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MAYFAIR INSURANCE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2011

MAYFAIR INSURANCE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Contents

MAYFAIR INSURANCE COMPANY LIMITED

CORPORATE INFORMATION

DIRECTORS	Joe W Okwach	- Chairman
	Tushar Shah	- Managing Director
	Ambrose D Rachier	
	Bharat V Shah	
	Edward K Muriu	
	Hanif Somji	
	Vishal Patel	
MANAGEMENT	S K Singh	- General Manager
	Paul Gatei	- Manager - Underwriting & Claims
	James Ndegwa	- Manager - Reinsurance
	Sapna Shah	- Manager - Finance

SECRETARY

Pauline Munyua
Certified Company Secretary (Kenya)
P O Box 45761 - 00100
Nairobi

REGISTERED OFFICE

8th Floor, Mayfair Centre
Ralph Bunche Road
P O Box 45161 – 00100 GPO
Nairobi

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P O Box 40092 - 00100
Nairobi

ADVOCATES

Ndungu Njoroge & Kwach Advocates
International House
Mama Ngina Street
P O Box 30012 - 00100
Nairobi

BANKERS

CFC Stanbic Bank Limited
Kenyatta Avenue
P O Box 72833 - 00200
Nairobi

Kenya Commercial Bank Limited
Kipande House
P O Box 30012 - 00100
Nairobi

MAYFAIR INSURANCE COMPANY LIMITED

CHAIRMAN'S STATEMENT

It is my pleasure to present to you the Annual Report and Financial Statements for Mayfair Insurance Company Limited for the year ended 31 December 2011.

The Company

The Company completed its 6th year of operations, with a gross premium income of KShs 1.004 billion and the shareholders fund now stands at KShs 382.2 million.

The Company also moved into its new offices on the 8th Floor of Mayfair Centre in July 2011.

Business Environment

The Kenyan economy grew at an average of 5.6% in 2010. However in 2011 in the first quarter the growth reduced to 4.9% and reduced further to below 3.6% towards the end of the year.

Inflation rose from 3.96% in 2011 to a high of 19% by the end of the year due to the high liquidity in the market.

The Kenya shilling dropped from an exchange rate of KShs 80.7 to the dollar in January to a high of KShs 105 in October before reducing to KShs 85.0 by the end of the year.

During the period 90 day Treasury bill rates increased from 2.28% in December 2011 to close at 18% by the end of the year.

Various sectors of the Economy, such as tourism, transport, Construction, however continued to grow. The agriculture sector also started recovering from the draught suffered in the early part of the year.

The equity market which showed signs of growth in the early part of the year saw mixed performance during the year and the 20 share index dropped 27% to 3,205 points.

The Business and Financial Results

The accounts have been prepared in accordance with the International Financial Reporting Standards.

With the new 5 year strategy plan in place, and being implemented I am please to inform you that the company's gross premium grew by 43% to KShs 1.004 billion

With the increased interest rates, the investment income rose from KShs 54.49 million to KShs to KShs 54.49 million.

The Company made a gross profit increased of KShs 33.6 million and the after tax the net profit was KShs 23.38 million

The total investments of the company grew from KShs 831 million as at 31st December 2010 to KShs 1,054 million as at 31st December 2011.

Dividend

Based on the results the Board of Directors recommends a dividend payment of KShs 12.5 million (KShs 10 million 2010)

MAYFAIR INSURANCE COMPANY LIMITED

CHAIRMAN'S STATEMENT (Continued)

Outlook for 2012

The start of the year 2012 was promising with reductions in fuel prices and the Kenya Shilling firmed up against major currencies.

The equity market 20 share index has risen to 3,408 points.

Government on infrastructure development is continuing and this should continue to stimulate the economy.

However we are approaching the election period and businesses are likely to adopt a wait and see situation which may result in a slowdown of the economic growth.

Interest rates also continue to remain high, making the cost of borrowing expensive.

The Mombasa Service centre continues to serve our clientele in the coast region and we plan to convert the office into a fully fledged branch during the course of the year.

Mayfair Insurance Company Zambia which had a slow start has shown substantial improvements in its performance. The Company has also opened a branch in Kitwe.

Corporate Governance

Mayfair Insurance is committed to the highest standards of corporate governance. The Company has in place various structures to ensure that these standards are met.

Board of Directors

The Company has a strong Board of Directors, with a diverse mix of skills and experience. Except the Managing Director, all other directors including the Chairman are non-executive.

The Board is responsible for the corporate vision and mission and ensuring that the Company is kept financially sound.

The marketing and investment committees of the Board meet regularly to review the marketing and investment strategies of the Company

The Board has also appointed and Executive Committee of the Board, which looks after all investment decisions of the company.

Appreciation

I would like to thank all our clients, intermediaries and reinsurers and other business associates, for without their support and faith in us we would not have been able to achieve the premium income we had in our second year of operations.

I would also like to thank the Directors and the Shareholders for their invaluable support.

On behalf of the Board, I also extend my appreciation to the Management and staff for their dedication and commitment to the Company.

Joe W. Okwach
Chairman

18 April 2012

MAYFAIR INSURANCE COMPANY LIMITED

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report to the members together with the audited financial statements of the company for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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

RESULTS

	Sh
Profit before taxation	33,628,384
Taxation expense	(10,250,592)
Profit for the year transferred to retained earnings	23,377,792

DIVIDEND

The directors recommend a first and final dividend of Sh 3.906 (2010: 3.125) per share for the year amounting to Sh 12,500,000 (2010: Sh 10,000,000). The payment of the dividend is subject to shareholders approval at the annual general meeting to be held in 2012.

DIRECTORS

The current directors are as listed on page 2.

SECRETARY

Pauline Munyua was appointed to the position of Company Secretary on 18 April 2012 replacing Esther Ndegi Njiru who had resigned on the same date.

AUDITORS

The company auditors, Deloitte & Touche, have expressed their willingness to continue in office in accordance with section 159(2) of the Kenyan Companies Act (CAP 486), subject to approval by the Commissioner of Insurance under section 56(4) of the Kenyan Insurance Act.

BY ORDER OF THE BOARD

PAULINE WAIRIMU MUNYUA CPSB/1065

Pauline Munyua

Secretary

Nairobi

18 April 2012

MAYFAIR INSURANCE COMPANY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results 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 of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 Kenyan 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.

Director	**Director**	**Managing Director**

18 April 2012

Deloitte.

