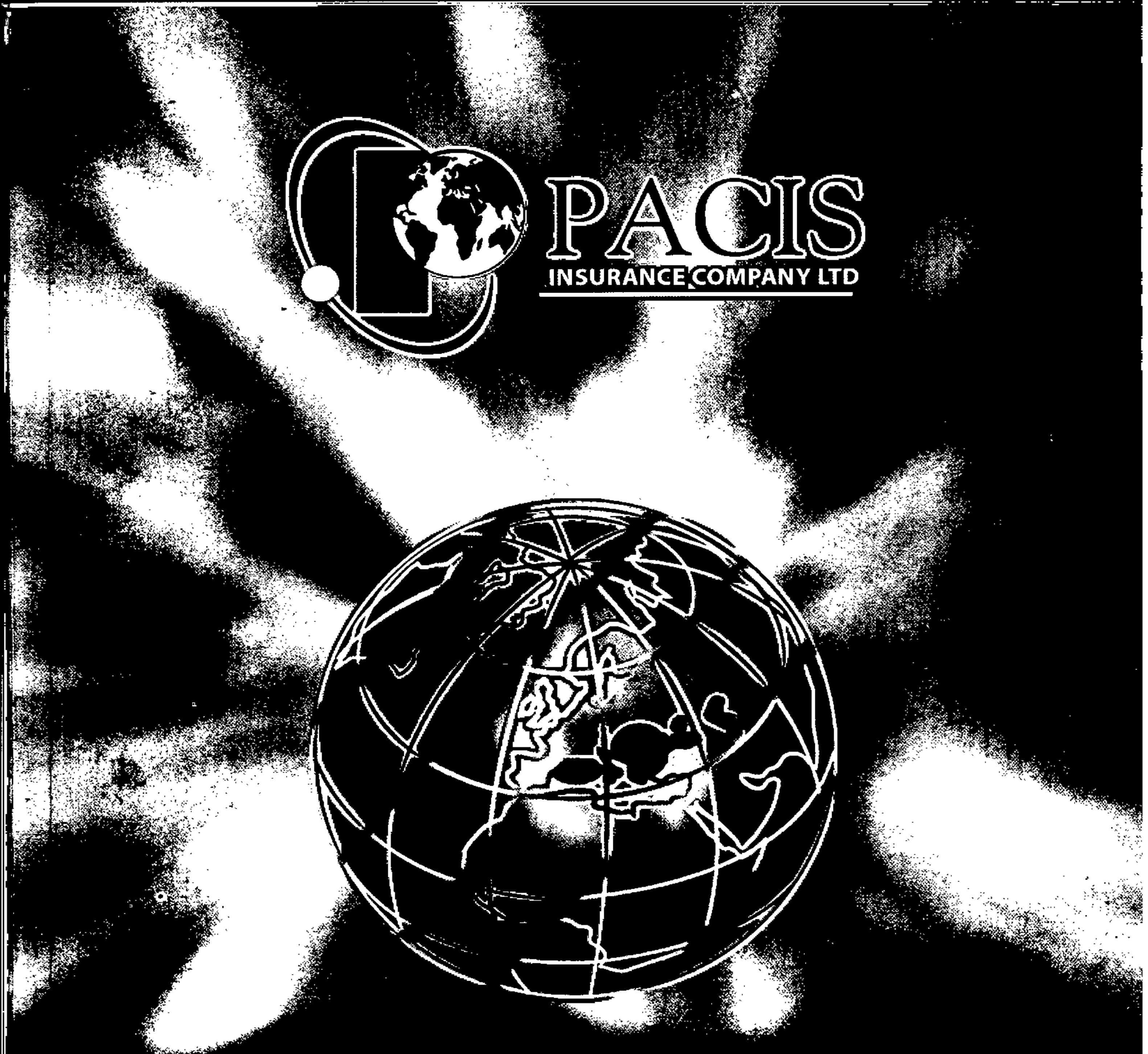


Annual Report & Accounts 2006

OUR VISION

To give comfort and peace in life by providing the finest financial services.

OUR MISSION

To provide on going financial security to our clients by identifying and ethically servicing their insurances and related needs.

This mission requires the Company to maintain a sound professional insurance operation which complies fully with Kenyan legislation, prudently manage the funds entrusted to the Company and provide a fair and honest claims service and excel in all areas of its operation.

OUR VALUES

Our Values are our beliefs on how we should conduct our business:

- We conduct our business dealings with INTEGRITY, openness and transparency.

- We are HONEST
  In risk and claims assesments, the company is often privy to sensitive and confidential information which require honest, ethical management and respect for our clients

- We are FAIR
  The provision of a fair and equitable claims service is the fundamental principle promoted by our company. The overall management of the business ensures fair value for the quality of service provided.

- We are COMMITTED TO SERVE
  The Company is staffed with loyal and committed people who pride themselves on providing the best service. Our staff is empathetic to the ethical values and reflects those values in their working day.

- We are PROFESSIONAL and CONSISTENT in all our underwriting practices, claims handling and settlement procedures

- We CARE for the comfort peace and secure life for our customers, our employees and our environment by supporting activities that minimise the degradation of our natural heritage.

- We offer EQUAL OPPORTUNITY of employment for all qualified persons.

