# MAYFAIR INSURANCE COMPANY LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS

## 31 DECEMBER 2014

MAYFAIR INSURANCE COMPANY LIMITED

# ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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MAYFAIR INSURANCE COMPANY LIMITED

## CORPORATE INFORMATION

| | | |
|---|---|---|
| DIRECTORS | Joe W Okwach | - Chairman |
| | Tushar Shah | - Managing Director |
| | Ambrose D Rachier | |
| | Bharat V Shah | |
| | Edward K Muriu | |
| | Hanif Somji | |
| | Vishal Patel | |
| | Harish Shah | |
| | Shehnaz Sumar | - 18th June 2014 |
| MANAGEMENT | Tushar Shah | - Managing Director |
| | Shehnaz Sumar | - Executive Director |
| | S K Singh | - General Manager |
| | James Ndegwa | - Manager - Reinsurance |
| | Lakshmi Mogalapalli | - Manager - Finance |
| SECRETARY | Pauline Munyua<br>Certified Company Secretary (Kenya)<br>P O Box 45761 - 00100<br>Nairobi | |
| REGISTERED OFFICE | 8th Floor, Mayfair Centre<br>Ralph Bunche Road<br>P O Box 45161 - 00100 GPO<br>Nairobi | |
| AUDITORS | Deloitte & Touche<br>Certified Public Accountants (Kenya)<br>Deloitte Place<br>Waiyaki Way, Muthangari<br>P O Box 40092 - 00100<br>Nairobi | |
| ADVOCATES | Coulson Harney<br>5th Floor, West Wing, ICEA Lion Centre<br>Riverside Park, Chiromo Road<br>PO Box 10643 - 00100<br>Nairobi | |
| BANKERS | CFC Stanbic Bank Limited<br>Kenyatta Avenue<br>P O Box 72833 - 00200<br>Nairobi | |
| | Kenya Commercial Bank Limited<br>Kipande House<br>P O Box 30012 - 00100<br>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 2014, 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 | 360,111 |
| Taxation charge | (102,410) |
| Profit for the year transferred to retained earnings | 257,701 |

## DIVIDEND

The Directors recommend the issue of bonus shares in lieu of cash dividend. In this respect, the directors recommend the issue of one new share for every two held. (2013: Cash dividend of Sh 5.71 per share amounting to Sh 20,000,000). The issue of bonus shares is subject to shareholders approval at the annual general meeting.

## DIRECTORS

The current directors are as listed on page 2.

## AUDITORS

The Directors recommend the appointment of Price Water House Coopers as Company Auditors in accordance with section 159(2) of the Kenyan Companies Act (CAP 486), subject to approval by the Commissioner of Insurance under section 56(4) of the Kenyan Insurance Act.

BY ORDER OF THE BOARD

PAULINE WAIRIMU MUNYUA P/CPSB/1065

Pauline Munyua

Secretary

Nairobi

24th March 2015

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** |

**24th March 2015**

MAYFAIR INSURANCE COMPANY LIMITED

REPORT OF THE CONSULTING ACTUARY

I have conducted an Insurance Liability Valuation of the short-term business of Mayfair Insurance Company Limited as at 31 December 2014.

The valuation was conducted in accordance with generally accepted actuarial principles and the requirements of the Kenyan Insurance Act. These principles require prudent provision for the insurance liabilities.

I verify that the calculation of the short term insurance liabilities as at 31 December 2014 is appropriate. I am satisfied that the insurance liabilities as per the valuation are sufficiently prudent and appropriate given the nature of the business and existing liabilities.

**James I. O. Olubayi**
**Fellow of the Institute of Actuaries**

Alexander Forbes Financial Services (E.A.) Limited
Nairobi

24 March 2015



**Alexander Forbes Financial Services (East Africa) Limited** 10th Floor Landmark Plaza Argwings Kodhek Road Opposite Nairobi Hospital P. O. Box 52439 City Square, Nairobi 00200, Kenya
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# Deloitte.

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# INDEPENDENT AUDITORS' REPORT
# TO THE MEMBERS OF MAYFAIR INSURANCE COMPANY LIMITED

**Report on the Financial Statements**

We have audited the accompanying financial statements of Mayfair Insurance Company Limited ("the company"), set out on pages 8 to 45, which comprise the statement of financial position as at 31 December 2014, 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 2014 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*

Without qualifying our opinion, we draw your attention to note 20 to the financial statements which indicates that the other receivables as at 31 December 2014 include a deposit of Sh 32,417,000 held 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.

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* ***FCPA J W Wangai – P/No 1118.***

Deloitte & Touche

**Certified Public Accountants (Kenya)**
**Nairobi, Kenya**

24 March 2015

MAYFAIR INSURANCE COMPANY LIMITED

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

| | Notes | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|---|
| GROSS EARNED PREMIUMS | 5 | 1,778,960 | 1,437,506 |
| LESS: REINSURANCE PREMIUMS CEDED | | (849,196) | (673,038) |
| **NET EARNED PREMIUMS** | | **929,764** | **764,468** |
| INVESTMENT INCOME | 6 | 192,899 | 292,012 |
| COMMISSIONS EARNED | | 231,169 | 172,642 |
| OTHER INCOME | 7 | 1,358 | 4,568 |
| **TOTAL INCOME** | | **1,355,190** | **1,233,690** |
| NET CLAIMS INCURRED | 8 | (469,175) | (479,718) |
| OPERATING AND OTHER EXPENSES | 9 | (281,895) | (214,394) |
| COMMISSIONS PAYABLE | | (244,009) | (211,841) |
| TOTAL EXPENSES | | (995,079) | (905,953) |
| **PROFIT BEFORE TAXATION** | | 360,111 | 327,737 |
| TAXATION CHARGE | 11(a) | (102,410) | (97,615) |
| **PROFIT FOR THE YEAR** | | **257,701** | **230,122** |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Fair value gains on available for sale equity investments | 17 | 18,214 | 161,014 |
| Exchange gain/ (loss) on available for sale equity investments | 17 | 14,102 | (1,676) |
| Surplus on revaluation of building | | 13,364 | 93,470 |
| Deferred taxation on revaluation surplus | 30(b) | (4,009) | (28,041) |
| Total other comprehensive income | | 41,671 | 224,767 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **299,372** | **454,889** |
| **EARNINGS PER SHARE (BASIC AND DILUTED)** | 12 | **73.63** | **65.75** |

