

MAYFAIR INSURANCE COMPANY LIMITED

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

31 DECEMBER 2012

MAYFAIR INSURANCE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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MAYFAIR INSURANCE COMPANY LIMITED

CORPORATE INFORMATION

DIRECTORS	Joe W Okwach Tushar Shah Ambrose D Rachier Bharat V Shah Edward K Muriu Hanif Somji Vishal Patel	- Chairman - Managing Director
MANAGEMENT	S K Singh Paul Gatei James Ndegwa Sapna Shah	- General Manager - Manager - Underwriting & Claims - Manager - Reinsurance - Manager - Finance
SECRETARY	Pauline Munyua Certified Company Secretary (Kenya) P O Box 45761 - 00100 Nairobi	
REGISTERED OFFICE	8 th 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 2012.

The Company.

The Company completed its 7th year of operations, with a gross premium income of Sh. 1.258 billion and the shareholders fund now stand at Sh. 440 million.

Business Environment

The Kenyan economy grew at an average of 4.4% in 2011. However by the end of the first half of 2012, the growth had reduced to 3.3% before increasing to 4% in the last quarter.

Inflation reduced from a high of 14% in 2011 to a 9.7% in 2012

The Kenya shilling however remained steady at an average rate KShs. 85 to the US dollar

During the year, Treasury bill rates for 90 days tenure dropped from 18% in the beginning of the year to close at 8.3% by the end of the year.

Due to the decrease in interest rates and favourable weather conditions, the economy started to grow in the second half of 2012.

The equity market grew substantially in 2012 and grew from 3,205 points at the beginning of the year to close at 4,133 points.

The Business and Financial Results

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

With the new five year strategy plan which was adopted in 2011 and being implemented I am pleased to inform you that the Company's gross premium grew by 25.30% to Sh. 1.258 billion

With the increased interest rates especially in the first half of 2012, the investment income rose from Sh. 54.5 million in 2011 to Sh. 99.8 million in 2012.

The Company made a gross profit of Sh. 44.9 million (Sh. 33.6 million: 2011) and after tax the net profit was Sh. 29.9 million (Sh. 23.3 million: 2011)

The total investments of the company grew from Sh. 1,135 million as at 31st December 2011 to Sh. 1,438 million as at 31st December 2012.

Dividend.

Based on the results the Board of Directors recommend a dividend payment of Sh. 14 million (Sh. 12.5 million 2011)

Outlook for 2013

The start of the year 2013 was promising and despite being an election year, the Kenya Shilling remained stable. Interest on the 91 day Treasury bill however rose from 8.3% to 10.1%

The equity market 20 share index has risen to 4,947 points.

The period before the National Election was marked by low investments by the private sector. However with peaceful elections, investment by the private sector is expected to resume and this should continue to stimulate the economy.

MAYFAIR INSURANCE COMPANY LIMITED

CHAIRMAN'S STATEMENT (Continued)

Outlook for 2013 (Continued)

The new government has expressed broad measures for improving the economy.

The Mombasa Service Centre continues to serve our clientele in the Coast region and we have opened a service office on Eldoret and are in the process of applying for the same to be converted to a branch office.

Mayfair Insurance Company Zambia Limited which had a slow start has shown substantial improvements in its performance. The Company has also opened its first Branch in Kitwe, Zambia. The Company also recorded its first profits in 2012.

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

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 sixth 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

26 April 2013

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 Mayfair Insurance Company Limited ("the company") for the year ended 31 December 2012, which shows its state of affairs.

PRINCIPAL ACTIVITIES

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

RESULTS

	Sh
Profit before taxation	44,904,623
Taxation expense	(15,633,622)
	<hr/>
Profit for the year transferred to retained earnings	<u>29,271,001</u>

DIVIDEND

The directors recommend a first and final dividend of Sh 4.375 (2011: Sh 3.906) per share for the year amounting to Sh 14,000,000 (2011: Sh 12,500,000). The payment of the dividend is subject to shareholders approval at the annual general meeting to be held on 26 April 2013.

DIRECTORS

The current directors are as listed on page 2.

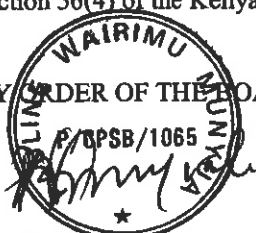
SECRETARY

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 Munyua

Secretary

Nairobi

26 April 2013

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.

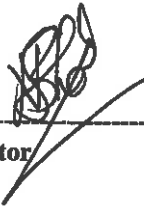
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan 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

26 April 2013



Director



Managing Director

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 ("the company"), set out on pages 9 to 45, which comprise the statement of financial position as at 31 December 2012, 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 2012 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 2012, 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.