CONTENTS

COMPANY INFORMATION

DIRECTORS

James Wangunyu – Chairman
Peter Makhanu - Managing
Rt Rev Cornelius Arap Korir
Rt Rev David Kamau
Angelica Kamuyu
Vincent Wambugu
Antony Mwituria
George Sichangi
Patrick Devine
George Njenga
Mary Wacheke
Kathie Shea

SECRETARY

EMU Registrars
British American Centre
4th Floor, New Wing
P O Box 61120 – 00200
Nairobi

LAWYERS

Nyiha, Mukoma and Company Advocates
The Old Mutual Building, 3rd Floor
Kimathi Street
P O Box 28491, 00200
Nairobi

MANAGEMENT

Peter Makhanu – Managing Director
Christian Ogolla – Underwriting Manager
Josephat Muindi – Marketing Manager
Zephaniah Weru - Accountant
Frederick Kalangi - Information Technology Administrator

REGISTERED OFFICE

Centenary House, 2nd 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

BOARD OF DIRECTORS

Rt. Rev. Cornelius Arap Korir

James Wangunyu - Chairman

Rt. Rev. David Kamau

George Njenga

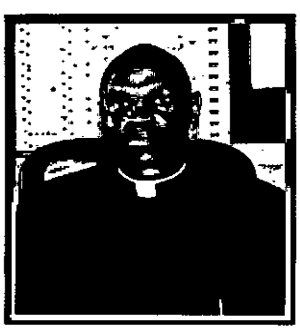
Antony Mwituria

George Sichangi

Kathie Shea

Angelica Kamuyu

Mary Waceke



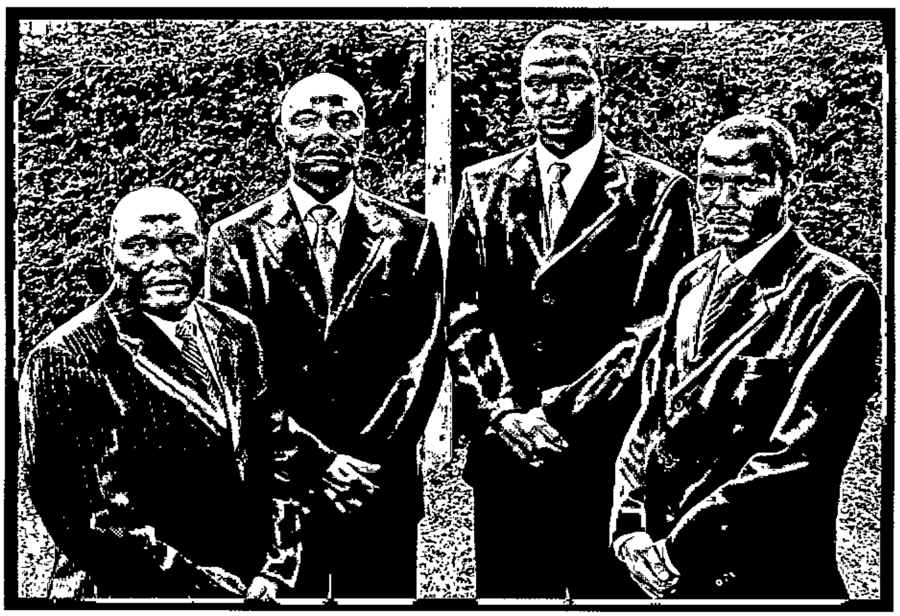
Vincent Wambugu

Patrick Devine

Peter Makhanu - Managing

THE PACIS TEAM

Peter Makhanu



From Left: Josephat Muindi, Frederick Kalangi, Christian Ogolla and Zephaniah Weru

From Left: Jack Kathurima, Daniel Musyimi, Rebecca Ombuki, Jean Mossop, Redemtor Nzilani, Bernadette Kiprono, Brenda Mussoko and Nancy Aketch. *(Not in picture: George Njoroge)*

NOTICE OF THE SECOND ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the second Annual General Meeting of the Members of the Company will be held on Friday 27th July, 2007 at 11.00 a.m. at Intercontinental Hotel, Nairobi to transact the following business: -

AGENDA

1. To read the Notice convening the meeting;

2. To confirm the minutes of the last Annual General Meeting held on 29th June, 2006;

2. To receive the Chairman's statement, reports of the directors and auditors, and audited financial statements for the year ended 31st December, 2006;

4. To make a Dividend statement;

5. To elect directors in accordance with the Company's Articles of Association;

   In accordance with Article 83 of the Company's Articles of Association, George N. Njenga, Vincent Wambugu and Mary Teresa Waceke retire by rotation from the office as Directors of the Company but being eligible, they offer themselves for re-election.

6. To approve the Directors' Remuneration;

7. To appoint the auditors and authorise the directors to fix their remunerations and to note that the auditors, Messrs. Deloitte & Touche Certified Public Accountants (K) having expressed their willingness continue in office in accordance with section 159(2) of the Companies Act Cap. 486;

8. To transact any other ordinary business of the Company whose due notice has been given;

BY ORDER OF THE BOARD

COMPANY SECRETARIES

NB In accordance with section 136(2) of the Companies Act (Cap. Act 486) every member entitled to attend and vote at the above meeting is entitled to appoint a proxy, to attend and vote on his behalf.