MAYFAIR INSURANCE COMPANY LIMITED

## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2014

| ASSETS | Notes | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|---|
| Property and equipment | 13 | 256,033 | 241,231 |
| Intangible assets | 14 | 1,891 | 2,970 |
| Investment properties | 15 | 389,357 | 370,816 |
| Investment in joint arrangements | 16 | 263,032 | 194,271 |
| Available for sale equity investments | 17 | 693,046 | 400,119 |
| Receivables arising out of direct insurance arrangements | | 223,256 | 118,972 |
| Receivables arising out of reinsurance arrangements | | 11,354 | 47,767 |
| Reinsurers' share of technical provisions and reserves | 18 | 599,232 | 1,607,540 |
| Deferred acquisition costs | 19 | 87,614 | 105,750 |
| Other receivables | 20 | 73,059 | 81,369 |
| Government securities - held to maturity | 21 | 334,893 | 289,292 |
| Corporate bonds - held to maturity | 22 | 112,164 | 26,770 |
| Deposits with financial institutions | 23 | 676,560 | 695,250 |
| Cash and bank balances | | 24,324 | 20,744 |
| **Total assets** | | **3,745,815** | **4,202,861** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 25 | 350,000 | 350,000 |
| Investments revaluation reserve | | 251,591 | 219,275 |
| Property revaluation reserve | | 74,784 | 65,429 |
| Retained earnings | | 513,213 | 275,512 |
| **Total equity** | | **1,189,588** | **910,216** |
| **Liabilities** | | | |
| Outstanding claims provision | 26 | 1,395,830 | 2,200,218 |
| Unearned premiums reserve | 28 | 691,613 | 716,538 |
| Payables arising from insurance arrangements | | 5,428 | 5,390 |
| Payables arising out of reinsurance arrangements | | 159,058 | 123,979 |
| Deferred reinsurance commissions | 29 | 84,643 | 113,128 |
| Deferred tax liability | 30 | 105,887 | 90,539 |
| Other payables | 31 | 63,363 | 20,549 |
| Corporate tax payable | 11(c) | 50,405 | 22,304 |
| **Total liabilities** | | **2,556,227** | **3,292,645** |
| **Total liabilities and equity** | | **3,745,815** | **4,202,861** |

The financial statements on pages 8 to 45 were approved and authorised for issue by the board of directors on 24th March 2015 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 2014

| | 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 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 | 35 | 30,000 | - | - | - | 30,000 |
| Dividend paid – 2012 | | - | - | - | (14,000) | (14,000) |
| 31 December 2013 | | 350,000 | 219,275 | 65,429 | 275,512 | 910,216 |
| At 1 January 2014 | | 350,000 | 219,275 | 65,429 | 275,512 | 910,216 |
| Profit for the year | | - | - | - | 257,701 | 257,701 |
| Other comprehensive income | | - | 32,316 | 9,355 | - | 41,671 |
| Total comprehensive income for the year | | - | 32,316 | 9,355 | 257,701 | 299,372 |
| Dividend paid – 2013 | 35 | - | - | - | (20,000) | (20,000) |
| 31 December 2014 | | 350,000 | 251,591 | 74,784 | 513,213 | 1,189,588 |

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 2014

| | Notes | 2014<br>Sh'000 | 2013<br>Sh'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 32(a) | 525,886 | 464,936 |
| Tax paid | 11(c) | (62,970) | (15,435) |
| Net cash generated from operating activities | | 462,916 | 449,501 |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | 13 | (19,670) | (13,324) |
| Proceeds of disposal of property and equipment | | - | 740 |
| Purchase of intangible assets | 14 | (1,740) | (1,953) |
| Investment in joint arrangements | 16 | (68,761) | (125,671) |
| Purchase of available for sale equity investments | 17 | (438,654) | (18,703) |
| Proceeds of disposal of available for sale equity investments | | 201,757 | 2,990 |
| Net investments in treasury bonds maturing after 90 days | | 662 | (29,435) |
| Proceeds from fixed deposits maturing after 90 days | | - | 2,514 |
| Net investments in corporate bonds | 22 | (85,394) | - |
| Net cash used in investing activities | | (411,800) | (182,842) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | - | 30,000 |
| Dividends paid | 35 | (20,000) | (14,000) |
| Net cash (used in)/generated from financing activities | | (20,000) | 16,000 |
| **Increase in cash and cash equivalents** | | 31,116 | 282,659 |
| **Cash and cash equivalents at 1 January** | | 836,148 | 553,489 |
| **Cash and cash equivalents at 31 December** | 32(b) | 867,264 | 836,148 |

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.

For the Kenyan Companies Act reporting purposes, in these financial statements the balance sheet is represented by or is equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

**Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC)**

*(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2014*

At the date of authorisation of these financial statements, various revised standards and interpretations were issued and effective. These standards and interpretations did not result in any changes in the accounting policies or result in any material impact on the financial statements.

*(ii) Relevant new and amended interpretations in issue but not yet effective in the year ended 31 December 2014*

| *New and Amendments to standards* | Effective for annual periods beginning on or after |
|---|---|
| IFRS 9 | 1 January 2018 |
| IFRS 15 | 1 January 2017 |

*(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 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. .

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required 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 value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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 2014 and future annual periods (Continued)*

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

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that 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 presented 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. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The directors anticipate that the application of IFRS 9 in the future may have a 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 the effect of IFRS 9 until a detailed review has been completed by the company.