Deloitte & Touche
Certified Public Accountants (Kenya)
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MAYFAIR INSURANCE COMPANY LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Mayfair Insurance Company Limited, set out on pages 9 to 46, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the company's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the company as at 31 December 2011 and of its profits and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Emphasis of matter

We draw attention to note 20 to the financial statements which indicates that, as at 31 December 2011, the company held a deposit of Sh 32,417,173 in a financial institution that is under statutory management. The recoverability of this balance is dependent on resolution of a dispute between the financial institution and the Central Bank of Kenya. In the opinion of the directors, the matter will be eventually resolved and the amounts recovered accordingly. Because of the significance of this matter and the amount involved, we consider it appropriate to draw it to your attention, but our opinion is not qualified in this respect.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MAYFAIR INSURANCE COMPANY LIMITED (Continued)

Report on other legal requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;

ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and

iii) the company's statement of financial position (balance sheet) and the statement of comprehensive income (profit and loss account) are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)

18 April 2012

Nairobi

MAYFAIR INSURANCE COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 Sh	2010 Sh
Gross written premiums		1,004,196,630	702,077,545
Gross earned premiums	5	923,613,380	659,678,319
Less: Reinsurance premiums ceded		(411,237,511)	(296,089,888)
Net earned premiums		**512,375,869**	**363,588,431**
Investment income	6	54,490,869	43,891,604
Commissions earned		102,843,460	73,424,319
Other income	7	4,419,140	537,653
Foreign exchange gains		1,265,061	540,471
Total income		**675,394,399**	**481,982,478**
Claims incurred	8	(363,511,890)	(261,006,981)
Operating and other expenses	9	(142,930,630)	(88,506,242)
Commissions incurred		(135,323,495)	(102,214,198)
Total expenses		(641,766,015)	(451,727,421)
Profit before taxation		33,628,384	30,255,057
Taxation expense	11(a)	(10,250,592)	(7,664,088)
Profit for the year		**23,377,792**	**22,590,969**
Other comprehensive income			
Fair value gains on available for sale equity investments	16	2,584,997	17,808,072
Exchange gains on available for sale equity investments	16	3,114,275	2,981,462
Total other comprehensive income		5,699,272	20,789,534
Total comprehensive income for the year		**29,077,064**	**43,380,503**
Earnings per share (basic and diluted)	12	7.3	7.2

MAYFAIR INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Notes	2011 Sh	2010 Sh
ASSETS			
Property and equipment	13	102,246,839	13,386,521
Intangible assets	14	1,044,000	1,044,000
Investment properties	15	116,842,105	-
Available for sale equity investments	16	187,564,265	154,467,756
Deferred tax asset	17	1,568,470	1,801,262
Receivables arising out of direct insurance arrangements		94,675,582	48,656,931
Receivables arising out of reinsurance arrangements		4,440,390	6,025,584
Reinsurers' share of technical provisions and reserves	18	350,821,146	342,706,406
Deferred acquisition costs	19	74,949,082	53,470,768
Other receivables	20	167,981,388	256,949,977
Government securities - held to maturity	21	165,533,879	130,815,396
Corporate bonds - held to maturity	22	32,263,373	32,290,084
Deposits with financial institutions	23	339,400,661	236,280,000
Cash and bank balances		22,256,263	56,594,916
Total assets		**1,661,587,443**	**1,334,489,601**
EQUITY AND LIABILITIES			
Equity			
Share capital	25	320,000,000	320,000,000
Fair value reserve		19,589,259	13,889,987
Retained earnings		42,619,443	29,241,651
Total equity		**382,208,702**	**363,131,638**
Liabilities			
Outstanding claims provisions	26	654,472,360	533,975,107
Provision for unearned premiums	28	486,115,215	347,911,947
Payables arising from insurance arrangements		6,032,865	6,154,339
Payables arising out of reinsurance arrangements		35,039,675	29,202,599
Deferred reinsurance commissions	29	84,449,455	44,799,057
Other payables	30	12,724,735	6,441,347
Tax payable	11(c)	544,436	2,873,567
Total liabilities		**1,279,378,741**	**971,357,963**
Total liabilities and equity		**1,661,587,443**	**1,334,489,601**

The financial statements on pages 9 to 46 were approved and authorised for issue by the board of directors on 18 April 2012 and signed on its behalf by:

Director	**Director**	**Managing Director**

MAYFAIR INSURANCE COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital	Retained earnings	Fair value reserve	Total
	Sh	Sh	Sh	Sh
At 1 January 2010	308,500,000	6,650,682	(6,899,547)	308,251,135
Profit for the year	-	22,590,969	-	22,590,969
Other comprehensive income	-	-	20,789,534	20,789,534
Total comprehensive income for the year	-	22,590,969	20,789,534	43,380,503
Issue of shares (Note 25)	11,500,000	-	-	11,500,000
At 31 December 2010	320,000,000	29,241,651	13,889,987	363,131,638
At 1 January 2011	320,000,000	29,241,651	13,889,987	363,131,638
Profit for the year	-	23,377,792	-	23,377,792
Other comprehensive income	-	-	5,699,272	5,699,272
Total comprehensive income for the year	-	23,377,792	5,699,272	29,077,064
Dividend paid	-	(10,000,000)	-	(10,000,000)
At 31 December 2011	320,000,000	42,619,443	19,589,259	382,208,702

MAYFAIR INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 Sh	2010 Sh
Operating activities			
Cash generated from operations	32	365,471,562	47,731,028
Tax paid	11(c)	(12,346,931)	(10,530,987)
Net cash from operating activities		353,124,631	37,200,041
Investing activities			
Purchase of property and equipment	13	(97,667,320)	(1,508,884)
Purchase of intangible asset	14	(1,044,000)	(1,044,000)
Purchase of investment property	15	(120,000,000)	-
Purchase of available for sale equity investments	16	(42,263,220)	(42,412,975)
Proceeds from disposal of available for sale equity investments	16	21,350,400	17,535,352
Purchase of corporate bond	22	-	(11,887,079)
Net investments in treasury bonds maturing after 90 days		(9,793,539)	(95,449,458)
Investment in short term fixed deposits maturing after 90 days		42,780,000	(74,280,000)
Proceeds from disposal of fixed assets		-	380,000
Net cash used in investing activities		(206,637,679)	(208,667,044)
Financing activities			
Proceeds from issue of shares	25	-	11,500,000
Dividends paid		(10,000,000)	-
Net cash from financing activities		(10,000,000)	11,500,000
Increase/(decrease) in cash and cash equivalents		136,486,952	(159,967,003)
Cash and cash equivalents at 1 January		218,594,916	378,561,919
Cash and cash equivalents at 31 December	32(b)	355,081,868	218,594,916

1 ACCOUNTING POLICIES

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The principal accounting policies adopted remain unchanged from the previous year and are set out below.

b) Adoption of new and revised International Financial Reporting Standards (IFRSs)

(i) New standards and amendments to published standards effective for the year ended 31 December 2011

The following new and revised IFRSs have been applied in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. The company continued to disclose such items in the statement of changes in equity and the amendment had no effect in the company's financial statements.
IAS 24 Related Party Disclosures (as revised in 2009)	IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities. The company is not a government-related entity. The application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous Standard.
Amendments to IAS 32 Classification of Rights Issues	The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application. The application of the amendments has had no effect on the amounts reported in the current and prior years because the company has not issued instruments of this nature.

1 ACCOUNTING POLICIES (Continued)

b) Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(i) New standards and amendments to published standards effective for the year ended 31 December 2011(Continued)

Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has no material effect on the company's financial statements
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss. The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the company has not entered into any transactions of this nature.
Improvements to IFRSs issued in 2010	The application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the company's financial statements.

