

**Staco Insurance Company (SL) Limited**

**Financial Statements**  
for the year ended 31 December 2013

*This report contains 43 pages*  
*Ref: S651/gh/eap*

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## **General information**

- Directors** : Henry Macauley (Chairman)  
Adekunle Micheal Aderinola (Managing)  
Brima Ndoeka  
Solomon Ogba  
S.O. Oyefeso  
Ehi Eguabor  
Emerica Karefa-kargbo
- Bankers** : Access Bank (SL) Limited  
Ecobank Sierra Leone Limited  
Guaranty Trust Bank Sierra Leone Limited  
Standard Chartered Bank Sierra Leone Limited  
Union Trust Bank Limited  
Zenith Bank Sierra Leone Limited  
United Bank of Africa (SL) Limited  
Bank PHB (SL) Limited  
Sierra Leone Commercial Bank (SL) Limited  
Rokel Commercial Bank (SL) Limited  
Skye Bank (SL) Limited  
HFC Mortgage and Savings Bank (SL) Limited
- Auditors and  
Tax Advisers** : KPMG  
Chartered Accountants  
KPMG House  
37 Siaka Stevens Street  
Freetown  
Sierra Leone.
- Registered Office** : 24 Upper Brook Street  
Freetown.  
Sierra Leone

## **Report of the directors**

The directors present their report and audited financial statements for the year ended 31 December 2013.

### **Directors responsibility statement**

The Company's directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position at 31 December 2013, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flow for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the report of the directors in accordance with International Financial Reporting Standards, and in the manner required by the Sierra Leone Companies Act and the Insurance Act 2000.

The director's responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' have made an assessment of the company's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

### **Principal activity**

The principal activities of the company continue to be the provision of life and general insurance services.

The company and its activities is regulated by and subjected to the provisions of the Insurance Act 2000.

### **Results**

The results for the year are shown in the attached financial statements.

### **Property and equipment**

Details of the Staco Insurance Company (SL) Limited's property and equipment are shown in note 12 to these financial statements.

### **Employment of disabled people**

Staco Insurance Company (SL) Limited does not discriminate against a qualified individual with disability with regards to recruitment, advancement, training, compensation, discharge or other terms, conditions or privileges of employment'. There were no disabled persons employed during the year.

**Report of the directors** *(continued)*

**Health, safety and welfare at work**

Staco Insurance Company (SL) Limited has retained the services of a medical doctor for all employees of the company and a conducive office environment is maintained for staff and visitors, with adequate lighting and ventilation.

**Employee involvement and training**

There are various forums where the staff meet and discuss issues that relate to them and their progress at the work place, these include unit meetings, and regular general meetings.

There is an approved training schedule for staff and the company also has a staff performance appraisal process through which staffs are appraised and promotions and /or increments are made.

**Directors and their interests**

The following directors served during the year:

- Henry Macauley - (Chairman)
- Adekunle Micheal Aderinola - (Managing)
- Brima Ndoeka
- Solomon Ogba
- S.O. Oyefeso
- Ehi Eguabor
- Emerica Karefa-kargbo

**Auditors**

In accordance with Section 308 of the Sierra Leone Companies Act 2009 a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

**Approval of the financial statements**

The financial statements were approved by the board of directors on ... ..2014.

.....  
*Chairman*

.....  
*Director*

.....  
*Director*

## **Report of the independent auditors to members of Staco Insurance Company (SL) Limited**

We have audited the financial statements of Staco Insurance Company (SL) Limited, which comprise the statement of financial position at 31 December 2013, and the statement of comprehensive income, changes in equity and cash flow for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, as set out on pages 6 to 43.

### **Directors' Responsibility for the Financial Statements**

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Sierra Leone Companies Act, and for such internal control as the directors determine is necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 opinion.



**Report of the independent auditors  
to members of Staco Insurance Company (SL) Limited (continued)**

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of the Companies Act 2009 of Sierra Leone.

**Freetown**

*Chartered Accountants*

**Date:**

## Statement of financial position

*as at 31 December*

<i>In thousands of Leones</i>	<b>Note</b>	<b>2013</b>	2012
<b>Assets</b>			
Property and equipment	<i>12</i>	<b>778,167</b>	500,460
Financial assets	<i>13</i>	<b>2,853,429</b>	2,271,041
Loans and receivables including			
Insurance receivables	<i>14</i>	<b>994,202</b>	604,147
Cash and cash equivalents	<i>15</i>	<b>460,852</b>	702,004
Deferred tax asset	<i>10d</i>	<b>214,336</b>	79,278
<b>Total assets</b>		<b>5,300,986</b>	4,156,930
<b>Equity</b>			
Share capital	<i>16</i>	<b>100,000</b>	100,000
Deposit for shares	<i>17</i>	<b>1,349,618</b>	1,349,618
Contingency reserve	<i>18</i>	<b>299,853</b>	184,699
Retained earnings	<i>19</i>	<b>125,368</b>	515,788
<b>Total equity</b>		<b>1,874,839</b>	2,150,105
<b>Liabilities</b>			
Loans and borrowings	<i>20</i>	<b>307,500</b>	42,105
Employee benefit provision	<i>21</i>	<b>19,096</b>	6,638
Insurance contract	<i>22</i>	<b>424,461</b>	167,931
Trade and other payables	<i>23</i>	<b>817,885</b>	302,712
Income tax liability	<i>10c</i>	<b>38,479</b>	81,184
Insurance funds:			
Non-life	<i>9a</i>	<b>1,735,184</b>	1,336,903
Life	<i>9b</i>	<b>83,542</b>	69,352
<b>Total liabilities</b>		<b>3,426,147</b>	2,006,825
<b>Total equity and liabilities</b>		<b>5,300,986</b>	4,156,930

