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MAYFAIR INSURANCE COMPANY LIMITED

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

31 DECEMBER 2013

MAYFAIR INSURANCE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

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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 James Ndegwa Sapna Shah	- General Manager - 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

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report to the members together with the audited financial statements of Mayfair Insurance Company Limited ("the company") for the year ended 31 December 2013, which show the state of financial affairs of the Company.

PRINCIPAL ACTIVITIES

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

RESULTS

	Sh
Profit before taxation	327,737
Taxation charge	(97,615)
	<hr/>
Profit for the year transferred to retained earnings	<u>230,122</u>

DIVIDEND

The directors recommend a first and final dividend of Sh 5.71 (2012: Sh 4.375) per share for the year amounting to Sh 20,000,000 (2012: Sh 14,000,000).

DIRECTORS

The current directors are as listed on page 2.

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 Muriyua*

Secretary

Nairobi

19 March 2014

MAYFAIR INSURANCE COMPANY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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



Director



Director



Managing Director

19 March 2014

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 7 to 46, which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other 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 effectiveness of 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 2013 and of its profit 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 2013, the company held a deposit of Sh 32,417,000 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 profit or loss and other comprehensive income (profit and loss account) are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditors' report is J W Wangai – P/No 1118.



Certified Public Accountants (Kenya)

Nairobi, Kenya

19 March 2014

MAYFAIR INSURANCE COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

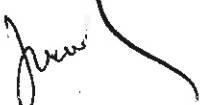
	Notes	2013 Sh'000	2012 Sh'000
Gross written premiums		1,503,286	1,258,446
Gross earned premiums	5	1,437,506	1,217,604
Less: Reinsurance premiums ceded		(673,038)	(549,540)
Net earned premiums		764,468	668,064
Investment income	6	292,012	118,158
Commissions earned		172,642	158,196
Other income	7	4,568	1,342
Total income		1,233,690	945,760
Claims incurred	8	(479,718)	(520,892)
Operating and other expenses	9	(214,394)	(204,902)
Commissions incurred		(211,841)	(175,061)
Total expenses		(905,953)	(900,855)
Profit before taxation		327,737	44,905
Taxation charge	11(a)	(97,615)	(15,634)
Profit for the year		230,122	29,271
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Fair value gains on available for sale equity investments	17	161,014	39,122
Exchange (loss)/gains on available for sale equity investments	17	(1,676)	1,225
Surplus on revaluation of property		93,470	-
Deferred taxation on revaluation surplus	30	(28,041)	-
Total other comprehensive income		224,767	40,347
Total comprehensive income for the year		454,889	69,618
Earnings per share (basic and diluted)	12	65.75	9.1

MAYFAIR INSURANCE COMPANY LIMITED


STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

ASSETS	Notes	2013 Sh'000	2012 Sh'000
Property and equipment	13	241,231	148,638
Intangible assets	14	2,970	3,524
Investment properties	15	370,816	192,376
Investment in joint arrangements	16	194,271	68,600
Available for sale equity investments	17	400,119	226,069
Receivables arising out of direct insurance arrangements		118,972	136,195
Receivables arising out of reinsurance arrangements		47,767	13,101
Reinsurers' share of technical provisions and reserves	18	1,607,540	492,309
Deferred acquisition costs	19	105,750	92,794
Other receivables	20	81,369	76,282
Government securities - held to maturity	21	289,292	200,369
Corporate bonds - held to maturity	22	26,770	29,493
Deposits with financial institutions	23	695,250	472,974
Cash and bank balances		20,744	19,848
Total assets		4,202,861	2,172,572
EQUITY AND LIABILITIES			
Equity			
Share capital	25	350,000	320,000
Fair value reserve		284,704	59,937
Retained earnings		275,512	59,390
Total equity		910,216	439,327
Liabilities			
Outstanding claims provision	26	2,200,218	951,843
Unearned premiums reserve	28	716,538	589,696
Payables arising from insurance arrangements		5,390	4,159
Payables arising out of reinsurance arrangements		123,979	77,167
Deferred reinsurance commissions	29	113,128	84,729
Deferred tax liability	30	90,539	1,468
Other payables	31	20,549	23,029
Corporate tax payable	11(c)	22,304	1,154
Total liabilities		3,292,645	1,733,245
Total liabilities and equity		4,202,861	2,172,572

The financial statements on pages 7 to 46 were approved and authorised for issue by the board of directors on 19 March 2014 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 2013

	Note	Share capital Sh'000	Investments revaluation reserve Sh'000	Property revaluation reserve Sh'000	Retained Earnings Sh'000	Total Sh'000
At 1 January 2012		320,000	19,590	-	42,619	382,209
Profit for the year		-	-	-	29,271	29,271
Other comprehensive income		-	40,347	-	-	40,347
Total comprehensive income for the year		-	40,347	-	29,271	69,618
Dividend paid – 2011	35	-	-	-	(12,500)	(12,500)
31 December 2012		320,000	59,937	-	59,390	439,327
At 1 January 2013		320,000	59,937	-	59,390	439,327
Profit for the year		-	-	-	230,122	230,122
Other comprehensive income		-	159,338	65,429	-	224,767
Total comprehensive income for the year		-	159,338	65,429	230,122	454,889
Issue of shares	25	30,000	-	-	-	30,000
Dividend paid – 2012	35	-	-	-	(14,000)	(14,000)
31 December 2013		350,000	219,275	65,429	275,512	910,216

- a) The investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of.
- b) The property revaluation reserve arises on the revaluation of building. When revalued property is disposed, the portion of the revaluation reserve that relates to that asset is transferred directly to retained earnings.