A proxy need not be a member. A form of proxy is enclosed and should be completed and returned to the secretary, P.O. Box 61120, Nairobi to arrive not later than 48 hours before the meeting or any adjournment thereof.

Dated this 7th day of May, 2007
PACIS INSURANCE COMPANY LIMITED

CHAIRMAN'S STATEMENT

I am delighted to present to you, the Company's annual Report and Accounts for the year ended 31st December 2006. It is most gratifying to note that due to excellent performance, the Company made some profit. This is remarkable considering that this was our second year since we started operations.

AN OVERVIEW OF THE ECONOMY

Notwithstanding a dry spell experienced in the first few months of the year, the economy still managed a respectable 6% growth. This strong growth was as a result of fundamental reforms in key sectors of the economy and stable macroeconomic environment. The main sectors contributing to the improving growth performance include tourism, energy and telecommunications. The economy's performance is also underpinned by recovery in building and construction, manufacturing and trade.

On account of the drought experienced in the first half of the year which sent food prices skyrocketing and the high oil prices as a result of troubled times in the Middle East, inflation closed at 15.6% compared to 7.6% a year earlier. The good news was that month-on-month underlying inflation (excluding food and energy) remained below 5%.

With the fall of 91 – day Treasury Bill rate from 8.1% at the beginning of the year to 5.8% at the close, interest rates remained stable. The Kenya currency saw mixed performance against major currencies. It strengthened against the US Dollar and the Japanese Yen to close the year at KShs. 69.63 and KShs. 59.47 (KSh 100.00) respectively and depreciated marginally against the Sterling Pound and the Euro to close at KShs. 136.79 and KShs. 92.03 respectively.

The Nairobi Stock Market continued to grow with strong Bull Run towards the year end with NSE index growing by 42%, to stand at 5645.65.

THE POLITICAL ENVIRONMENT

Kenya enjoys considerable participatory democracy and political pluralism. The government has maintained a strong commitment to the rule of law, peace and security and has continued to implement measures to reduce opportunities for corruption, deter corrupt practices and strengthen governance institutions as well as to enforce fully the anti-corruption laws and regulations.

With the general election expected to be held in December 2007, it is our hope that electoral politics will not impact negatively on the insurance business and the economy in general.

COMPANY PERFORMANCE

Underwriting Results

Gross written premiums grew to KShs. 92 million from Kshs. 12 million in 2005. It is important to note that the company traded for only 4 months in year 2005. Relative growth will therefore be 156%. The business retention ratio on the other hand was 91%.

The biggest challenge we face in growing our volumes remains the rate undercutting.

Gross incurred claims stood at KShs. 19 million giving an overall gross loss ratio of 20.7%. Net loss ratio on earned premium on the other hand stood at 29.3%. High operating expenses and reinsurance costs ate into the Company's revenue which remain low. The net effect of these movements is that the Company recorded an underwriting loss of KShs. 3 million, an improvement from last year when the loss stood at KShs. 10 million. Nevertheless, the Company closed the year with a pre-tax profit of KShs. 9.9 million.

Investments

The performance of our investments was good. Investment income increased by KShs. 9 million from last year to reach KShs. 13 million. This was achieved by realizing the gains made at the Nairobi Stock Exchange.

CHAIRMAN'S STATEMENT

The portfolio of cash and money markets investment performed well at the start of the year but returns were low towards the end of the year due to continued depression of the 91 T-bills rates from about 8.1% to close the year at about 5.8%.

Rental income remained the same during the year.

Dividends
The Board does not recommend payment of dividends for year 2006 despite of the positive results as the Company is still at its infant stages and needs these funds to strengthen its financial base.

PEOPLE

Staff

In the service industry, staff is the greatest asset. The prosperity and performance of industry come largely from leveraging the knowledge of employees - people who can improve products and services, offer better customer care or boost operating employees can deliver productivity and achieve competitive advantage to help businesses to thrive. To attract and retain qualified workers and help them to work will continue to be our primary goal. This will be achieved through training and motivating them to attain high performance in their respective jobs.

A strategic approach to managing the value of employees is to continue investing in them through a combination of training and empowering them in the performance of their respective jobs.

Board of Directors

Our company is fortunate to have a strong and able Board of Directors of good public standing and I thank them for their support, wise counsel and service. In addition to their participation in meetings, the directors play key roles charting the vision and marketing of the Company.

I am happy to report that during the year, the Board was further strengthened with the appointment of Rev. Fr. Patrick Devine and Sr. Kathie Shea who have wide experience in administration and financial world respectively. I would like to welcome the two and look forward to their valuable contributions to the Company.

Intermediaries

The insurance industry is and will continue to be an intermediary driven market. Intermediaries play an important role in arranging a cost effective insurance programmes for our clients. They also continue to give our mutual clients valuable insights on risk management.

I would like to thank the intermediaries who work with us for the continued support in this competitive industry.