**IFRS 15 Revenue from Contracts with Customers**

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

*(iv) Early adoption of standards*

The company did not early-adopt new or amended standards in 2014.

1 ACCOUNTING POLICIES (Continued)

**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 365th basis. The basis applied previously was 1/24 th method. The excess proportion attributable to the previous periods resulting from the change is accounted for in the current year under Gross Earned Premiums.

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

Investment income is stated net of investment expenses. Interest income for all interest bearing financial instruments is recognised using the effective interest method. Dividends income on available for sale equities is recognised as income in the period in which the right to receive payment is established. Rental income from operating leases is recognised on a straight line basis over the term of the lease.

**Reinsurance**

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

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

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

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

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

**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.

1 ACCOUNTING POLICIES (Continued)

**Claims incurred**

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims provisions represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the reporting date, but not settled at that date.

Outstanding claims provisions are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported ("IBNR") at the reporting date based on the company's experience but subject to the minimum percentage set by the Commissioner of Insurance. Outstanding claims are not discounted.

**Commissions payable and deferred acquisition costs**

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

**Insurance contract liabilities**

Insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims and therefore the ultimate cost of this category of claims cannot be known with certainty at the reporting date.

The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

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

**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.

1 ACCOUNTING POLICIES (Continued)

**Retirement benefit obligations**

The company operates a defined contribution scheme for its employees. The assets of the scheme are held in a separate trustee administered fund. The scheme is funded by contributions from both the employees and the employer, with the employer contributing 10% while the employee contribution is voluntary.

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

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

**Taxation**

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

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the reporting date are used to determine deferred tax.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

**Investment properties**

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 periodically 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 2014 on an open market value basis using the highest and best use valuation model.

1 ACCOUNTING POLICIES (Continued)

**Property and equipment (Continued)**

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.

**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.

1 ACCOUNTING POLICIES (Continued)

**Financial instruments**

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

***Financial assets***

*Classification*

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

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

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

*ii) Loans and receivables*

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

*iii) Held-to-maturity financial assets*

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

*iv) Available-for-sale financial assets*

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

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.

1 ACCOUNTING POLICIES (Continued)

***Financial assets* (Continued)**

*Recognition of financial assets (Continued)*

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***

*Other financial liabilities*

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

*Derecognition of financial liabilities*

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

**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.

1 ACCOUNTING POLICIES (Continued)

**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.

2 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATED UNCERTAINITY

In the process of applying the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

*The ultimate liability arising from claims made under insurance contracts*

The main assumption underlying 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.

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

*Classification of leases of land as finance or operating leases*

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

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

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

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

*Impairment*

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

*Property and equipment*

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

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.

3 RISK MANAGEMENT (Continued)

**Management of Insurance and financial risk (Continued)**

**(i) Insurance risk**

Insurance risk in the company arises from:

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

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

*Core insurance risk*

This risk is managed through:

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

*Reinsurance planning*

Reinsurance purchases are reviewed annually to verify that the levels of protection being sought reflect developments in exposure and risk appetite of the company. The bases of these purchases 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 upon registration of a claim, and this is updated as and when additional information is obtained and annual reviews done to ensure that the reserves are adequate. Management is regularly provided with claims settlement reports to inform on the reserving performance.

3 RISK MANAGEMENT (Continued)

(i) **Insurance risk (Continued)**

**Short-term insurance contracts**

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

| **31 December 2014** | Carrying amount Sh'000 | 0 - 1 yrs Sh'000 | 1 - 5 yrs Sh'000 | > 5 yrs Sh'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Equity instruments available for sale | 693,046 | 693,046 | - | - |
| Receivable arising out of direct insurance arrangements | 223,256 | 223,256 | - | - |
| Other receivables | 73,059 | 73,059 | - | - |
| Investment in joint arrangements | 263,032 | 263,032 | - | - |
| Held to maturity | | | | |
| -Government securities | 334,893 | 166,380 | 10,010 | 158,503 |
| -Corporate bonds | 112,164 | 112,164 | - | - |
| -Deposits with financial institutions | 676,560 | 676,560 | - | - |
| Cash and bank balances | 24,274 | 24,274 | - | - |
| Total | 2,400,284 | 2,231,771 | 10,010 | 158,503 |
| **Short term insurance liabilities** | | | | |
| Outstanding claims provisions | 1,395,830 | - | - | - |
| Payables arising out of reinsurance arrangements | 159,058 | - | - | - |
| Deferred reinsurance commissions | 84,643 | - | - | - |
| Other payables | 63,363 | - | - | - |
| Less reinsurers share of technical provisions | (599,232) | - | - | - |
| Total | 1,103,662 | - | - | - |
| Difference in contractual cash flows | 1,296,622 | 2,231,771 | 10,010 | 158,503 |

3 RISK MANAGEMENT (Continued)

(i) **Insurance risk (Continued)**

**Short-term insurance contracts (Continued)**

| **31 December 2013** | Carrying Amount Sh'000 | 0 - 1 yrs Sh'000 | 1 - 5 yrs Sh'000 | > 5 yrs Sh'000 |
|---|---|---|---|---|
| **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 |

(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.

3 RISK MANAGEMENT (Continued)

**(ii) Financial risks**

**(a) Market risk (Continued)**

(i) Interest rate risk (Continued)

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.

| | 2014 Sh'000 | | 2013 Sh'000 | |
|---|---|---|---|---|
| | Effect on profit | Effect on equity | Effect on profit | Effect on equity |
| + 5 percentage point movement | 35,073 | 33,828 | 48,263 | 34,763 |
| - 5 percentage point movement | (35,073) | (33,828) | (48,263) | (34,763) |

(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 Securities 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.