MAYFAIR INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 Sh'000	2012 Sh'000
Operating activities			
Cash generated from operations	32(a)	464,936	370,797
Tax paid	11(c)	(15,435)	(11,987)
Net cash from operating activities		<u>449,501</u>	<u>358,810</u>
Investing activities			
Purchase of property and equipment	13	(13,324)	(64,103)
Proceeds of disposal of property and equipment		740	-
Purchase of intangible assets	14	(1,953)	(4,764)
Purchase of investment properties	15	-	(80,965)
Investment in joint arrangements	16	(125,671)	(36,400)
Purchase of available for sale equity investments	17	(18,703)	(2,996)
Proceeds of disposal of available for sale equity investments		2,990	6,393
Net investments in treasury bonds maturing after 90 days		(29,435)	3,432
Proceeds from fixed deposits maturing after 90 days		2,514	31,500
Net cash used in investing activities		<u>(182,842)</u>	<u>(147,903)</u>
Financing activities			
Proceeds from issue of shares		30,000	-
Dividends paid	35	(14,000)	(12,500)
Net cash used in investing activities		<u>16,000</u>	<u>(12,500)</u>
Increase in cash and cash equivalents		<u>282,659</u>	<u>198,407</u>
Cash and cash equivalents at 1 January		<u>553,489</u>	<u>355,082</u>
Cash and cash equivalents at 31 December	32(b)	<u>836,148</u>	<u>553,489</u>

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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 2013*

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

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The application of the amendment had no effect on the company's financial statements as the company did not have any offsetting arrangements in place.

New and revised standards on consolidation and joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation and joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards amendment to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards.

The company has applied IFRS 11 to all joint arrangements as of 1 January 2012. The disclosure on the joint arrangement as required by IFRS 12 is shown in note 16.

IFRS 13 Fair Value Measurement

The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply 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 for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1 ACCOUNTING POLICIES

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

(i) New standards and amendments to published standards effective for the year ended 31 December 2013 (Continued)

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the company has not made any new disclosures required by IFRS 13 for the 2012 comparative period.

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' (and the 'income statement' is renamed as the '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 items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (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 new terminologies have been adopted in these financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012)

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1 ACCOUNTING POLICIES

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

(i) *New standards and amendments to published standards effective for the year ended 31 December 2013 (Continued)*

IAS 19 Employee Benefits (as revised in 2011)	IAS 19 (as revised in 2011) changes 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 the 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. All actuarial gains and losses are 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. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.
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This amendment has no impact on the company's financial statements as the company does not operate a deferred benefit plan.

This amendment has no impact on the company's financial statements as the company does not operate a defined benefit plan.

(ii) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2013*

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9, Financial Instruments	1 January 2015
Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures	1 January 2015
Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures	1 January 2015
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
<i>New interpretation</i>	
IFRIC 21 Levies	1 January 2014

(iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods*

• IFRS 9, Financial Instruments

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

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 of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods (Continued)*

IFRS 9, Financial Instruments (Continued)

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.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services.
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The directors of the company do not anticipate that the investment entities amendments will have any effect on the company's financial statements as the Company is not an investment entity.

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 of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods (Continued)*

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

Amends IAS 32 Financial Instruments: Presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

The above amendments are generally effective for annual periods beginning on or after 1 January 2014. The Company will apply the amendments prospectively. The directors anticipate no material impact to the Company's financial statements.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The directors of the company do not anticipate that the application of these amendments to IAS 36 will have a significant impact on the company's financial statements.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

Amends IAS 39 Financial Instruments: Recognition and Measurement to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

The directors of the company do not anticipate that the application of these amendments to IAS 39 will have a significant impact on the company's financial statements.

Annual Improvements 2010-2012 Cycle

The annual improvements 2010-2012 cycle makes amendments to the following standards:

- IFRS 2 — Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.
- IFRS 8 — Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.

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 of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods (Continued)*

- **Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) (Continued)**

Annual Improvements 2010-2012 Cycle (Continued)

- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed.

Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- IFRS 1 — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).
- IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52.
- IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2014. The directors of the company do not anticipate that the application of these improvements to IFRSs will have a significant impact on the company's financial statements.

(iv) *Early adoption of standards*

The company did not early-adopt new or amended standards in 2013.

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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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.

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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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.

Deferred reinsurance commissions

Commissions receivable on outward reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premium payable

Foreign currencies

In preparing the financial statements of the company, 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.

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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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. They are carried at fair value, determined annually by external independent valuers. Fair value is based on open market basis determined using the highest and best use valuation model.