FUTURE OUTLOOK

With the economic recovery gathering pace, the pace of activity in the insurance industry is expected to increase. This increased activity is evident given the increase in the overall insurance penetration to 2.57% in 2005 from 2.52% in 2004 of GDP. Gross premiums grew by 11% to 36.42 billion in 2005 compared to KShs. 32.78 billion in 2004. Profitability on the other hand increased to KShs. 4.85 billion compared KShs. 2.74 billion for 2004.

The above are indicators of the direction the insurance industry is likely to take in line with the growth of the economy in 2007 and beyond.

The newly created Insurance Regulatory Authority is expected to be operational in the course of the year 2007 and it is hoped that this will go a long way towards refocusing and reinforcing the process of formulating the desired legal reforms as well as giving the industry adequate and proper supervisory attention.

With the above fundamentals in place, it is our hope that 2007 will be a better year for the Company.

ACKNOWLEDGENTS

On behalf of the Board and on my own behalf, may I , extend my appreciation to our clients, intermediaries, reinsurers and business partners for their invaluable support in 2006 and making us proud participants in the insurance industry in Kenya. I would like to assure them of our commitment to continue building on these relationships for mutual benefits.

To my fellow directors, thank you once again for the good shepherding you are giving to our Company.

I also wish to thank the management and staff for their diligence and commitment and appreciate their contribution to the Company performance.

God bless our country, God bless you all.

Thank you.

James Wangunyu
Chairman

CORPORATE GOVERNANCE STATEMENT

Pacis Insurance Company Limited subscribes to a strong set of values, which foster innovation, creativity, individual empowerment and personal accountability. These values form the basis upon which the company is managed and controlled. In keeping with these ethos, and while the Board is responsible for the maintenance of sound corporate values, it believes that implementation is best managed at an operational level. The corporate governance framework ensures that the Board plays a leading role in the strategic guidance of the company and the effective monitoring of management in discharging their accountability and responsibilities to the shareholders and stakeholders through meaningful and effective disclosure and reporting.

Board of Directors

The Board is composed of twelve directors, high calibre individuals with diverse backgrounds and expertise, each of who adds value and brings independent judgment to bear on the Board's deliberations and decision-making process. Eleven of the directors including the Chairman are non-executive.

The duties and responsibilities of the Chairman and those of the Company's Chief Executive Officer are separate with segregated roles and duties.

The Board continually evaluates its requirements as to the appropriate mix of skills and experience required to ensure that its composition remains optimal for the effective discharge of its responsibilities.

Board of Directors duties

The Board has a fiduciary duty to act in good faith, with due diligence and care, and in the best interests of the company and all stakeholders. It is the guardian of the values and ethics of the company. It is accountable to the shareholder body as a whole. The fundamental responsibility of the Board is to improve the economic prosperity of the company. The Board has full and effective control over the Company.

The Board meets quarterly to review key issues such as compliance with statutory and regulatory requirements, guiding and reviewing corporate strategy and major plans of action. In so doing, the Board monitors business plans, key performance indicators, including non-financial criteria, and annual budgets, while overseeing major capital expenditures, acquisitions and disposals and any other matters that it has defined as material. The Board is also responsible for managing successful and productive relationships with stakeholders. The Board meets once every quarter. Strategy is discussed as and when necessary and budgets approved as required. Additional meetings may be convened when major issues arise that need to be resolved between scheduled meetings. To fulfill their responsibilities, directors have full and unrestricted access to relevant information.

Board Committees

To assist the Board in discharging its collective responsibility for corporate governance, several committees have been established, to which certain of the Board's responsibilities have been delegated. The Board determines whether there is a need for committees focusing on specific areas of the company's activities. Board committees currently in place are:

a) Audit and Governance Committee

The Committee meets four times a year or as required. The Chairman of the Audit and Governance committee is an independent non-executive director.

The Committee is responsible for assuring that appropriate policies and procedures are developed to maintain the function, quality and continuity of Board membership, review financial information in particular half year and annual financial statements in light of the external audit report; remuneration for external auditors and Compliance with the corporate legal environment.

b) Finance and Marketing Committee

The Committee meets monthly or as required. The Chairman of the Finance and Marketing committee is an independent non-executive director.

Among its responsibilities is to receive and consider company's annual budget, formulation of the company's investment policy, monitoring overall performance of the Company and monitoring and evaluating the effectiveness of the Sales and Marketing Strategy.

c) Human Resources Committee

The Committee meets semi-annually or as required. The Chairman of the Human Resource committee is an independent non-executive director.

Among its responsibilities is review of the human resources policies, determining the remuneration of senior management and recommending on the remuneration for non-executive directors and monitoring performance of senior management and including the Chief Executive Officer.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report together with the audited financial statements of the company for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

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

RESULTS

	Shs'000
Profits before taxation	9,869
Taxation	-
Profit transferred to accumulated deficit	9,869

DIVIDEND

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

DIRECTORS

The current directors are as listed on page 2. On 6 June 2006, Kathy Shea and Patrick Devine were elected as directors.

AUDITORS

Deloitte & Touche, having confirmed their willingness, continue in office in accordance with section 159(2) of the Companies Act (CAP 486).

BY ORDER OF THE BOARD
EMU Registrars

Company Secretary

Nairobi
19 April, 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the directors to ensure that 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 are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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 in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of 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 the next twelve months from the date of this statement.

