

PACIS
INSURANCE COMPANY LTD

ANNUAL REPORT

31st December 2005

PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005

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**PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2005

COMPANY INFORMATION

| | |
|-------------------|---|
| DIRECTORS | Mr. James Wangunyu – Chairman Rt Rev Cornelius Arap Korir Rt Rev David K Ng'ang'a Rev Fr Vincent M Wambugu Rev Fr Nicholas A Mwituria Mr George N Njenga Mr George N Sichangi Mrs Angelica W Kamuyu Sr Mary Wacheke Mr Peter C Makhanu |
| SECRETARY | EMU Registrars British American Centre 4 th Floor, new wing P O Box 61120 – 00200 Nairobi |
| LAWYERS | Nyiha, Mukoma and Company Advocates The Old Mutual Building, 3 rd Floor Kimathi Street P O Box 1870, 00200 Nairobi |
| MANAGEMENT | Peter C Makhanu – Chief Executive Officer Christian Ogolla – Underwriting Manager Josephat Muindi – Marketing Manager Zephaniah Weru - Accountant |
| REGISTERED OFFICE | Centenary House, 2 nd Floor Off Ring road, Westlands P O Box 1870 – 00200 Nairobi |
| AUDITORS | Deloitte & Touche “Kirungii”, Ring Road Westlands, P O Box 40092 - 00100 Nairobi |
| BANKERS | Stanbic Bank Kenya Limited Westlands Branch P O Box 30113 - 00100 Nairobi NIC Bank Limited P O Box 44599 – 00100 Nairobi Barclays Bank Kenya Limited P O Box 14403 – 00100 Nairobi |

**PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005**

CHAIRMAN'S REVIEW

I am delighted to present to you our Company's 15 months Report and financial statements as at 31 December 2005.

OVERVIEW

THE ECONOMY

The Economic performance during the year improved markedly from that witnessed in recent years. Growth in real Gross Domestic Product (GDP) improved to 4.3% in 2004 from 2.8% in 2003, and reached 5.8% in the year 2005 a performance not witnessed in the last 10 years. Agriculture and the services sector, particularly telecommunications and tourism, improved in the year 2005 accounting for about 62.6% of the total GDP growth.

Tourism was a star performer registering 13.3% growth in earnings compared to the year 2004. Other sectors which performed well were Transport and Communications, a growth of 8.3%, Building and Construction, 7.2%, Agriculture and Forestry, 6.7%, Wholesale and Retail, 6.4% and Manufacturing registering a growth of 5%.

Improved fiscal discipline kept the Government recourse to the Central Bank for overdraft within the stipulated statutory limit, and the Central Bank implemented a monetary policy framework geared towards containing underlying inflation to the targeted levels.

There were, however, some setbacks due to increased oil prices and drought in most of the year. The drought led to a rise in food prices and this, coupled with higher oil prices, created increased inflationary pressures.

Looking ahead, and despite the impact of the drought and the delay in disbursement of donor funds, economic recovery is expected to remain on track as the Government continues to implement its policies under the Economic Recovery Strategy for Wealth and Employment Creation.

Average overall annual inflation increased from 8.2% in the year ending 2004 to 15.0% during the year 2005. This was above the monetary policy target of 5%.

Interest rates edged up in the year 2005. Other than the commercial banks' average lending rates, all other interest rates increased substantially between 2004 and 2005. The average interest rate on the 91-day Treasury bill increased to 8.5% in 2005 from 2.0% in 2004. Similarly, the average interest rate on the 182-day Treasury bill moved up to 9.0% in 2005 from 3.2% in 2004.

The increase in the average deposit rate resulted in the narrowing of the interest rate spread which declined from 9.97% in 2004 to 8.88% in 2005.

THE INSURANCE INDUSTRY

The insurance industry continues to be dominated by General (short term) insurance which makes up more than 70% of total written premiums. In terms of penetration total insurance premiums were only about 3.1% of GDP in 2005. At 2.3% of GDP general insurance premiums are near optimal penetration levels compared to 2.8% in South Africa which is a more developed market. Penetration of less than 1% of GDP life insurance compares very poorly with nearly 16% in South Africa. There is certainly the growth potential in insurance industry in Kenya.