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| Effect on other comprehensive income | | |
| +5% movement | 13,349 | 9,997 |
| -5% movement | (13,349) | (9,997) |

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 translation of US Dollar denominated available for sale equity investments.

| | 2014<br>Sh'000 | 2013<br>Sh'000 |
|---|---|---|
| Effect on other comprehensive income | | |
| +5 percentage point movement | 10,147 | 159 |
| -5 percentage point movement | (10,147) | (159) |

(b) **Credit risk**

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

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

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

3 RISK MANAGEMENT (Continued)

**(ii) Financial risks (Continued)**

**(b) Credit risk (Continued)**

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

| | Fully performing Sh'000 | Past due Sh'000 | Impaired Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| **31 December 2014** | | | | |
| Receivable arising out of direct insurance arrangements | 223,256 | - | - | 223,256 |
| Receivable arising out of reinsurance arrangements | 11,354 | - | - | 11,354 |
| Held to maturity: | | | | |
| -Government securities | 334,893 | - | - | 334,893 |
| -Corporate bonds | 112,164 | - | - | 112,164 |
| -Deposits with financial institutions | 676,560 | - | - | 676,560 |
| Other receivables: | | | | |
| -Deposits with institutions under statutory management | - | 32,417 | - | 32,417 |
| Cash and bank balances | 24,274 | - | - | 24,274 |
| | 1,382,501 | 32,417 | - | 1,414,918 |
| **31 December 2013** | | | | |
| Receivable arising out of direct insurance arrangements | 118,972 | - | - | 118,972 |
| Receivable arising out of reinsurance arrangements | 47,767 | - | - | 47,767 |
| 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 |
| | 1,226,420 | 32,417 | - | 1,258,837 |

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.

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 2014** | | | | |
| Payables arising from | | | | |
| - reinsurance arrangements | 159,058 | - | - | 159,058 |
| - insurance arrangements | 5,428 | - | - | 5,428 |
| Outstanding claims provisions | 1,395,830 | - | - | 1,395,830 |
| Less reinsurers share of technical provisions | (599,232) | - | - | (599,232) |
| | 961,084 | - | - | 961,084 |
| **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 |
| Less reinsurers share of technical provisions | (1,607,540) | - | - | (1,607,540) |
| | 722,047 | - | - | 722,047 |

## 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:

| | 2014<br>Sh'000 | 2013<br>Sh'000 |
|---|---|---|
| Share capital | 350,000 | 350,000 |
| Investment revaluation reserve | 251,591 | 219,275 |
| Property revaluation reserve | 74,784 | 65,429 |
| Retained earnings | 513,213 | 275,512 |
| **Equity** | **1,189,588** | **910,216** |
| Total borrowings | - | - |
| **Gearing** | - | - |

## 5 GROSS EARNED PREMIUMS

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| Motor | 481,249 | 423,210 |
| Fire | 364,810 | 246,427 |
| Workmen's compensation | 288,296 | 206,250 |
| Marine | 133,940 | 114,659 |
| Personal accident | 34,877 | 26,773 |
| Engineering | 214,138 | 180,559 |
| Aviation | 7,711 | 5,118 |
| Miscellaneous | 114,165 | 124,567 |
| Theft | 117,010 | 100,518 |
| Liability | 22,764 | 9,425 |
| | 1,778,960 | 1,437,506 |

## 6 INVESTMENT INCOME

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| Fair value gain on investment properties (Note 15) | 18,541 | 184,022 |
| Interest on bank deposits | 79,968 | 56,435 |
| Interest on Government securities | 29,726 | 24,515 |
| Interest on corporate bonds | 7,409 | 3,390 |
| Amortization of corporate bonds | (173) | (209) |
| Rental income from investment properties | 22,244 | 19,229 |
| Dividends receivable on equity instruments | 11,431 | 5,631 |
| Gain/ (loss) on disposal of equity instruments | 23,753 | (1,001) |
| | 192,899 | 292,012 |

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

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| Loans and receivables (including bank and cash balances) | 79,968 | 56,435 |
| Held-to-maturity investments | 36,962 | 27,696 |
| Available for sale financial assets | 35,184 | 4,630 |
| Investment income earned on non financial assets | 40,785 | 203,251 |
| Total investment income | 192,899 | 292,012 |

## 7 OTHER INCOME

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| Miscellaneous income | 1,191 | 1,116 |
| Foreign exchange gains-net | 167 | 3,452 |
| | 1,358 | 4,568 |

| | | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|---|
| 8 | CLAIMS INCURRED | | |
| | **Claims incured by principal class of business:** | | |
| | Motor | 307,934 | 280,755 |
| | Workmen's compensation | 68,165 | 120,118 |
| | Marine | 22,339 | 18,084 |
| | Theft | 12,614 | 18,971 |
| | Fire | 30,271 | 22,185 |
| | Engineering | 18,035 | 3,327 |
| | Personal accident | 3,042 | 3,769 |
| | Other | 6,775 | 12,509 |
| | | 469,175 | 479,718 |

| | | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|---|
| 9 | OPERATING AND OTHER EXPENSES | | |
| | Staff costs (note 10) | 136,371 | 113,571 |
| | Depreciation of property, plant and equipment (note 13) | 18,232 | 13,852 |
| | Amortisation of computer software (note 14) | 2,819 | 2,507 |
| | Subscriptions | 2,022 | 2,047 |
| | Repairs and maintenance expenditure | 6,044 | 4,659 |
| | Rent, rates and parking | 5,148 | 5,020 |
| | Printing and stationery | 5,965 | 4,227 |
| | Telephone and postage | 5,841 | 4,424 |
| | Traveling and entertainment | 13,586 | 13,004 |
| | Advertising costs | 7,198 | 4,129 |
| | Licences and insurance | 7,207 | 3,869 |
| | Auditors' remuneration | 3,265 | 3,872 |
| | Directors' emoluments | 1,826 | 776 |
| | Premium tax | 18,762 | 17,223 |
| | Gain on disposal of equipment | - | (392) |
| | Other expenses | 47,609 | 21,606 |
| | | 281,895 | 214,394 |

| | | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|---|
| 10 | STAFF COSTS | | |
| | Salaries and benefits | 125,767 | 105,910 |
| | Defined contribution retirement schemes | | |
| | - Pension fund | 10,404 | 7,475 |
| | - National Social Security fund | 200 | 186 |
| | | 136,371 | 113,571 |