James Wangunyu - Chairman
Antony Mwituria - Director
Peter Makhanu - Principal Officer

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

We have audited the financial statements of Pacis Insurance Company of Kenya Limited set out on pages 12 to 29 which comprise the balance sheet as at 31 December 2006, the income statement, statement of changes in equity and cash flow statement for the year then ended, together with the summary of significant accounting policies and other explanatory notes, 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
The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the provisions of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment and include an assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal controls relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

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 2006 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

27 April, 2007

INCOME STATEMENT

FOR THE PERIOD ENDED 31 DECEMBER 2006

	Notes	2006 Shs'000	2005 Shs'000
INCOME			
Gross written premiums		**91,904**	**12,215**
Gross earned premiums	3	59,163	2,069
Less: Reinsurance premiums ceded		(8,647)	(450)
Net earned premiums		50,516	1,619
Investment income	4	13,023	4,359
Commissions earned		2,426	363
Net income		65,965	6,341
Claims payable		19,208	2,178
Claims handling expenses		193	32
Less: Amounts recoverable from reinsurers		(4,382)	(650)
Net claims incurred	5	15,019	1,560
Operating and other expenses	6	30,091	23,838
Commissions payable		10,986	1,981
		56,096	27,379
Profit/(loss) before tax		9,869	(21,038)
Taxation	8	-	-
Profit for the year		**9,869**	**(21,038)**

BALANCE SHEET
31 DECEMBER 2006

	Notes	2006 Shs'000	2005 Shs'000
ASSETS			
Equipment and furniture	9	6,899	6,731
Intangible assets	10	6,095	8,246
Investment property	11	35,000	33,000
Equity investments at fair value through profit and loss	12	11,191	3,400
Receivables arising out of reinsurance arrangements	13	-	1,386
Receivables arising out of direct insurance arrangements	14	28,606	5,409
Reinsurers' share of insurance liabilities	15	13,453	2,344
Other receivables	16	922	271
Government securities held to maturity	17	39,324	32,392
Deposits with financial institutions	18	11,478	9,345
Cash and bank balances		10,503	8,486
Total assets		**163,471**	**111,010**
EQUITY			
Share capital	19	100,000	100,000
Accumulated deficit		(11,169)	(21,038)
Shareholders' funds		88,831	78,962
LIABILITIES			
Funds awaiting allotment of shares	20	17,001	11,110
Insurance contract liabilities	21	19,479	2,210
Provisions for unearned premiums and unexpired risks	23	32,741	10,146
Other payables	25	5,419	8,582
Total liabilities		74,640	20,938
Total Equity and Liabilities		**163,471**	**111,010**

The financial statements on pages 12 to 29 were approved by the board of directors on 19th April 2007and signed on its behalf by:

James Wangunyu - Chairman
Antony Mwituria - Director
Peter Makhanu - Managing Director

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2006

	Share capital Shs'000	Accumulated deficit Shs'000	Total Shs'000
At 1 January 2004	-	-	-
Ordinary share capital issued in the period	100,000	-	100,000
Profits for the period	-	(21,038)	(21,038)
At 31 December 2005	**100,000**	**(21,038)**	**78,962**
At 1 January 2006	100,000	(21,038)	78,962
Profit for the year	-	9,869	9,869
At 31 December 2006	**100,000**	**(11,169)**	**88,831**

CASH FLOW STATEMENT

FOR THE PERIOD ENDED 31 DECEMBER 2006

	Notes	2006 Shs'000	2005 Shs'000
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	28(a)	8,799	(9,194)
INVESTING ACTIVITIES			
Intangible assets acquired		-	(8,605)
Purchase of equipment		(1,716)	(7,063)
Proceeds of disposal of equipment		166	-
Purchase of quoted shares		(23,498)	(6,698)
Proceeds of disposal of quoted shares		21,442	3,673
Purchase of investment property		-	(33,000)
Purchase of government securities		(32,704)	(41,418)
Redemption of government securities		28,888	18,887
Net cash generated from/(used in) financing activities		(7,422)	(74,224)
FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		-	100,000
Funds awaiting for allotment of shares received		5,891	11,110
Net cash generated from financing activities		5,891	111,110
INCREASE IN CASH AND CASH EQUIVALENTS		7,268	27,692
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		27,692	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	28(b)	**34,960**	**27,692**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2006

1 ACCOUNTING POLICIES

Statement of compliance

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

Adoption of new and revised International Financial Reporting Standards

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 7 - Financial Instruments Disclosures
- IFRIC 8 - Scope of IFRS 2
- IFRIC 10 - Interim Financial Reporting and Impairment

The adoption of these standards and interpretations, when effective, should have no material impact on the financial statements of the company.

Basis of preparation

The financial statements are prepared under the historical cost convention, as modified by restatement of investment property and available-for-sale investments to fair value. The principal accounting policies adopted remain unchanged from the previous period and are set out below.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES

Claims incurred

Claims incurred comprise of claims paid and related expenses 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 additional provisions for claims incurred but not reported ("IBNR") at the balance sheet date based on the company's experience but subject to the minimum percentages set by the Commissioner of Insurance. Outstanding claims are not discounted.

Other investments

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES

Cash and cash equivalents

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

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.