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2011

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 1, First-time Adoption of International Financial Reporting Standards – replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'; and additional exemption for entities ceasing to suffer from severe hyperinflation.	1 July 2011
IFRS 1, First-time Adoption of International Financial Reporting Standards – Additional exemption for entities ceasing to suffer from severe hyperinflation	1 July 2011
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets	1 July 2011
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting financial assets and financial liabilities	1 January 2013

1 ACCOUNTING POLICIES (Continued)

b) Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2011(Continued)

	Effective for annual periods beginning on or after
New and Amendments to standards	
IFRS 7, Financial Instruments: Disclosure – Amendments requiring disclosures about initial application of IFRS 9	1 January 2013 or otherwise when IFRS 9 is first applied
IFRS 9, Financial Instruments – Classification and Measurement of financial assets	1 January 2015
IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition	1 January 2015
IFRS 10, Consolidated Financial Statements	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
IAS 1, Presentation of Financial Statements – presentation of items of other comprehensive income	1 July 2012
IAS 12, Income Taxes - Limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 19, Employee Benefits (2011)	1 January 2013
IAS 27, Separate Financial Statements (2011)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (2011)	1 January 2013
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
New interpretation	
IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods

- **IFRS 9, Financial Instruments**

  IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

  IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

1 ACCOUNTING POLICIES (Continued)

b) Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) Impact new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods

- **IFRS 9, Financial Instruments (Continued)**

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that IFRS 9 will be adopted in the company's financial statements for the annual period beginning 1 January 2015 and that the application may have significant impact on amounts reported in respect of the company's financial assets and financial liabilities. However it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

- **IFRS 12: Disclosure of Interests in Other Entities**

IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgements and assumptions - such as how control, joint control, significant influence has been determined
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information)
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required. The directors anticipate that the adoption of this new standard will not materially affect the amounts reported in the financial statements.

- **IFRS 13 Fair Value Measurements**

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

b) Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) Impact new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods (Continued)

- **IFRS 13 Fair Value Measurements (Continued)**

  IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).
  With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

  - Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
  - Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
  - Level 3 - unobservable inputs for the asset or liability.

  The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

  IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

  The directors anticipate that IFRS 13 will be adopted in the company's financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

- **Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)**

  These amend IAS 12 Income Taxes to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. As a result of the amendments, SIC-21 Income Taxes — Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

  The above amendments are generally effective for annual periods beginning on or after 1 January 2012. The company will apply this amendment prospectively. The directors anticipate no material impact to the company's financial statements currently. However, the company would have to apply this standard to any such arrangements entered into in the future.

- **Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)**

  These amend IAS 1 Presentation of Financial Statements to revise the way other comprehensive income is presented.

  The amendments:

  — Preserve the amendments made to IAS 1 in 2007 to require profit or loss and other comprehensive income to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft

1 ACCOUNTING POLICIES (Continued)

b) Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) Impact new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods (Continued)

- **Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (Continued)**

  — Require entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently, i.e. those that might be reclassified and those that will not be reclassified

  — Require tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income in either before tax or net of tax).

  The above amendments are generally effective for annual periods beginning on or after 1 July 2012. The company will apply the amendments prospectively. The directors anticipate no material impact to the company's financial statements.

- **IAS 19 (as revised in 2011)- Employee Benefits**

  The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

  The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the company's financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may not have an impact on the financial statements.

- **IAS 27, Separate Financial Statements (2011)**

  Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27, Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10, Consolidated Financial Statements.

  The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9, Financial Instruments.

  The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.

  The standard is effective for annual periods beginning on or after 1 January 2013. The company will apply this amendment prospectively. The directors anticipate no material impact to the company's financial statements.

1 ACCOUNTING POLICIES (Continued)

b) Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iv) Impact new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods (Continued)

- **IAS 28, Investments in Associates and Joint Ventures (2011)**

  This Standard supersedes IAS 28, Investments in Associates, and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

  The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

  The standard is effective for annual periods beginning on or after 1 January 2013. The bank will apply this amendment prospectively. The directors, however, anticipate no material impact to the company's financial statements.

- **IFRIC 20, Stripping Costs in the Production Phase of A Surface Mine**

  This interpretation, clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement.The Interpretation requires stripping activity costs which provide improved access to ore are recognised as a non-current 'stripping activity asset' when certain criteria are met. The stripping activity asset is depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, using the units of production method unless another method is more appropriate.

  This interpretation is effective for annual periods beginning on or after 1 January 2012. The directors anticipate that this interpretation will have no impact on the company's financial statements as the company does not engage in mining activity.

(v) Early adoption of standards

The company did not early-adopt new or amended standards in 2011.

c) Significant accounting policies

The principal accounting policies adopted are set out below.

Basis of preparation

The financial statements are prepared under the historical cost convention, as modified to include the revaluation of certain assets.

Income recognition

Premium income for general business is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less unearned premiums. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date which relate to the unexpired terms of policies in force at the reporting date, and are calculated using the 24th basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

1 ACCOUNTING POLICIES (Continued)

Income recognition (Continued)

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

Investment income is stated net of investment expenses. Interest income for all interest bearing financial instruments is recognised using the effective interest method. Dividends income on available for sale equities is recognised as income in the period in which the right to receive payment is established.

Reinsurance

The company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as income in the same manner as they would be if the reinsurance were considered direct business. Premiums ceded and claims reimbursed are presented on a gross basis in the statement of comprehensive income and statement of financial position as appropriate.

Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. The impairment loss is recognised in the profit or loss.

Ceded reinsurance arrangements do not relieve the company from its obligations to policyholders. The company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recognised in profit or loss.

Claims incurred

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims provisions represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the reporting date, but not settled at that date. Outstanding claims provisions 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") at the reporting date based on the company's experience but subject to the minimum percentage set by the Commissioner of Insurance. Outstanding claims are not discounted.

1 ACCOUNTING POLICIES (Continued)

c) **Significant accounting policies (Continued)**

Commissions payable and deferred acquisition costs

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

Insurance contract liabilities

Insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims and therefore the ultimate cost of this category of claims cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract at which time it is recognised as premium income.

Foreign currencies

In preparing the financial statements of the entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses on exchange are dealt with in the profit or loss.

Retirement benefit obligations

The company operates a defined contribution scheme for its employees. The assets of the scheme are held in a separate trustee administered fund. The scheme is funded by contributions from both the employees and the employer, with the employer contributing 5% while the employee contribution is voluntary.

The company also contributes to the statutory defined contribution pension schemes, the National Social Security Fund (NSSF). Contributions to these schemes are determined by local statute and are currently limited to Sh 200 per employee per month.

The company's obligations to retirement benefits schemes are charged to the profit or loss as they fall due.

1 ACCOUNTING POLICIES (Continued)

c) **Significant accounting policies**

Taxation

Tax expense/(income) comprises current tax and deferred tax. Tax is recognised as an expense/(income) and included in the profit or loss, except when it relates to items that are recognised in other comprehensive income in which case the tax is also recognised in other comprehensive income.

Current tax is computed in accordance with the Kenyan income tax laws.

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.

Property and equipment

Equipment and motor vehicle are stated at historical cost less accumulated depreciation and accumulated impairment.

Depreciation is calculated on a reducing balance basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

Building	Over the period of the lease
Partitioning	12.5%
Motor vehicles	25%
Furniture, fittings and equipment	12.5%
Computer hardware	30%

Property and equipment is periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The impairment loss is recognised in the statement of comprehensive income.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts.