The financial statements were approved by the board of directors on  
and were signed on its behalf by:

**2014**

..... **Chairman**

..... **Director**

..... **Director**

The notes on pages 13 to 43 are an integral part of these financial statements

## Statement of comprehensive income - Non-life

*for the year ended 31 December*

<i>In thousands of Leones</i>	Note	2013	2012
<b>Revenue</b>			
Insurance premium revenue		3,838,474	2,905,082
Insurance premium ceded to reinsurers		(141,745)	(90,712)
Net insurance premium revenue	5.1	<u>3,696,729</u>	<u>2,814,370</u>
Investment income	6	225,324	229,001
<b>Net revenue</b>		<u>3,922,053</u>	<u>3,043,371</u>
<b>Expenditure</b>			
Claims paid, outstanding and unintimated	5.1	1,179,556	286,542
Commission paid	5.1	475,633	327,478
Management expenses	5.1 & 7	2,045,362	1,778,167
Net finance cost	8	89,974	82,639
		<u>3,790,525</u>	<u>2,474,826</u>
Amounts transferred to Insurance fund account	9a	398,281	(329,845)
	5.1	<u>4,188,806</u>	<u>2,144,981</u>
<b>Net (expense)/income from non-life operations</b>		<u>(266,753)</u>	898,390
Other income		6,429	347
<b>(Loss)/ profit before tax</b>		<u>(260,324)</u>	898,737
Tax credit/ (expense)	10a	135,058	(202,542)
<b>(Loss)/ profit for the year</b>		<u>(125,266)</u>	<u>696,195</u>
<b>Other comprehensive income for the year, net of tax</b>		-	-
<b>Total comprehensive (loss)/ income for the year</b>		<u>(125,266)</u>	<u>696,195</u>

The notes on pages 13 to 43 are an integral part of these financial statements

**Statement of comprehensive income - Non-life** *(continued)*

<i>In thousands of Leones</i>	<b>Note</b>	<b>2013</b>	2012
<b>(Loss)/ profit attributable to:</b>			
Equity holders of the company		<b>(125,266)</b>	696,195
<b>(Loss)/ profit for the year</b>		<b>(125,266)</b> =====	696,195 =====
<b>Total comprehensive (loss)/ income attributable to:</b>			
Equity holders of the company		<b>(125,266)</b> -----	696,195 -----
<b>Total comprehensive (loss)/ income for the year</b>		<b>(125,266)</b> =====	696,195 =====
Basic and diluted (loss)/ earning per share	<i>11</i>	<b>(125)</b> =====	696 =====
<b>The financial statements were approved by the board of directors on and were signed on its behalf by:</b>			<b>2014</b>

..... **Chairman**

..... **Director**

..... **Director**

The notes on pages 13 to 43 are an integral part of these financial statements

**Statement of comprehensive income - Life**  
*for the year ended 31 December*

<i>In thousands of Leones</i>	<b>Note</b>	<b>2013</b>	<b>2012</b>
<b>Revenue</b>			
Net insurance premium revenue		<b>238,196</b>	191,032
Investment income	<i>6b</i>	<b>5,996</b>	12,536
Other income		-	-
<b>Net revenue</b>		<b>244,192</b>	<b>203,568</b>
<b>Expenditure</b>			
Claims paid, outstanding and unintimated		<b>150,340</b>	104,338
Commission (earned)/paid		<b>26,102</b>	18,543
Management expenses		<b>53,560</b>	20,285
Net finance income		-	2,179
		<b>230,002</b>	145,345
Amounts transferred to life insurance fund account	<i>9b</i>	<b>14,190</b>	58,223
		<b>244,192</b>	<b>203,568</b>
		=====	=====