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|

## 11 TAXATION

**a) Taxation charge**

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| Current tax expense in respect of the year | 91,071 | 36,585 |
| Deferred tax – charge recognised (Note 30) | 11,339 | 61,030 |
| Total income tax expense | 102,410 | 97,615 |

**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.

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| Profit before taxation | 360,111 | 327,737 |
| Tax calculated at a tax rate of 30% | 108,033 | 98,321 |
| Tax effect of: | | |
| - Income not subject to tax | (17,814) | (2,521) |
| - Expenses not deductible for tax purposes | 12,191 | 1,815 |
| | 102,410 | 97,615 |

**c) Corporate tax payable**

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| At 1 January | 22,304 | 1,154 |
| Taxation charge - Note (a) | 91,071 | 36,585 |
| Tax paid | (62,970) | (15,435) |
| At 31 December | 50,405 | 22,304 |

## 12 EARNINGS PER SHARE – BASIC AND DILUTED

| | 2014 | 2013 |
|---|---|---|
| Profit for the year (Sh '000) | 257,701 | 230,122 |
| Weighted average number of shares in issue during the year | 3,500,000 | 3,500,000 |
| Earnings per share (basic and diluted) (Sh) | 73.63 | 65.75 |

## 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 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 |
| At 1 January 2014 | 170,067 | 41,943 | 4,067 | 10,766 | 50,102 | 276,945 |
| Additions | - | 5,727 | 5,113 | 2,920 | 5,910 | 19,670 |
| Surplus on revaluation | 8,503 | - | - | - | - | 8,503 |
| At 31 December 2014 | 178,570 | 47,670 | 9,180 | 13,686 | 56,012 | 305,118 |
| **Comprising** | | | | | | |
| At cost | 82,708 | 47,670 | 9,180 | 13,686 | 56,012 | 209,256 |
| At valuation - 2014 | 95,862 | - | - | - | - | 95,862 |
| At 31 December 2014 | 178,570 | 47,670 | 9,180 | 13,686 | 56,012 | 305,118 |
| **Depreciation** | | | | | | |
| 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 |
| At 1 January 2014 | - | 11,283 | 1,956 | 7,314 | 15,161 | 35,714 |
| Charge for the year | 4,861 | 4,547 | 1,806 | 1,911 | 5,107 | 18,232 |
| Eliminated on revaluation | (4,861) | - | - | - | - | (4,861) |
| At 31 December 2014 | - | 15,830 | 3,762 | 9,225 | 20,268 | 49,085 |
| **Net book value** | | | | | | |
| At 31 December 2014 | 178,570 | 31,840 | 5,418 | 4,461 | 35,744 | 256,033 |
| At 31 December 2013 | 170,067 | 30,660 | 2,111 | 3,452 | 34,941 | 241,231 |
| **Net book value (Cost basis)** | | | | | | |
| At 31 December 2014 | 71,736 | 31,840 | 5,418 | 4,461 | 35,744 | 149,199 |
| At 31 December 2013 | 76,597 | 30,660 | 2,111 | 3,452 | 34,941 | 147,761 |

The building was last revalued on 31 December 2013 by Gimco Limited, Registered valuers, on an open market value basis using the highest and best use valuation principle. The directors, in consultation with the valuers, (Gimco), have determined the latest fair valuation of the properties as at 31 December 2014 based on the available market information.

## 13 PROPERTY AND EQUIPMENT (Continued)

The net surplus on revaluation of Sh 13,364,000 has been credited to a revaluation reserve in principle.

Details of the fair value hierarchy of the company's property held at fair value as at 31 December 2014 are as follows:

| | Level 1 Sh'000 | Level 2 Sh'000 | Level 3 Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| 31 December 2014 | - | 178,570 | - | 178,570 |
| 31 December 2013 | - | 170,067 | - | 170,067 |

## 14 INTANGIBLE ASSETS - COMPUTER SOFTWARE

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| **Cost** | | |
| At 1 January | 12,981 | 11,028 |
| Additions | 1,740 | 1,953 |
| At 31 December | 14,721 | 12,981 |
| **Amortisation** | | |
| At 1 January | 10,011 | 7,504 |
| Charge for the year | 2,819 | 2,507 |
| At 31 December | 12,830 | 10,011 |
| Net book value | 1,891 | 2,970 |

## 15 INVESTMENT PROPERTIES

| | 2014 | 2013 |
|---|---|---|
| **At fair valuation** | | |
| At 1 January | 370,816 | 186,794 |
| Fair value gain | 18,541 | 184,022 |
| At 31 December | 389,537 | 370,816 |
| Net fair value gain credited to profit or loss (note 6) | 18,541 | 184,022 |

## 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 last revalued on 31 December 2013 by Gimco Limited, Registered valuers, on an open market value basis using the highest and best use valuation principle. The directors, in consultation with the valuers, (Gimco), have determined the latest fair valuation of the properties as at 31 December 2014 based on the available market information.

Rental income arising from investment properties during the year amounted to Ksh 22,243,604 (2013: Ksh 19,229,056) as disclosed in note 6. Expenses relating to investment property amounted to Ksh 1,285,645 (2013: Ksh 4,658,939).