Certified Public Accountants (Kenya)

26 April 2013

Nairobi

MAYFAIR INSURANCE COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 Sh	2011 Sh
Gross written premiums		<u>1,258,446,447</u>	<u>1,004,196,630</u>
Gross earned premiums	5	1,217,603,674	923,613,380
Less: Reinsurance premiums ceded		<u>(549,539,619)</u>	<u>(411,237,511)</u>
Net earned premiums		668,064,055	512,375,869
Investment income	6	99,750,467	54,490,869
Commissions earned		158,196,444	102,843,460
Other income	7	19,314,666	4,419,140
Foreign exchange gains		<u>436,218</u>	<u>1,265,061</u>
Total income		945,761,850	675,394,399
Claims incurred	8	(520,891,949)	(363,511,890)
Operating and other expenses	9	(204,904,048)	(142,930,630)
Commissions incurred		<u>(175,061,230)</u>	<u>(135,323,495)</u>
Total expenses		(900,857,227)	(641,766,015)
Profit before taxation		44,904,623	33,628,384
Taxation charge	11(a)	<u>(15,633,622)</u>	<u>(10,250,592)</u>
Profit for the year		29,271,001	23,377,792
Other comprehensive income			
Fair value gains on available for sale equity investments	16	39,122,349	2,584,997
Exchange gains on available for sale equity investments		<u>1,225,166</u>	<u>3,114,275</u>
Total other comprehensive income		40,347,515	5,699,272
Total comprehensive income for the year		69,618,516	29,077,064
Earnings per share (basic and diluted)	12	9.1	7.3

MAYFAIR INSURANCE COMPANY LIMITED


STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

ASSETS	Notes	2012 Sh	2011 Sh
Property and equipment	13	148,637,440	102,246,839
Intangible assets	14	3,524,083	1,044,000
Investment properties	15	192,375,914	116,842,105
Available for sale equity investments	16	226,069,334	187,564,265
Deferred tax asset	17	-	1,568,470
Receivables arising out of direct insurance arrangements		136,194,418	94,675,582
Receivables arising out of reinsurance arrangements		13,101,127	4,440,390
Reinsurers' share of technical provisions and reserves	18	492,308,356	350,821,146
Deferred acquisition costs	19	92,793,765	74,949,082
Other receivables	20	144,881,802	167,981,388
Government securities - held to maturity	21	200,368,283	165,533,879
Corporate bonds - held to maturity	22	29,492,882	32,263,373
Deposits with financial institutions	23	472,973,684	339,400,661
Cash and bank balances		19,848,035	22,256,263
Total assets		2,172,569,123	1,661,587,443
EQUITY AND LIABILITIES			
Equity			
Share capital	25	320,000,000	320,000,000
Fair value reserve		59,936,774	19,589,259
Retained earnings		59,390,444	42,619,443
Total equity		439,327,218	382,208,702
Liabilities			
Outstanding claims provisions	26	951,842,746	654,472,360
Unearned premiums reserve	28	589,695,904	486,115,215
Payables arising from insurance arrangements		4,158,875	6,032,865
Payables arising out of reinsurance arrangements		77,163,919	35,039,675
Deferred reinsurance commissions	29	84,729,805	84,449,455
Deferred tax liability	17	1,467,864	-
Other payables	30	23,028,456	12,724,735
Tax payable	11(c)	1,154,336	544,436
Total liabilities		1,733,241,905	1,279,378,741
Total liabilities and equity		2,172,569,123	1,661,587,443

The financial statements on pages 9 to 45 were approved and authorised for issue by the board of directors on 26 April 2013 and were signed on its behalf by:



Director



Director



Managing Director

MAYFAIR INSURANCE COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital Sh	Fair value Reserve Sh	Retained Earnings Sh	Total Sh
At 1 January 2011	320,000,000	13,889,987	29,241,651	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	-	5,699,272	23,377,792	29,077,064
Dividend paid – 2010 final	-	-	(10,000,000)	(10,000,000)
31 December 2011	320,000,000	19,589,259	42,619,443	382,208,702
At 1 January 2012	320,000,000	19,589,259	42,619,443	382,208,702
Profit for the year	-	-	29,271,001	29,271,001
Other comprehensive income	-	40,347,515	-	40,347,515
Total comprehensive income for the year	-	40,347,515	29,271,001	69,618,516
Dividend paid – 2011 final	-	-	(12,500,000)	(12,500,000)
31 December 2012	320,000,000	59,936,774	59,390,444	439,327,218