**The financial statements were approved by the board of directors on** **2014**  
**and were signed on its behalf by:**

..... **Chairman**

..... **Director**

..... **Director**

The notes on pages 13 to 43 are an integral part of these financial statements

## Statement of changes in equity

*for the year ended 31 December*

*In thousands of Leones*

	Share capital	Deposit for shares	Retained earnings	Contingency reserves	Total
Balance at 1 January 2012	100,000	1,349,618	(93,255)	97,547	1,453,910
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	696,195	-	696,195
<b>Other comprehensive income net of tax</b>	-	-	-	-	-
<b>Total other comprehensive income</b>	-	-	-	-	-
<b>Other transfers</b>					
Transfer to contingency reserve	-	-	(87,152)	87,152	-
<b>Total other transfers</b>	-	-	(87,152)	87,152	-
<b>Total comprehensive income and transfers</b>	-	-	609,043	87,152	696,195
<b>Transaction with owners, recorded directly in equity</b>					
<b>Contribution by and distributors to owners</b>					
Dividend to equity holders	-	-	-	-	-
<b>Total contribution by and distributors to owners</b>	-	-	-	-	-
<b>Balance at 31 December 2012</b>	100,000	1,349,618	515,788	184,699	2,150,105

The notes on pages 13 to 43 are an integral part of these financial statements

## Statement of changes in equity (continued)

*for the year ended 31 December*

*In thousands of Leones*

	Share capital	Deposit for shares	Retained earnings	Contingency reserves	Total
Balance at 1 January 2013	100,000	1,349,618	515,788	184,699	2,150,105
<b>Total comprehensive income for the year</b>	-	-	-	-	-
Loss for the year	-	-	(125,266)	-	(125,266)
<b>Other comprehensive income net of tax</b>	-	-	-	-	-
<b>Total other comprehensive income</b>	-	-	-	-	-
<b>Other transfers</b>					
Transfer to contingency reserve	-	-	(115,154)	115,154	-
<b>Total other transfers</b>	-	-	(115,154)	115,154	-
<b>Total comprehensive (loss)/ income and transfers</b>	-	-	(240,420)	115,154	(125,266)
<b>Transaction with owners, recorded directly in equity</b>	-	-	-	-	-
<b>Contribution by and distributors to owners</b>					
Dividend to equity holders	-	-	(150,000)	-	(150,000)
<b>Total contribution by and distributors to owners</b>	-	-	(150,000)	-	(150,000)
<b>Balance at 31 December 2013</b>	<b>100,000</b>	<b>1,349,618</b>	<b>125,368</b>	<b>299,853</b>	<b>1,874,839</b>

The notes on pages 13 to 43 are an integral part of these financial statements

**Statement of cash flows**  
*for the year ended 31 December*

<i>In thousands of Leones</i>	<b>Note</b>	<b>2013</b>	2012
<b>Cash flows from operating activities</b>			
(Loss)/ profit for the year		<b>(125,266)</b>	696,195
<b>Adjustment for:</b>			
Depreciation	<i>12</i>	<b>114,368</b>	89,531
Net finance cost	8	<b>89,974</b>	82,639
Profit on disposal		<b>(5,428)</b>	-
Income tax (credit)/expense	10a	<b>(135,058)</b>	202,542
		<hr/>	<hr/>
<b>Cash flows from operating activities</b>		<b>(61,410)</b>	1,070,907
<b>Changes in operating assets and liabilities</b>			
Changes in receivables		<b>(390,055)</b>	187,067
Changes in payables		<b>515,173</b>	128,646
Changes in insurance fund		<b>398,281</b>	(329,845)
Changes in end of service benefit		<b>12,458</b>	-
Changes in insurance contract		<b>256,530</b>	(35,413)
Changes in life fund		<b>14,190</b>	58,223
		<hr/>	<hr/>
		<b>745,167</b>	1,079,585
Interest received		-	-
Interest paid		<b>(90,797)</b>	(80,274)
Income tax paid		<b>(42,705)</b>	(10,000)
		<hr/>	<hr/>
<b>Net cash from operating activities</b>		<b>611,665</b>	989,311
<b>Cash flow from investing activities</b>			
Acquisition of property and equipment	<i>12</i>	<b>(395,647)</b>	(265,600)
Acquisition of investment		<b>(582,388)</b>	(858,641)
Proceeds from sale of property and equipment		<b>9,000</b>	
		<hr/>	<hr/>
<b>Net cash used in investing activities</b>		<b>(969,035)</b>	(1,124,241)
		<hr/>	<hr/>
<b>Cash flows from financing activities</b>			
Net change in loans and borrowings		<b>265,395</b>	37,105
Dividends to owners		<b>(150,000)</b>	
		<hr/>	<hr/>
<b>Cash flow from financing activities</b>		<b>115,395</b>	37,105
		<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>		<b>(241,975)</b>	(97,825)
		<hr/>	<hr/>
Cash and cash equivalents at beginning of the year		<b>702,004</b>	802,194
Exchange rate fluctuation		<b>823</b>	(2,365)
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of the year</b>	<i>15</i>	<b>460,852</b>	702,004
		<hr/>	<hr/>

The notes on pages 13 to 43 are an integral part of these financial statements

## **Notes to the financial statement**

### **1. General information**

Staco Insurance Company (SL) Limited underwrites non-life insurance risks such as those associated with fire, motor, accident, medical and marine businesses. The company also invests in treasury and other eligible bills in Sierra Leone on which it earns interests.

The company is a limited liability company incorporated and domiciled in Sierra Leone. The address of its registered office is 24 Upper Brock Street, Freetown, Sierra Leone.

