,317)	(15,735)	-	-	-
Net liability at end of period	32,297	32,128	-	-	-
Actuarial assumptions					
Discount rate (% p.a.)	11.00%	11.00%			
Expected return on Scheme assets (% p.a.)	11.00%	11.00%			
Future salary increases (% p.a.)	9.00%	9.00%			
Future pension increases (% p.a.)	0%	0%			

Notes (continued)

23 Defined benefit liability (continued)

The directors are of the opinion that there are no significant events between the last actuarial valuation at 30 September 2006 and 31 December 2006 that would materially affect the reported position as at 31 December 2006.

No valuation on the defined benefit scheme was carried out during the years 2002 and 2003. Consequently no liability or asset relating to the same was reflected in the financial statements for the two years

The Corporation also makes contributions to a statutory provident fund, the National Social Security Fund (NSSF). Contributions are determined by local statute and are shared between the employer and employee. For the year ended 31 December 2006, the Corporation contributed KShs 18,348,139 (2005 – KShs 14,877,092) to the defined pension scheme and KShs 254,600 (2005 – KShs 231,600) for NSSF which has been charged to the income statement.

24 Sundry creditors

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Investment creditors	92,875	11,324	96,419	63,515	98,471
Accrued leave pay	17,628	12,005	14,495	9,875	9,875
Other creditors and accruals	134,828	177,861	107,004	150,111	169,569
	246,331	201,190	217,918	223,501	277,915

25 Bank overdraft

The Corporation has an overdraft facility with Kenya Commercial Bank of KShs. 17,860,000. The facility is secured by a lien over fixed deposits of KShs. 24 million. The weighted average interest rate during the years is as shown below:

	2006	2005	2004	2003	2002
Weighted average effective interest rate	4.5%	4.5%	4.5%	5%	12.5%

Notes (continued)

26 Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cash and bank balances	45,083	92,244	150,442	39,681	40,346
Treasury bills maturing within 91 days (Note 12)	481,196	519,899	297,813	429,980	354,954
Short term deposits	558,559	397,334	447,852	251,210	157,581
Bank overdraft (Note 25)		-	-	-	(4,074)
	1,084,838	1,009,477	896,107	720,871	548,807

27 Contingent liabilities

The Kenya Revenue Authority has raised assessments for additional tax for 1995 and 1999 to 2001 years of income. The Corporation together with its tax consultants appealed against these assessments to the Local Committee which confirmed the assessments. As a result, the corporation has accrued in the financial statements the principal tax but not the penalties and interest. With the advice of the consultants, the directors of the Corporation are of the view that an application for a waiver of the penalties and interest amounting to Shs 242,536,026 will be granted. On this basis no provision has been made in the financial statements.

28 Related party transactions

The Corporation has various related parties, most of who are by virtue of being shareholders and partly common directorships. The other related parties include directors and staff of the Corporation. The following transactions were carried out with related parties:

a) Transactions with directors

(i) Directors remuneration

	2006	2005	2004	2003	2002
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Executive directors	11,784	8,541	5,109	6,279	4,675
Non executive directors	2,220	2,749	1,860	1,860	1,632
	14,004	11,290	6,969	8,139	6,307

Notes (continued)

28. Related party transactions (continued)

(ii) Loans to staff

	2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2002 Shs'000
Loans to staff	235,852	196,186	193,453	160,616	157,609
Interest income thereon	10,172	9,612	9,230	7,846	8,839

(iii) Loans to directors

	2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2002 Shs'000
Loans to ex directors	34,422	5,845	13,728	7,119	-
Loans to existing directors	13,076	35,775	6,446	18,952	5,421
Interest income thereon	2,428	1,935	1,056	608	271

b) Transaction with related companies

	2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2002 Shs'000
i) Net premium written	13,791	25,277	29,376	8,180	24,266
ii) Claims incurred	29,541	2,526	16,671	1,915	14,247
iii) Outstanding underwriting balances with related parties					
Amounts due from related parties	15,381	1,337	6,973	3,862	3,818
Amounts due to related parties	931	3,801	-	3,506	-

29 Fair values of financial instruments

Financial assets include bank balances and cash, deposits, investments, receivables, payables and certain other assets and liabilities. The fair values of the financial assets and liabilities, with the exception of unquoted investments in shares carried at amortized cost are not materially different from their carrying values.

Notes (continued)

30 Risk management

Reinsurance risk

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

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

Currency risk

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

Interest rate risk

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

Market price risk

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

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

Credit risk

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

Notes (continued)

30 Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its commitments associated with financial liabilities when they fall due. The following table presents management's estimate of the relevant maturity grouping of the company's assets and liabilities.

	1-6 months	7-12 months	Over 1 year	Total
Assets				
Property and equipment	-	-	52,465	52,465
Non current assets held for sale	-	-	316,729	316,729
Investment in associate	-	-	253,774	253,774
Intangible asset	-	-	5,039	5,039
Deferred tax	-	-	35,391	35,391
Government securities	513,545	64,699	1,544,074	2,122,318
Available for sale financial assets	-	-	2,257,771	2,257,771
Mortgages loans	45,543	45,542	524,399	615,484
Investment properties	-	-	3,270,000	3,270,000
Other debtors	-	89,245	-	89,245
Tax recoverable	-	3,850	-	3,850
Due from cedants and reinsurers	633,261	605,355	(55,811)	1,154,898
Inventories	-	192,552	291,000	483,552
Short term deposits	558,559	-	-	558,559
Cash and bank balances	45,083	-	-	45,083
Total assets	1,740,179	973,337	8,550,642	11,264,158
	-	-	-	-
Capital and reserves				
Share capital	-	-	1,500,000	1,500,000
Revaluation and other reserves	-	-	2,049,473	2,049,473
Retained earnings	-	-	2,454,285	2,454,285
Proposed dividends	-	150,000	-	150,000
Liabilities				
Long term insurance contracts	70,584	70,584	1,981,492	2,122,659
Outstanding claims	587,549	587,549	786,026	1,961,124
Unearned premiums	226,297	226,297	-	452,594
Due to cedants and reinsurers	147,698	147,698	-	295,395
Defined benefit liability	-	-	32,297	32,297
Trade and sundry creditors	-	246,331	-	246,331
Total equity and liabilities	1,032,128	1,428,459	8,803,573	11,264,158
Net liquidity gap	708,051	(455,122)	(252,931)	-

Notes (continued)

a. Risk management (continued)

Liquidity risk (continued)

Liquidity requirements are monitored on a weekly basis and management ensures that sufficient funds are available to meet any commitments as they arise. Most contracts with reinsurers and ceding companies normally require quarterly settlements of the balances.