Details of the fair value hierarchy of the company's Investment property held at fair value as at 31 December 2014 are as follows:

| | Level 1 Sh'000 | Level 2 Sh'000 | Level 3 Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| 31 December 2014 | - | 389,357 | - | 389,357 |
| 31 December 2013 | - | 370,816 | - | 370,816 |

## 16 INVESTMENT IN JOINT ARRANGEMENTS

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| At 1 January | 194,271 | 68,600 |
| Additions | 68,761 | 125,671 |
| At 31 December | 263,032 | 194,271 |

| Name of joint arrangement | Principal activity | Place of incorporation | Proportion of ownership interest held by the company | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|---|---|---|
| Mayfair Estates Limited | Real Estate | Kenya | 50% | 69,350 | 68,600 |
| Kitisuru Development Limited | Real Estate | Kenya | 20% | 87,862 | 20,200 |
| Sealine Holdings Limited | Real Estate | Kenya | 20% | 63,180 | 62,831 |
| Rushmore Investments Limited | Real Estate | Kenya | 20% | 42,640 | 42,640 |
| | | | | 263,032 | 194,271 |

## 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:

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| **Summarised statement of financial position** | | |
| Total assets | 139,720 | 137,120 |
| Total liabilities | 139,936 | 137,336 |
| Net liabilities | (216) | (216) |
| **Summarised statement of profit and loss and other comprehensive income** | | |
| Income | 70 | - |
| Loss before taxation | (330) | (85) |
| Taxation credit | 99 | 26 |
| Loss for the year | (231) | (59) |
| **Summarised statement of cash flows** | | |
| Net cash (used in)/ generated from operating activities | (1,117) | 36,174 |
| Net cash used in investing activities | (2,600) | (72,800) |
| Net cash generated from financing activities | 2,600 | 35,984 |
| Net decrease in cash and cash equivalents | (1,117) | (644) |
| Cash and cash equivalents at beginning of year | 1,673 | 2,317 |
| Cash and cash equivalents at end of year | 556 | 1,673 |

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

## 17 AVAILABLE FOR SALE EQUITY INSTRUMENTS

| | Quoted shares Sh'000 | Unquoted equity investments Sh'000 | Total Sh'000 |
|---|---|---|---|
| **2014** | | | |
| At 1 January | 199,930 | 200,190 | 400,120 |
| Additions | 239,600 | 199,054 | 438,654 |
| Disposals | (178,044) | - | (178,044) |
| Exchange gains | - | 14,102 | 14,102 |
| Fair value gains through other comprehensive income | 5,485 | 12,729 | 18,214 |
| At 31 December | 266,971 | 426,075 | 693,046 |
| **2013** | | | |
| At 1 January | 111,817 | 114,252 | 226,069 |
| Additions | 1,076 | 17,627 | 18,703 |
| Disposals | (3,991) | - | (3,991) |
| Exchange gains | - | (1,676) | (1,676) |
| Fair value gains through other comprehensive income | 91,028 | 69,986 | 161,014 |
| At 31 December | 199,930 | 200,189 | 400,119 |

The unquoted investments relate to ordinary shares in PTA Reinsurance Company Limited, Family Bank Company Limited, UAP Insurance, Mayfair Insurance Company (Zambia) Limited and Mayfair Bank (yet to be incorporated) . The investments are carried at fair value and are denominated in the US Dollar in the case of the investment in PTA Reinsurance and in Kenya shillings in all other cases. 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.

On 19th September 2014, the shareholders of Mayfair Insurance Company Zambia Limited, approved the proposed increase in the authorised share capital and consequently, Mayfair Insurance Company Limited increased its shareholding through additional capital injection and capitalisation of an amount due from Mayfair Insurance Company Zambia Limited. The impact of applying equity method would not have a significant impact on the carrying value of the investment in associate. The increase in share capital has been treated as funds awaiting allotment of shares in the financial statements of Mayfair Insurance Company Zambia Limited as at 31 December 2014.

## 17 AVAILABLE FOR SALE EQUITY INSTRUMENTS (Continued)

Details of the fair value hierarchy of the company's Available for sale financial instruments as at 31 December 2014 are as follows:

| | Level 1 Sh'000 | Level 2 Sh'000 | Level 3 Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| **31 December 2014** | | | | |
| Available for sale | | | | |
| - Equity instruments | 266,971 | 426,075 | - | 693,046 |
| **31 December 2013** | | | | |
| Available for sale | | | | |
| - Equity instruments | 199,930 | 200,190 | - | 400,119 |

## 18 REINSURERS' SHARE OF TECHNICAL PROVISIONS AND RESERVES

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| Reinsurers' share of - unearned premiums | 330,972 | 331,213 |
| - notified claims (note 27) | 162,588 | 1,253,627 |
| - claims incurred but not reported (note 27) | 105,672 | 22,700 |
| | 599,232 | 1,607,540 |

## 19 DEFERRED ACQUISITION COSTS

| | | |
|---|---|---|
| At 1 January | 105,750 | 92,794 |
| (Decrease)/increase in the year | (18,136) | 12,956 |
| At 31 December | 87,614 | 105,750 |

## 20 OTHER RECEIVABLES

| | | |
|---|---|---|
| Deposit held at financial institution under statutory management* | 32,417 | 32,417 |
| Prepayments and deposits | 793 | 759 |
| Sundry receivables | 39,849 | 20,568 |
| Due from a related company (note 33) | - | 27,625 |
| | 73,059 | 81,369 |

*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.

| | | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|---|
| 21 | GOVERNMENT SECURITIES – Held to maturity | | |
| | Treasury bills and bonds maturing: | | |
| | Within 90 days | 166,380 | 120,154 |
| | In 1 to 5 years | 10,010 | 25,097 |
| | More than 5 years | 158,503 | 144,041 |
| | | 334,893 | 289,292 |
| 22 | CORPORATE BONDS - Held to maturity | | |
| | Kenya Generating Company - Public Infrastructure Bond | 13,264 | 16,715 |
| | Guarantee Trust Bank Limited | 10,000 | 10,055 |
| | British American Tobacco Bond | 41,000 | - |
| | UAP Holdings Bond | 15,600 | - |
| | NIC Bank Limited Bond | 32,300 | - |
| | | 112,164 | 26,770 |
| 22 | CORPORATE BONDS - Held to maturity | | |
| | Movement in corporate bonds: | | |
| | At 1 January | 26,770 | 29,493 |
| | Disposals | - | (2,514) |
| | Amortization | (3,506) | (209) |
| | Additions | 88,900 | - |
| | At 31 December | 112,164 | 26,770 |
| 23 | DEPOSITS WITH FINANCIAL INSTITUTIONS - Held to Maturity | | |
| | Deposits maturing within 3 months: | 676,560 | 695,250 |