### **2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **2.1 Basis of presentation**

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

All amounts in the notes are shown in thousands of Leones, rounded to the nearest thousand, unless otherwise stated.

#### **2.2 Foreign currency translation**

(a) *Functional and presentation currency*

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates (the 'functional currency'). The financial statements are presented in thousands of Leones, which is the company's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

## **Notes to the financial statements** *(continued)*

### **2. Summary of significant accounting policies (continued)**

#### **2.3 Property and equipment**

Property and equipment comprise mainly cost of improvement on the office building occupied by the company, and its various office equipments. All other property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and that the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Motor vehicles	- 5 years
Furniture, fixtures and equipment	- 5 - 10 years
Improvement to buildings	- 10 years

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in the revaluation surplus are transferred to retained earnings.

#### **2.4 Investment property**

Property held for long-term rental yields that is not occupied by the company is classified as investment property.

Investment property comprises freehold land and buildings.

Property located on land that is held under an operating lease is classified as investment property as long as it is held for long-term rental yields and is not occupied by the company.

If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its cost at the date of reclassification becomes its cost for subsequent accounting purposes. If an item of property and equipment becomes an investment property because its use has changed, any difference arising between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

## **Notes to the financial statements** *(continued)*

### **2. Summary of significant accounting policies (continued)**

#### **2.4 Investment property (continued)**

Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through the income statement.

#### **2.5 Investments**

The company classifies its investments into the following categories: held-to-maturity financial assets and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

##### *(a) Held-to-maturity financial assets*

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

Investment in government securities such treasury bills and bearer bonds are held at amortised cost.

##### *(b) 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.

##### *(c) Equity investments*

Equity investments are non-derivative financial assets such as equity shares in local and foreign companies.

Purchases and sales of investments are recognised on the trade date, that is the date on which the company commits to purchase or sell the asset. Investments are carried at cost and are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the company has also transferred substantially all risks and rewards of ownership.

## **Notes to the financial statements** *(continued)*

### **2. Summary of significant accounting policies** *(continued)*

#### **2.6 Impairment of assets**

The company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the company about the following events:

- (i) significant financial difficulty of the issuer or debtor;
- (ii) a breach of contract, such as a default or delinquency in payments;
- (iii) it is becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- (iv) the disappearance of an active market for that financial asset because of financial difficulties; or
- (v) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the company, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the assets' carrying amount and the estimated realizable value. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

## **Notes to the financial statements** *(continued)*

### **2. Summary of significant accounting policies** *(continued)*

#### **2.6 Impairment of assets** *(continued)*

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

#### **2.7 Impairment of other non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

#### **2.8 Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

#### **2.9 Share capital**

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

## **Notes to the financial statements** *(continued)*

### **2. Summary of significant accounting policies (continued)**

#### **2.10 Insurance contracts**

The company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The company as a general guideline, determines significant insurance risks and enters into re-insurance contracts with other insurance companies.

Local statutory regulations and the terms and conditions of these contracts set out the basis for the determination of the amounts involved.

##### *(a) Short-term insurance contracts*

These contracts are casualty, property and short-duration life insurance contracts.

Casualty insurance contracts protect the company's customers against the risk of harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability). Property insurance contracts mainly compensate the company's customers for damage suffered to their properties or for the value of property lost.

Short-duration life insurance contracts protect the company's customers from the consequences of events (such as death or disability) that would affect on the ability of the customer or his/her dependants to maintain their current level of income.

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability. Premiums are shown before deduction of commission.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the company.

##### *(b) Long-term insurance contracts with fixed and guaranteed terms*

These contracts insure events associated with human life (for example death, or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission. Benefits are recorded as an expense when they are incurred.

## **Notes to the financial statements** *(continued)*

### **2. Summary of significant accounting policies** *(continued)*

#### **2.10 Insurance contracts** *(continued)*

*(c) Reinsurance contracts held*

Contracts entered into by the company with reinsurers under which the company is compensated for losses on one or more contracts issued by the company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers, as well as long term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

*(d) Receivables and payables related to insurance contracts*

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables.

*(e) Salvage and subrogation reimbursements*

Some insurance contracts permit the company to sell (usually damaged) property acquired in settling a claim (i.e., salvage). The company may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation).

## **Notes to the financial statements** *(continued)*

### **2. Summary of significant accounting policies (continued)**

#### **2.10 Insurance contracts (continued)**

##### *(e) Salvage and subrogation reimbursements(continued)*

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

#### **2.11 Claims**

Provision is made by management for the estimated cost of claims notified but not settled at the date of the balance sheet using all the information available at that time. Provision is also made by management for claims incurred but not yet notified at balance sheet date on an appropriate basis.

#### **2.12 Insurance funds**

In accordance with statute, forty-five percent of the net premium of the company's general insurance business for the year is provided as an estimate of premiums unearned at the financial position date.

#### **2.13 Contingency reserve**

In accordance with statute, three percent of the net premium of the company's general insurance business for the year is provided as an estimate for contingency reserve.