Intangible assets

Computer software and other intangible assets are stated at cost less amortisation and impairment losses. The costs are amortised over the expected useful lives of the software on the straight line basis.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the company as a lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on the straight-line basis over the term of the relevant lease.

1 ACCOUNTING POLICIES (Continued)

c) Significant accounting policies (Continued)

Impairment of assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss and the impairment loss is recognised in the profit and loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Financial instruments

A financial asset or liability is recognised when the company becomes party to the contractual provisions of the instrument.

Financial assets

Classification

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

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

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

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than for an insignificant amount of held-to-maturity financial asset, the entire category would be reclassified as available-for-sale.

iv) Available-for-sale financial assets

This classification represents financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held-to-maturity.

1 ACCOUNTING POLICIES (Continued)

c) **Significant accounting policies (Continued)**

Financial instruments (Continued)

Financial assets (Continued)

Recognition of financial assets

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

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 "financial assets at fair value through profit or loss" are dealt with in the profit or loss 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 in other comprehensive income and accumulated in the fair value reserve, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss in the fair value reserve is reclassified to profit or loss.

Derecognition of financial assets

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

Financial liabilities

Financial liabilities are classified as other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with companys and other short-term highly liquid investments with original maturities of three months or less.

Fair value reserve

The fair value reserve represents the surplus or deficit on the revaluation of equity instruments available-for-sale.

Comparatives

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

2 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATED UNCERTAINITY

In the process of applying the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key assumptions concerning the future and other sources of estimation uncertainity that directors have made in applying the company's accounting policies:

The ultimate liability arising from claims made under insurance contracts

The main assumption underlying the techniques applied to determine liabilities in this category is that a company's past claims development experience can 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.

Held -to-maturity financial assets

The company follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the company evaluates its intention and ability to hold such assets to maturity. If the company fails to hold these financial assets 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. The assets would therefore be measured at fair value not amortised cost.

Impairment

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

Property and equipment

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

3 RISK MANAGEMENT

Management of Insurance and financial risk

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

(i) **Insurance risk**

Insurance risk in the company arises from:

(a) Fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations;
(b) Unexpected claims arising from a single source;
(c) Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten;
(d) Inadequate reinsurance protection or other risk transfer techniques; and
(e) Inadequate reserves

(a), (b) and (c) can be classified as the core insurance risk, (d) relates to reinsurance planning, while (e) is about reserving.

Core insurance risk

This risk is managed through:

- Diversification across a large portfolio of insurance contracts;
- Careful selection guided by a conservative underwriting philosophy;
- Continuous monitoring of the business performance per class and per client and corrective action taken as deemed appropriate;
- A minimum of one review of each policy at renewal to determine whether the risk remains within the acceptable criteria;
- Having a business acceptance criteria which is reviewed from time to time based on the experience and other developments; and
- Having a mechanism of identifying, quantifying and accumulating exposures to contain them within the set underwriting limits.

Reinsurance planning

Reinsurance purchases are reviewed annually to verify that the levels of protection being sought reflect developments in exposure and risk appetite of the company. The bases of these purchase is underpinned by the company's experience, financial modelling by and exposure of the reinsurance broker.

Reinsurance is placed with providers who meet the company's counter party security requirements.

Claims reserving

The company's reserving policy is guided by the prudence concept. Estimates are made of the estimated cost of settling a claim based on the best available information on registration of a claim, and this is updated as and when additional information is obtained and annual reviews done to ensure that the reserves are adequate. Management is regularly provided with claims settlement reports to inform on the reserving performance.

3 RISK MANAGEMENT (Continued)

(i) **Insurance risk (continued)**

Short-term insurance contracts

The company engages in short term insurance contracts and funds the insurance liabilities with a portfolio of financial assets. An analysis of the company's financial assets and its short term insurance liabilities is presented below;

31 December 2011	Carrying amount Shs	0 - 1 yrs Shs	1 - 3 yrs Shs	3 - 5 yrs Shs	> 5 yrs Shs
Financial assets					
Equity instruments available for sale	187,564,265	187,564,265	-	-	-
Receivable arising out of reinsurance arrangements	4,440,390	4,440,390	-	-	-
Receivable arising out of direct insurance arrangements	94,675,582	94,675,582	-	-	-
Other receivables	121,648,768	-	121,648,768	-	-
Held to maturity					
-Government securities	165,533,879	24,924,944	14,995,030	-	125,613,905
-Corporate bonds	32,263,373	32,263,373	-	-	-
-Deposits with financial institutions	339,400,661	339,400,661	-	-	-
Cash and bank balances	22,256,263	22,256,263	-	-	-
Total	967,783,181	705,525,478	136,643,798	-	125,613,905
Short term insurance liabilities					
Outstanding claims provisions	654,472,360	654,472,360	-	-	-
Payables arising out of insurance arrangements	6,032,865	6,032,865	-	-	-
Payables arising out of reinsurance arrangements	35,039,675	35,039,675	-	-	-
Deferred reinsurance commissions	84,449,455	84,449,455	-	-	-
Other payables	12,724,735	12,724,735	-	-	-
Less reinsurers share of technical provisions	(350,821,146)	(350,821,146)	-	-	-
Total	441,897,944	441,897,944	-	-	-
Difference in contractual cash flows	525,885,237	263,627,534	136,643,798	-	125,613,905

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 RISK MANAGEMENT (Continued)

(i) **Insurance risk (continued)**

Short-term insurance contracts (continued)

31 December 2010 **Financial assets**	Carrying amount Sh	0-1 yr Sh	1-3 yrs Sh	3-5 yrs Sh	> 5 yrs Sh
Equity instruments available for sale	154,467,756	154,467,756	-	-	-
Receivables arising out of reinsurance arrangements	6,025,584	6,025,584	-	-	-
Receivables arising out of direct insurance arrangements	48,656,931	48,656,931	-	-	-
Other receivables	236,894,797	-	236,894,797	-	-
Held to maturity:					
-Government securities	130,815,396	5,121,926	5,242,828	10,117,575	110,333,067
-Corporate bonds	32,290,084	-	-	-	32,290,084
-Deposits with financial institutions	236,280,000	236,280,000	-	-	-
Cash and bank balances	56,594,916	56,594,916	-	-	-
Total	902,025,464	507,147,113	242,137,625	10,117,575	142,623,151
Short term insurance liabilities:					
Outstanding claims provisions	533,975,107	533,975,107	-	-	-
Payables arising out of direct insurance arrangements	6,154,339	6,154,339	-	-	-
Payables arising out of reinsurance arrangements	29,202,599	29,202,599	-	-	-
Other payables	6,441,347	6,441,347	-	-	-
Less reinsurance share of technical provisions	(342,706,406)	(342,706,406)	-	-	-
Total	233,066,986	233,066,986	-	-	-
Difference in contractual cash flows	668,958,478	274,080,127	242,137,625	10,117,575	142,623,151

3 RISK MANAGEMENT (Continued)

(ii) Financial risks

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risks, equity price risk and foreign exchange currency risk. The sensitivity analyses below are based on a change in one assumption while holding all other assumptions constant:

(i) Interest rate risk

The company is exposed to the risk that the level of interest income and in effect the cash flows will fluctuate due to changes in market interest rates. To manage this risk, the company ensures that the investment maturity profiles are well spread.