Destructive competition including price undercutting especially in the Motor and Fire characterized the market before our entry. Recognizing this, the Commissioner of Insurance got involved in efforts to set and enforce minimum rates for large risks. These are bearing fruits and it is hoped that these efforts will be sustained.

Another major feature of the industry in Kenya is the lack of innovativeness. In order to create more demand and growth of insurance services the industry should respond to changing or evolving needs of the customer. At PACIS we recognize this and we shall continue to research and develop new and exciting products. Past trends show that General insurance has grown at least as fast as the economy, it is expected there will be growth in the insurance industry from the trend the economy is taking a growth in GDP. Our company has put in place strategies to take advantage of this opportunity.

COMPANY PERFORMANCE

UNDERWRITING RESULTS

Gross written premiums stood at Shs 12 million for the four months of trading. The biggest challenge that we face in growing volumes remains the pessimism the insurance public treat new entrants into the competitive insurance industry.

Our overall loss ratios stood at 87.8% which is characteristic of a start up company as all management expenses and reinsurance costs are paid out of the share capital as the Company will not have made sufficient revenue to offset some of these expenses.

The net effect of these movements is that our Company made an underwriting loss of She 10.7 million.

This loss can be mitigated by the fact that the Company operated only for four months in the year under review.

INVESTMENTS

Investment income for the year amounted to Shs. 4.4 million. The Company needs to invest the surplus funds to maximise returns on the investments as well as ensuring liquidity to meet its liabilities as and when they arise. In times of a volatile economic and trading environment, it is vital to ensure that the Company's funds are safe and no loss of capital is experienced. The Board has therefore established broad guidelines on the investment criteria to ensure fair returns while at the same time guarding the safety of the funds.

We assure the shareholders that the properties owned by the company will always be kept in proper state of use at all times.

DIVIDENDS

On the basis of these results, the Board does not recommend payment of dividends for year 2005.

OUR PEOPLE

Staff is our greatest asset in the service industry. We will continue to invest in them through a combination of training and empowering them in performing their jobs. On behalf of the Board I would like to sincerely thank our management and staff for their commitment and hard work during the difficult formative stage of our Company.

INTERMEDIARIES

The insurance market is still and will remain an intermediaries' market.

On behalf of the Board I would like to thank all our brokers and agents who have continued to support us and made our entry into the competitive insurance industry smooth. They indeed gave us a safe landing.

FUTURE OUTLOOK

In the near term, the structure of interest rates should remain steady on account of moderate Government domestic borrowing. This is because of improved Government revenue collection due to improved tax administration.

Economic recovery is expected to sustain momentum through the fiscal year 2006, with real GDP growth expected to surpass the 5.8% realized in 2005.

TRIBUTE

Finally, may I take this opportunity to pay tribute to our clients for the confidence demonstrated in our company by choosing to insure with us and make us a proud participant in the insurance industry in Kenya.

I cannot end without thanking my fellow directors for their support and guidance they continue to give Pacis at this formative stage.

In conclusion we thank God that the Company has now taken its rightful place in this competitive industry.

**Mr. James Wangunyu – Chairman
Pacis Insurance Company Limited**

**PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005**

REPORT OF THE DIRECTORS

The directors have pleasure in submitting the company's annual report together with the audited financial statements for the year ended 31 December 2005 which show the state of affairs of the company.

PRINCIPAL ACTIVITIES

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

RESULTS

| | |
|---|----------|
| | Shs'000 |
| Net loss before taxation | (21,038) |
| Taxation | - |
| <hr/> | |
| Loss transferred to accumulated deficit | (21,038) |

DIVIDEND

The directors do not recommend payment of a dividend in respect of the period.

DIRECTORS

The current directors are as listed on page 2.

AUDITORS

Deloitte & Touche were appointed the company's first auditors in December 2004 and having confirmed their willingness continue in office in accordance with section 159(2) of the Companies Act (CAP 486).