#### **2.14 Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

## **Notes to the financial statements** *(continued)*

### **2. Summary of significant accounting policies (continued)**

#### **2.15 Employee benefits**

(i) *Short term benefits*

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services provided.

A provision is recognised for the amount expected to be paid under short term cash bonus or profit sharing plans if the Bank has a present legal and constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be reliably estimated.

(ii) *End of Service benefit*

This refers to a defined employee benefit scheme which falls due wholly within twelve months after the end of service by the employee. The expected cost of these benefits is accrued over the period of employment.

(iii) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

#### **2.16 Provisions**

*Restructuring costs and legal claims*

Provisions for restructuring costs and legal claims are recognised when: the company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments.

Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

#### **2.17 Revenue recognition**

Revenue is recognised as follows:

Revenue arising from underwriting and other related services offered by the company are recognised in the accounting period in which the services are rendered.

- (i) The non-life underwriting result is net of reinsurance, provisions for unearned premium and outstanding claims.
- (ii) The life department income is stated net of reinsurance.
- (iii) Investment income is shown gross before the deduction of income tax and is accounted for on an accruals basis.

## **Notes to the financial statements** *(continued)*

### **2. Summary of significant accounting policies (continued)**

#### **2.18 Dividend income**

Dividend income for equities held is recognised when the right to receive payment is established - this is the ex-dividend date for equity securities.

#### **2.19 Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

#### **2.20 Dividend distribution**

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the period for which the dividends are approved by the company's shareholders.

#### **2.21 New standards and interpretation not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. Those which may be relevant to the company are set out below. The company does not plan to adopt these standards early.

##### **(i) IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009)**

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities.

The IFRS (2009) requirements contain two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of loans and receivables.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment to the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015. Given the nature of the company's operations, this standard is expected to have a little impact on the company's financial statements.

## **Notes to the financial statements** *(continued)*

### **2. Significant accounting policies (continued)**

#### **2.21 New standards and interpretations not yet adopted (continued)**

##### **(i) IFRIC 21 Levies**

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.

The Interpretation covers the accounting for outflows imposed on entities by governments (including government agencies and similar bodies) in accordance with laws and/or regulations. However, it does not include income taxes (see IAS 12 Income Taxes), fines and other penalties, liabilities arising from emissions trading schemes and outflows within the scope of other Standards.

IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. The

Interpretation clarifies that 'economic compulsion' and the going concern principle do not create or imply that an obligating event has occurred.

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. Initial application is in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, i.e. the requirements are applied on a retrospective basis.

##### **(ii) Amendments to IAS 32 on offsetting financial assets and financial liabilities (2011)**

Clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods.

Given the nature of the company's operation, the company is not expecting a significant impact from the adoption of the amendments to IAS 32.

##### **(iii) IAS 36 Amendments**

The overall effect of the amendments is to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The amendments are applicable to annual periods beginning on or after 1 January 2014.

## **Notes to the financial statements** *(continued)*

### **2. Significant accounting policies** *(continued)*

#### **2.21 New standards and interpretations not yet adopted** *(continued)*

##### **(iv) Amendments to IAS 19**

The pronouncement amends IAS 19 Employee Benefits (2011) to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered. The amendments are effective for annual periods beginning on or after 1 July 2014.

### **3. Critical accounting estimates and judgements in applying accounting policies**

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

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

The estimation of the ultimate liability arising from claims made under insurance is the company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimations of the liability that the company will ultimately pay for such claims. The company believes that the liability for claims carried at year end is adequate.

#### *Allowances for credit losses*

Assets accounted for at amortised cost are evaluated for impairment on a basis described in the accounting policy.

The specific counter party component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counter party's financial situation.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors.

## **Notes to the financial statements** *(continued)*

### **4. Management of insurance and financial risk**

The company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the company manages them.

#### **4.1 Insurance risk**

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where probability is involved in pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established.

Experience shows that the larger the portfolio of similar insurance contracts the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of portfolio.

The company has developed its insurance underwriting strategy to diversify the type of insurance risks expected and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected income.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

##### **4.1.1 Casualty insurance risks**

###### *(a) Frequency and severity of claims*

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of damages suffered in motor insurance and claims paid for medical business. Estimated inflation is also a significant factor due to the long period typically required to settle these cases.

The company manages these risks through its underwriting strategy, adequate reinsurance arrangement and proactive claims handling.

The underwriting strategy attempts to ensure that the underwriting risks are well diversified in terms of type and amount of risk industry and geography.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the company has the right not to renew individual policies. It can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the company to pursue third parties for payment of some or all costs (i.e. subrogation). Furthermore, the company's strategy limits the total exposure to any one business. The reinsurance arrangements include excess stop-loss and catastrophe coverage. The effect of such reinsurance arrangements is that the company should not suffer the total net insurance losses on the contracts.