31 Incorporation

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

32 Currency

These financial statements are prepared in Kenya Shillings rounded to the nearest thousand (Shs'000)

ANNEXURE II: ACTUARIAL VALUATION AND EMBEDDED VALUE REPORT

GENERAL REINSURANCE BUSINESS

1. QED Actuaries & Consultants (Pty) Ltd (“QED”) have pleasure in presenting the actuarial portion of the due diligence results of the general insurance fund of Kenya Reinsurance Corporation Limited as at 31 December 2006.
2. The table below shows the appraisal value as at December 2006:

Kshs 000	31-Dec-06
Excess of assets over liabilities	5,956,862
Present value of future profits (PVFP)	524,506
Cost of Capital	-164,017
General Insurance License	75,000
Appraisal Value	6,392,351

3. The excess of assets over liabilities are equal to the difference between the net assets in the balance sheet and the technical reserves as estimated by QED. The derivation of the free reserves is shown in Appendix 6 of the main report. The technical reserves are also discussed in the main report.
4. The PVFP on existing and new business is estimated using a discounted cashflow basis. In brief, this involves discounting the future insurance profits arising out of existing business at the risk discount rate (RDR) over the assumed run-off period of the business. The profits are arrived at by projecting the relevant revenue account items in each future year.
5. The RDR is the expected investment return that shareholders will earn, commensurate with the risks of providing capital to write the business. For the purposes of this exercise we have assumed that the RDR is 20%.
6. The Cost of Capital (CoC) represents the opportunity cost of writing the business and is calculated by taking the difference between the RDR and the expected investment return multiplied by the minimum solvency margin. This process is repeated on an annual basis for the projection period and discounted to the calculation date.
7. The minimum solvency margin is the greater of Kshs 10m or 15% of the net written premium in the last year. The expected investment return was assumed to be 10%.
8. The General Insurance License is the value of the license required to write general insurance and reinsurance business in Kenya. This is essentially the estimated remaining goodwill and structural value of having the license after the discounting period is over. We have kept the number used by Alexander Forbes in their report titled “Report on the Appraisal Valuation of the General Reinsurance Business as at 30 September 2006”. This appears reasonable in conjunction with our 5 year discounting term.

9. The solvency position of Kenya Re as at the valuation date is shown below:

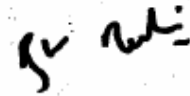
Kshs 000	31-Dec-06
Free Reserves	5,956,862
Minimum Solvency Margin - max of:	355,190
- Kshs 10 m	10,000
- 15% of Net premium income	355,190

10. As per the Kenyan Insurance Act, the minimum solvency margin is defined as the greater of KShs10 million or 15% of the net written premium income in the last year. The solvency margin as at the valuation date is Kshs 355 million.

For QED Actuaries & Consultants (Pty) Ltd



P M RADOMSKY
Consulting Actuary



B W REEKIE
Consulting Actuary

30th May 2007

LIFE REINSURANCE BUSINESS

11. The following is a summary of the results of the actuarial valuation and embedded value of the Life Division of Kenya Reinsurance Corporation Limited as at the current valuation date (31 December 2006). More detailed results, a summary of the data used and a description of the valuation basis are given in the main report and appendices.
12. What follows below is an executive summary that contains the pertinent results of the valuation exercise net of retrocession. More detail on the impact of the retrocession arrangements of Kenya Re is given in the main report and appendices. The reader is encouraged to read the full report (including the appendices) to obtain a better understanding of the results and any items arising from the calculations.
13. The results of this valuation as at 31 December 2006, for Kenya Re, can be summarised as follows:

	31-Dec-06
	Kshs 000
Assets	2,122,659
Actuarial Liabilities	1,407,108
Surplus	715,552
Ordinary Life	7,163
Group Mandatory & Treaty	273,478
Individual Life Treaty	24,674
Supplementary benefits	8,046
AIDS reserves	774,807
Claims Equalisation Reserve	218,936
Contingency Reserve	92,508
Actuarial Liabilities	1,399,611

14. The Embedded Value and Appraisal Value results as at 31 December 2006, for Kenya Re can be summarised as follows:

	31-Dec-06
	Kshs 000
Adjusted Net Worth (ANW)	723,049
Present Value of –Future New Business (PVFNB)	123,443
Cost of Capital (CoC)	-48,447
Embedded Value	790,548
Present Value of the Future New Business (PVFNB)	18,855
Appraisal Value	809,403

15. The quality of the underlying Kenya Re policy data is relatively good considering that the Corporation is a reinsurer(albeit it was not fully complete and needed to be grossed up as outlined in the main areport). Nonetheless, the process of updating reinsurance data for changes to underlying client data is an ongoing one. We thus recommend that the Corporation continues its efforts in this regard.
16. We formally report that the Life division of the Kenya Re was in a sound financial position as at 31 December 2006.

For QED Actuaries & Consultants (Pty) Ltd



R. I. CHAUHAN

Fellow of the Institute of Actuaries

30th May 2007



A. P. ROUX

Fellow of the Institute of Actuaries

ANNEXURE III: LEGAL OPINION



**RACHIER & AMOLLO
ADVOCATES**

Date: 28th June 2007

The Directors
Kenya Reinsurance Corporation Limited
Reinsurance Plaza, Taifa Road,
Post Office Box Number 30271-00100

NAIROBI

Dear Sirs

**PUBLIC OFFERING OF 240,000,000 ORDINARY SHARES OF K.SHS 2.50 EACH IN THE
SHARE CAPITAL OF KENYA REINSURANCE CORPORATION LIMITED**

We have acted as legal advisors to the Government of Kenya (“GoK”) in relation to the offer for sale of 240,000,000 ordinary shares of K.Shs 2.50 each (the “Offer”) in Kenya Reinsurance Corporation Limited (“Kenya Re”).

We, Hamilton Harrison & Mathews and Rachier & Amollo., are Advocates of the High Court of Kenya, practicing and qualified as such to practice in Kenya, and to advise upon the laws of Kenya. Denton Wilde Sapte are an international law firm with their headquarters in the United Kingdom. They have advised on certain non-Kenyan law aspects.

Unless otherwise stated or the context otherwise requires, words and terms defined in the Prospectus (“the Prospectus”) dated 28th June 2007 and issued by GoK in relation to the Offer bear the same meaning in this Opinion.

1. DOCUMENTS

For this Opinion, we have examined originals or copies certified to our satisfaction of the following documents:

the certificate of incorporation of Kenya Re, and its memorandum and articles of association in force as at the date of the Prospectus;

a resolution of Kenya Re in General Meeting dated 11th May 2007 inter alia, approving adoption of new articles of association;

a resolution of Kenya Re in General Meeting dated 31st May 2007 inter alia, approving sub-division of each of the ordinary shares of KShs 10/= in the present capital of the Company (both issued and unissued) into 4 shares of KShs 2.50 each.;

a letter of “No objection” dated 15th January 2007 from the Commissioner of Insurance approving the Offer;

the Prospectus; and

such other records and documents as we have considered necessary and appropriate for the purposes of this Opinion.

2. ASSUMPTIONS

For the purposes of this opinion, we have assumed:

2.1 Accuracy of information supplied

All written information supplied to us by Kenya Re and by its officers and advisors is true, accurate and up to date.

2.2 Authenticity of copies

The authenticity of documents submitted as originals, the conformity with the original documents of all documents submitted as copies and the authenticity of the originals of such latter documents.

2.3 Signatures

The genuineness of all signatures on all documents.

2.4 Due execution by other parties

All agreements and other relevant documents have been duly authorised, executed and delivered by the parties to those documents other than Kenya Re.

2.5 Factual matters

With respect to matters of fact, we have relied on the representations of Kenya Re and its officers and advisors.