BY ORDER OF THE BOARD

Secretary

Nairobi

2006

**PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005**

STATEMENT OF DIRECTORS RESPONSIBILITIES

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

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

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

Rev. Fr. A. Mwituria

Mrs. Angelica W. Kamuyu

EMU Registrars

Nairobi

2006

PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005

REPORT OF INDEPENDENT AUDITORS
TO THE MEMBERS OF PACIS INSURANCE COMPANY LIMITED

We have audited the financial statements on pages 8 to 25 for the period ended 31 December 2005 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors

As described on page 5, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

Basis of opinion

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

Opinion

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

Deloitte & Touche
Certified Public Accountants
Nairobi

2006

PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005

INCOME STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2005

| | Notes | 2005 Shs'000 |
|--|-------|-----------------|
| INCOME | | |
| GROSS WRITTEN PREMIUMS | | 12,215 |
| <hr/> | | |
| GROSS EARNED PREMIUMS | 3 | 2,069 |
| LESS: REINSURANCE PREMIUM CEDED | | (450) |
| <hr/> | | |
| NET EARNED PREMIUMS | | 1,619 |
| INVESTMENT INCOME | 4 | 4,359 |
| COMMISSIONS EARNED | | 363 |
| <hr/> | | |
| NET INCOME | | 6,341 |
| <hr/> | | |
| CLAIMS AND POLICY HOLDER BENEFITS PAYABLE | | 2,178 |
| CLAIMS HANDLING EXPENSES | | 32 |
| LESS: AMOUNTS RECOVERABLE FROM REINSURERS | | (650) |
| <hr/> | | |
| NET CLAIMS PAYABLE | 5 | 1,560 |
| OPERATING AND OTHER EXPENSES | 6 | 23,838 |
| COMMISSIONS PAYABLE | | 1,981 |
| <hr/> | | |
| | | 27,379 |
| <hr/> | | |
| LOSS BEFORE TAX | | (21,038) |
| TAXATION CREDIT | 8 | - |
| <hr/> | | |
| NET LOSS FOR THE PERIOD | | (21,038) |
| <hr/> | | |

PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005

BALANCE SHEET
AS AT 31 DECEMBER 2005

| | Notes | 2005 Shs'000 |
|--|-------|-----------------|
| CAPITALEMPLOYED | | |
| Share capital | 9 | 100,000 |
| Deposits for shares | 10 | 11,110 |
| Accumulated deficit | | (21,038) |
| | | 90,072 |
| REPRESENTED BY: | | |
| Assets | | |
| Equipment | 11 | 6,731 |
| Intangible assets | 12 | 8,246 |
| Investment property | 13 | 33,000 |
| Equity investments at fair value through profit and loss | 14 | 5,159 |
| Receivables arising out of reinsurance arrangements | | 1,386 |
| Receivables arising out of direct insurance arrangements | | 5,409 |
| Reinsurers' share of technical provisions | 15 | 2,344 |
| Other receivables | 16 | 271 |
| Government securities held to maturity | 17 | 32,392 |
| Deposits with financial institutions | 18 | 9,345 |
| Cash and bank balances | | 6,727 |
| Total assets | | 111,010 |
| Liabilities | | |
| Insurance contract liabilities | 19 | 2,210 |
| Provisions for unearned premium and expired risks | 21 | 10,146 |
| Other payables | 23 | 8,582 |
| Total liabilities | | 20,938 |
| Net assets | | 90,072 |

The financial statements on pages 8 to 25 were approved for issue by the board of directors in 2006 and signed on its behalf by:

Rev. Fr. A. Mwituria

Mrs. Angelica W. Kamuyu

EMU Registrars

PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2005

| | Share capital Shs'000 | Retained earnings Shs'000 | Total Shs'000 |
|---|-----------------------------|---------------------------------|------------------|
| Ordinary share capital issued in the period | 100,000 | - | 100,000 |
| Net loss for the period | - | (21,038) | (21,038) |
| <hr/> | | | |
| At 31 December 2005 | 100,000 | (21,038) | 78,962 |
| <hr/> | | | |

PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005

CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2005

| | Notes | 2005 Shs '000 |
|---|-------|------------------|
| OPERATING ACTIVITIES | | |
| Cash used in operations | 26(a) | (9,194) |
| Tax paid | | - |
| Net cash generated from / (used in) operating activities | | (9,194) |
| INVESTING ACTIVITIES | | |
| Intangible assets acquired | | (8,605) |
| Purchase of equipment and furniture | | (7,063) |
| Purchase of quoted shares | | (8,457) |
| Proceeds from disposal of quoted shares | | 3,673 |
| Purchase of investment property | | (33,000) |
| Purchase of government securities | | (51,279) |
| Redemption of government securities | | 18,887 |
| Net cash from/(used in) financing activities | | (85,844) |
| FINANCING ACTIVITIES | | |
| Proceeds from issue of ordinary shares | | 100,000 |
| Funds awaiting for allotment of shares received | | 11,110 |
| Net cash generated from / (used in) financing activities | | 111,110 |
| INCREASE IN CASH AND CASH EQUIVALENTS AND AT 31 DECEMBER | | 16,072 |
| | 26(b) | |

PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2005

1 ACCOUNTING POLICIES

The principal accounting policies are as stated below:

The financial statements are prepared in accordance with International Financial Reporting Standards.

a) Basis of preparation

The financial statements have been presented in the functional currency, Kenya Shillings (Shs), and prepared under the historical cost convention, as modified by the revaluation of certain property and equipment and the carrying of investment property and available-for-sale investments at fair value.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

b) Income recognition

Premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premiums. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the balance sheet date, and is computed using the 365th method.

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

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

c) Claims incurred

Claims incurred comprise claims paid in the period and changes in the provision for outstanding claims. Claims paid represent all payments made during the period, whether arising from events during that or earlier periods. 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 period are closed. Outstanding claims are not discounted.

d) Other investments

The company classifies its investments into the following categories: financial assets at fair value through profit and loss and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluate this at every reporting date. short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES

e) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other

f) Translation of foreign currencies

Transactions in foreign currencies during the period are translated into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from translation are dealt with in the income statement in the period in which they arise.

g) Leases

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

h) Equipment and furniture

Equipment and furniture are stated at cost less depreciation. Depreciation is calculated on the straight line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

| | |
|-----------------------------------|-------|
| Computer equipment | 30% |
| Furniture, fittings and equipment | 12.5% |

i) Investment properties

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

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

j) Intangible assets

Intangible assets comprise the cost of acquired software programmes. It is amortised over the estimated useful life of the software at an annual rates of 25%.

PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES

k) Taxation

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

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

l) Retirement benefit obligations

The company contributes to the statutory defined contribution scheme, the National Social Security Fund (NSSF). The company's obligations under the scheme are determined by local statute and are currently limited to a maximum of Shs 200 per employee.

The company's contributions to the NSSF are charged to the income statement in the period to which they arise.

2. ESTABLISHMENT

This is the company's first set of financial statements covering the fifteen months (15) period since inception to 31 December 2005. Consequently, there are no prior period comparative balances.

3. GROSS EARNED PREMIUMS

The premium income of the company can be analysed between the main classes of business as shown below:

| | 2005 Shs'000 |
|-------|-------------------|
| Fire | 497 |
| Motor | 1,254 |
| Other | 318 |
| | <hr/> 2,069 <hr/> |

PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | 2005 Shs'000 |
|--|-----------------|
| 4 INVESTMENT INCOME | |
| Interest from government securities | 2,919 |
| Bank deposit interest | 604 |
| Rental income from investment properties | 460 |
| Fair value gains on financial assets at fair value through profit and loss | 159 |
| Gains on disposal of quoted shares | 216 |
| Loan interest receivable | 1 |
| | 4,359 |
| 5 NET CLAIMS PAYABLE | |
| Net claims payable by principal class of business | |
| Fire | 41 |
| Motor | 1449 |
| Other | 70 |
| | 1,560 |
| 6 OPERATING AND OTHER EXPENSES | |
| Pre-operation expenses | 11,968 |
| Other expenses | 3,835 |
| Finance costs | 3,635 |
| Staff costs (Note 7) | 2,253 |
| Rent expense | 857 |
| Amortisation | 359 |
| Depreciation | 332 |
| Repairs and maintenance expenditure | 64 |
| Auditors' remuneration | 535 |
| | 23,838 |
| 7 STAFF COSTS | |
| Salaries and wages | 2,247 |
| Social security benefit costs | 6 |
| | 2,253 |

The number of persons employed by the company at the period end was 6.