Investment properties are not subject to depreciation. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

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

Property and equipment

Property and equipment are stated at cost or as professionally revalued from time to time less accumulated depreciation and any accumulated impairment losses.

Any surplus arising on the revaluation is recognised in other comprehensive income and accumulated in the revaluation reserve. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to profit or loss. On subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

The last valuation was done in December 2013 on an open market value basis using the highest and best use valuation model

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:

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

The annual depreciation on the revaluation surplus element of property, plant and equipment is transferred from the revaluation surplus to retained earnings net of the resultant deferred tax.

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

Intangible assets

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

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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.

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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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.

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.

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

1 ACCOUNTING POLICIES (Continued)

Financial liabilities

Derecognition of financial liabilities

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

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.

Joint arrangements

The company has assessed the nature of its joint arrangements and determined them to be joint operations. The company accounts for its interest in the joint arrangement through the proportionate consolidation method, by recording its share of jointly controlled assets, and obligations for the liabilities, relating to the arrangement.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

Comparatives

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

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 techniques applied in the estimation of this liability is that the company's past claims experience can be used to project future claims development and hence, ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims' inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) 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. A margin for adverse deviation may also be included in the liability valuation.

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.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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.

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.

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

3 RISK MANAGEMENT (Continued)

(i) Insurance risk (continued)

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.

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;

	Carrying amount Sh'000	0 - 1 yrs Sh'000	1 - 5 yrs Sh'000	> 5 yrs Sh'000
31 December 2013				
Financial assets				
Equity instruments available for sale	400,119	400,119	-	-
Receivable arising out of direct insurance arrangements	118,972	118,972	-	-
Other receivables	60,042	60,042	-	-
Investment in joint arrangements	194,271	194,271	-	-
Held to maturity				
-Government securities	289,292	120,154	25,097	144,041
-Corporate bonds	26,770	26,770	-	-
-Deposits with financial institutions	695,250	695,250	-	-
Cash and bank balances	20,744	20,744	-	-
Total	1,805,460	1,636,322	25,097	144,041
Short term insurance liabilities				
Outstanding claims provisions	2,200,218	2,200,218	-	-
Payables arising out of reinsurance arrangements	123,979	123,979	-	-
Deferred reinsurance commissions	113,128	113,128	-	-
Other payables	20,549	20,549	-	-
Less reinsurers share of technical provisions	(1,276,327)	(1,276,327)	-	-
Total	1,181,547	1,181,547	-	-
Difference in contractual cash flows	623,913	454,775	25,097	144,041

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 Sh'000	0 - 1 yrs Sh'000	1 - 5 yrs Sh'000	> 5 yrs Sh'000
31 December 2012				
Financial assets				
Equity instruments available for sale	226,069	226,069	-	-
Receivable arising out of direct insurance arrangements	136,195	136,195	-	-
Other receivables	60,042	60,042	-	-
Investment in joint arrangements Held to maturity	68,600	68,600	-	-
-Government securities	200,369	60,667	15,144	124,558
-Corporate bonds	29,493	29,493	-	-
-Deposits with financial institutions	472,974	472,974	-	-
Cash and bank balances	19,848	19,848	-	-
Total	1,213,590	1,073,888	15,144	124,558
Short term insurance liabilities				
Outstanding claims provisions	951,843	951,843	-	-
Payables arising out of reinsurance arrangements	77,167	77,167	-	-
Deferred reinsurance commissions	84,729	84,729	-	-
Other payables	23,029	23,029	-	-
Less reinsurers share of technical provisions	(222,157)	(222,157)	-	-
Total	914,611	914,611	-	-
Difference in contractual cash flows	298,979	159,277	15,144	124,558

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

	2013 Sh'000		2012 Sh'000	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
+ 5 percentage point movement	48,263	34,763	33,154	24,149
- 5 percentage point movement	<u>(48,263)</u>	<u>(34,763)</u>	<u>(33,154)</u>	<u>(24,149)</u>

(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 sensitivity analysis presented below 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.

	2013 Sh'000	2012 Sh'000
Effect on other comprehensive income		
+5% movement	9,997	5,497
-5% movement	<u>(9,997)</u>	<u>(5,497)</u>

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.

	2013 Sh'000	2012 Sh'000
Effect on other comprehensive income		
+5 percentage point movement	159	6
-5 percentage point movement	(159)	(6)

(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 Sh'000	Past due Sh'000	Impaired Sh'000	Total Sh'000
31 December 2013				
Receivable arising out of direct insurance arrangements	118,972	-	-	118,972
Held to maturity:				
-Government securities	289,292	-	-	289,292
-Corporate bonds	26,770	-	-	26,770
-Deposits with financial institutions	695,250	-	-	695,250
Other receivables:				
- Deposits with institutions under statutory management	-	32,417	-	32,417
- Due from a related party	27,625	-	-	27,625
Cash and bank balances	20,744	-	-	20,744
	<u>1,178,653</u>	<u>32,417</u>	<u>-</u>	<u>1,211,070</u>
31 December 2012				
Receivable arising out of direct insurance arrangements	136,195	-	-	136,195
Held to maturity:				
-Government securities	200,369	-	-	200,369
-Corporate bonds	29,493	-	-	29,493
-Deposits with financial institutions	472,974	-	-	472,974
Other receivables:				
- Deposits with institutions under statutory management	-	32,417	-	32,417
- Due from a related party	27,625	-	-	27,625
Cash and bank balances	19,848	-	-	19,848
	<u>886,504</u>	<u>32,417</u>	<u>-</u>	<u>918,921</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.