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.

Equipment

Equipment 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%

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.

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 rate of 25%.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES

Taxation

Income tax expense represents the sum of the current tax payable and the deferred taxation.

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred 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. Currently enacted tax rates are used to determine deferred taxation.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised.

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 per month.

The company's contributions to the NSSF and the pension scheme are charged to the income statement in the year in which they arise.

Impairment

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

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas of judgment in applying the entity's accounting policies are dealt with below:

The ultimate liability arising from claims made under insurance contracts

The main assumption underlying these techniques is that a company's past claims development experience be used to project future claims development and hence ultimate claims costs. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

Held -to-maturity investments

The Company follows the guidance of INTERNATIONAL ACCOUNTING STANDARD (IAS) 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale financial assets. The investments would therefore be measured at fair value not amortised cost.

Impairment losses

Determining whether assets are impaired requires an estimation of the value of the assets.

Equipment

Critical estimates are made by the directors in determining useful lives of property and equipment.

3 GROSS EARNED PREMIUMS

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

	2006 Shs'000	2005 Shs'000
Fire	7,894	497
Motor	43,005	1,254
Other	8,264	318
	59,163	**2,069**

4 INVESTMENT INCOME

	2006 Shs'000	2005 Shs'000
Interest from government securities	1,355	2,919
Bank deposit interest	2,722	604
Rental income from investment property	1,188	460
Fair value gains on investment property	2,000	159
Fair value gains on financial assets at fair value through profit or loss	1,895	-
Gain on disposal of quoted shares	3,840	216
Loan interest receivable	21	1
Gain on disposal of equipment and furniture	2	-
	13,023	**4,359**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2006 Shs'000	2005 Shs'000
5 NET CLAIMS PAYABLE		
Net claims payable by principal class of business;		
Fire	682	41
Motor	12,947	1,449
Other	1,390	70
	15,019	**1,560**
6 OPERATING AND OTHER EXPENSES		
Staff costs (Note 7)	8,700	2,253
Other expenses	7,642	3,176
Finance cost	3,094	3,635
Rent expense	2,151	857
Amortisation of computer software	2,151	359
Stationery	1,888	652
Marketing	1,752	-
Depreciation	1,384	332
Auditors' remuneration	690	535
Stamp duty	500	7
Repairs and maintenance expenditure	139	64
Pre-operation expenses	-	11,968
	30,091	**23,838**
7 STAFF COSTS		
Salaries and wages	8,020	2,247
Social security benefit costs	680	6
	8,700	**2,253**

The number of persons employed by the company at the period end was 9.

8 TAXATION

(a) Taxation credit

	2006 Shs'000	2005 Shs'000
Current taxation	-	-
Deferred taxation credit (Note 24)	-	-
	-	-

(b) Reconciliation of the tax charge to expected tax based on accounting loss

	2006 Shs'000	2005 Shs'000
Accounting profit before taxation	**9,869**	**(21,038)**
Tax calculated at a tax rate of 30%	2,961	(6,311)
Less: tax effect of income not subject to tax	(1168)	(113)
Add: tax effect of expenses not deductible	1,250	1,084
Deferred tax asset not recognised (Note 24)	(3,043)	5,340
Tax credit	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 EQUIPMENT AND FURNITURE

	Computer equipment Shs'000	Furniture fittings and office equipment Shs'000	Total Shs'000
COST			
At 1 January 2005	-	-	-
Additions	1,574	5,489	7,063
At 31 December 2005	1,574	5,489	7,063
At 1 January 2006	1,574	5,489	7,063
Additions	1,229	487	1,716
Disposals	(202)	-	(202)
At 31 December 2006	2,601	5,976	8,577
DEPRECIATION			
At 1 January 2005	-	-	-
Charge for the year	152	180	332
At 31 December 2005	152	180	332
At 1 January 2006	152	180	332
Charge for the year	640	744	1,384
Eliminated on disposals	(38)	-	(38)
At 31 December 2006	754	924	1,678
NET BOOK VALUE			
At 31 December 2006	**1,847**	**5,052**	**6,899**
At 31 December 2005	**1,422**	**5,309**	**6,731**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	2006 Shs'000	2005 Shs'000
COST		
At 1 January	8,605	-
Additions for the year	-	8,605
	8,605	8,605
AMORTISATION		
At 1 January	359	-
Charge for the year	2,151	359
	2,510	359
NET BOOK VALUE		
At 31 December	**6,095**	**8,246**

11 INVESTMENT PROPERTY

	2006 Shs'000	2005 Shs'000
At 1 January	33,000	-
Additions	-	33,000
Fair value gains	2,000	-
	35,000	**33,000**

The investment property was revalued by Citi Villas Limited, registered valuers as at 30 November 2006. The gain on revaluation has been dealt with in the income statement.