24 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

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

| | 2014 % | 2013 % |
|---|---|---|
| Government securities | 11.53 | 11.42 |
| Deposits with financial institutions | 12.08 | 12.08 |
| Corporate bonds | 11.40 | 11.40 |

## 25 SHARE CAPITAL

| | | |
|---|---|---|
| Authorised: | | |
| 7,500,000 ordinary shares of Sh 100 each | 750,000 | 450,000 |
| Issued and fully paid: | | |
| 3,500,000 (2013: 3,500,000) ordinary shares of Sh 100 each | 350,000 | 350,000 |

## 26 OUTSTANDING CLAIMS PROVISION

| | | |
|---|---|---|
| At 1 January | 2,200,218 | 951,843 |
| Claims incurred and claim handling expenses | (521,904) | 1,635,864 |
| Payments for claims and claims handling expenses | (527,272) | (449,357) |
| Claims incurred but not reported (note 27) | 244,788 | 61,868 |
| At 31 December | 1,395,830 | 2,200,218 |

## 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.

| | Gross outstanding claims Sh'000 | Reinsurance share Sh'000 | Net Sh'000 |
|---|---|---|---|
| **Year 2014** | | | |
| At 1 January 2014 | | | |
| Notified claims | 2,138,350 | 1,253,627 | 884,723 |
| Incurred but not reported | 61,868 | 22,700 | 39,168 |
| Total at beginning of year | 2,200,218 | 1,276,327 | 923,891 |
| Claims paid in year | 527,272 | 261,893 | 265,379 |
| Decrease in liabilities:- | | | |
| - Arising from current year claims | (1,331,660) | (1,269,960) | (61,700) |
| At end of year | **1,395,830** | **268,260** | **1,127,570** |
| Notified claim | 1,151,042 | 162,588 | 988,454 |
| Incurred but not reported | 244,788 | 105,672 | 139,116 |
| Total at end of year | **1,395,830** | **268,260** | **1,127,570** |
| **Year 2013** | | | |
| At 1 January 2013 | | | |
| Notified claims | 899,477 | 203,314 | 696,163 |
| Incurred but not reported | 52,366 | 18,843 | 33,523 |
| 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) |
| At end of year | **2,200,218** | **1,276,327** | **923,891** |
| Notified claims | 2,138,350 | 1,253,627 | 884,723 |
| Incurred but not reported | 61,868 | 22,700 | 39,168 |
| Total at end of year | **2,200,218** | **1,276,327** | **923,891** |

## 28 UNEARNED PREMIUMS RESERVE

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| At 1 January | 716,538 | 589,696 |
| (Decrease)/increase in the year | (24,925) | 126,842 |
| At 31 December | 691,613 | 716,538 |

## 29 DEFERRED REINSURANCE COMMISSIONS

| | | |
|---|---|---|
| At 1 January | 113,128 | 84,730 |
| (Decrease)/increase in the year | (28,485) | 28,398 |
| At 31 December | 84,643 | 113,128 |

## 30 DEFERRED TAXATION LIABILITY

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

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| (a) The net deferred tax liability is attributable to the following items: | | |
| *Deferred tax liability:* | | |
| Accelerated capital allowances | 15,560 | 9,116 |
| Unrealised exchange gains | 1,371 | 1,223 |
| Revaluation surplus | 92,820 | 83,248 |
| | 109,751 | 93,587 |
| *Deferred tax assets:* | | |
| Unrealised exchange losses | (1,966) | (834) |
| Leave pay provision | (1,898) | (2,214) |
| | (3,864) | (3,048) |
| Net deferred tax liability | 105,887 | 90,539 |

(b) Movement in the net deferred tax liability is as follows:

| | | |
|---|---|---|
| At 1 January | 90,539 | 1,468 |
| Taxation charge (note 11(a)) | 11,339 | 61,030 |
| Charged to other comprehensive income | 4,009 | 28,041 |
| At 31 December | 105,887 | 90,539 |

## 31 OTHER PAYABLES

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| Accrued expenses | 50,535 | 3,292 |
| Other liabilities | 12,828 | 17,257 |
| | 63,363 | 20,549 |

## 32 NOTES TO THE STATEMENT OF CASH FLOWS

### (a) Cash generated from operations

Reconciliation of profit before taxation to cash generated from operations;

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| Profit before taxation | 360,111 | 327,737 |
| Adjustments for: | | |
| Depreciation (note 13) | 18,232 | 13,852 |
| Adjustments on investment property | - | 5,582 |
| Amortisation of intangible asset (note 14) | 2,819 | 2,507 |
| (Gain)/loss on disposal of equity instruments available for sale | (23,753) | 1,001 |
| (Gain)/loss on disposal of property and equipment | - | (392) |
| Amortization of corporate bond | - | 209 |
| Fair value gain on investment properties | (18,541) | (184,022) |
| Changes in: | | |
| - receivables arising out of reinsurance arrangements | 36,413 | (34,666) |
| - receivables arising out of direct insurance arrangements | (104,284) | 17,223 |
| - reinsurers share of technical provisions and reserves | 1,008,308 | (1,115,231) |
| - deferred acquisition cost | 18,136 | (12,956) |
| - other receivables | 8,310 | (5,087) |
| - outstanding claims provisions | (804,388) | 1,248,375 |
| - unearned premiums reserve | (24,925) | 126,842 |
| - payables arising out of reinsurance arrangements | 35,079 | 46,812 |
| - payables arising out of direct insurance arrangements | 38 | 1,231 |
| - deferred reinsurance commission | (28,485) | 28,399 |
| - other payables | 42,816 | (2,480) |
| Cash generated from operations | 525,886 | 464,936 |