Government securities are generally considered risk free because the risk of loss is remote.

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'000	Over 3 months Sh'000	Over 12 months Sh'000	Total Sh'000
At 31 December 2013				
Payables arising from				
- reinsurance arrangements	123,979	-	-	123,979
- insurance arrangements	5,390	-	-	5,390
Outstanding claims provisions	2,200,218	-	-	2,200,218
	<u>2,329,587</u>	<u>-</u>	<u>-</u>	<u>2,329,587</u>
At 31 December 2012				
Payables arising from				
- reinsurance arrangements	77,167	-	-	77,167
- insurance arrangements	4,159	-	-	4,159
Outstanding claims provisions	951,843	-	-	951,843
	<u>1,033,169</u>	<u>-</u>	<u>-</u>	<u>1,033,169</u>

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

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.

An important aspect of the company's overall capital management process is the setting of target risk-adjusted rate of return which is aligned to performance objectives and ensures that the company is focused on the creation of value for shareholders.

The company has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. The company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital. The company manages as capital all items that are eligible to be treated as capital for regulatory purposes.

Insurance entities in Kenya are governed by the Insurance Act and as such are subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. Insurance companies operating in Kenya are required to have the following minimum level of paid up capital;

- Composite insurance companies: Kshs 450 million
- General insurance business companies: Kshs 300 million and
- Long term insurance business companies: Kshs 150 million

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.

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

	2013 Sh'000	2012 Sh'000
Share capital	350,000	320,000
Fair value reserve for available-for-sale investments	284,704	59,937
Retained earnings	274,539	59,390
	<hr/>	<hr/>
Equity	909,243	439,327
	<hr/>	<hr/>
Total borrowings	-	-
	<hr/>	<hr/>
Gearing	-	-
	<hr/>	<hr/>

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

	2013 Sh'000	2012 Sh'000
5 GROSS EARNED PREMIUMS		
Motor	423,210	389,399
Fire	246,427	183,781
Workmen's compensation	206,250	170,171
Marine	114,659	106,601
Personal accident	26,773	22,978
Engineering	180,559	123,312
Aviation	5,118	11,175
Miscellaneous	124,567	120,434
Theft	100,518	82,073
Others	9,425	7,680
	<u>1,437,506</u>	<u>1,217,604</u>
6 INVESTMENT INCOME		
Fair value gain on investment properties (Note 15)	184,022	-
Interest on bank deposits	56,435	66,757
Interest on Government securities	24,515	20,472
Rental income from investment properties	19,229	18,408
Dividends receivable on equity instruments	5,631	7,497
(Loss)/gain on disposal of equity instruments	(1,001)	1,554
Interest on corporate bonds	3,390	3,715
Amortization of corporate bonds	(209)	(245)
	<u>292,012</u>	<u>118,158</u>
Investment income earned on financial assets, analysed by category of financial asset, is as follows:		
Loans and receivables (including bank and cash balances)	56,435	66,757
Held-to-maturity investments	27,696	23,942
Available for sale financial assets	4,630	9,051
	<u>88,761</u>	<u>99,750</u>
7 OTHER INCOME		
Miscellaneous income	1,116	906
Foreign exchange gains	3,452	436
	<u>4,568</u>	<u>1,342</u>

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

	2013 Sh'000	2012 Sh'000
8 CLAIMS INCURRED		
Claims paid by principal class of business:		
Motor	280,755	297,655
Workmen's compensation	120,118	103,667
Marine	18,084	40,463
Theft	18,971	19,756
Fire	22,185	16,928
Engineering	3,327	11,395
Personal accident	3,769	4,202
Other	12,509	26,826
	<u>479,718</u>	<u>520,892</u>
9 OPERATING AND OTHER EXPENSES		
Staff costs (note 10)	113,571	95,311
Depreciation of property, plant and equipment	13,852	13,612
Depreciation of investment properties	5,582	5,431
Amortisation of computer software	2,507	2,284
Subscriptions	2,047	733
Repairs and maintenance expenditure	4,659	7,248
Rent, rates and parking	5,020	3,504
Printing and stationery	4,227	5,593
Telephone and postage	4,424	3,660
Travelling and entertainment	13,004	12,397
Advertising costs	4,129	6,055
Licences and insurance	3,869	3,378
Auditors' remuneration	3,872	2,389
Directors' emoluments	776	330
Premium tax	17,223	14,482
(Gain)/loss on disposal of assets	(392)	4,101
Other expenses	16,024	24,394
	<u>214,394</u>	<u>204,902</u>
10 STAFF COSTS		
Salaries and benefits	105,910	89,106
Defined contribution retirement schemes		
- Pension fund	7,475	6,055
- National Social Security fund	186	150
	<u>113,571</u>	<u>95,311</u>