The following sensitivity analysis shows how profit and equity would change if the interest rates had increased/ (decreased) on the reporting date with all other variables held constant.

	2011 Sh		2010 Sh	
	Effect on profit	**Effect on equity**	**Effect on profit**	**Effect on equity**
+ 5% Movement	26,715,429	18,700,800	19,969,274	13,978,491
-5 % Movement	(26,715,429)	(18,700,800)	(19,969,274)	(13,978,491)

(ii) Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The company is exposed to equity securities price risk as a result of its holdings in equity investments which are listed and traded on the Nairobi Stock Exchange. Exposure to equity price risks in aggregate is monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes.

The company has a defined investment policy which sets limits on the company's exposure to equity securities both in aggregate terms and by category/share. This policy of diversification is used to manage the company's price risk arising from its investments in equity securities.

The following sensitivity analysis shows how other comprehensive income would change if the market prices increased/(decreased) by 5% on the reporting date with all other variables held constant.

	2011 Sh	2010 Sh
Effect on other comprehensive income		
+5% movement	3,759,919	4,774,214
-5% movement	(3,759,919)	(4,774,214)

3 RISK MANAGEMENT (Continued)

(ii) Financial risks (continued)

(a) Market risk (continued)

(iii) Foreign exchange currency risk

Foreign exchange currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations.

The following sensitivity analysis shows how profit and other comprehensive income would change if the exchange rates increased/(decreased) by 5% on the reporting date with all other variables held constant, mainly as a result of US Dollar denominated available for sale equity investments.

	2011 Sh	2010 Sh
Effect on other comprehensive income		
+5% movement	6,063,444	2,440,831
-5% movement	(6,063,444)	(2,440,831)

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the company by failing to discharge a contractual obligation. The following policies and procedures are in place to mitigate the company's exposure to credit risk:

- Net exposure limits are set for each counterparty or group of counterparties i.e. limits are set for investments and cash deposits, and minimum credit ratings for investments that may be held.
- Reinsurance is placed with counterparties that have a good credit rating.
- Ongoing monitoring by the management credit committee.

The exposure to individual counterparties is also managed through other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the company. Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency.

3 RISK MANAGEMENT (Continued)

(ii) Financial risks (continued)

(b) Credit risk (continued)

The table below shows the carrying amounts of financial assets bearing credit risk

	Fully performing Shs	Past due Shs	Impaired Shs	Total Shs
31 December 2011				
Receivable arising out of direct insurance arrangements	94,675,582	-	-	94,675,582
Receivable arising out of reinsurance arrangements	4,440,390	-	-	4,440,390
Held to maturity				
-Government securities	165,533,879	-	-	165,533,879
-Corporate bonds	32,263,373	-	-	32,263,373
-Deposits with financial institutions	339,400,661	-	-	339,400,661
Other receivables				
- Deposits with institutions under statutory management	-	32,417,173	-	32,417,173
- others	135,564,215	-	-	135,564,215
Cash and bank balances	22,256,263	-	-	22,256,263
	794,134,363	32,417,173	-	826,551,536
31 December 2010				
Receivable arising out of direct insurance arrangements	48,656,931	-	-	48,656,931
Receivable arising out of reinsurance arrangements	6,025,584	-	-	6,025,584
Held to maturity				
-Government securities	130,815,396	-	-	130,815,396
-Corporate bonds	32,290,084	-	-	32,290,084
-Deposits with financial institutions	236,280,000	-	-	236,280,000
Other receivables				-
- Deposits with institutions under statutory management	-	32,417,173	-	32,417,173
- others	224,532,804	-	-	224,532,804
Cash and bank balances	56,594,916	-	-	56,594,916
	735,195,715	32,417,173	-	767,612,888

The debt that is past due relates to amounts held in a local financial institution that is under statutory management. The recoverability of this balance is dependent on resolution of a dispute between the institution and the Central Bank of Kenya but the directors are confident that the amount will be recovered.

3 RISK MANAGEMENT (Continued)

(ii) Financial risks (continued)

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has developed and put in place an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities

The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Between 1 – 3 months Sh	Over 3 months Sh	Over 12 months Sh	Total Sh
At 31 December 2011				
Payables arising from				
- reinsurance arrangements	35,039,675	-	-	35,039,675
- insurance arrangements	6,032,865	-	-	6,032,865
Outstanding claims provisions	654,472,360	-	-	654,472,360
	695,544,900	-	-	695,544,900
At 31 December 2010				
Payables arising from				
- reinsurance arrangements	29,202,599	-	-	29,202,599
- insurance arrangements	6,154,339	-	-	6,154,339
Outstanding claims provisions	533,975,107	-	-	533,975,107
	569,332,045	-	-	569,332,045

3 RISK MANAGEMENT (Continued)

(d) Fair value hierarchy

The company specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi Securities Exchange.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The company considers relevant and observable market prices in its valuations where possible.

The below table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
31 December 2011	Sh	Sh	Sh	Sh
Available for sale				
- Equity instruments	75,198,382	-	112,365,883	187,564,265
31 December 2010				
Available for sale				
- Equity instruments	95,553,232	-	58,914,524	154,467,756

4 CAPITAL RISK MANAGEMENT

The company's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth
- to safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The company is regulated by the Kenya Insurance Regulatory Authority and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. The company manages capital in accordance with these rules and has embedded in its ALM framework the necessary tests to ensure continuous and full compliance with such regulations.

4 CAPITAL RISK MANAGEMENT (Continued)

The constitution of capital managed by the company is as shown below:

	2011 Sh	2010 Sh
Share capital	320,000,000	320,000,000
Fair value reserve for available-for-sale investments	19,589,259	13,889,987
Retained earnings	42,619,443	29,241,651
Equity	**382,208,702**	**363,131,638**
Total borrowings	-	-
Gearing	0%	0%

5 GROSS EARNED PREMIUMS

Motor	278,742,026	178,621,235
Fire	141,861,072	109,622,207
Other	103,651,872	61,532,726
Theft	69,215,135	58,581,053
Workmen's compensation	136,176,677	112,903,715
Marine	95,398,214	64,998,088
Personal accident	22,632,706	17,773,656
Engineering	75,935,678	55,645,639
	923,613,380	659,678,319

6 INVESTMENT INCOME

Bank deposit interest	23,231,742	22,237,055
Interest on Government securities	14,271,479	14,608,657
Dividends receivable on equity instruments	6,434,928	4,333,815
Gain on disposal of equity instruments	6,484,417	69,897
Interest on corporate bond	4,095,014	2,642,180
Amortization of corporate bond	(26,711)	-
	54,490,869	43,891,604

Investment income earned on financial assets, analysed by category of asset, is as follows:

Loans and receivables (including bank and cash balances)	23,231,742	22,237,055
Held-to-maturity investments	18,339,782	17,250,837
Available for sale financial assets	12,919,345	4,403,712
Total investment income	54,490,869	43,891,604