## **Notes to the financial statements** *(continued)*

### **4. Management of insurance and financial risk (continued)**

#### **4.1.1 Casualty insurance risks (continued)**

##### *Frequency and severity of claims (continued)*

The company has specialised claims units dealing with the mitigation of risks surrounding known claims. The claims unit investigates and adjusts all claims. The claims are reviewed individually and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contracted terms and conditions and other factors. The company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

##### *(b) Sources of uncertainty in the estimation of future claim payments*

Claims on insurance contracts are payable on a claims occurrence basis. The company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the balance sheet date. As a result, liability claims are settled over a long period of time and some element of the claims provision relates to incurred but not reported claims (IBNR).

There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by the individual contract holders and the risk management procedures they adopted.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprise a provision for IBNR, a provision for reported claims not yet paid and a provision for outstanding claims not yet reported at the balance sheet date.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where information about the claim event is available.

In estimating the liability for the cost of reported claims not yet paid, the company considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case by case basis or projected separately in order to account for the possible distortive effect of their development and incidence on the rest of the portfolio.

Where possible, the company adopts the relevant techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections made by the company also assist in estimating the range of possible outcomes.

## **Notes to the financial statements** *(continued)*

### **4. Management of insurance and financial risk (continued)**

#### **4.1.2 Life insurance contracts**

These contracts are mainly issued to employers to insure their commitments to their employees in terms of their pension fund and other employee benefit plans. The risk is affected by the nature of the industry in which the employer operates.

#### **4.2 Financial risk**

The company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligation arising from its insurance contracts. The most important components of this financial risk are credit risk, currency risk and liquidity risk.

##### *Credit risk*

The company has exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risks are:

- Reinsurance share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders and intermediaries.

The company has policies in place to ensure that services are rendered to customers with an appropriate credit history.

Reinsurance is used to manage insurance risk. This does not however discharge the company's liability as primary insurer. If the reinsurer fails to pay a claim for any reason, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurance is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

Management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies or other publicly available financial information.

##### *Liquidity risk*

The company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The company manages this risk by maintaining sufficient cash, and investing any excess cash over its anticipated requirements.

##### *Currency risk*

The company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar. This risk is managed by maintaining adequate foreign currency assets to meet its foreign currency liabilities as they fall due.

**Notes to the financial statements** *(continued)*

**4. Management of insurance and financial risk (continued)**

**4.2 Financial risk (continued)**

*Currency risk (continued)*

**As at 31 December 2013**

*In thousands of Leones*

	Le	USD	Euro	GBP	Total
Property and equipment	778,167	-	-	-	778,167
Financial assets	2,853,429	-	-	-	2,853,429
Loans and receivables including insurance receivables	994,202	-	-	-	994,202
Cash and cash equivalents	181,875	199,178	15,681	64,118	460,852
Deferred tax asset	214,336	-	-	-	214,336
<b>Total assets</b>	<b>5,022,009</b>	<b>194,178</b>	<b>15,681</b>	<b>641,117</b>	<b>5,300,986</b>
Short term loan	307,500	-	-	-	307,500
Employee benefit provision	19,096	-	-	-	19,096
Insurance contract	424,461	-	-	-	424,461
Trade and other payables	817,885	-	-	-	817,885
Income tax liability	38,479	-	-	-	38,479
Non life fund	1,735,184	-	-	-	1,735,184
Life fund	83,542	-	-	-	83,542
<b>Total Liabilities</b>	<b>3,426,147</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,326,147</b>

**Notes to the financial statements** *(continued)*

**4. Management of insurance and financial risk (continued)**

**4.2 Financial risk (continued)**

*Currency risk (continued)*

As at 31 December 2012

*In thousands of Leones*

	Le	USD	Euro	GBP	Total
Property and equipment	500,460	-	-	-	500,460
Financial assets	2,271,041	-	-	-	2,271,041
Loans and receivables including insurance receivables	604,147	-	-	-	604,147
Cash and cash equivalents	116,201	518,690	2,995	64,118	702,004
Deferred tax asset	79,278	-	-	-	79,278
Income tax receivable	10,000	-	-	-	10,000
<b>Total assets</b>	<b>3,581,127</b>	<b>518,690</b>	<b>2,995</b>	<b>64,118</b>	<b>4,166,930</b>
Short term loan	42,105	-	-	-	42,105
Employee benefit provision	6,638	-	-	-	6,638
Insurance contract	167,931	-	-	-	167,931
Trade and other payables	302,712	-	-	-	302,712
Income tax liability	81,184	-	-	-	81,184
Non life fund	1,336,903	-	-	-	1,336,903
Life fund	69,352	-	-	-	69,352
<b>Total Liabilities</b>	<b>2,006,825</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,006,825</b>

## Notes to the financial statements *(continued)*

### 4. Management of insurance and financial risk *(continued)*

#### 4.2 Financial risk *(continued)*

##### Foreign currency sensitivity analysis

Concentration of Leone equivalent of foreign currency denominated assets and liabilities.