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

	2013 Sh'000	2012 Sh'000
11 TAXATION		
a) Taxation charge		
Current tax expense in respect of the year	36,585	12,598
Deferred tax – charge recognised (Note 30)	61,030	3,036
	<u>97,615</u>	<u>15,634</u>
Total income tax expense	97,615	15,634
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.		
	2013 Sh'000	2012 Sh'000
Profit before taxation	<u>327,737</u>	<u>44,905</u>
Tax calculated at a tax rate of 30%	98,321	13,471
Tax effect of:		
- Income not subject to tax	(2,521)	(3,471)
- Expenses not deductible for tax purposes	1,815	5,634
	<u>97,615</u>	<u>15,634</u>
c) Corporate tax payable		
At 1 January	1,154	543
Taxation charge - Note (a)	36,585	12,598
Tax paid	(15,435)	(11,987)
	<u>22,304</u>	<u>1,154</u>
At 31 December	22,304	1,154
12 EARNINGS PER SHARE – BASIC AND DILUTED		
	2013	2012
Profit for the year (Sh '000)	<u>230,122</u>	<u>29,271</u>
Weighted average number of shares during the year	<u>3,500,000</u>	<u>3,200,000</u>
Earnings per share (basic and diluted) (Sh)	<u>65.75</u>	<u>9.1</u>

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 PROPERTY AND EQUIPMENT

Cost or valuation	Building Sh'000	Partitioning Sh'000	Motor vehicles Sh'000	Computer equipment Sh'000	Furniture fittings and equipment Sh'000	Total Sh'000
At 1 January 2012	60,000	25,069	2,740	6,882	28,244	122,935
Additions	22,708	16,084	1,265	3,127	20,919	64,103
Disposals	-	(5,394)	-	(426)	(3,767)	(9,587)
At 31 December 2012	82,708	35,759	4,005	9,583	45,396	177,451
At 1 January 2013	82,708	35,759	4,005	9,583	45,396	177,451
Additions	-	6,184	950	1,484	4,706	13,324
Surplus on revaluation	87,359	-	-	-	-	87,359
Disposals	-	-	(888)	(301)	-	(1,189)
At 31 December 2013	170,067	41,943	4,067	10,766	50,102	276,945
Comprising						
At cost	-	41,943	4,067	10,766	50,102	276,945
At valuation - 2013	170,067	-	-	-	-	-
At 31 December 2013	170,067	41,943	4,067	10,766	50,102	276,945
Depreciation						
At 1 January 2012	1,579	5,811	1,143	4,943	7,212	20,688
Charge for the year	2,235	4,123	716	1,506	5,032	13,612
Eliminated on disposal	-	(3,031)	-	(380)	(2,075)	(5,486)
At 31 December 2012	3,814	6,903	1,859	6,069	10,169	28,814
At 1 January 2013	3,814	6,903	1,859	6,069	10,169	28,814
Charge for the year	2,297	4,380	704	1,479	4,992	13,852
Eliminated on disposal	-	-	(607)	(234)	-	(841)
Eliminated on revaluation	(6,111)	-	-	-	-	(6,111)
At 31 December 2013	-	11,283	1,956	7,314	15,161	35,714
Net book value						
At 31 December 2013	170,067	30,660	2,111	3,452	34,941	241,231
At 31 December 2012	78,894	28,856	2,147	3,514	35,227	148,638
Net book value (Cost basis)						
At 31 December 2013	76,597	30,660	2,111	3,452	34,941	147,761
At 31 December 2012	78,894	28,856	2,147	3,514	35,227	148,638

The building was valued by Gimco Limited, Registered valuers, on 31 December 2013 on an open market value basis using the highest and best use valuation principle. The net surplus on revaluation of Sh 93,470,000 has been credited to a revaluation reserve in principle.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 PROPERTY AND EQUIPMENT (Continued)

Details of the fair value hierarchy of the company's property held at fair value as at 31 December 2013 are as follows:

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
31 December 2013				
- Property, plant and equipment	-	170,067	-	170,067
31 December 2012	-	-	-	-

14 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2013 Sh'000	2012 Sh'000
Cost		
At 1 January	11,028	6,264
Additions	1,953	4,764
At 31 December	12,981	11,028
Amortisation		
At 1 January	7,504	5,220
Charge for the year	2,507	2,284
At 31 December	10,011	7,504
Net book value	2,970	3,524

15 INVESTMENT PROPERTIES

Cost/revaluation		
At 1 January	200,965	120,000
Additions	-	80,965
Surplus on revaluation*	169,851	-
At 31 December	370,816	200,965
Depreciation		
At 1 January	8,589	3,158
Charge for the year	5,582	5,431
Reversal of depreciation on revaluation*	(14,171)	-
At 31 December	-	8,589
Net book value	370,816	192,376
*Net fair value gain credited to profit or loss (note 7)	184,022	-

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 INVESTMENT PROPERTIES (Continued)

Investment properties comprise a building and leasehold land. The building constructed on the land is held for the purposes of earning rental income and capital appreciation. The investment properties are held at fair value. The properties were revalued by Gimco Limited, Registered valuers, on 31 December 2013 on an open market value basis using the highest and best use valuation principle.