### (b) Analysis of cash and cash equivalents

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| Cash and bank balances | 24,324 | 20,744 |
| Government securities maturing within 3 months (note 21) | 166,380 | 120,154 |
| Deposits with financial institutions maturing in 3 months (note 23) | 676,560 | 695,250 |
| At 31 December | 867,264 | 836,148 |

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| **33 RELATED PARTIES** | | |
| The following transactions were carried out with related parties: | | |
| Directors' fees | 1,826 | 776 |
| Directors and key management remuneration | 65,629 | 62,739 |
| Balances with related parties: | | |
| Mayfair Insurance Company (Zambia) Limited (note 20) | - | 27,625 |

The company has an investment in Mayfair Insurance Company Zambia Limited. The balance advanced to Mayfair insurance Company Zambia in 2013 represented a short term advance to meet operational needs and is recoverable on demand. The amount was capitalised during the year.

## 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 2014 will not have a material effect on the financial position or profit of the company since adequate provisions for claims have been made as far as the directors 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 the issue of bonus shares in lieu of cash dividend. In this respect, the directors recommend the issue of one new share for every two held. (2013: Cash dividend of Sh 5.71 per share amounting to Sh 20,000,000). The issue of bonus shares is subject to shareholders approval at the annual general meeting.

The movement in the dividend account is as follows:

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| Payable at 1 January | - | - |
| Final dividend declared | 20,000 | 14,000 |
| Dividends paid | (20,000) | (14,000) |
| At 31 December | - | - |

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|

## 36 OPERATING LEASE COMMITMENTS

Outstanding commitments under operating leases are as follows:

**Company as a lessor:**

| | 2014 Sh'000 | 2013 Sh'000 |
|---|---|---|
| Not later than one year | 2,617 | 19,655 |
| Amounts charged to the profit or loss in the Year in respect of operating leases | 2,678 | 19,229 |

## 37 INCORPORATION

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

## 38 CURRENCY

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

APPENDIX



# MAYFAIR INSURANCE COMPANY LIMITED
## COMPANY REVENUE ACCOUNTS
## FOR THE YEAR ENDED 31 DECEMBER 2014

| 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 | Workmens' Compensation Sh'000 | Miscellaneous Sh'000 | 2014 Total Sh'000 | 2013 Total Sh'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross premium written | 7,711 | 204,835 | 42,933 | 320,596 | 22,306 | 119,876 | 233,805 | 264,507 | 34,373 | 114,132 | 275,763 | 113,439 | 1,754,276 | 1,503,286 |
| Unearned premium at the beginning of the year | 2 | 17,535 | 6,392 | 5,869 | 4,238 | 22,855 | 93,375 | 86,496 | 2,843 | 11,909 | 122,267 | 11,545 | 385,326 | 319,544 |
| Unearned premium at the end of the year | 2 | 8,232 | 5,724 | 5,254 | 3,780 | 8,792 | 105,340 | 91,595 | 2,339 | 9,030 | 109,735 | 10,819 | 360,642 | 385,324 |
| Premium ceded to re-insurers | 7,703 | 189,624 | 28,253 | 301,628 | 11,969 | 68,595 | 9,724 | 14,909 | 27,795 | 83,422 | 7,714 | 97,860 | 849,196 | 673,038 |
| Net earned premium | 8 | 24,514 | 15,347 | 19,583 | 10,795 | 65,345 | 212,116 | 244,499 | 7,082 | 33,589 | 280,581 | 16,305 | 929,764 | 764,468 |
| Claims paid | - | 7,147 | 10,014 | 15,413 | 776 | 19,388 | 99,767 | 51,171 | 868 | 16,021 | 44,406 | 526 | 265,497 | 289,513 |
| Claims outstanding brought forward | - | 9,167 | 7,971 | 11,115 | 8,823 | 49,792 | 117,128 | 244,850 | 433 | 19,533 | 403,308 | 51,774 | 923,894 | 729,686 |
| Claims outstanding carried forward | - | 20,055 | 5,070 | 18,860 | 8,748 | 52,743 | 142,349 | 376,625 | 2,607 | 16,126 | 427,067 | 57,322 | 1,127,572 | 923,891 |
| Claims incurred | - | 18,035 | 7,113 | 23,158 | 701 | 22,339 | 124,988 | 182,946 | 3,042 | 12,614 | 68,165 | 6,074 | 469,175 | 479,718 |
| Commissions (net) | (810) | (29,480) | (1,508) | (19,592) | 1,951 | (3,639) | 20,250 | 22,875 | (1,840) | (4,468) | 55,472 | (26,371) | 12,840 | 39,199 |
| Expenses of management | 1,058 | 28,117 | 5,893 | 44,006 | 3,061 | 16,455 | 32,093 | 36,307 | 4,718 | 15,666 | 37,852 | 15,571 | 240,797 | 177,522 |
| Premium Tax | 82 | 2,191 | 459 | 3,429 | 239 | 1,282 | 2,501 | 2,829 | 368 | 1,221 | 2,949 | 1,212 | 18,762 | 17,223 |
| Total expenses | 330 | 828 | 4,844 | 27,843 | 5,251 | 14,098 | 54,844 | 62,011 | 3,246 | 12,419 | 96,273 | -9,588 | 272,399 | 233,944 |
| Underwriting (loss)/profit | (322) | 5,651 | 3,390 | (31,415) | 4,842 | 28,908 | 32,282 | (458) | 794 | 8,555 | 116,144 | 19,819 | 188,190 | 50,806 |

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