MAYFAIR INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 Sh	2011 Sh
Operating activities			
Cash generated from operations	32(a)	334,396,978	365,471,562
Tax paid	11(c)	(11,987,388)	(12,346,931)
Net cash from operating activities		<u>322,409,590</u>	<u>353,124,631</u>
Investing activities			
Purchase of property and equipment	13	(64,103,228)	(97,667,320)
Purchase of intangible asset	14	(4,764,125)	(1,044,000)
Purchase of investment property	15	(80,965,304)	(120,000,000)
Purchase of available for sale equity investments	16	(2,995,927)	(42,263,220)
Proceeds of disposal of available for sale equity investments		6,392,618	21,350,400
Net investments in treasury bonds maturing after 90 days		3,432,817	(9,793,539)
Proceeds of/(investments in) fixed deposits maturing after 90 days		31,500,000	42,780,000
Net cash used in investing activities		<u>(111,503,149)</u>	<u>(206,637,679)</u>
Financing activities			
Dividends paid		(12,500,000)	(10,000,000)
Increase in cash and cash equivalents		<u>198,406,441</u>	<u>136,486,952</u>
Cash and cash equivalents at 1 January		<u>355,081,868</u>	<u>218,594,916</u>
Cash and cash equivalents at 31 December	32(b)	<u>553,488,309</u>	<u>355,081,868</u>

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1 ACCOUNTING POLICIES

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.

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 2012*

Amendments to IFRS 7 Disclosures Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset.

The application of the amendment had no effect on the company's financial statements as the company did not transfer any such financial assets during the year.

Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets

The amendments to IAS 12 provide an exception to the general principle set out in IAS 12 Income Taxes that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically, the amendments establish a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40, Investment Property, will be recovered entirely through sale. The amendments were issued in response to concerns that application of IAS 12's general approach can be difficult or subjective for investment property measured at fair value because it may be that the entity intends to hold the asset for an indefinite or indeterminate period of time, during which it anticipates both rental income and capital appreciation.

The application of the amendments had no effect on the company's financial statements as the company had no investment property carried at fair value in its statement of financial position.

Amendments to IFRS 1 Severe Hyperinflation

The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time

The amendments had no effect on the company's financial statements as the company did not trade in such hyperinflation environment.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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 2012*

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 7, Amendments-Disclosure: offsetting financial assets and financial liabilities	1 January 2013
IFRS 9 Financial Instruments (as revised in 2010)	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 19, Employee Benefits (2011) - Revised requirements for pensions and other post retirement benefits, termination benefits.	1 January 2013
IAS 27, Separate Financial Statements (as revised in 2011)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures	1 January 2013
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014

• 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.

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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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 2012 and future annual periods*

- **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.

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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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 2012 and future annual periods (Continued)

• IFRS 13 Fair Value Measurements (Continued)

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.

• Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

Amends the disclosure requirements in IFRS 7 *Financial Instruments*: Disclosure to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32, *Financial Instruments: Presentation*.

The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The IASB believes that these disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The directors anticipate that the application of these amendments to IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

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

The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income 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. Other than presentation, the directors anticipate no material impact to the company's financial statements.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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 2012 and future annual periods (Continued)*

- **IAS 19 (as revised in 2012)- 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 application of the amendments to IAS 19 will not have an impact on the financial statements as the company does not operate a defined benefits scheme for its employees.

- **IAS 27, Separate Financial Statements (2012)**

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.

- **IAS 28, Investments in Associates and Joint Ventures (2012)**

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 company will apply this amendment prospectively. The directors, however, anticipate no material impact to the company's financial statements.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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

(iv) Early adoption of standards

The company did not early-adopt new or amended standards in 2012.

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.

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. Rental income from operating leases is recognised on a straight line basis over the term of the lease.

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 profit and loss 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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

ACCOUNTING POLICIES (Continued)

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.

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 company'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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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.

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 reporting 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.

Investment property

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. Investments include property interests held under operating leases. Investment properties are carried at cost

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

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 at the following annual rates:

	Over the period of the lease
Building	
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 profit and loss.

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

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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.

When a lease includes land and buildings elements, the bank assesses the classification of each element as either a finance lease or an operating lease. In determining classification of the land element, an important consideration is that land normally has an indefinite economic life. Therefore the finance lease or operating lease classification of the land is considered a critical area of judgment. See note 3 to these financial statements.

The company as lessor

Assets held under finance leases are recognised as assets of the company at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the statement of comprehensive income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The company as lessee

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

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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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.

Available-for-sale investments are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets which are recognised in profit or loss.

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 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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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 statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held on call with banks 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 UNCERTAINTY

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 uncertainty 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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATED UNCERTAINTY (Continued)

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.