3. OPINIONS

In our opinion, based on the information made available to us by Kenya Re and subject to (i) the foregoing; (ii) section 2 of this Opinion; (iii) any matters set out in the Prospectus; (iv) the reservations set out below; and (v) any matters not disclosed to us:

Kenya Re is a public company limited by shares, duly incorporated in Kenya pursuant to the provisions of the Companies Act (Chapter 486 of the Laws of Kenya), with power to execute, deliver and exercise its rights and perform its obligations pursuant to the Offer, and such execution, delivery and performance have been duly authorised by appropriate corporate action;

all rights and obligations of Kenya Re and GoK contemplated by the Offer constitute valid and binding rights and obligations enforceable according to their terms;

the existing share capital of Kenya Re has been authorized and issued in conformity with all applicable laws and has received all necessary authorizations;

the transactions contemplated by the Offer and the performance by GoK and Kenya Re of their respective obligations thereunder will not violate any laws of Kenya;

all authorisations, approvals, consents, licences, exemptions, filings or registrations of or with any governmental or public bodies or authorities of or in Kenya required in connection with the Offer have been obtained in proper form and are in full force and effect;

Kenya Re continues to maintain its statutory books at its registered office; all licenses, authorizations, approvals, consents, exemptions, filings or registrations of or with any governmental or public body or authority in Kenya required in connection with the business of Kenya Re have been duly obtained in proper form and are in full force and effect;

save for the disputes with regard to properties disclosed in the Prospectus at section 7.2.1 (ii), Kenya Re is the beneficial owner of all the immovable property set out in the Prospectus;

save for the contracts disclosed in the Prospectus at section 10.7, Kenya Re has not entered into any material contracts (within the meaning set out in paragraph 14 of the Third Schedule to the Companies Act i.e. contracts not entered into in the ordinary course of business carried on by Kenya Re) and there is no other agreement or arrangement concerning the Offer;

Save for the claims disclosed in section 10.11 of the Prospectus, there is no material litigation or arbitration, prosecution or other civil or criminal legal action in which Kenya Re or its Directors as directors of Kenya Re, are involved or any other material claims against Kenya Re that could result in a dispute to be resolved by arbitration or litigation; and

there are no other material items not mentioned in the Prospectus of which we are aware with regard to the legal status of Kenya Re and the Offer.

4. FURTHER OPINIONS

Based upon and subject as aforesaid, and without prejudice to the generality of the foregoing, we are also of the opinion that:

the Prospectus has been dated in accordance with section 43(4) of the Companies Act;

a copy of the Prospectus, together with the documents required under Section 43 of the Companies Act, have been delivered to the Registrar of Companies at Nairobi for registration in accordance with section 43(1) of the Companies Act, duly signed by every person named in the Prospectus as a director of Kenya Re or by his agent duly authorized in writing, and a statement to such effect appears on the face of the Prospectus in accordance with section 43 (3) of the Companies Act;

this Prospectus contained statements made by Messrs PricewaterhouseCoopers Certified Public Accountants and by ourselves, all of whom are experts for the purposes of Section 42(1) of the Companies Act. In accordance with Section 42(1) of the Companies Act, PricewaterhouseCoopers and we have given, and have not before the delivery of this Prospectus for registration withdrawn, our consent to the issue of the Prospectus with the statements by us included in the form and context in which they are included;

the Offer Shares shall rank *pari passu* in all respects with the existing Ordinary Shares in the issued share capital of Kenya Re, including the right to participate in full in all dividends and/or other distributions declared in respect of such share capital with effect from the financial year of Kenya Re commencing on 1st January 2007;

application has been duly made to, and permission duly granted by, the Capital Markets Authority in respect of the Offer pursuant to the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations 2002 and the First Schedule thereto;

the Commissioner of Insurance as the primary regulator has been notified about the Offer and has issued a "Letter of No objection" to the transaction; and

in addition to the information required to be included by the Companies Act, the Prospectus includes such information as investors would reasonably require and reasonably expect to find therein for the purpose of making an informed assessment of:-

- (a) the assets and liabilities financial position, profits and losses, and prospects of the issuer of the securities; and
- (b) the rights attaching to those securities.

Based on the foregoing, we are of the opinion that the Offer is in conformity with all applicable laws and has received all necessary authorizations.

5. RESERVATIONS

This letter and the opinions given in it are governed by Kenyan law and relate only to Kenyan law as applied by the Kenyan courts as at today's date. We express no opinion in this letter on the laws of any other jurisdiction.

We as the legal advisors confirm that we have given and have not, prior to the date of the Prospectus, withdrawn our written consent to the inclusion of the legal opinion in the form and context in which it appears.

Yours faithfully



HAMILTON, HARRISON & MATHEWS
ADVOCATES



RACHIER & AMOLLO
ADVOCATES

ANNEXURE IV: TERMS AND CONDITIONS OF THE OFFER

THE OFFER

1. In terms of the Offer, the Vendor is offering to sell 240,000,000 Sale Shares to prospective investors.
2. The Nairobi Stock Exchange has given permission for the issued shares of the Corporation to be admitted to the Official List of the Nairobi Stock Exchange. Dealings in Kenya Re Shares on the Official List are expected to commence on 27th August 2007.
3. The application for the Offer Shares will open at 9.00 a.m. on 18th July 2007 and will close at 3.00 p.m. on 31st July 2007.

CDS ACCOUNT

4. Applicants may elect to receive allocated Offer Shares in material form (share certificates) or in electronic form by way of crediting their CDS Accounts with the allocated number of Offer Shares.
5. A CDS Account is mandatory for trading purposes on the Nairobi Stock Exchange. A CDS Account can be opened by any applicant with Authorised Central Depository Agents. These Agents include Members of the Nairobi Stock Exchange and various commercial banks. Only Members of the Nairobi Stock Exchange can directly trade shares for applicants on the Nairobi Stock Exchange.
6. To open a CDS Account, individual Applicants will be required to complete CDS Form No 1 available from the Authorised Central Depository Agent and provide a copy of the National Identity Card or Passport and two passport size photographs. Corporate Applicants will need to provide the Certificate of Incorporation, copies of Directors and /or secretary's National Identity Cards or Passports and two passport size photographs of each and/or Secretary.
7. Applicants who elect to receive allocated Offer Shares in electronic form by way of crediting their CDS Accounts with the allocated number of Offer Shares, the Corporation will authorise the CDSC Limited to credit the CDS Accounts of such Applicants with the applicable number of allocated Offer Shares within three business days following the Announcement Date of the Allocation Results as specified in the Timetable of Principal Events (under the Main Features of the Offer) and in accordance with the instructions set out in the Application Form.
8. Applicants who elect to receive Share certificates in respect of the applicable number of allocated Offer Shares shall be unable to trade on the NSE until such time a CDS Account has been opened in the name of the Applicant pursuant to the immobilisation of the share, and Shares have been credited in the CDS Account.

AUTHORISED SELLING AGENTS

9. The Vendors have appointed specific Authorised Selling Agents to this Offer and these Agents have signed Agency Agreements with the Vendors. This Agreement sets out various terms and conditions that the Agent is required to comply with.
10. The Authorised Selling Agents are either Members of the Nairobi Stock Exchange as licensed by the Capital Markets Authority or commercial banks licensed by the Central Bank of Kenya. The list of the Members of the Nairobi Stock Exchange who have been appointed as Authorised Selling Agents is in Annexure V of this Prospectus. There is only one commercial banks appointed – all branches of Kenya Commercial Bank .