PACIS INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 TAXATION

(a) Taxation credit

| | |
|------------------------------------|---|
| Current taxation | - |
| Deferred taxation credit (Note 22) | - |
| <hr/> | |
| | - |

(b) Reconciliation of the tax charge to expected

Tax based on accounting loss

| | |
|---|----------|
| Accounting loss before taxation | (21,038) |
| Tax calculated at a tax rate of 30% | (6,311) |
| Less: tax effect of income not subject to tax | (113) |
| Add: tax effect of expenses not deductible | 1,084 |
| Deferred tax asset not recognized (Note 22) | 5,340 |
| <hr/> | |
| Tax credit | - |

9 SHARE CAPITAL

| | |
|---|---------|
| Authorised issued and fully paid: | |
| 1,000,000 ordinary shares of Shs 100 each | 100,000 |
| <hr/> | |

10 FUNDS AWAITING ALLOTMENT OF SHARES

Under a resolution passed by the shareholders during the period, the company resolved to increase the authorised and issued share capital of the company. Consequently, an application has been lodged with the Registrar of Companies to increase the authorised share capital to 1,500,000 ordinary shares of Shs 100 each. At period end the company had received Shs 11,110,000 as advance subscription towards the new shares. Once the Registrar of Companies registers the increase the subscribers will be allotted shares against their subscriptions.

PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 EQUIPMENT AND FURNITURE

| | Computer equipment | Furniture fittings and office equipment | Total |
|----------------------------|-----------------------|---|--------------|
| | Ksh'000 | Kshs'000 | Kshs'000 |
| COST | | | |
| At start of period | - | - | - |
| Additions | 1,574 | 5,489 | 7,063 |
| Disposals | - | - | - |
| At 31 December 2005 | 1,574 | 5,489 | 7,063 |
| DEPRECIATION | | | |
| At start of period | - | - | - |
| Charge for the year | 152 | 180 | 332 |
| Eliminated on disposals | - | - | - |
| At 31 December 2005 | 152 | 180 | 332 |
| NET BOOK VALUE | | | |
| At 31 December 2005 | 1,422 | 5,309 | 6,731 |

PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| 12 INTANGIBLE ASSETS - COMPUTERSOFTWARE | 2005 SHS'000 |
|--|-----------------|
| COST | |
| At start of period | - |
| Additions | 8,605 |
| <hr/> | |
| At 31 December 2005 | 8,605 |
| <hr/> | |
| AMORTISATION | |
| At start of period | - |
| Charge for the period | 359 |
| <hr/> | |
| NET BOOK VALUE | 8,246 |
| <hr/> | |

Intangible assets relate to computer software.

13 INVESTMENT PROPERTY

| | |
|---------------------------|--------|
| At 1 January 2004 | - |
| Additions at fair value | 33,000 |
| Fair value gains/(losses) | - |
| <hr/> | |
| At 31 December 2005 | 33,000 |
| <hr/> | |

14 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

| | |
|-----------------------------|---------|
| Quoted investments | |
| At start of period | - |
| Additions | 8,457 |
| Disposals | (3,457) |
| Fair value gains / (losses) | 159 |
| <hr/> | |
| | 5,159 |
| <hr/> | |

PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005
NOTES TO THE FINANCIAL STATEMENTS (Continued)

2005
Shs'000

15 REINSURERS' SHARE OF INSURANCE LIABILITIES

| | |
|-----------------------|-------|
| Reinsurers' share of: | |
| Unearned premiums | 1,694 |
| Outstanding claims | 650 |
| | 2,344 |

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

16 OTHER RECEIVABLES

| | |
|---------------------|-----|
| Interest receivable | 97 |
| Staff loans | 174 |
| | 271 |

17 GOVERNMENT SECURITIES HELD TO MATURITY

| | |
|------------------------------------|--------|
| Treasury bills and bonds maturing: | |
| Within 1 year | 9,861 |
| Within 2 to 5 years | 22,531 |
| | 32,392 |

The effective interest rate realised on these investments during the period was 12.28%

18 DEPOSIT WITH FINANCIAL INSTITUTION

Deposits with financial institutions have an average effective maturity period of three months. The effective interest rate realised on the deposits during the period was 8.13%.