Classification of leases of land as finance or operating leases

At the inception of each lease of land, the company considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The company also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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

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 using a portfolio of financial assets. An analysis of the company's financial assets and its short term insurance liabilities is presented below;

31 December 2012	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	226,069,334	226,069,334	-	-	-
Receivable arising out of direct insurance arrangements	136,194,418	136,194,418	-	-	-
Other receivables	102,598,292	-	102,598,292	-	-
Held to maturity					
-Government securities	200,368,283	60,666,590	15,144,032	-	124,557,661
-Corporate bonds	29,492,882	29,492,882	-	-	-
-Deposits with financial institutions	472,973,684	472,973,684	-	-	-
Cash and bank balances	19,848,035	19,848,035	-	-	-
Total	1,187,544,928	945,244,943	117,742,324	-	124,557,661
Short term insurance liabilities					
Outstanding claims provisions	951,842,746	951,842,746	-	-	-
Payables arising out of reinsurance arrangements	77,163,919	77,163,919	-	-	-
Deferred reinsurance commissions	84,729,805	84,729,805	-	-	-
Other payables	23,028,456	23,028,456	-	-	-
Less reinsurers share of technical provisions	(492,308,356)	(492,308,356)	-	-	-
Total	644,456,570	644,456,570	-	-	-
Difference in contractual cash flows	543,088,358	300,788,373	117,742,324	-	124,557,661

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

3 RISK MANAGEMENT (Continued)

(i) Insurance risk (continued)

Short-term insurance contracts (continued)

	Carrying amount Shs	0 - 1 yrs Shs	1 - 3 yrs Shs	3 - 5 yrs Shs	> 5 yrs Shs
31 December 2011					
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	119,917,173	-	119,917,173	-	-
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	966,051,586	705,525,478	134,912,203	-	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	524,153,642	263,627,534	134,912,203	-	125,613,905

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

	2012 Sh		2011 Sh
	Effect on profit	Effect on equity	Effect on profit
			Effect on equity
+ 5 percentage point movement	33,153,684	24,148,684	26,715,429
- 5 percentage point movement	(33,153,684)	(24,148,684)	(26,715,429)
			18,700,800
			(18,700,800)

(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.

	2012 Sh	2011 Sh
Effect on other comprehensive income		
+5% movement	5,496,560	3,759,919
-5% movement	(5,496,560)	(3,759,919)

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

	2012 Sh	2011 Sh
Effect on other comprehensive income		
+5% movement	5,712,631	6,063,444
-5% movement	(5,712,631)	(6,063,444)
	<u>=====</u>	<u>=====</u>

(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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2012				
Receivable arising out of direct insurance arrangements	136,194,418	-	-	136,194,418
Held to maturity:				
-Government securities	200,368,283	-	-	200,368,283
-Corporate bonds	29,492,882	-	-	29,492,882
-Deposits with financial institutions	472,973,684	-	-	472,973,684
Other receivables:				
- Deposits with institutions under statutory management	-	32,417,173	-	32,417,173
- others	70,181,119	-	-	70,181,119
Cash and bank balances	19,848,035	-	-	19,848,035
	<u>929,058,421</u>	<u>32,417,173</u>	<u>-</u>	<u>961,475,594</u>
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	87,500,000	-	-	87,500,000
Cash and bank balances	22,256,263	-	-	22,256,263
	<u>746,070,148</u>	<u>32,417,173</u>	<u>-</u>	<u>778,481,321</u>

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.

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

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 2012				
Payables arising from				
- reinsurance arrangements	77,163,919	-	-	77,163,919
- insurance arrangements	-	-	-	-
Outstanding claims provisions	951,842,746	-	-	951,842,746
	<u>1,029,006,665</u>	<u>-</u>	<u>-</u>	<u>1,029,006,665</u>

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
	<u>695,544,900</u>	<u>-</u>	<u>-</u>	<u>695,544,900</u>

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

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 Sh	Level 2 Sh	Level 3 Sh	Total Sh
31 December 2012				
Available for sale				
- Equity instruments	109,931,196	-	116,138,138	226,069,334
31 December 2011				
Available for sale				
- Equity instruments	75,198,382	-	112,365,883	187,564,265

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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 CAPITAL RISK MANAGEMENT (Continued)

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

	2012 Sh	2011 Sh
Share capital	320,000,000	320,000,000
Fair value reserve for available-for-sale investments	59,936,774	19,589,259
Retained earnings	60,081,969	42,619,443
Equity	440,018,743	382,208,702
Total borrowings		
Gearing	0%	0%

5 NET EARNED PREMIUMS

Motor	389,398,764	278,742,026
Fire	183,780,712	141,861,072
Other	128,113,513	103,651,872
Theft	82,073,345	69,215,135
Workmen's compensation	170,170,596	136,176,677
Marine	106,601,023	95,398,214
Personal accident	22,977,711	22,632,706
Engineering	123,311,680	75,935,678
Aviation	11,176,330	
	1,217,603,674	923,613,380

6 INVESTMENT INCOME

Bank deposit interest	66,757,037	23,231,742
Interest on Government securities	20,472,004	14,271,479
Dividends receivable on equity instruments	7,497,115	6,434,928
Gain on disposal of equity instruments	1,554,245	6,484,417
Interest on corporate bond	3,714,979	4,095,014
Amortization of corporate bond	(244,913)	(26,711)
	99,750,467	54,490,869