RECEIVING BANK, AGENT & REGISTRAR

11. The Vendors have appointed Kenya Commercial Bank Limited as the Receiving Bank and Agent in respect of the Offer.
12. The Vendors have appointed Kenya Commercial Bank as the application processing agent to this Offer and subsequently the Shares Registrar for the Corporation.

APPLICATION PROCEDURE

13. Copies of the Prospectus, with accompanying Application Form may only be obtained from any of the Authorised Selling Agents.
14. The minimum number of Offer Shares that may be applied for by employees is 2,000 and thereafter in integral multiples of 1000. Wherever possible, multiple applications will be aggregated and allotted as one application.
15. The minimum number of Offer Shares that may be applied for by retail investors(both individuals and corporate) is 2,000 and thereafter in integral multiples of 1,000.
16. The minimum number of Offer Shares that may be applied for by Qualified Institutional Investors and Insurance companies is 100,000 and thereafter in integral multiples of 10,000.
17. Applications once given are irrevocable and may not be withdrawn.
18. By signing an Application Form each Applicant:-
 - i. agrees that having had the opportunity to read this document, it shall be deemed to have had notice of all information and representations concerning the Corporation contained herein;
 - ii. confirms that in making such application it is not relying on any information or representation in relation to the Corporation other than those contained in this document and it accordingly agrees that no person responsible solely or jointly for this document or any part thereof shall have any liability for such other information or representation; and
 - iii. authorises any of the Directors of the Corporation to sign on behalf of the Applicant any Share transfer required to be signed by a transferee in respect of any Offer Shares that shall have been allocated to the Applicant.
19. A Prospective investor wishing to apply for the Offer Shares must duly complete and sign the enclosed Application Form, and return the same in its entirety accompanied by payment by way of a bankers or Authorised Selling Agents cheque (as may be applicable) (an “Authorised Cheque”) so that it is received by the Receiving Bank by the Closing Date. All Application Forms must be accompanied with the payment by way of an Authorised Cheque for the full amount due for the applicable Offer Shares. All Authorised Cheques must be in Kenya Shillings and should be drawn on a licensed bank, a member of the Central Bank of Kenya Clearing House and should be made payable to “Kenya Re-IPO” and be crossed “A/C payee only”.
20. For applicants applying for Kshs 9,999,999 worth of Offer Shares or fewer, payment can only be made via, a valid banker’s draft/cheque drawn on a licensed Kenyan Bank or by a cheque drawn on a licensed Investment Bank or Stockbroker in Kenya payable to Kenya Re IPO , A/C No 234 854 909. For applicants applying for Kshs 10,000,000 worth of Offer Shares or more, payment can only be made via a valid banker’s draft/cheque drawn on a licensed Kenya Bank or by a cheque drawn on a licensed Investment Bank or Stockbroker in Kenya or by electronic funds transfer to the Receiving Bank –Kenya Commercial Bank , Kenya Re IPO , A/C No 234 854 909.
21. For Qualified Institutional Investors applying for 1,000,000 Offer Shares, payment must be secured by an irrevocable on demand bank guarantee or an irrevocable on demand guarantee from a CMA authorised depository (see Annexure VIII for the complete list of CMA Authorised Depositories), in such format as the Vendor may require. Payment for the Offer Shares to be allocated to the Qualified Institutional Investor shall then be made by electronic

funds transfer to the Receiving Bank – Kenya Commercial Bank, Kenya Re IPO ,A/C No] 234 854 909 within 48 hours of the Vendor notifying the Qualified Institutional Investor of its proposed allocation of Offer Shares. If such payment is not made, then the Vendor shall call in the bank or custodian guarantee. Allocation of Offer Shares to Qualified Institutional Investors shall only be made after payment for the shares has been received by the Vendor.

22. The Authorised Selling Agent receiving an Authorised Cheque will issue the Applicant with a receipt in respect of the same.
23. Personal cheques or cash directly payable to the Receiving Bank will not be accepted.
24. The Authorised Selling Agents and the Receiving Bank are entitled to ask for sufficient identification to verify that the person(s) making the application has authority or capacity to duly complete and sign the application form. In default, the Directors may at their sole discretion treat such an application as invalid.
25. Applicants may approach any licensed commercial bank, at their risk, for loan facilities to facilitate participation and payment of the full amount due in respect of the Offer Shares.
26. All bank charges incurred in submitting an Application Form, together with requisite funds, are for the account of the Applicant.
27. The Corporation and the Vendor reserve the right to present all cheques for payment on receipt, to reject any application not in all respects duly completed, and to accept or reject or scale down any other application in whole or in part. Scaling down will apply only if there is an oversubscription.
28. Every Applicant is required to tick the appropriate box on the Application Form as regards his/her residency and or citizenship status where applicable.
29. In the case of employees, the Application Forms together with the accompanying banker's cheque must be delivered to the Company Secretary of Kenya Re.
30. Applicants may elect to receive allocated Offer Shares in material form (share certificates) or in electronic form by way of crediting their CDS Accounts with the allocated number of Offer Shares. In this regard, Applicants are advised to indicate the preferred method of receiving allocated Offer Shares by completing the appropriate box in the enclosed Application Form.
31. Applicants who elect to receive Share certificates in respect of the applicable number of allocated Offer Shares must indicate in the appropriate box in the Application Form whether the share certificates will be posted by registered mail to their own address, or submitted to the Authorised Agent Selling through whom the Application Form was submitted, for collection.
32. Where Applicants elect to receive Share certificates in respect of allocated Offer Shares by way of registered mail to the postal addresses set out in the Application Form, the Corporation will dispatch the Share certificates to such Applicant's postal addresses, at the Applicant's risk within ten (10) business days following the Announcement Date of the Allotment Results in accordance with the instructions set out in the Application Form.
33. By signing an Application Form, an Applicant agrees to an issue and or transfer of such number of Offer Shares (not exceeding the number applied for) as shall be allocated or as the case may be transferred to the Applicant upon the terms and conditions of the Prospectus and subject to the Corporation's Memorandum and Articles of Association, and agrees that the Corporation may enter the Applicant's name in the register of members of the Corporation as holder of such Offer Shares. The number of Sale Shares allotted(if any) to an Applicant will be inserted by the Directors in the Share Transfer to be executed by the Vendor following allocation. Refer to the Allotment Policy below.
34. Applicants have different choices on how the refunds are to be returned. In this regard, Applicants must indicate the preferred method of receiving their refund (if any) by ticking the appropriate box on the Application Form. Those applicants who elect to receive refunds by way of Electronic Funds Transfer will have the refunds directed to their bank accounts provided in the application forms. EFT's may only be credited to accounts held at clearing banks, failing which refunds will be made by cheque and delivered by registered mail.. For refund, EFT is only applicable where applications are for more than 40,000 shares.

35. So long as the Offer Shares are listed on the NSE no stamp, registration or similar duties or taxes will be payable in Kenya in connection with the transfer of the shares in accordance with current legislation.
36. If an applicant is tax exempt, they will be required to provide a certified copy of the Tax Exemption Certificate.