12 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006 Shs'000	2005 Shs'000
Quoted investments		
At beginning of the year	3,400	-
Additions	23,498	6,698
Disposals	(17,602)	(3,457)
Fair value gains	1,895	159
At the end of the year	**11,191**	**3,400**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

	Number of shares at 1.1.06	Additions in the year	Disposals in the year	Number of shares at 31.12.06	Prices per share 31.12.06	Market value at 31.12.06 Shs'000	Market value at 31.12.05 Shs'000
Barclays Bank of Kenya Ltd	2,500	14,166	-	16,666	77	1,283	652
East African Cables Ltd	2,500	31,500	(9,000)	25,000	48	1,200	338
Kenya Commercial Bank Ltd	5,000	7,500	(7,500)	5,000	241	1,205	565
Kenya Power & Lighting Co. Ltd	5,000	10,000	(10,000)	5,000	270	1,350	675
Kenya Airways Ltd	10,000	10,000	(10,000)	10,000	119	1,190	760
Mumias Sugar Company Ltd	10,000	95,000	(80,000)	25,000	54	1,350	250
Unga Group Ltd	10,000	-	(10,000)	-	-	-	160
Total Kenya Ltd	-	80,000	(80,000)	-	-	-	-
East African Breweries Ltd	-	7,500	(2,500)	5,000	139	695	-
Nation Media Group Ltd	-	5,000	-	5,000	313	1,565	-
ICDC Investment Ltd	-	2,500	-	2,500	325	813	-
Kenya Oil Ltd	-	5,000	-	5,000	108	540	-
Kengen Ltd	-	307,500	(307,500)	-	-	-	-
Total						**11,191**	**3,400**

Included in additions are

(a) The company got 10,000 shares in Barclays Bank of Kenya Limited after a split of 1 to 10. They in addition got 4,166 shares after a bonus of one for every three held was declared.

(b) The company got 9,000 shares in East African Cables Limited after a split of 1 for 10.

13 RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS.

This relates to the minimum deposit premium that is not recoverable and has been written off in the year.

14 RECEIVABLES ARISING OUT OF DIRECT INSURANCE ARRANGEMENTS

	2006 Shs'000	2005 Shs'000
Premium receivable	28,606	5,409

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 REINSURERS' SHARE OF INSURANCE LIABILITIES

	2006 Shs'000	2005 Shs'000
Reinsurers' share of:		
Unearned premiums	4,396	1,694
Outstanding claims	9,057	650
	13,453	**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

	2006 Shs'000	2005 Shs'000
Interest receivable	596	97
Staff loans	326	174
	922	**271**

17 GOVERNMENT SECURITIES HELD TO MATURITY

	2006 Shs'000	2005 Shs'000
Treasury bills and bonds maturing:		
Within 1 year	29,615	9,861
Within 2 to 5 years	9,709	22,531
	39,324	**32,392**

The effective interest rate realised on these investments during the period was 12.28%.
Included in government securities are deposits with Central Bank of Kenya amounting to Sh 9.7 million (2005 – Sh 5 million) which are under lien.

At year end the company held Treasury bills worth Sh 12.979 million (2005 – Sh 9.861 million) which have been classified as cash and cash equivalents under note 28(b).

18 DEPOSITS WITH FINANCIAL INSTITUTIONS

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%.

19 SHARE CAPITAL

	2006 Shs'000	2005 Shs'000
Authorised issued and fully paid:		
1,000,000 ordinary shares of Shs 100 each	**100,000**	**100,000**

20 FUNDS AWAITING ALLOTMENT OF SHARES

At the company's first annual general meeting held in 2006, shareholders resolved to increase the authorised and issued share capital of the company. Consequently, an application was lodged with the Registrar of Companies to increase the authorised share capital to 1,500,000 ordinary shares of Shs 100 each: At year end the company had received Shs.17,001,000 (2005 – Shs 11,110,000) as advance subscription towards the new shares. The increase has since been approved by the registrar and new shares allotted in 2007

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 INSURANCE CONTRACT LIABILITIES

	2006 Shs'000	2005 Shs'000
Claims reported and claims handling expenses	15,589	1,683
Claims incurred but not reported	3,890	527
Total gross insurance liabilities	**19,479**	**2,210**

Movements in insurance liabilities and reinsurance assets are shown in note 22.

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 2006 were insignificant.

22 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

	Gross Shs'000	Reinsurance Shs'000	2006 Net Shs'000
Notified claims	17,621	(4,382)	13,239
Incurred But Not Reported	3,890	-	3,890
Total at the end of period	**21,511**	**(4,382)**	**17,129**

23 PROVISION FOR UNEARNED PREMIUMS AND UNEXPIRED RISKS

The movements in unearned premium reserve (UPR) is shown below:

Unearned premium provision

	2006			2005		
	Gross Shs'000	Reinsurance Shs'000	Net Shs'000	Gross Shs'000	Reinsurance Shs'000	Net Shs'000
At 1 January	10,146	(1,694)	8,452	-	-	-
Increase/(decrease) in the period (net)	22,595	(2,702)	19,893	10,146	(1,694)	8,452
At 31 December	**32,741**	**(4,396)**	**28,345**	**10,146**	**(1,694)**	**8,452**

24 DEFERRED TAXATION

The deferred tax asset comprises:

	2006 Shs'000	2005 Shs'000
Accelerated capital allowances	(333)	(1,000)
Tax losses carried forward	2,630	6,340
Deferred tax asset not recognised	**2,297**	**5,340**
The movement on the deferred tax account would have been as follows:		
At 1 January	5,340	-
Income statement (charge)/credit – note 5(a)	(3,043)	5,340
At 31 December	**2,297**	**5,340**

No provision has been made for potential deferred tax asset due to the uncertainty regarding the company's ability to generate sufficient taxable profits in the foreseeable future to enable it utilise the tax losses.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2006 Shs'000	2005 Shs'000
25 OTHER PAYABLES		
Sundry creditors	5,172	229
Accrued expenses	247	8,353
	5,419	**8,582**

26 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.