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

Loans and receivables (including bank and cash balances)	66,757,037	23,231,742
Held-to-maturity investments	23,942,070	18,339,782
Available for sale financial assets	9,051,360	12,919,345
Total investment income	99,750,467	54,490,869

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

	2012 Sh	2011 Sh
7 OTHER INCOME		
Rental income	18,408,370	4,090,816
Other miscellaneous income	906,296	328,324
	<u>19,314,666</u>	<u>4,419,140</u>
8 CLAIMS INCURRED		
Claims paid by principal class of business:		
Motor	297,654,918	195,541,886
Workmen's compensation	103,667,466	82,111,055
Marine	40,462,795	28,395,405
Theft	19,756,064	18,881,616
Fire	16,927,528	5,589,236
Engineering	11,394,816	4,423,444
Personal accident	4,201,623	6,283,058
Other	26,826,739	22,286,190
	<u>520,891,949</u>	<u>363,511,890</u>
9 OPERATING AND OTHER EXPENSES		
Staff costs (note 10)	95,311,253	63,729,699
Depreciation	13,611,511	8,698,002
Amortisation on investment properties	5,431,495	3,157,895
Subscriptions	733,102	508,280
Repairs and maintenance expenditure	7,248,479	4,828,281
Rent, rates and parking	3,504,379	3,681,661
Printing and stationery	5,593,071	4,082,454
Telephone and postage	3,659,963	2,677,811
Travelling and entertainment	12,397,431	4,251,593
Advertising costs	6,054,923	2,988,899
Licences and insurance	3,378,089	906,005
Auditors' remuneration	2,389,207	2,155,164
Directors' emoluments	330,000	240,000
Amortisation of computer software	2,284,042	1,044,000
Premium tax	14,482,716	11,291,479
Loss/ (gain) on disposal of assets	4,101,118	109,000
Other expenses	24,393,269	28,580,407
	<u>204,904,048</u>	<u>142,930,630</u>

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

	2012 Sh	2011 Sh
10 STAFF COSTS		
Salaries and benefits	89,105,737	60,797,167
Defined contribution retirement schemes		
- Pension fund	6,055,950	2,813,875
- National Social Security fund	149,566	118,657
	<u>95,311,253</u>	<u>63,729,699</u>

11 TAXATION

a) Taxation charge

Current tax expense in respect of the year	12,597,288	10,017,800
Deferred tax – charge recognised (Note 17)	3,036,334	232,792
	<u>15,633,622</u>	<u>10,250,592</u>

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.

	2012 Sh	2011 Sh
Profit before taxation	<u>44,904,623</u>	<u>33,628,384</u>
Tax calculated at a tax rate of 30%	13,471,387	10,088,515
Tax effect of:		
- Income not subject to tax	(3,471,428)	(4,794,942)
- Expenses not deductible for tax purposes	5,633,663	4,957,019
	<u>15,633,622</u>	<u>10,250,592</u>

c) Tax payable

At 1 January	544,436	2,873,567
Taxation charge	12,597,288	10,017,800
Tax paid	(11,987,388)	(12,346,931)
	<u>1,154,336</u>	<u>544,436</u>
At 31 December		

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12

EARNINGS PER SHARE – BASIC AND DILUTED

Profit for the year

29,271,001

23,377,792

Weighted average number of shares during the year

3,200,000

3,200,000

Earnings per share (basic and diluted)

9.1

7.3

13

PROPERTY AND EQUIPMENT

Cost or valuation	Building Sh	Partitioning Sh	Motor vehicles Sh	Computer equipment Sh	Furniture fittings and office equipment Sh	Total Sh
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
At 1 January 2012	60,000,000	25,069,178	2,740,240	6,882,018	28,243,729	122,935,165
Additions	22,708,260	16,084,035	1,265,000	3,127,151	20,918,782	64,103,228
Disposals	-	(5,393,970)	-	(426,648)	(3,766,549)	(9,587,167)
At 31 December 2012	82,708,260	35,759,243	4,005,240	9,582,521	45,395,962	177,451,226
Depreciation						
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
At 1 January 2012	1,578,947	5,811,385	1,142,616	4,943,303	7,212,075	20,688,326
Charge for the year	2,235,357	4,122,335	715,656	1,505,777	5,032,386	13,611,511
Eliminated on disposal	-	(3,030,819)	-	(380,039)	(2,075,193)	(5,486,051)
At 31 December 2012	3,814,304	6,902,901	1,858,272	6,069,041	10,169,268	28,813,786
Net book value						
At 31 December 2012	78,893,956	28,856,342	2,146,968	3,513,480	35,226,694	148,637,440
At 31 December 2011	58,421,053	19,257,793	1,597,624	1,938,715	21,031,654	102,246,839