LOAN FACILITIES

37. The extension of loan facilities by any commercial bank is a decision to be made by such a bank at its sole and absolute discretion in addition to the Applicant complying with the terms and conditions of the loan facilities.
38. Where Applicants with CDS Accounts have been extended finance by a bank which insists on taking the Offer Shares as collateral, the following procedure must be followed.
 - (i) The Applicant and or financing bank must complete a CDS form number 5 pledge form and record the pledge details on the Application Form. CDS form number 5 pledge forms shall be directly forwarded to the CDSC by the submitting Authorised Selling Agent, or the Receiving Bank.
 - (ii) Upon completion of any additional documentation prescribed by CDSC Limited, all pledges will be affected through entries in the Central Depository maintained by CDSC Limited. The pledging of such shares will at all times be subject to Rule 63 of the Central Depository Rules, 2004.

RESIDENTIAL STATUS

39. For purposes of the Capital Markets (Foreign Investors) Regulations, 2002 (the ‘regulations’) every Applicant is required to declare on the Application Form, as the case may be, the Applicant’s status as a foreign investor, local individual investor, a local institutional investor, an East African individual investor or East African institutional investor with supporting documentation evidencing such status. The regulations makes the following definitions:
 - i. “Local investor” in relation to an individual, means a natural person who is a citizen of Kenya; and a Company as a body corporate, means a Company incorporated under the Companies Act in which Kenya citizens or the Government of Kenya have beneficial interest in one hundred per centum of its ordinary shares for the time being or any other body corporate established or incorporated in Kenya under the provisions of any written law.
 - ii. “East African investor” in relation to (a) an institution is a corporate person incorporated or registered in the East African Community partner states of Tanzania or Uganda in whom one hundred per centum of the beneficial interest lies with the citizens of Tanzania or Uganda; and (b) an individual means a natural person, who is a citizen of the East African Community partner states of Tanzania or Uganda.
 - iii. “Foreign investor” means any person who is not a local investor in Kenya or an East African investor. Refer to 36 and 37 below.
 - iv. “Institutional investor” means a body corporate including a financial institution, collective investment scheme, fund manager, dealer or other body corporate whose ordinary business includes the management or investment of funds whether as principal or on behalf of clients
40. Pursuant to the Capital Markets (Foreign Investors) Regulations, 2002, every issuer shall reserve at least twenty five per centum of its ordinary shares for investment by local investors provided that where the reserved per centum is not subscribed by local investors the issuer may with the prior authority of the Capital Markets Authority allot the shares so remaining to East Africa investors and foreign investors.

41. The distribution of this Prospectus and the offer for sale of the shares the subject of the Offer for Sale is restricted by law in certain jurisdictions. Persons into whose possession this Prospectus may come are required by the Vendor and the Corporation, to inform them about and to observe such restrictions. This Prospectus may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction or in any circumstances where such offer or solicitation is not authorised or is unlawful.

REJECTIONS POLICY

42. The Authorised Selling Agents will present through the Receiving Bank all Authorised Cheques for payment on receipt on behalf of the Corporation. Delivery of an Application Form accompanied with payment by way of an Authorised Cheque will constitute a warranty that the cheque will be honoured on first presentation. If any Authorised Cheque accompanying an application is not paid on first presentation and the application has already been accepted in whole or part, such acceptance may at the option of the Corporation or the Vendor (as applicable) be rescinded and the Offer Shares comprised therein may be allotted or transferred to another person upon such terms and conditions as the Corporation or the Vendor, as the case may be, deems fit. The entire proceeds of such allotment or transfer shall be retained for the account of the Corporation or the Vendor, as the case may be, and the original Applicant shall be responsible for any losses and all costs incurred.
43. Neither the Corporation nor the Vendor shall be under any liability whatsoever should any Application Form fail to be received by the Receiving Bank or by any Authorised Selling Agent by the Closing Date referred to in paragraph 1 above. In this regard, such Application Forms and accompanying cheques shall be returned to the Authorised Selling Agent or Receiving Bank where the Application Form was submitted, for collection by the applicable Applicants.
44. Applications will be rejected for the following reasons :
- i. Incorrect CDS Account No ;
 - ii. Missing or illegible Name of Primary / Joint / Corporation in any application ;
 - iii. Missing or illegible Identification number, including Corporation registration number ;
 - iv. Missing or illegible Address (either postal or street address) ;
 - v. Missing Residence and Citizenship indicators (for primary applicant in the case of an individual) or Missing Residency for tax purposes for Corporate Investors ;
 - vi. Missing CDS 5 form Number / Financing Bank Details in the case of financed applications ;
 - vii. Insufficient documentation is forwarded including missing tax exemption certificate copies for companies that claim to be tax exempt;
 - viii. Missing or inappropriately signed application form including:
 - a. Primary Signature missing from Signature Box 1 ;
 - b. Joint Signature missing from Signature Box 2 (if applicable) ;
 - c. Two Directors or A Director and Company Secretary has not signed in the case of a Corporate Application ;
 - d. Missing seal in the case of a Corporate Application ;
 - ix. Number of shares does not comply with the rules as set out in Prospectus i.e.:
 - a. Less than 2,000 shares are applied for in the case of employees and retail investors and
 - b. Shares not in multiples of 1000 ;
 - c. Less than 100,000 shares applied for in the case of Qualified Institutional Investors and Insurance companies and
 - d. Shares not multiples of 10,000
 - x. Amount as payment for number of Shares Applied for is less than the correct calculated amount ;
 - xi. Banker's cheque does not have unauthenticated alterations
 - xii. Cheque is not signed, or dated or if amount in figures and words do not tally

45. No interest will be paid on monies received in respect of applications for Offer Shares, nor will interest be paid on any amounts refunded or indeed deposited at the time of application.
46. The Directors will announce the manner in which the Offer Shares have been Allocated among the above three categories (‘the Allocation Results’) on the Announcement Date.
47. Commissions at the specified rate of 1.5% and 1.0% on the Offer Price will be paid to Authorised Selling Agents (set out in Schedule V of this Prospectus) on all allotments made in Application Forms received in respect of the Offer which bears the stamp of the Authorised Selling Agent or Receiving Bank. No commission will be paid on Application Forms which bear more than one stamp.

REFUNDS POLICY

48. Applicants have different choices on how refunds are to be returned : via a refund cheque delivered through the Authorised Selling Agent through whom the application was lodged ,or through registered mail using the address given by the applicant or for those applicants who apply for more than 40,000 offer shares their refund may be directly credited to their bank account through an Electronic Funds Transfer (“EFT”). In this regard, applicants must indicate the preferred method of receiving their refund by ticking the appropriate both on the application form. EFTs may only be credited to accounts held at clearing banks, failing which refunds will be made by cheque and delivered in the mail. In the event that an EFT fails, a refund cheque will be sent in its place and delivered through the Authorized Selling Agent through whom the application was submitted.
49. Applicants who elect to receive their refund directly and have applied for more than 40,000 shares are required to provide bank account details to ensure payment of refunds is effected via EFT only.
50. It is possible for Applicants to request for refund cheques. These refund cheques payable to the Applicant can either be mailed or sent to the Authorised Selling Agent for collection.

ANNEXURE V: RATING

A.M. Best is one of the oldest and most widely recognized rating agencies dedicated to the insurance industry. A.M. Best's ratings, which indicate the financial strength of insurance companies, cover; property/ casualty, life, and reinsurance among others. A. M. Best provides one of the most comprehensive insurance ratings coverage of any rating agency with reports and ratings maintained on nearly 7,500 insurance entities worldwide.