Rental income arising from investment properties during the year amounted to Ksh 19,229,056 (2012: Ksh 18,408,370) as disclosed in note 7. Expenses relating to investment property amounted to Ksh 4,658,939 (2012: Ksh 7,248,479).

Details of the fair value hierarchy of the company's Investment property held at fair value as at 31 December 2013 are as follows:

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
31 December 2013				
- Investment properties		370,816	-	370,816
31 December 2012		-	-	-

16 INVESTMENT IN JOINT ARRANGEMENTS

				2013 Sh'000	2012 Sh'000
At 1 January				68,600	32,200
Additions				125,671	36,400
At 31 December				194,271	68,600

Name of joint arrangement	Principal activity	Place of incorporation	Proportion of ownership interest held by the company	2013 Sh'000	2012 Sh'000
Mayfair Estates Limited	Real Estate	Kenya	50%	68,600	68,600
Kitisuru Development Limited	Real Estate	Kenya	20%	20,200	-
Sealine Holdings Limited	Real Estate	Kenya	20%	62,831	-
Rushmore Investments Limited	Real Estate	Kenya	20%	42,640	-
				194,271	68,600

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 INVESTMENT IN JOINT ARRANGEMENTS (Continued)

The company holds interests in joint operations for the acquisition and the development of real estate projects in the above companies. Currently, the company has deposited funds with the companies that are serving as vehicles for execution of joint arrangement projects. The real estate ventures when complete will be shared in proportions equal to each investees share. Mayfair Insurance Company Limited intends to use its share of properties for furtherance of its investment strategies.

Set out below is the summarised financial information for Mayfair Estates Limited:

	2013 Sh'000	2012 Sh'000
Summarised statement of financial position		
Total assets	137,120	101,197
Total liabilities	137,336	101,353
Net liabilities	(216)	(156)
Summarised statement of profit and loss and other comprehensive income		
Income	-	-
Loss before tax	(85)	(144)
Tax credit	26	43
Loss for the year	(59)	(101)
Summarised statement of cash flows		
Net cash generated from/(used in) operating activities	36,174	(36,590)
Net cash used in from investing activities	(72,800)	-
Net cash generated from financing activities	35,983	36,900
Net (decrease)/increase in cash and cash equivalents	(644)	310
Cash and cash equivalents at beginning of year	2,317	2,007
Cash and cash equivalents at end of year	1,673	2,317

The other subsidiaries have not started operations and therefore did not have financial statements.

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 AVAILABLE FOR SALE EQUITY INSTRUMENTS

	Quoted shares Sh'000	Unquoted equity investments Sh'000	Total Sh'000
2013			
At 1 January	111,817	114,252	226,069
Additions	1,076	17,627	18,703
Disposals	(3,991)	-	(3,991)
Exchange losses	-	(1,676)	(1,676)
Fair value gains through other comprehensive income	91,028	69,986	161,014
At 31 December	199,930	200,190	400,119
2012			
At 1 January	76,634	110,930	187,564
Additions	2,996	-	2,996
Disposals	(4,838)	-	(4,838)
Exchange gains	-	1,225	1,225
Fair value gains through other comprehensive income	37,025	2,097	39,122
At 31 December	111,817	114,252	226,069

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 Company 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 through other comprehensive income.

Details of the fair value hierarchy of the company's Available for sale financial instruments as at 31 December 2013 are as follows:

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
31 December 2013				
Available for sale				
- Equity instruments	199,930	193,318	-	393,248
31 December 2012				
Available for sale				
- Equity instruments	111,817	110,841	-	222,658

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 REINSURERS' SHARE OF TECHNICAL PROVISIONS AND RESERVES

	2013 Sh'000	2012 Sh'000
Reinsurers' share of - unearned premiums	331,213	270,152
- notified claims (note 27)	1,253,627	203,314
- claims incurred but not reported (note 27)	22,700	18,843
	<u>1,607,540</u>	<u>492,309</u>

19 DEFERRED ACQUISITION COSTS

At 1 January	92,794	74,949
Increase in the year	12,956	17,845
	<u>105,750</u>	<u>92,794</u>

20 OTHER RECEIVABLES

Deposit held at financial institution under statutory management*	32,417	32,417
Prepayments and deposits	759	502
Sundry receivables	20,568	15,738
Due from a related party (note 33)	27,625	27,625
	<u>81,369</u>	<u>76,282</u>

*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

	2013 Sh'000	2012 Sh'000
Treasury bills and bonds maturing:		
Within 90 days	120,154	60,667
In 1 to 5 years	25,097	15,144
More than 5 years	144,041	124,558
	<u>289,292</u>	<u>200,369</u>

22 CORPORATE BONDS - Held to maturity

KenGen - Public Infrastructure Bond	16,715	19,438
Guarantee Trust Bank Limited	10,055	10,055
	<u>26,770</u>	<u>29,493</u>