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 INTANGIBLE ASSETS (COMPUTER SOFTWARE)

	2012 Sh	2011 Sh
Cost		
At 1 January	6,264,000	5,220,000
Additions	4,764,125	1,044,000
	<u>11,028,125</u>	<u>6,264,000</u>
At 31 December	11,028,125	6,264,000
Amortisation		
At 1 January	5,220,000	4,176,000
Charge for the year	2,284,042	1,044,000
	<u>7,504,042</u>	<u>5,220,000</u>
At 31 December	7,504,042	5,220,000
Net book value	<u>3,524,083</u>	<u>1,044,000</u>

15 INVESTMENT PROPERTIES

Cost		
At 1 January	120,000,000	-
Additions	80,965,304	120,000,000
	<u>200,965,304</u>	<u>120,000,000</u>
At 31 December	200,965,304	120,000,000
Amortisation		
At 1 January	3,157,895	-
Charge for the year	5,431,495	3,157,895
	<u>8,589,390</u>	<u>3,157,895</u>
At 31 December	8,589,390	3,157,895
Net book value	<u>192,375,914</u>	<u>116,842,105</u>

Investment properties comprise a building and leasehold land. The building constructed on the land, is 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 as at 31 December 2012 amount to Shs 200,965,304 (2011 - Shs 120,000,000) based on open market values.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 AVAILABLE FOR SALE EQUITY INSTRUMENTS

	Quoted shares Sh	Unquoted equity investments Sh	Total Sh
2012			
At 1 January	75,198,382	112,365,883	187,564,265
Additions	2,995,927	-	2,995,927
Disposals	(4,838,373)	-	(4,838,373)
Exchange gains	-	1,225,166	1,225,166
Fair value gains through other comprehensive income	36,575,260	2,547,089	39,122,349
	<u>109,931,196</u>	<u>116,138,138</u>	<u>226,069,334</u>
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
	<u>75,198,382</u>	<u>112,365,883</u>	<u>187,564,265</u>

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 the 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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 DEFERRED TAXATION LIABILITY

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

	2012 Sh	2011 Sh
(a) The net deferred tax liability/(asset) is attributable to the following items:		
<i>Deferred tax liability:</i>		
Accelerated capital allowances	3,571,932	-
Unrealised exchange gains	587,962	457,598
	<u>4,159,894</u>	<u>457,598</u>
<i>Deferred tax assets:</i>		
Accelerated depreciation	-	(64,934)
Unrealised exchange losses	(704,105)	(324,912)
Leave provision	(1,987,925)	(1,636,222)
	<u>(2,692,030)</u>	<u>(2,026,068)</u>
Net deferred tax liability	<u>1,467,864</u>	<u>(1,568,470)</u>
(b) Movement in deferred tax asset is as follows:		
At 1 January	(1,568,470)	(1,801,262)
Taxation charge (note 11(a))	3,036,334	232,792
	<u>1,467,864</u>	<u>(1,568,470)</u>
At 31 December	<u>1,467,864</u>	<u>(1,568,470)</u>

18 REINSURERS' SHARE OF TECHNICAL PROVISIONS AND RESERVES

Reinsurers' share of - unearned premiums	270,151,756	207,413,839
- notified claims (note 27)	203,313,504	129,456,304
- claims incurred but not reported (note 27)	18,843,096	13,951,003
	<u>492,308,356</u>	<u>350,821,146</u>

19 DEFERRED ACQUISITION COSTS

At 1 January	74,949,082	53,470,768
Increase in the year	17,844,683	21,478,314
	<u>92,793,765</u>	<u>74,949,082</u>
At 31 December	<u>92,793,765</u>	<u>74,949,082</u>

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2012 Sh	2011 Sh
20 OTHER RECEIVABLES		
Deposit for property development*	1,581,119	55,300,000
Deposit for investments**	68,600,000	32,200,000
Deposit held at financial institution under statutory management***	32,417,173	32,417,173
Prepayments and deposits	501,964	1,731,595
Sundry receivables	41,781,546	46,332,620
	<u>144,881,802</u>	<u>167,981,388</u>

*The deposit for property development relates to the company's contribution to a joint project to develop an office block. During the year, the ground floor was completed and transferred as investment property at a cost of Sh 65 million (Note 15). The construction was completed in the year. This balance will be recovered from property development vehicle which is jointly owned by the company and other parties.