In July 2006, A.M. Best affirmed the financial strength of B+ (Very Good) and the issuer credit rating of "BBB" of Kenya Re. The outlook for both ratings is stable.

In the words of A.M. Best

The rating of Kenya Re reflects the company's solid risk-adjusted capitalisation and very good operating performance. Offsetting factors are Kenya Re's high concentration of investments in real estate and the unsophisticated risk management with regards to the company's probable maximum loss (PML) exposure.

Solid risk-adjusted capitalisation- A.M. Best believes that Kenya Re's risk-adjusted capital position is likely to remain solid over the next two years, with shareholders' equity projected to grow by approximately 5-7% from 2005 to 2007. Nevertheless, Kenya Re remains exposed to risk concentration associated with movements in the Kenyan real estate market as approximately half of its assets are allocated to these investments. Furthermore, in A.M. Best's opinion, the proportion of premium ceded to vulnerable or non-rated re-insurers increases the risk of non-recovery of claims, mainly in the case of catastrophic event.

A.M. Best believes that the privatization of Kenya Re will improve the company's financial flexibility with the potential entrance of new shareholders.

Very good operating performance –in A.M. Best's view, Kenya Re's operating performance is expected to remain very good. In 2005, Kenya Re posted a solid combined ratio of 73.1% as a result of its excellent and declining loss ratio of 32.2% (although the expense ratio remained high at 40.9%). Over the next two years, A.M. Best expects Kenya Re's net investment returns to decline slightly to approximately 4%, due to fluctuations in interest rates in the domestic market.

Kenya Re is planning to seek rating by Standard and Poor's. This will further enhance the Corporation's profile and allow it to attract more business internationally.

ANNEXURE VI: INSURANCE GLOSSARY⁵

The following terms and expressions will have the meanings ascribed to them for the purpose of this Prospectus:

Appraisal Value	<p>The Appraisal Value represents an estimate of the value of a reinsurance company inclusive of any Goodwill attributable to future new business; i.e. the Appraisal value comprises the following:</p> <p>Embedded Value; and Other Future New Business (PVFNB) or “Goodwill” value;</p>
Capitalization or Leverage	<p>Measures the exposure of a Corporation's surplus to various operating and financial practices. A highly leveraged, or poorly capitalized, Corporation can show a high return on surplus, but might be exposed to a high risk of instability;</p>
Cede	<p>When a Corporation reinsures its liability with another, it “cedes” business.</p>
Commission	<p>In reinsurance, the primary insurance Corporation usually pays the re-insurer its proportion of the gross premium it receives on a risk. The re-insurer then allows the Corporation a ceding or direct commission allowance on such gross premium received, large enough to reimburse the Corporation for the commission paid to its agents, plus taxes and its overhead. The amount of such allowance frequently determines profit or loss to the re-insurer.</p>
Coverage	<p>The scope of protection provided under an insurance policy. In property insurance, coverage lists perils insured against, properties covered, locations covered, individuals insured, and the limits of indemnification. In life insurance, living and death benefits are listed.</p>
Dividends	<p>The sum of the loss, expense and policyholder dividend ratios not reflecting investment income or income taxes. This ratio measures the Corporation's overall underwriting profitability, and a combined ratio of less than 100 indicates an underwriting profit.</p>
Earned Premium	<p>(1) That part of the premium applicable to the expired part of the policy period, including the short-rate premium on cancellation, the entire premium on the amount of loss paid under some contracts, and the entire premium on the contract on the expiration of the policy. (2) That portion of the reinsurance premium calculated on a monthly, quarterly or annual basis which is to be retained by the re-insurer should there cession</p>

⁵ Source: A.M Best website, Insurance Act of Kenya 1987

be cancelled. (3) When a premium is paid in advance for a certain time, the Corporation is said to “earn” the premium as the time advances. For example, a policy written for three years and paid for in advance would be one-third “earned” at the end of the first year.

Embedded Value

The Embedded Value of a company is the value of a company based on its existing business and free assets.

Excess of Loss

A form of reinsurance under which recoveries are available when a given loss exceeds the *cedant's retention* defined in the agreement.

Expense Ratio

The percentage of premium used to pay all the costs of acquiring, writing and servicing insurance and reinsurance.

Experience

(1) The loss record of an insured or of a class of coverage. (2) Classified statistics of events connected with insurance, of outgo, or of income, actual or estimated. (3) What figures show to have happened in the past.

Experience may be compiled on different bases to provide various means of appraisal, viz. Accident Year, Calendar Year, or Policy Year, but, for underwriting purposes, should always compare earned premium with incurred losses after the latter have been modified by an allowance for loss development and incurred but not reported losses (I.B.N.R.).

Facultative

Facultative reinsurance means reinsurance of individual risks by offer and acceptance wherein the re-insurer retains the “faculty” to accept or reject each risk offered.

General insurance

These are policies, including automobile and homeowners policies, provide payments depending on the loss from a particular financial event.

Line

A class of business written by an insurer; also refers to the limit of insurance an insurer is willing to underwrite either for a particular risk or class of risks.

Liquidity

Liquidity is the ability of an individual or business to quickly convert assets into cash without incurring a considerable loss. There are two kinds of liquidity: quick and current. Quick liquidity refers to funds--cash, short-term investments, and government bonds--and possessions which can immediately be converted into cash in the case of an emergency. Current liquidity refers to current liquidity plus possessions such as real estate which cannot be immediately liquidated, but eventually can be sold and converted into cash. Quick liquidity is a subset of current liquidity. This reflects the financial stability of a Corporation and thus their rating.

Loss Event	The total losses to the ceding Corporation or to the re-insurer resulting from a single cause such as a windstorm.
Loss Ratio	Proportionate relationship of incurred losses to earned premiums expressed as a percentage.
Mortality	A measure of the rate of death from a disease within a given population.
Ordinary life insurance	A policy of insurance that provides for payment of a specified amount to either his or her estate or to a designated beneficiary upon the insured's death.
Peril	This term refers to the causes of possible loss in the property field - for instance: Fire, Windstorm, Collision, Hail, etc. In the casualty field the term "Hazard" is more frequently used.
Policy Cessions	Ceding or surrendering of insurance policies to a reinsurance company by treaty.
Premium (Written/Unearned/Earned)	Written premium is premium registered on the books of an insurer or re-insurer at the time a policy is issued and paid for. Premium for a future exposure period is said to be unearned premium for an individual policy, written premium minus unearned premium equals earned premium. Earned premium is income for the accounting period, while unearned premium will be income in a future accounting period.
Reinsurance	The practice whereby one party called the Re-insurer in consideration of a premium paid to him agrees to indemnify another party, called the Reinsured, for part or all of the liability assumed by the latter party under a policy or policies of insurance which it has issued. The reinsured may be referred to as the Original or Primary Insurer, or Direct Writing Corporation, or the Ceding Corporation.
Re-insurer	An insurer or re-insurer assuming the risk of another under contract.
Retention	The net amount of risk which the ceding Corporation or the re-insurer keeps for its own account or that of specified others.
Retrocession	A reinsurance of reinsurance. Example: Corporation "B" has accepted reinsurance from Corporation "A", and then obtains for itself, on such business assumed, reinsurance from Corporation "C". This secondary reinsurance is called a Retrocession. The transaction whereby a re-insurer cedes to another re-insurer all or part of the reinsurance it has previously assumed.