		2011 Sh	2010 Sh
7	OTHER INCOME		
	Rental income	4,090,816	-
	Other miscellaneous income	328,324	537,653
		4,419,140	537,653
8	CLAIMS INCURRED		
	Claims paid by principal class of business:		
	Motor	195,541,886	131,392,823
	Workmen's compensation	82,111,055	94,786,063
	Marine	28,395,405	11,688,494
	Theft	18,881,616	9,809,162
	Fire	5,589,236	6,956,554
	Engineering	4,423,444	6,267,579
	Personal accident	6,283,058	4,822,437
	Other	22,286,190	(4,716,131)
		363,511,890	261,006,981
9	OPERATING AND OTHER EXPENSES		
	Staff costs (note 10)	63,729,699	42,637,098
	Depreciation	8,698,002	2,611,899
	Amortisation on investment properties	3,157,895	-
	Subscriptions	508,280	362,649
	Repairs and maintenance expenditure	4,828,281	3,051,714
	Rent, rates and parking	3,681,661	4,624,891
	Printing and stationery	4,082,454	3,175,453
	Telephone and postage	2,677,811	1,406,997
	Travelling and entertainment	4,251,593	5,353,415
	Advertising costs	2,988,899	3,218,272
	Licences and insurance	906,005	2,870,781
	Auditors' remuneration	2,155,164	1,400,000
	Directors' emoluments	240,000	280,000
	Amortisation of computer software	1,044,000	1,044,000
	Premium tax	11,291,479	7,781,747
	Loss/ (gain) on disposal of assets	109,000	(51,289)
	Other expenses	28,580,407	8,738,615
		142,930,630	88,506,242

		2011 Sh	2010 Sh
10	STAFF COSTS		
	Salaries and benefits	60,797,167	41,104,800
	Defined contribution retirement schemes		
	- Pension fund	2,813,875	1,432,750
	- National Social Security fund	118,657	99,548
		63,729,699	42,637,098

11 TAXATION

a) Taxation charge

	2011 Sh	2010 Sh
Current tax expense in respect of the year	10,017,800	8,455,474
Deferred tax – charge/ (credit) recognised (Note 17)	232,792	(247,201)
- prior year overprovision	-	(544,185)
Total income tax expense	10,250,592	7,664,088

b) Reconciliation of taxation charge to expected tax based on accounting profit

The company's current tax charge is computed in accordance with income tax rules applicable to general insurance companies.

	2011 Sh	2010 Sh
Profit before taxation	33,628,384	30,255,057
Tax calculated at a tax rate of 30%	10,088,515	9,076,517
Tax effect of:		
- Income not subject to tax	(4,794,942)	(2,097,370)
- Expenses not deductible for tax purposes	4,957,019	1,229,126
- Prior year overprovision of deferred tax	-	(544,185)
	10,250,592	7,664,088

c) Tax payable

	2011 Sh	2010 Sh
At 1 January	2,873,567	4,949,080
Taxation charge	10,017,800	8,455,474
Tax paid	(12,346,931)	(10,530,987)
At 31 December	544,436	2,873,567

	2011 Sh	2010 Sh
12 EARNINGS PER SHARE – BASIC AND DILUTED		
Profit for the year	23,377,792	22,590,969
Weighted average number of shares during the year	3,200,000	3,156,591
Earnings per share (basic and diluted)	7.3	7.2

13 PROPERTY AND EQUIPMENT

	Building Sh	Partitioning Sh	Motor vehicles Sh	Computer equipment Sh	Furniture fittings and office equipment Sh	Total Sh
Cost or valuation						
At 1 January 2010	-	6,795,910	2,090,240	5,644,905	10,436,906	24,967,961
Additions	-	-	650,000	229,124	629,760	1,508,884
Disposals	-	-	(1,100,000)	-	-	(1,100,000)
At 31 December 2010	-	6,795,910	1,640,240	5,874,029	11,066,666	25,376,845
At 1 January 2011	-	6,795,910	1,640,240	5,874,029	11,066,666	25,376,845
Additions*	60,000,000	18,273,268	1,100,000	1,007,989	17,286,063	97,667,320
Disposals	-	-	-	-	(109,000)	(109,000)
At 31 December 2011	60,000,000	25,069,178	2,740,240	6,882,018	28,243,729	122,935,165
Depreciation						
At 1 January 2010	-	2,526,610	1,037,974	3,357,451	3,227,679	10,149,714
Charge for the year	-	533,662	343,390	754,974	979,873	2,611,899
Disposals	-	-	(771,289)	-	-	(771,289)
At 31 December 2010	-	3,060,272	610,075	4,112,425	4,207,552	11,990,324
At 1 January 2011	-	3,060,272	610,075	4,112,425	4,207,552	11,990,324
Charge for the year	1,578,947	2,751,113	532,541	830,878	3,004,523	8,698,002
At 31 December 2011	1,578,947	5,811,385	1,142,616	4,943,303	7,212,075	20,688,326
Net book value						
At 31 December 2011	58,421,053	19,257,793	1,597,624	1,938,715	21,031,654	102,246,839
At 31 December 2010	-	3,735,638	1,030,165	1,761,604	6,859,114	13,386,521

*During the year the company moved into their new offices at Mayfair Centre that were constructed on the lease hold land. The addition above relates to transfer of the eighth floor to Mayfair Insurance Company Limited at a cost of Sh 60 million (Note 20).

14 INTANGIBLE ASSETS (COMPUTER SOFTWARE)

	2011 Sh	2010 Sh
Building		
Cost		
At 1 January	5,220,000	4,176,000
Additions	1,044,000	1,044,000
At 31 December	6,264,000	5,220,000
Amortisation		
At 1 January	4,176,000	3,132,000
Charge for the year	1,044,000	1,044,000
At 31 December	5,220,000	4,176,000
Net book value	1,044,000	1,044,000

15 INVESTMENT PROPERTIES

	2011	2010
Cost		
At 1 January	-	-
Additions	120,000,000	-
At 31 December	120,000,000	-
Amortisation		
At 1 January	-	-
Charge for the year	3,157,895	-
At 31 December	3,157,895	-
Net book value	116,842,105	-

During the year the company acquired investment properties that were constructed as part of a joint project to develop an office block. The second and seventh floors were completed and transferred as investment property at a cost of Sh 120 million (Note 20).

Investment properties comprise a building and leasehold land. The building constructed on the land, are held for the purposes of earning rental income. The investment properties are held at cost less accumulated depreciation.

The directors estimate that the fair value of the properties amount to Shs 120,000,000 (2010 - Shs nil) based on open market values.