	2006 Shs'000	2005 Shs'000
27 CAPITAL COMMITMENTS		
Authorised but not contracted	**1,044**	**1,505**

28 CASH GENERATED FROM OPERATIONS

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

	2006 Shs'000	2005 Shs'000
Profit/(loss) before tax	9,869	(21,038)
Adjustments for:		
Fair value gain on financial assets at fair value through profit or loss	(1,895)	(159)
Fair value gain on investment property	(2,000)	-
Depreciation	1,384	332
Amortisation of intangible assets	2,151	359
Gain on disposal of quoted shares	(3,840)	(216)
Profit/(loss) before working capital changes	5,669	(20,722)
Increase in technical provisions	28,755	10,012
Decrease/(increase) in receivables arising out of reinsurance arrangements	1,386	(1,386)
Increase in receivables arising out of direct insurance arrangements	(23,197)	(5,409)
(Decrease)/increase in other payables	(3,163)	8,582
Increase in other receivables	(651)	(271)
Cash generated from/(used in) operations	**8,799**	**(9,194)**

(b) Cash and cash equivalents

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

	2006 Shs'000	2005 Shs'000
Cash and bank balances	10,503	8,486
Deposits with financial institutions	11,478	9,345
Government securities maturing within three months	12,979	9,861
	34,960	**27,692**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 RELATED PARTIES

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

	2006 Shs'000	2005 Shs'000
i) Transactions with related parties		
Rent payable to Kenya Episcopal Conference	2,151	1,541
	2,151	**1,541**
ii) Key management and directors' remuneration		
Directors' fees	-	-
Other Key management compensation	5,956	458
iii) Key management compensation	**5,956**	**458**

30 INCORPORATION

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

31 CURRENCY

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

APPENDIX I

GENERAL BUSINESS COMPANY REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

Class of insurance business	Contractors All risk Shs'000	Fire Domestic Shs'000	Fire Industrial Shs'000	Liabilities Shs'000	Marine Shs'000	Motor Private Shs'000	Motor Commercial Shs'000	Personal Accident Shs'000	Theft Shs'000	WCA Shs'000	Miscell -aneous Shs'000	2006 Total Shs'000	2005 Total Shs'000
Gross written premium	1,273	2,307	8,782	1,571	530	34,527	30,784	4,665	3,631	3,344	4919	1,905	12,215
Unearned Premiums c/f	(250)	(963)	(3,255)	(612)	(412)	(12,660)	(9,646)	(2,030)	(1,597)	(1,242)	(74)	(32,741)	(10,146)
Gross earned premiums	**1,023**	**1,344**	**5,527**	**959**	**118**	**21,867**	**21,138**	**2,635**	**2,033**	**2,102**	**417**	**59,163**	**2,069**
Less reinsurances payable	(832)	(730)	(4,184)	(46)	(65)	(1,042)	(1,004)	(162)	(108)	(100)	(374)	(8,647)	(450)
Net earned premiums	**191**	**614**	**1,343**	**913**	**53**	**20,825**	**20,134**	**2,473**	**1,925**	**2,002**	**43**	**50,516**	**1,619**
Change in gross outstanding claims	3,000	744	880	-	-	8,103	5,285	100	1,289	-	-	19,401	2,210
Reinsurance recoverable	(2,865)	(332)	(745)	-	-	-	(440)	-	-	-	-	(4,382)	(650)
Total claims incurred	135	412	135	-	-	8,103	4,845	100	1,289	-	-	15,019	1,560
Premium tax	19	35	132	24	8	518	462	70	54	50	7	1,379	183
Commission payable	245	419	2,173	249	67	2,969	2,914	891	379	632	48	10,986	1,981
Commissions receivable	(182)	(269)	(1,967)	-	-	-	-	-	(8)	-	-	(2,426)	(363)
Operating expenses	699	738	1,686	475	88	12,444	9,185	1,129	1,698	1,008	842	9,234	8,976
Total expenses of management	**916**	**1,223**	**2,159**	**747**	**162**	**24,033**	**17,406**	**2,190**	**3,413**	**1,690**	**140**	**54,192**	**12,337**
Underwriting Profit/(loss)	**(725)**	**(609)**	**(816)**	**166**	**(109)**	**(3,208)**	**2,728**	**283**	**(1,488)**	**312**	**(97)**	**(3,676)**	**(10,718)**

PROXY FORM

TO: The Secretaries,
P.O. Box 61120
NAIROBI

I/We ....

of ....

being a member/members of ....

hereby appoint ....

of ....

or failing him ....

of ....

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 27th July, 2007

....

And at any adjournment thereof.

Signed/Sealed this .... Day of ...., 2007

....

....

NOTE: The proxy form should be completed and returned not later than 48 hours before the meeting or any adjournment thereof.