Risks	A term used to denote the physical units of property at risk or the object of insurance protection and not Perils or Hazard. Reinsurance by tradition permits each insurance Corporation to frame its own rules for defining units of Risks. The word is also defined as chance of loss or uncertainty of loss.
Run-off	The process of managing a discontinued line of business.
Solvency	Having sufficient assets--capital, surplus, reserves--and being able to satisfy financial requirements--investments, annual reports, examinations--to be eligible to transact insurance business and meet liabilities.
Total Loss	A loss of sufficient size that it can be said no value is left. The complete destruction of the property. The term also is used to mean a loss requiring the maximum amount a policy will pay.
Treaty	A general reinsurance agreement which is obligatory between the ceding Corporation and the re-insurer containing the contractual terms applying to the reinsurance of some class or classes of business, in contrast to a reinsurance agreement covering an individual risk.
Ultimate Net Loss -	This term usually means the total sum which the assured, or any Corporation as his insurer, or both, become obligated to pay either through adjudication or compromise, and usually includes hospital, medical and funeral charges and all sums paid as salaries, wages, compensation, fees, charges and law costs, premiums on attachment or appeal bonds, interest, expenses for doctors, lawyers, nurses, and investigators and other persons, and for litigation, settlement, adjustment and investigation of claims and suits which are paid as a consequence of the insured loss, excluding only the salaries of the assured's or of any underlying insurer's permanent employees.
Underwriting	The process of selecting risks for insurance and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.
Unearned Premium	That portion of the original premium that applies to the unexpired portion of risk. A fire or casualty insurer or re-insurer must carry a reserve against all unearned premiums as a liability in its financial statement, for if the policy should be cancelled, the Corporation would have to pay back the unearned part of the original premium.
Valuation Reserve	A reserve against the contingency that the valuation of assets, particularly investments, might be higher than what can be actually realized or that a liability may turn out to be greater than the valuation placed on it.

ANNEXURE VII: LIST OF AUTHORISED SELLING AGENTS

Licensed Investment Banks	
<p>Dyer & Blair Investment Bank Ltd Nairobi Office 10th Floor, Loita House, Loita Street P O Box 45396 00100 Nairobi Tel: 3240000 Mombasa Office Moi Avenue/Mnazi Mmoja Road P O Box 80456, 080100 Tel: (041) 2319040 /2319041/ 2319042 Shares@dyerandblair.com</p>	<p>Standard Investment Bank Limited 16th Floor, ICEA Building, Kenyatta Avenue PO Box 13714 00800 Nairobi Tel: 220225/227004/240296/252776 17th Floor, Hazina Tower Tel: 213028 info@standardstocks.com</p>
<p>CFC Financial Services Limited Head Office 2nd Floor, CFC Centre, Chiromo Road P O Box 47198 00100, Nairobi Tel: 3638900 Downtown Office 1st Floor, CFC Bank, Kimathi St, Tel: 221452/3 Mombasa Office Ground Floor, TSS Towers, Nkrumah Road Tel: (041) 2228865 Naivasha Office 1st Floor, CFC Heritage house, Moi House Tel: (050) 2020484 Nakuru Office 2nd Floor, Riva Business Centre, Kenyatta Ave. Tel: (051) 2215187 Eldoret Office 1st Floor, National Bank House, Oloo Street Tel: (053) 2060993 Kisumu Office 3rd Floor, Block C, Mega Plaza, Oginga Odinga Road Tel: (057) 2020890 cfcfs@cfcgroup.co.ke, or kenyareipo@cfcgroup.co.ke</p>	<p>Drummond Investment Bank Limited Hughes Building, 2nd Floor, Kenyatta Avenue P.O. Box 45465 - 00100, Nairobi Tel. 318689/318690 Fax. 223061 info@francisdrummond.com</p>
	<p>Suntra Investment Bank Limited 7th & 10th Floor, Nation Centre, Kimathi Street P O Box 74016 00200, Nairobi Tel: 2870000/223329/30 info@suntra.co.ke</p>
	<p>Apex Africa Investment Bank Limited Head Office 4th Floor, Rehani House, Koinange Street P O Box 43676 00100, Nairobi Tel: 242170/ 220517 Mombasa Branch office Office no. 29, 1st Floor, Kadhembhoy Building Nkrumah Road Tel: (041) 2229996/ 2229319 Nakuru Branch Office Tehra Africa Investment Services Hyrax Complex, Office No. 22 Tel: (051) 2213603/ 0724-844849 Kirieni-Murang'a-Nyeri Branch Office 2nd Floor, Murata Sacco Building, Kirieni Tel: (060) 51445 invest@apexafrica.com</p>
<p>Kestrel Capital Investment Bank 5th Floor, ICEA Building, Kenyatta Avenue P O Box 40005 00100, Nairobi Tel: 251758/ 251893/0722205897 info@kestrelcapital.com</p>	<p>African Alliance Securities Kenya Limited Kenya Re Towers, Ground Floor Upper Hill, off Ragati Road P O Box 27639 00100 Nairobi Tel: 2718720/ 2712709/2710978/2735154 info@africanalliance.co.ke</p>

Licensed Stockbrokers	
<p>Ashbu Securities Limited 13th Floor, Finance House Loita Street P O Box 11019 00100, Nairobi Tel: 212989/210178/343629/39 info@ashbu.com</p>	<p>Nyaga Stockbrokers Limited 12th Floor, Nation Centre, Kimathi Street P O Box 41868 Nairobi Tel: 315628/9 315748/227298 Fax: 315630 info@nyagastockbrokersltd.com</p>
<p>Crossfield Securities Limited 5th Floor, IPS Building, Kimathi Street P O Box 341370 00100 Nairobi Tel: 246036/ 242534/35 crossfield@wananchi.com</p>	<p>Ngenye Kariuki and Company Limited 8th & 15th Floors, Corner House, Kimathi St. P O Box 12185 00400 Nairobi Tel: 224333/ 220052/220141 ngenyekari@wananchi.com</p>
<p>Discount Securities Limited International House, Mezzanine & 4th Floors Mama Ngina Street P O Box 42489 00100, Nairobi Tel: 2773000 discount@dsl.co.ke</p>	<p>Reliable Securities Limited 6th Floor, IPS Building, Kimathi Street P O Box 50338 00200, Nairobi Tel: 241350/4179 info@reliablesecurities.co.ke</p>
<p>Faida Securities Limited 1st Floor, Windsor House University Way P O Box 45236 00100 , Nairobi Tel: 243811-13 info@faidastocks.com</p>	<p>Sterling Securities Limited 11th Floor, Finance House, Loita Street P O Box 48080 00100, Nairobi Tel: 213914/ 244077 Fax: 218261 info@sterlingstocks.com</p>
<p>Solid Investment Securities Limited 1ST Floor, Kimathi House, Kimathi Street P O Box 63046 00200, Nairobi Tel: 2016482/3 0724951703 sisl@solidkenya.com</p>	<p>Bob Mathews Stockbrokers Ltd Pan Africa Hse,3rd floor, Kenyatta Ave. P.O. Box 73253 – 00200 Tel 311898/313492/310540 bobmathews@bobmathewstocks.com</p>