16 AVAILABLE FOR SALE EQUITY INSTRUMENTS

	Quoted shares	Unquoted equity investments	Total
	Sh	Sh	Sh
2011			
At 1 January	95,553,232	58,914,524	154,467,756
Additions	38,208,025	4,055,195	42,263,220
Disposals	(14,865,983)	-	(14,865,983)
Exchange gains	-	3,114,275	3,114,275
Fair value (losses)/gains through other comprehensive income	(43,696,892)	46,281,889	2,584,997
At 31 December	75,198,382	112,365,883	187,564,265
2010			
At 1 January	48,111,570	60,619,132	108,730,702
Additions	35,301,864	7,111,111	42,412,975
Disposals	(5,221,011)	(12,244,444)	(17,465,455)
Exchange gains	-	2,981,462	2,981,462
Fair value gains through other comprehensive income	17,360,809	447,263	17,808,072
At 31 December	95,553,232	58,914,524	154,467,756

The unquoted investment relates to ordinary shares in Mayfair Insurance Company Zambia Limited and PTA Reinsurance Company Limited. The investments are carried at fair value and are denominated in Zambia Kwacha in th case of the investment in Mayfair Insurance Zambia Limited and the US dollar in the case of the investment in PTA Reinsurance. The investments denominated in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the end of reporting period. The exchange gains and losses are dealt with in other comprehensive income.

17 DEFERRED TAXATION LIABILITY

Deferred taxation is calculated, on all temporary differences under the liability method using the principal tax rate of 30%:

	2011 Sh	2010 Sh
(a) The net deferred tax asset is attributable to the following items:		
Deferred tax liability:		
Unrealised exchange gains	457,598	78,404
Deferred tax assets:		
Excess depreciation over capital allowances	(64,934)	(590,764)
Unrealised exchange losses	(324,912)	(162,456)
Leave provision	(1,636,222)	(1,126,446)
	(2,026,068)	(1,879,666)
Net deferred tax asset	(1,568,470)	(1,801,262)
(b) Movement in deferred tax asset is as follows:		
At 1 January	(1,801,262)	(1,009,876)
Taxation charge/ (credit) (note 11(a))	232,792	(247,201)
Prior year overprovision	-	(544,185)
At 31 December	(1,568,470)	(1,801,262)

18 REINSURERS' SHARE OF TECHNICAL PROVISIONS AND RESERVES

	2011 Sh	2010 Sh
Reinsurers' share of - unearned premiums	207,413,839	149,793,822
- notified claims (note 27)	129,456,304	182,949,914
- claims incurred but not reported (note 27)	13,951,003	9,962,670
	350,821,146	342,706,406

19 DEFERRED ACQUISITION COSTS

	2011 Sh	2010 Sh
At 1 January	53,470,768	45,067,539
Increase in the year	21,478,314	8,403,229
At 31 December	74,949,082	53,470,768

20 OTHER RECEIVABLES

	2011 Sh	2010 Sh
Deposit for property development*	55,300,000	171,500,000
Deposit for investments**	32,200,000	31,200,000
Deposit held at financial institution under statutory management***	32,417,173	32,417,173
Prepayments and deposits	1,731,595	1,777,624
Sundry receivables	46,332,620	20,055,180
	167,981,388	256,949,977

*The deposit for property development relates to the company's contribution to a joint project to develop an office block. During the year, the second and seventh floors were completed and transferred as investment property at a cost of Sh 120 million (Note 15) while the eighth floor was transferred as building at a cost of Sh 60 million (Note 13). The latest estimates from contractors indicate that the building will be completed before March 2012.

** The deposit for investments relates to amounts paid during the year towards the company's share of land and improvements purchased during the year under Mayfair Estates Limited. The deposits will be converted to shares and the company will own 50% of Mayfair Estates Limited. Mayfair Estates Limited had not begun operations by close of the year.

***This relates to amounts held in a local financial institution which is under statutory management. The recoverability of this balance is dependent on resolution of a dispute between the institution and the Central Bank of Kenya. In the opinion of the directors the amount is recoverable in full.

21 GOVERNMENT SECURITIES - HELD TO MATURITY

	2011 Sh	2010 Sh
Treasury bills and bonds maturing:		
Within 90 days	24,924,944	-
Within 1 year, after 90 days	-	5,121,926
In 1 to 5 years	14,995,030	15,360,403
More than 5 years	125,613,905	110,333,067
	165,533,879	130,815,396

22 CORPORATE BONDS

HELD TO MATURITY

	2011	2010
Kenya Electricity Generating Company Limited		
- Public Infrastructure Bond	22,208,865	22,235,576
FINA Bank Bond	10,054,508	10,054,508
	32,263,373	32,290,084

Movement in corporate bonds:

	2011	2010
At 1 January	32,290,084	20,403,005
Additions	-	11,887,079
Amortization	(26,711)	-
At 31 December	32,263,373	32,290,084

	2011 Sh	2010 Sh
23 DEPOSITS WITH FINANCIAL INSTITUTIONS HELD TO MATURITY		
Deposits maturing:		
- Within 3 months	307,900,661	162,000,000
- Beyond 3 months	31,500,000	74,280,000
	339,400,661	236,280,000

24 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

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

	2011 %	2010 %
Government securities	12.94	12.22
Deposits with financial institutions	20.67	7.01
Corporate bonds	11.30	11.55

25 SHARE CAPITAL

a) Movement in share capital

	Number of shares	2011 Sh	2010 Sh
Authorised, issued and fully paid:			
At 1 January	3,200,000	320,000,000	308,500,000
Issued in the year	-	-	11,500,000
At 31 December	3,200,000	320,000,000	320,000,000

b) Ordinary shares

	2011 Sh	2010 Sh
Authorised:		
4,500,000 ordinary shares of Sh 100 each	450,000,000	450,000,000
Issued and fully paid:		
3,200,000 ordinary shares of Sh 100 each	320,000,000	320,000,000

26 OUTSTANDING CLAIMS PROVISIONS

	2011 Sh	2010 Sh
At 1 January	533,975,107	395,237,141
Claims incurred and claim handling expenses	373,728,839	346,766,793
Payments for claims and claims handling expenses	(295,017,966)	(237,236,184)
Claims incurred but not reported	41,786,380	29,207,357
At 31 December	654,472,360	533,975,107

27 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

The table below shows the movement in the company's outstanding claims provision and related reinsurance share of outstanding claims.

2011

	Gross outstanding claims Sh	Reinsurance share Sh	Net Sh
At 1 January 2011			
Notified claims	504,767,750	182,949,914	321,817,836
Incurred but not reported	29,207,357	9,962,670	19,244,687
Total at beginning of year	533,975,107	192,912,584	341,062,523
Claims paid in year	295,017,966	98,258,877	196,759,089
Increase in liabilities:-			
- Arising from current year claims	(174,520,713)	(147,764,154)	(26,756,559)
Total at end of year	**654,472,360**	**143,407,307**	**511,065,053**
Notified claims	612,686,000	129,456,304	483,229,696
Incurred but not reported	41,786,360	13,951,003	27,835,357
Total at end of year	**654,472,360**	**143,407,307**	**511,065,053**

27 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

	Gross outstanding claims Sh	Reinsurance share Sh	Net Sh
2010			
At 1 January 2010			
Notified claims	371,904,000	156,580,577	215,323,423
Incurred but not reported	23,333,141	8,123,389	15,209,752
Total at beginning of year	395,237,141	164,703,966	230,533,175
Claims paid in year	(237,236,184)	(86,758,551)	(150,477,633)
Increase in liabilities:-			
- Arising from current year claims	375,974,150	114,967,169	261,006,981
Total at end of year	**533,975,107**	**192,912,584**	**341,062,523**
Notified claims	504,767,750	182,949,914	321,817,836
Incurred but not reported	29,207,357	9,962,670	19,244,687
Total at end of year	**533,975,107**	**192,912,584**	**341,062,523**

28 UNEARNED PREMIUMS

	2011 Sh	2010 Sh
At 1 January	347,911,947	273,883,238
Increase in the year	138,203,268	74,028,709
At 31 December	486,115,215	347,911,947

29 DEFERRED REINSURANCE COMMISSIONS

At 1 January	44,799,057	31,963,277
Increase in the year	39,650,398	12,835,780
At 31 December	84,449,455	44,799,057

	2011 Sh	2010 Sh
30 OTHER PAYABLES		
Accrued expenses	3,988,111	2,324,637
Other liabilities	8,736,624	3,841,554
Payable to related company	-	275,156
	12,724,735	6,441,347

31 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 as at 31 December 2011 will not have a material effect on the financial position or profit since adequate provisions for claims have been made as far as the company believes the claims will be payable.