** 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. Upon completion of the transaction, 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		
	2012 Sh	2011 Sh
Treasury bills and bonds maturing:		
Within 90 days	60,666,590	24,924,944
In 1 to 5 years	15,144,032	14,995,030
More than 5 years	124,557,661	125,613,905
	<u>200,368,283</u>	<u>165,533,879</u>

22 CORPORATE BONDS		
HELD TO MATURITY		
Kenya Electricity Generating Company Limited		
- Public Infrastructure Bond	19,438,374	22,208,865
FINA Bank Bond	10,054,508	10,054,508
	<u>29,492,882</u>	<u>32,263,373</u>
Movement in corporate bonds:		
At 1 January	32,263,373	32,290,084
Disposals	(2,525,578)	
Amortization	(244,913)	(26,711)
At 31 December	<u>29,492,882</u>	<u>32,263,373</u>

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2012 Sh	2011 Sh
23 DEPOSITS WITH FINANCIAL INSTITUTIONS HELD TO MATURITY		
Deposits maturing:		
- Within 3 months	472,973,684	307,900,661
- Beyond 3 months		31,500,000
	<u>472,973,684</u>	<u>339,400,661</u>

24 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

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

	2012 %	2011 %
Government securities	11.42	12.94
Deposits with financial institutions	10.17	20.67
Corporate bonds	10.77	11.30

	2012 Sh	2011 Sh
25 SHARE CAPITAL		
Authorised:		
4,500,000 ordinary shares of Sh 100 each	<u>450,000,000</u>	<u>450,000,000</u>
Issued and fully paid:		
3,200,000 ordinary shares of Sh 100 each	<u>320,000,000</u>	<u>320,000,000</u>
26 OUTSTANDING CLAIMS PROVISIONS		
At 1 January	654,472,360	533,975,107
Claims incurred and claim handling expenses	691,522,502	373,728,839
Payments for claims and claims handling expenses	(446,518,239)	(295,017,966)
Claims incurred but not reported	52,366,123	41,786,380
	<u>951,842,746</u>	<u>654,472,360</u>
At 31 December		

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

2012	Gross outstanding claims Sh	Reinsurance share Sh	Net Sh
At 1 January 2012			
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 beginning of year	654,472,360	143,407,307	511,065,053
Claims paid in year	446,518,239	111,601,278	334,916,961
Increase in liabilities:-			
- Arising from current year claims	(149,147,853)	(32,851,985)	(116,295,868)
Total at end of year	951,842,746	222,156,600	729,686,146
Notified claims	899,476,623	203,313,504	696,163,119
Incurred but not reported	52,366,123	18,843,096	33,523,027
Total at end of year	951,842,746	222,156,600	729,686,146
2011			
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

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

28 UNEARNED PREMIUMS RESERVE

	2012 Sh	2011 Sh
At 1 January	486,115,215	347,911,947
Increase in the year	103,580,689	138,203,268
	<u>589,695,904</u>	<u>486,115,215</u>
At 31 December	<u>589,695,904</u>	<u>486,115,215</u>

29 DEFERRED REINSURANCE COMMISSIONS

At 1 January	84,449,455	44,799,057
Increase in the year	280,350	39,650,398
	<u>84,729,805</u>	<u>84,449,455</u>
At 31 December	<u>84,729,805</u>	<u>84,449,455</u>

30 OTHER PAYABLES

Accrued expenses	8,394,649	3,988,111
Other liabilities	14,633,807	8,736,624
	<u>23,028,456</u>	<u>12,724,735</u>
	<u>23,028,456</u>	<u>12,724,735</u>

31 RELATED PARTIES

The following transactions were carried out with related parties:

Directors' fees	330,000	240,000
	<u>330,000</u>	<u>240,000</u>
Directors and key management remuneration	57,156,717	35,318,000
	<u>57,156,717</u>	<u>35,318,000</u>

Balances with related parties:

Mayfair Estates Limited (note 20)	68,600,000	32,200,000
	<u>68,600,000</u>	<u>32,200,000</u>

The company has a 50% interest in Mayfair Estates Limited

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

	2012 Sh	2011 Sh
32 NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Cash generated from operations		
Reconciliation of profit before tax to cash generated from operations;		
Profit before taxation	44,904,623	33,628,384
Adjustments for:		
Depreciation (note 13)	13,611,511	8,698,002
Amortisation of investment property (note 15)	5,431,495	3,157,895
Amortisation of intangible asset (note 14)	2,284,042	1,044,000
Gain on disposal of equity instruments available for sale	(1,554,245)	(6,484,417)
Loss on disposal of property and equipment	4,101,118	109,000
Amortization of corporate bond	244,913	26,711
	<u>69,023,457</u>	<u>40,179,575</u>
Changes in:		
- receivables arising out of reinsurance arrangements	(8,660,737)	1,585,194
- receivables arising out of direct insurance arrangements	(41,518,836)	(46,018,651)
- reinsurers share of technical provisions and reserves	(141,487,209)	(8,114,740)
- deferred acquisition cost	(17,844,683)	(21,478,314)
- other receivables	23,099,586	88,968,589
- outstanding claims provisions	297,370,386	120,497,253
- unearned premiums reserve	103,580,689	138,203,268
- payables arising out of reinsurance arrangements	42,124,244	5,837,076
- payables arising out of direct insurance arrangements	(1,873,990)	(121,474)
- deferred reinsurance commission	280,350	39,650,398
- other payables	10,303,721	6,283,388
	<u>334,396,978</u>	<u>365,471,562</u>
Cash generated from operations	334,396,978	365,471,562
(b) Analysis of cash and cash equivalents		
Cash and bank balances	19,848,035	22,256,263
Government securities maturing within 3 months (note 21)	60,666,590	24,924,944
Deposits with financial institutions maturing in 3 months (note 23)	472,973,684	307,900,661
	<u>553,488,309</u>	<u>355,081,868</u>
At 31 December	553,488,309	355,081,868

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32 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 2012 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.