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013 Sh'000	2012 Sh'000
22 CORPORATE BONDS - Held to maturity		
Movement in corporate bonds:		
At 1 January	29,493	32,263
Disposals	(2,514)	(2,525)
Amortization	(209)	(245)
	<u>26,770</u>	<u>29,493</u>
At 31 December	<u>26,770</u>	<u>29,493</u>
23 DEPOSITS WITH FINANCIAL INSTITUTIONS - Held to Maturity		
Deposits maturing within 3 months:	<u>695,250</u>	<u>472,974</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:		
	2013 %	2012 %
Government securities	11.42	11.42
Deposits with financial institutions	12.08	10.17
Corporate bonds	<u>11.40</u>	<u>10.77</u>
25 SHARE CAPITAL		
	2013 Sh '000	2012 Sh '000
Authorised:		
4,500,000 ordinary shares of Sh 100 each	<u>450,000</u>	<u>450,000</u>
Issued and fully paid:		
3,500,000 (2012: 3,200,000) ordinary shares of Sh 100 each	<u>350,000</u>	<u>320,000</u>
During the year, the company increased its issued share capital by Sh 30,000,000 through the issue 300,000 new ordinary shares of Sh 100 each. The shares rank parri passu with the existing shares in all respects.		
26 OUTSTANDING CLAIMS PROVISION		
	2013 Sh '000	2012 Sh '000
At 1 January	951,843	654,472
Claims incurred and claim handling expenses	1,635,864	691,523
Payments for claims and claims handling expenses	(449,357)	(446,518)
Claims incurred but not reported	<u>61,868</u>	<u>52,366</u>
At 31 December	<u>2,200,218</u>	<u>951,843</u>

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.

2013	Gross outstanding claims Sh'000	Reinsurance share Sh'000	Net Sh'000
At 1 January 2013			
Notified claims	899,477	203,314	696,163
Incurred but not reported	52,366	18,843	33,523
	<hr/>	<hr/>	<hr/>
Total at beginning of year	951,843	222,157	729,686
Claims paid in year	449,357	163,843	285,514
Increase in liabilities:-			
- Arising from current year claims	799,018	890,327	(91,309)
	<hr/>	<hr/>	<hr/>
At end of year	2,200,218	1,276,327	923,891
	<hr/>	<hr/>	<hr/>
Notified claims	2,138,350	1,253,627	884,723
Incurred but not reported	61,868	22,700	39,168
	<hr/>	<hr/>	<hr/>
Total at end of year	2,200,218	1,276,327	923,891
	<hr/>	<hr/>	<hr/>
2012			
At 1 January 2012			
Notified claims	612,686	129,456	483,230
Incurred but not reported	41,786	13,951	27,835
	<hr/>	<hr/>	<hr/>
Total at beginning of year	654,472	143,407	511,065
Claims paid in year	446,519	111,602	334,917
Increase in liabilities:-			
- Arising from current year claims	(149,148)	(32,852)	(116,296)
	<hr/>	<hr/>	<hr/>
At end of year	951,843	222,157	729,686
	<hr/>	<hr/>	<hr/>
Notified claims	899,477	203,314	696,163
Incurred but not reported	52,366	18,843	33,523
	<hr/>	<hr/>	<hr/>
Total at end of year	951,843	222,157	729,686
	<hr/>	<hr/>	<hr/>

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 UNEARNED PREMIUMS RESERVE

	2013 Sh'000	2012 Sh'000
At 1 January	589,696	486,115
Increase in the year	126,842	103,581
At 31 December	<u>716,538</u>	<u>589,696</u>

29 DEFERRED REINSURANCE COMMISSIONS

At 1 January	84,730	84,449
Increase in the year	28,398	280
At 31 December	<u>113,128</u>	<u>84,729</u>

30 DEFERRED TAXATION LIABILITY

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

	2013 Sh'000	2012 Sh'000
(a) The net deferred tax liability is attributable to the following items:		
<i>Deferred tax liability:</i>		
Accelerated capital allowances	9,116	3,572
Unrealised exchange gains	1,223	588
Revaluation surplus	83,248	-
	<u>93,587</u>	<u>4,160</u>
<i>Deferred tax assets:</i>		
Unrealised exchange losses	(834)	(704)
Leave pay provision	(2,214)	(1,988)
	<u>(3,048)</u>	<u>(2,692)</u>
Net deferred tax liability	<u>90,539</u>	<u>1,468</u>
(b) Movement in deferred tax asset is as follows:		
At 1 January	1,468	(1,568)
Taxation charge (note 11(a))	61,030	3,036
Charge to other comprehensive income	28,041	-
At 31 December	<u>90,539</u>	<u>1,468</u>

MAYFAIR INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013 Sh'000	2012 Sh'000
31 OTHER PAYABLES		
Accrued expenses	3,292	8,395
Other liabilities	17,257	14,634
	<u>20,549</u>	<u>23,029</u>

32 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash generated from operations

Reconciliation of profit before taxation to cash generated from operations;