PACIS INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 INSURANCE CONTRACT LIABILITIES

| | 2005 Shs'000 |
|--|-----------------|
| Claims reported and claims handling expenses | 1,683 |
| Claims incurred but not reported | 527 |
| Total gross insurance liabilities | 2,210 |

Movements in insurance liabilities and reinsurance assets are shown in note 20.

Gross claims reported, claims handling expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2005 are not material.

**20 MOVEMENTS IN INSURANCE LIABILITIES
AND REINSURANCE ASSETS**

| | Gross Shs'000 | Reinsurance Shs'000 | 2005 Net Shs'000 |
|----------------------------|------------------|------------------------|------------------------|
| Notified claims | 1,683 | (650) | 1,033 |
| Incurred But Not Reported | 527 | - | 527 |
| Total at the end of period | 2,210 | (650) | 1,560 |

PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 PROVISION FOR UNEARNED PREMIUMS AND UNEXPIRED RISKS

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

| | Gross Shs'000 | Reinsurance Shs'000 | 2005 Net Shs'000 |
|---|------------------|------------------------|------------------------|
| Increase in the period (net) and at 31 December 2005 | 10,146 | (1,694) | 8,452 |

22 DEFERRED TAXATION

The deferred tax asset comprises:

| | 2005 Shs'000 |
|-----------------------------------|-----------------|
| Accumulated capital allowances | 1,000 |
| Tax losses carried forward | (6,340) |
| Deferred tax asset not recognised | (5,340) |

No provision has been made for potential deferred tax asset due to the uncertainty regarding the company's ability to generate sufficient profits in future to enable it utilise the tax losses. This issue will be reviewed again at the next balance sheet date together with the results for the year to determine the probability of recovering the deferred tax asset.

PACIS INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | |
|--------------------------|-------------|
| 23 OTHER PAYABLES | 2005 |
| | Shs'000 |
| Sundry creditors | 229 |
| Accrued expenses | 8,353 |
| | <hr/> 8,582 |

24 CONTINGENT LIABILITIES

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

25 CAPITAL COMMITMENTS

| | |
|-------------------------------|-------------|
| | 2005 |
| | Shs'000 |
| Authorised but not contracted | <hr/> 1,505 |

PACIS INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of loss before tax to cash generated from operations:

| | 2005 Shs'000 |
|--|-----------------|
| Loss before tax | (21,038) |
| Adjustments for: | |
| Fair value gain on quoted share | (159) |
| Depreciation | 332 |
| Amortisation of intangible assets | 359 |
| Gain on disposal of quoted shares | (216) |
| Loss before working capital changes | (20,722) |
| Technical provisions | 10,012 |
| Receivables arising out of reinsurance arrangements | (1,386) |
| Receivables arising out of direct insurance arrangements | (5,409) |
| Trade and other payables | 8,582 |
| Trade and other receivables | (2,71) |
| Cash used in operations | (9,194) |

(b) Cash and cash equivalents

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

| | |
|--------------------------------------|--------|
| Cash and bank balances | 6,727 |
| Deposits with financial institutions | 9,345 |
| | 16,072 |

PACIS INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 RELATED PARTY TRANSACTIONS

The company is related to several organisations through common directorship. In the normal course of business, insurance policies are sold to related parties at terms and conditions similar to those offered to major clients.

| | 2005 Shs'000 |
|--|-----------------|
| i) Transactions with related parties | |
| Commissions payable to Waumini Insurance Brokers | 1,104,721 |
| Rent payable to Kenya Episcopal Conference | 1,541,520 |
| | <hr/> 2,646,241 |
| ii) Outstanding balances with related parties | |
| Premiums receivable from related parties | 4,528,901 |
| iii) Key management and directors' remuneration | |
| Directors' fees | - |
| Other remuneration | 1,500,000 |
| | <hr/> 1,500,000 |
| iv) Key management compensation | |
| | 458,183 |