	2012 Sh	2011 Sh
33 OPERATING LEASE COMMITMENTS		
Outstanding commitments under operating leases are as follows:		
Tenancy receivable:		
Not later than one year	18,857,814	(1,058,400)
	<u>18,857,814</u>	<u>(1,058,400)</u>
Amounts charged to the profit or loss in the		
Year in respect of operating leases	18,408,370	(3,232,741)
	<u>18,408,370</u>	<u>(3,232,741)</u>

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 2012

Class of Insurance business	Aviation Shs	Engineering Shs	Fire Domestic Shs	Fire Industrial Shs	Liability Shs	Marine Shs	Motor Private Shs	Motor Commercial Shs	Personal Accident Shs	Theft Shs	Workmen's Compensation Shs	Miscellaneous Shs	2012 Total Shs	2011 Total Shs
Gross premium written	8,387,375	127,451,155	29,155,140	155,515,182	8,590,409	110,000,712	189,069,570	210,634,950	24,460,271	84,164,844	190,875,677	120,141,162	1,258,446,447	1,004,196,630
Change in gross UPR	(2,788,955)	4,139,475	(228,870)	1,118,480	910,947	3,399,689	5,999,191	4,306,565	1,482,560	2,091,499	20,705,081	(292,889)	40,842,773	80,583,250
Gross earned premiums	11,176,330	123,311,680	29,384,010	154,396,702	7,679,462	106,601,023	183,070,379	206,328,385	22,977,711	82,073,345	170,170,596	120,434,051	1,217,603,674	923,613,380
Premium ceded to re-insurers	8,377,723	105,277,374	19,648,052	141,890,945	2,301,536	70,137,557	6,581,214	7,332,642	19,733,993	60,232,937	6,069,155	101,956,491	549,539,619	411,237,511
Net earned premium	2,798,607	18,034,306	9,735,958	12,505,757	5,377,926	36,463,466	176,489,165	198,995,743	3,243,718	21,840,408	164,101,441	18,477,560	668,064,055	512,375,869
Claims paid	-	10,745,032	9,717,283	9,476,058	4,133,277	6,576,587	142,691,255	76,123,592	4,628,157	13,687,806	22,280,328	2,211,479	302,270,854	193,509,360
Claims outstanding brought forward	-	10,507,216	3,516,344	5,388,633	8,566,180	16,246,771	95,814,392	102,741,602	875,541	14,830,016	229,657,009	22,921,347	511,065,051	341,062,521
Claims outstanding carried forward	-	11,157,000	2,866,126	3,773,038	8,311,444	50,132,979	103,997,426	173,398,639	449,006	20,898,274	311,044,147	43,658,067	729,686,146	511,065,053
Claims incurred	-	11,394,816	9,067,065	7,860,463	3,878,541	40,462,795	150,874,289	146,780,629	4,201,622	19,756,064	103,667,466	22,948,199	520,891,949	363,511,890
Commissions (net)	(156,753)	(13,722,386)	192,063	(12,824,959)	978,569	(6,780,020)	17,851,094	19,809,026	(912,227)	(717,462)	33,919,110	(20,771,269)	16,864,786	32,480,035
Expenses of management	1,080,547	16,419,557	3,756,063	20,035,052	1,106,704	14,171,414	24,357,870	27,136,142	3,151,222	10,842,974	24,590,552	15,477,810	162,125,907	115,053,975
Premium Tax	96,525	1,466,760	335,529	1,789,733	98,862	1,265,933	2,175,890	2,424,073	281,499	968,603	2,196,675	1,382,634	14,482,716	11,291,479
Total expenses	1,020,319	4,163,931	4,283,655	8,999,826	2,184,135	8,657,327	44,384,854	49,369,241	2,520,494	11,094,115	60,706,337	(3,910,825)	193,473,409	158,825,489
Underwriting (loss)/profit	1,776,288	2,475,559	(3,614,761)	(4,354,532)	(684,750)	(12,656,656)	(18,769,978)	2,845,873	(3,478,397)	(9,009,771)	(272,362)	(559,814)	(46,301,302)	(9,961,510)

Director

Director

Managing Director