Profit before taxation	327,737	44,905
Adjustments for:		
Depreciation (note 13)	13,852	13,612
Depreciation of investment property (note 15)	5,582	5,431
Amortisation of intangible asset (note 14)	2,507	2,284
Gain on disposal of equity instruments available for sale	1,001	(1,554)
(Gain)/loss on disposal of property and equipment	(392)	4,101
Amortization of corporate bond	209	245
Fair value gain on investment properties	(184,022)	-
Changes in:		
- receivables arising out of reinsurance arrangements	(34,666)	(8,661)
- receivables arising out of direct insurance arrangements	17,223	(41,519)
- reinsurers share of technical provisions and reserves	(1,115,231)	(141,487)
- deferred acquisition cost	(12,956)	(17,845)
- other receivables	(5,087)	59,500
- outstanding claims provisions	1,248,375	297,370
- unearned premiums reserve	126,842	103,582
- payables arising out of reinsurance arrangements	46,812	42,124
- payables arising out of direct insurance arrangements	1,231	(1,874)
- deferred reinsurance commission	28,399	280
- other payables	(2,480)	10,303
Cash generated from operations	<u>464,936</u>	<u>370,797</u>

(b) Analysis of cash and cash equivalents

Cash and bank balances	20,744	19,848
Government securities maturing within 3 months (note 21)	120,154	60,667
Deposits with financial institutions maturing in 3 months (note 23)	695,250	472,974
At 31 December	<u>836,148</u>	<u>553,489</u>

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

	2013 Sh'000	2012 Sh'000
33 RELATED PARTIES		
The following transactions were carried out with related parties:		
Directors' fees	<u>776</u>	<u>330</u>
Directors and key management remuneration	<u>62,739</u>	<u>57,157</u>
Balances with related parties:		
Mayfair Insurance Company (Zambia) Limited (note 20)	<u>27,625</u>	<u>27,625</u>

The company has an investment in Mayfair Insurance Company Zambia Limited. The balance advanced to Mayfair insurance Company Zambia Limited represents a short term advance to meet operational needs and is recoverable on demand.

34 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 2013 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.

35 DIVIDENDS

The directors recommend a first and final dividend of Sh 5.71 (2012: Sh 4.375) per share for the year amounting to Sh 20,000,000 (2012: Sh 14,000,000). The payment of the dividend is subject to shareholders approval at the annual general meeting to be held on 19 March 2014.

The movement in the dividend account is as follows:

	2013 Sh'000	2012 Sh'000
Payable at 1 January	-	-
Final dividend declared	14,000	12,500
Dividends paid	<u>(14,000)</u>	<u>(12,500)</u>
At 31 December	<u>-</u>	<u>-</u>

SUPPLEMENTARY INFORMATION

MAYFAIR INSURANCE COMPANY LIMITED

COMPANY REVENUE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2013

Class of insurance business	Aviation Sh'000	Engineering Sh'000	Fire Domestic Sh'000	Fire Industrial Sh'000	Liability Sh'000	Marine Sh'000	Motor Private Sh'000	Motor Commercial Sh'000	Personal Accident Sh'000	Theft Sh'000	Workmen's Compensation Sh'000	Miscellaneous Sh'000	2013 Total Sh'000	2012 Total Sh'000
Gross premium written	7,909	188,170	36,931	213,032	10,200	116,104	211,772	227,727	27,812	101,582	233,277	126,770	1,503,286	1,258,446
Change in gross UPR	2,791	7,612	3,004	532	774	1,446	8,451	7,838	1,038	1,064	29,027	2,203	65,780	40,842
Gross earned premiums	5,118	180,558	33,927	212,500	9,426	114,658	203,321	219,889	26,774	100,518	206,250	124,567	1,437,506	1,217,604
Premium ceded to re-insurers	7,901	155,221	22,562	197,432	2,181	70,301	4,707	8,448	20,808	75,161	3,705	104,611	673,038	549,540
Net earned premium	(2,783)	25,337	11,365	15,068	7,245	44,357	198,614	211,441	5,966	25,357	202,545	19,956	764,468	668,064
Claims paid	0	5,317	5,085	4,658	3,194	18,425	130,331	65,841	3,785	20,336	27,854	686	285,512	302,271
Claims outstanding brought forward	0	11,157	2,866	3,773	8,311	50,133	103,997	173,399	449	20,898	311,044	43,658	729,685	511,065
Claims outstanding carried forward	0	9,167	7,971	11,112	8,823	49,792	117,128	244,850	433	19,533	403,308	51,774	923,891	729,686
Claims incurred	0	3,327	10,190	11,997	3,706	18,084	143,462	137,292	3,769	18,971	120,118	8,802	479,718	520,892
Commissions (net)	(528)	(12,304)	455	(8,560)	1,324	692	20,056	21,903	(742)	(1,340)	41,482	(23,239)	39,199	16,865
Expenses of management	934	22,221	4,361	25,157	1,205	13,711	25,008	26,892	3,284	11,996	27,784	14,970	177,523	162,126
Premium Tax	91	2,156	423	2,441	117	1,330	2,426	2,609	319	1,164	2,695	1,452	17,223	14,482
Total expenses	497	12,073	5,239	19,038	2,646	15,733	47,490	51,404	2,861	11,820	71,961	(6,817)	233,945	193,473
Underwriting (loss)/profit	(3,280)	9,937	(4,064)	(15,967)	893	10,540	7,662	22,745	(664)	(5,434)	10,466	17,971	50,805	(46,301)

Director

Director

Managing Director