28 INCORPORATION

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

28 CURRENCY

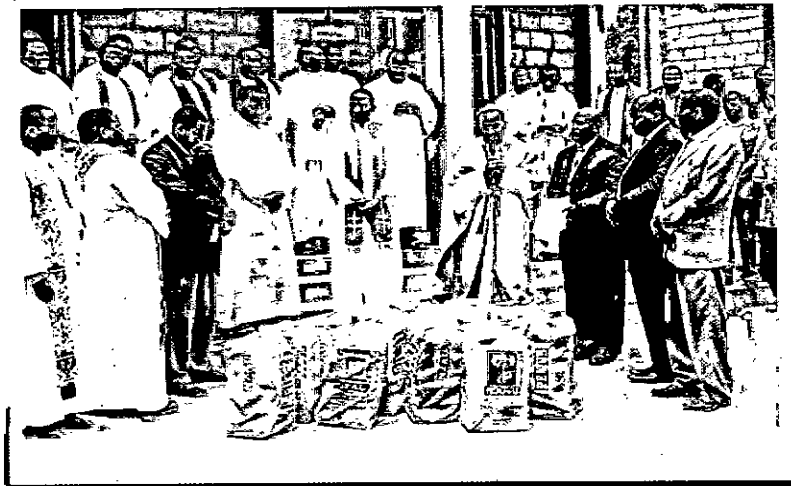
These financial statements are presented in thousands of Kenya shillings thousand (Sh'000).

PACIS INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005

APPENDIX I

GENERAL BUSINESS COMPANY REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

| Class of insurance business | Fire Industrial | Fire Domestic | Personal Accident | Workmen's Compensation | Public Liability | Theft | Professional Indemnity | Motor Private | Motor Cycle | Motor Tractor | Motor Commercial | CIT | All risk | Employees liability | Total |
|-----------------------------|-----------------|---------------|-------------------|------------------------|------------------|---------|------------------------|---------------|-------------|---------------|------------------|---------|----------|---------------------|----------|
| | Shs'000 | Shs'000 | Shs'000 | Shs'000 | Shs'000 | Shs'000 | Shs'000 | Shs'000 | Shs'000 | Shs'000 | Shs'000 | Shs'000 | Shs'000 | Shs'000 | Shs'000 |
| Gross written premium | 1,816 | 259 | 407 | 53 | 37 | 357 | 263 | 4,996 | 285 | 75 | 2,977 | 7 | 17 | 666 | 12,215 |
| Unearned Premiums c/f | (1,376) | (202) | (407) | (44) | (28) | (267) | (210) | (4,371) | (256) | (64) | (2,388) | (7) | (13) | (513) | (10,146) |
| Gross earned premium | 440 | 57 | - | 9 | 9 | 90 | 53 | 625 | 29 | 11 | 589 | - | 4 | 153 | 2,069 |
| Less reinsurance | (384) | (30) | 37 | - | - | (4) | (2) | (30) | (1) | (1) | (28) | - | - | (7) | (450) |
| Net earned premiums | 56 | 27 | 37 | 9 | 9 | 86 | 51 | 595 | 28 | 10 | 561 | - | 4 | 146 | 1,619 |
| Change in gross o/s claims | 18 | 3 | 20 | 3 | 2 | 18 | - | 1,847 | - | 3 | 249 | - | - | 47 | 2,210 |
| Reinsurance recoverable | - | - | - | - | - | - | - | (650) | - | - | - | - | - | - | (650) |
| Total claims incurred | 18 | 3 | 20 | 3 | 2 | 18 | - | 1,197 | - | 3 | 249 | - | - | 47 | 1,560 |
| Premium tax | 27 | 4 | 6 | 1 | 1 | 5 | 4 | 75 | 4 | 1 | 45 | - | - | 10 | 183 |
| Commission payable | 804 | 62 | 81 | 11 | 7 | 36 | 39 | 479 | 28 | 8 | 290 | 1 | 2 | 133 | 1,981 |
| Commissions receivable | (350) | (13) | - | - | - | - | - | - | - | - | - | - | - | - | (363) |
| Operating expenses | 645 | 172 | 224 | 70 | 70 | 237 | 133 | 4,881 | 151 | 58 | 1,895 | 11 | 38 | 393 | 8,976 |
| Total expenses | 1,142 | 228 | 331 | 85 | 80 | 296 | 176 | 6,632 | 183 | 70 | 2,479 | 12 | 40 | 583 | 12,337 |
| Underwriting profit/(loss) | (1,086) | (201) | (204) | (76) | (71) | (210) | (125) | (6,037) | (155) | (60) | (1,918) | (12) | (36) | (437) | (10,718) |



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