COMMERCIAL BANKS
All Branches of Kenya Commercial Bank
Kenya Commercial Bank Limited Head Office, 2 nd Floor Kencom House House, Moi Avenue P O Box 48400- 00100 Nairobi, Kenya Tel: 3270000

The following are the Kenya Commercial Bank branches and their codes

	BRANCH	BRANCH CODE
1.	BOMET	01181
2.	BUNGOMA	01197
3.	CUSTODY SERVICES	01133
4.	CARD CENTRE	01139
5.	CHUKA	01196
6.	CITY CENTRE	01118
7.	C.P.C.	01092
8.	DEBT RECOVERY	01090
9.	EASTLEIGH	01091
10.	ELDAMA-RAVINE	01163
11.	ELDORET	01109
12.	EMBU	01116
13.	FOREX CENTRE	01097
14.	GARISSA	01169
15.	GILGIL	01159
16.	GITHUNGURI	01193
17.	H/OFFICE-DMMU	01094
18.	HOLA	01146
19.	INDUSTRIAL AREA	01113
20.	ITEN	01158
21.	JOGOO ROAD	01137
22.	KABARNET	01152
23.	KAJIADO	01131
24.	KAKAMEGA	01110
25.	KANGEMA	01117
26.	KAPENGURIA	01151
27.	KAPSABET	01166
28.	KARATINA	01120
29.	KERICHO	01106
30.	KERUGOYA	01195
31.	KIAMBU	01119
32.	KIBWEZI	01164
33.	K.I.C.C.	01104
34.	KIKUYU	01129
35.	KILIFI	01174
36.	KILINDINI	01111

37.	KIPANDE	01101
38.	KISII	01191
39.	KISUMU	01105
40.	KITALE	01149
41.	KITENGELA	01162
42.	KITUI	01135
43.	LAMU	01173
44.	LODWAR	01144s
45.	LOITOKITOK	01142
46.	MACHAKOS	01194
47.	MALINDI	01199
48.	MANDERA	01150
49.	MARALAL	01154
50.	MARSABIT	01140
51.	MATUU	01134
52.	MPALE	01183
53.	MERU	01123
54.	MIGORI	01192
55.	MILIMANI	01175
56.	MOI AVENUE	01100
57.	MOYALE	01127
58.	MUKURWEINI	01177
59.	MUMIAS	01124
60.	MURANGA	01115
61.	MVITA	01136
62.	MWINGI	01148
63.	NAIVASHA	01190
64.	NAKURU	01103
65.	NANDI HILLS	01143
66.	NANYUKI	01125
67.	NAROK	01184
68.	NYAHURURU	01122
69.	NYAMIRA	01176
70.	NYERI	01112
71.	ONGATA RONGAI	01161
72.	OTHAYA	01185
73.	PAYROLL	01098
74.	RETAIL BANKING	01099
75.	RIVER ROAD	01114
76.	RUIRU	01147
77.	SARIT CENTRE	01141
78.	SIAYA	01121
79.	SOTIK	01189
80.	T/SQUARE	01102
81.	TALA	01130
82.	THIKA	01108
83.	TOM MBOYA	01107
84.	TOWN CENTRE	01132
85.	U.N. GIGIRI	01145
86.	UKUNDA	01157
87.	U/WAY	01167
88.	V/MARKET	01180
89.	VOI	01186
90.	WAJIR	01153
91.	WEBUYE	01188

92.	WOTE	01095
93.	WUNDANYI	01198
94.	UGANDA ROAD	01168
95.	MTWAPA	01093
96.	H.O. FINANCE	01096
97.	LIMURU	01155
98.	KEHANCHA	01178

The following are CMA Authorized Depositories:

Authorized Depositories	
<p>Barclays Bank of Kenya Limited Barclays Plaza, Loita Street P O Box 30120 - 00100, Nairobi Tel: 332230 Fax: 213915 barclays.kenya@barclays.com</p>	<p>Co-operative Bank of Ken Co-operative House, Haile Selassie Avenue P O Box 48231 Nairobi Tel: 3276000/3276100 Fax: 219831 bankhouse@co-opbank.co.ke</p>
<p>Kenya Commercial Bank 7th Flour, Kencom House, Moi Avenue P O Box 48400-00100 Nairobi Tel: 3270000, 2852000 , 2851000, Fax: 216405</p>	<p>National Bank of Kenya National Bank Building P O Box 72866-00200, Nairobi Tel: 226471/339690 info@nationalbank.co.ke</p>
<p>NIC Bank Limited NIC Bank House, Upper Hill P O Box 44599-00100, Nairobi Tel: 2888000/2718200 Fax: 2888512/05 info@nic-bank.com</p>	<p>Stanbic Bank Limited Stanbic Bank Building P O Box 30550-00100, Nairobi Tel: 241350/4179 Fax: 310601 stanbickenya@stanbic.com</p>
<p>Equity Bank NHIF Building, 14th floor P.O.Box 75104-00200, Nairobi Tel: 020-2736620/17/24 Cell: 0722209591/ 0733602500 Fax: 020-2737276 info@ebsafrica.co.ke</p>	<p>I&M Bank Limited I&M Bank House, 2nd Ngong Ave, P.O. Box 30238 - 00100 Nairobi Tel: 254-020 2711994 - 8, 310105-7 Cell: 0722 202093, 0734 600178 Fax: 254-020 2713757, 2716372 invest@imbank.co.ke</p>
<p>CFC Bank CFC Centre, Chiromo Road, Westlands P.O. Box 72833-00200, Nairobi Tel: +254-02-3638000 Fax: +254-02-3752905-7 enquiries@cfcbank.co.ke</p>	

ANNEXURE VII: LIST OF AUTHORISED SELLING AGENTS

Licensed Investment Banks	
<p>Dyer & Blair Investment Bank Ltd Nairobi Office 10th Floor, Loita House, Loita Street P O Box 45396 00100 Nairobi Tel: 3240000 Mombasa Office Moi Avenue/Mnazi Mmoja Road P O Box 80456, 080100 Tel: (041) 2319040 /2319041/ 2319042 Shares@dyerandblair.com</p>	<p>Standard Investment Bank Limited 16th Floor, ICEA Building, Kenyatta Avenue PO Box 13714 00800 Nairobi Tel: 220225/227004/240296/252776 17th Floor, Hazina Tower Tel: 213028 info@standardstocks.com</p>
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<p>Kestrel Capital Investment Bank 5th Floor, ICEA Building, Kenyatta Avenue P O Box 40005 00100, Nairobi Tel: 251758/ 251893/0722205897 info@kestrelcapital.com</p>	<p>African Alliance Securities Kenya Limited Kenya Re Towers, Ground Floor Upper Hill, off Ragati Road P O Box 27639 00100 Nairobi Tel: 2718720/ 2712709/2710978/2735154 info@africanalliance.co.ke</p>

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Kenya Reinsurance Corporation Ltd.
P.O. Box 30271 00100 Nairobi, Kenya.
15th Floor, Reinsurance Plaza, Taifa Road, Nairobi
Tel : (254 2) 240188
Fax : (254 2) 252106 /223944 /340967/340486/251887
Email : kenyare@kenyare.co.ke
Website : <http://www.kenyare.co.ke>