The company is also subject to insurance solvency regulations in respect of its insurance and investment contracts, and has complied with all these regulations. There are no contingencies associated with the company's compliance or lack of compliance with such regulations.

32 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash generated from operations

Reconciliation of profit before tax to cash generated from operations;

	2011 Sh	2010 Sh
Profit before taxation	33,628,384	30,255,057
Adjustments for:		
Depreciation	8,698,002	2,611,899
Amortisation of investment property	3,157,895	-
Amortisation of intangible asset	1,044,000	1,044,000
Gain on disposal of equity instruments available for sale	(6,484,417)	(69,897)
Loss on disposal of property and equipment	109,000	(51,289)
Amortization of corporate bond	26,711	-
	40,179,575	33,789,770
Changes in:		
- receivables arising out of reinsurance arrangements	1,585,194	(13,338,541)
- receivables arising out of direct insurance arrangements	(46,018,651)	11,701,403
- reinsurers share of technical provisions and reserves	(8,114,740)	(59,837,842)
- deferred acquisition cost	(21,478,314)	(8,403,229)
- other receivables	88,968,589	(128,538,674)
- outstanding claims provisions	120,497,253	138,737,966
- unearned premiums	138,203,268	74,028,709
- payables arising out of reinsurance arrangements	5,837,076	2,024,013
- payables arising out of direct insurance arrangements	(121,474)	(16,105,889)
- deferred reinsurance commission	39,650,398	12,835,780
- other payables	6,283,388	837,562
Cash generated from operations	365,471,562	47,731,028

	2011 Sh	2010 Sh
32 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)		
(b) Analysis of cash and cash equivalents		
Cash and bank balances	22,256,263	56,594,916
Government securities maturing within 3 months (note 21)	24,924,944	-
Deposits with financial institutions maturing in 3 months (note 23)	307,900,661	162,000,000
At 31 December	355,081,868	218,594,916

33 OPERATING LEASE COMMITMENTS

Outstanding commitments under operating leases are as follows:

	2011 Sh	2010 Sh
Tenancy payable:		
Not later than one year	1,058,400	1,805,550
Between one and two years	-	-
	1,058,400	1,805,550
Amounts charged to the profit or loss in the Year in respect of operating leases	3,232,741	4,082,011

34 RELATED PARTIES

The following transactions were carried out with related parties:

	2011 Sh	2010 Sh
Directors' fees	240,000	280,000
Directors and key management remuneration	35,318,000	22,608,000
Amount due to Mayfair Insurance Company Zambia Ltd	-	(275,156)

35 INCORPORATION

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

36 CURRENCY

These financial statements are presented in Kenya Shillings (Sh).

APPENDIX

SUPPLEMENTARY INFORMATION

MAYFAIR INSURANCE COMPANY LIMITED

COMPANY REVENUE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2011

Class of insurance business	Engineering Shs	Fire Domestic Shs	Fire Industrial Shs	Liability Shs	Marine Shs	Motor Private Shs	Motor Commercial Shs	Personal Accident Shs	Theft Shs	Workmens' Compensation Shs	Miscellaneous Shs	2011 Total Shs	2010 Total Shs
Gross premium written	78,788,215	24,580,899	122,795,947	7,214,832	101,135,925	165,878,447	161,950,701	21,127,356	70,403,562	158,894,391	91,426,355	1,004,196,630	702,077,545
Change in gross UPR	2,852,537	891,015	4,624,759	224,604	5,737,711	14,609,240	34,477,882	(1,505,350)	1,188,427	22,717,714	(5,235,289)	80,583,250	42,399,226
Gross earned premiums	75,935,678	23,689,884	118,171,188	6,990,228	95,398,214	151,269,207	127,472,819	22,632,706	69,215,135	136,176,677	96,661,644	923,613,380	659,678,319
Premium ceded to re-insurers	67,487,793	16,314,465	108,175,290	1,231,235	65,251,301	5,469,250	4,298,652	16,892,511	51,036,734	4,834,206	70,246,074	411,237,511	296,089,888
Net earned premium	8,447,885	7,375,419	9,995,898	5,758,993	30,146,913	145,799,957	123,174,167	5,740,195	18,178,401	131,342,471	26,415,570	512,375,869	363,588,431
Claims paid	3,057,879	2,128,607	3,286,509	40,190	22,772,335	83,757,000	37,138,697	7,499,736	10,424,637	22,778,608	625,162	193,509,360	150,477,633
Claims outstanding brought forward	9,141,651	5,313,043	3,417,815	7,628,139	10,623,701	64,733,749	59,176,056	2,092,219	6,373,037	170,324,563	2,238,550	341,062,523	230,533,175
Claims outstanding carried forward	10,507,216	3,516,344	5,388,634	8,566,180	16,246,771	95,814,392	102,741,602	875,541	14,830,016	229,657,010	22,921,347	511,065,053	341,062,523
Claims incurred	4,423,444	331,908	5,257,328	978,231	28,395,405	114,837,643	80,704,243	6,283,058	18,881,616	82,111,055	21,307,959	363,511,890	261,006,981
Commissions (net)	(6,226,749)	(16,336)	(3,911,833)	1,087,486	(3,086,735)	14,436,763	11,661,227	(288,316)	(701,077)	26,517,619	(6,992,014)	32,480,035	28,789,879
Expenses of management	9,027,014	2,816,311	14,069,119	826,626	11,587,462	19,005,217	18,555,203	2,420,628	8,066,358	18,205,032	10,475,005	115,053,975	73,368,122
Premium Tax	885,918	276,395	1,380,753	81,126	1,137,202	1,865,186	1,821,021	237,562	791,638	1,786,655	1,028,023	11,291,479	7,781,747
Total expenses	3,686,183	3,076,370	11,538,039	1,995,238	9,637,929	35,307,166	32,037,451	2,369,874	8,156,919	46,509,306	4,511,014	158,825,489	109,939,748
Underwriting (loss)/profit	**338,258**	**3,967,141**	**(6,799,469)**	**2,785,524**	**(7,886,421)**	**(4,344,852)**	**10,432,473**	**(2,912,737)**	**(8,860,134)**	**2,722,110**	**596,597**	**(9,961,510)**	**(7,358,298)**

Director

Director

Managing Director