##### 2013

*In thousands of Leones*

	USD	Euro	GBP	Total
Cash and cash equivalents	19,918	1,568	6,412	27,898
<b>Total assets</b>	<b>19,418</b>	<b>1,568</b>	<b>6,412</b>	<b>27,898</b>
Liabilities	-	-	-	-
<b>Net on-financial position</b>	<b>19,418</b>	<b>1,568</b>	<b>6,412</b>	<b>27,898</b>

##### 2012

*In thousands of Leones*

	USD	Euro	GBP	Total
Cash and cash equivalents	51,869	300	6,412	58,581
<b>Total assets</b>	<b>51,869</b>	<b>300</b>	<b>6,412</b>	<b>58,581</b>
Liabilities	-	-	-	-
<b>Net on-financial position</b>	<b>51,869</b>	<b>300</b>	<b>6,412</b>	<b>58,581</b>

The above sensitivity analysis has been based on a 10% change in US Dollar exchange rate against the Leone. The Leone has been relatively stable for the past couple of years, but may well depreciate or strengthen against the dollar by a margin of 10 percent.

## Notes to the financial statements *(continued)*

### 5. Segment information

#### 5.1 The segments for the year ended 31 December 2013 are as follows:

At 31 December 2013, the company carries on non-life business in the following areas:

- Fire Insurance;
- Motor Insurance;
- Accident Insurance; and
- Marine Insurance

All underwriting revenue sources as captioned by the four business segment shown above.

Investment and other income is generated from asset management and other related services arising from insurance and investment contracts.

#### The segment results for the year ended 31 December 2013 are as follows:

<i>In thousands of Leones</i>	<b>Fire</b>	<b>Motor</b>	<b>Accident</b>	<b>Marine</b>	<b>Un allocated</b>	<b>Total</b>
<b>Revenue</b>						
Premiums less re-insurance	509,999	1,661,668	1,286,207	238,855	-	3,696,729
Investment income	-	-	-	-	225,324	225,324
<b>Total income</b>	<b>509,999</b>	<b>1,661,668</b>	<b>1,286,207</b>	<b>238,855</b>	<b>225,324</b>	<b>3,922,053</b>
<b>Expenditure</b>						
<b>Net commission paid</b>						
Commissions paid	130,655	170,474	123,253	51,251	-	475,633
	<b>130,655</b>	<b>170,474</b>	<b>123,253</b>	<b>51,251</b>	<b>-</b>	<b>475,633</b>
<b>Transfer to insurance fund</b>						
Reserve of unexpired Risks at 31 December.	229,499	747,751	578,793	179,141	-	1,735,184
Reserve of unexpired Risks at 1 January.	(132,276)	(529,693)	(498,841)	(176,093)	-	(1,336,903)
Amounts transferred to insurance fund accounts	97,223	218,058	79,952	3,048	-	398,281
Net claims incurred	35,736	260,145	506,313	377,362	-	1,179,556
Finance cost	12,412	40,443	31,304	5,815	-	89,974
<b>Management expenses</b>	<b>271,757</b>	<b>903,264</b>	<b>743,066</b>	<b>127,275</b>	<b>-</b>	<b>2,045,362</b>
<b>Total expenses</b>	<b>547,783</b>	<b>1,592,383</b>	<b>1,483,888</b>	<b>564,752</b>	<b>-</b>	<b>4,188,806</b>
<b>Income from non-life operations</b>	<b>(37,784)</b>	<b>69,285</b>	<b>(197,681)</b>	<b>(325,897)</b>	<b>225,324</b>	<b>(266,753)</b>

**Notes to the financial statement** *(continued)*

**5. Segment information (continued)**

The segment results for the year ended 31 December 2012 are as follows:

<i>In thousands of Leones</i>	Fire	Motor	Accident	Marine	Un allocated	Total
<b>Revenue</b>						
Premiums less re-insurance	293,947	1,177,095	1,108,538	234,790	-	2,814,370
Investment income	-	-	-	-	229,001	229,001
<b>Total income</b>	293,947	1,177,095	1,108,538	234,790	229,001	3,043,371
<b>Expenditure</b>						
<b>Net commission paid</b>						
Commissions paid	43,432	79,870	192,913	11,263	-	327,478
	43,432	79,870	192,913	11,263	-	327,478
<b>Transfer to insurance fund</b>						
Reserve for unexpired at 31 December	132,276	529,693	498,841	176,093	-	1,336,903
Reserve for unexpired risks at 1 January	(528,687)	(72,449)	(528,066)	(537,546)	-	(1,666,748)
Amounts transferred to insurance fund accounts	(396,411)	457,244	(29,225)	(361,453)	-	(329,845)
Claims paid, outstanding and unintimated	63,822	(84,377)	281,038	26,059	-	286,542
Management expenses	188,283	790,357	731,775	150,391	-	1,860,806
<b>Total expenses</b>	(100,874)	1,243,094	1,176,501	(173,740)	-	2,144,981
<b>Income from non-life operations</b>	394,821	(66,999)	(67,963)	408,530	229,001	898,390

**5.2 Disclosable items**

Disclosable items included in the statement of comprehensive income as part of management expenses for the period under review are as follows:

<i>In thousands of Leones</i>	<b>2013</b>	2012
Directors' fees	<b>55,521</b>	48,766
Depreciation	<b>114,368</b>	89,531
Auditors' fees	<b>26,310</b>	33,495

**Notes to the financial statement** *(continued)*

**6. Investment income**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
<b>6a Non-Life</b>		
Interest received	225,324	229,001
	<hr/>	<hr/>
<b>Total investment income</b>	<b>225,324</b>	<b>229,001</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>6b. Life</b>		
Interest received	5,996	12,536
	<hr/> <hr/>	<hr/> <hr/>

**7. Management expenses**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Advertising	58,495	53,776
Audit fees	26,310	33,495
Miscellaneous	203,010	268,597
Depreciation	114,368	89,531
Entertainment	93,923	58,524
Utility bills	25,313	21,533
Legal and professional	24,615	13,702
Directors' fees	55,521	48,766
Motor cars expenses	89,229	85,649
Repairs and maintenance	20,408	20,300
Staff costs	513,517	516,121
Communication	63,795	755
Printing and stationery	34,074	22,704
Rent and rates	147,307	157,521
Subscription and donation	14,672	35,132
Traveling	199,093	23,492
Bad debt	309,515	288,624
Registration fee	52,197	39,935
	<hr/>	<hr/>
<b>Non-life expenses</b>	<b>2,045,362</b>	<b>1,778,167</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Life business expenses</b>		
Miscellaneous expenses	53,560	20,285
	<hr/>	<hr/>
<b>Life expenses</b>	<b>53,560</b>	<b>20,285</b>
	<hr/> <hr/>	<hr/> <hr/>

**7.1 Staff costs**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Salaries and wages	187,064	116,169
Staff welfare	254,084	365,932
Medical	27,808	19,864
Training	14,496	10,762
Staff benefits	13,112	3,394
	<hr/>	<hr/>
	<b>496,564</b>	<b>516,121</b>
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the financial statement** *(continued)*

**8. Net Finance cost/ (income)**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Net foreign exchange (gain)/ loss	<b>(823)</b>	2,365
Interest on loan	<b>29,686</b>	14,944
Bank charges	<b>61,111</b>	65,330
	<u><b>89,974</b></u>	<u>82,639</u>
	=====	=====

**9. Insurance funds**

<i>In thousands of Leones</i>	<b>2013</b>	2012
<b>(a) General business</b>		
Balance at 1 January	<b>1,336,903</b>	1,666,748
Increase arising from changes in net premium income (note 5.1)	<b>398,281</b>	(329,845)
<b>Balance at 31 December</b>	<u><b>1,735,184</b></u>	<u>1,336,903</u>
	=====	=====

**(b) Life business**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Balance at 1 January	<b>69,352</b>	11,129
Increase arising from life business	<b>14,190</b>	58,223
<b>Balance at 31 December</b>	<u><b>83,542</b></u>	<u>69,352</u>
	=====	=====

**10. Tax account**

**a. Current tax expense**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Current year at 30%	-	91,184
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	<b>(135,058)</b>	111,358
	<u><b>(135,058)</b></u>	<u>202,542</u>
	=====	=====

**Notes to the financial statement** *(continued)*

**10. Tax account (continued)**

**b. Reconciliation of effective tax rate**

<i>In thousands of Leones</i>	<b>2013</b>	2012
<b>(Loss)/profit before income tax</b>	<b>(260,324)</b>	898,737
	-----	-----
Income tax on loss before tax	<b>(78,097)</b>	269,621
Tax impact of permanent difference:		
Non deductible expenses	<b>32,891</b>	17,557
Tax exempt income	<b>(67,597)</b>	(68,700)
Tax incentives	<b>(22,255)</b>	(15,936)
Deferred tax asset (recognized)/not recognized	-	-
	-----	-----
	<b>(135,058)</b>	202,542
	=====	=====

**c. Income tax account**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Balance at 1 January	<b>(81,184)</b>	-
Tax charged for the year	-	(91,184)
	-----	-----
	<b>(81,184)</b>	(91,184)
Payment during the year	<b>42,705</b>	10,000
	-----	-----
Balance at 31 December	<b>(38,479)</b>	(81,184)
	=====	=====

**d. Deferred tax asset and liabilities**

**Recognised deferred tax asset and liabilities**

<i>In thousands of Leones</i>	2013			2012		
	Asset	Liability	Net	Asset	Liability	Net
Property and equipment	-	<b>105,764</b>	<b>105,764</b>	-	62,773	62,773
Employee benefit plan	<b>(5,728)</b>	-	<b>(5,728)</b>	(1,991)	-	(1,991)
Tax loss carried forward	<b>(315,097)</b>	-	<b>(315,097)</b>	(141,032)	-	(141,032)
Exchange gain	-	<b>725</b>	<b>725</b>	-	972	972
Deferred tax asset not recognised	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
	<b>(320,825)</b>	<b>106,489</b>	<b>(214,336)</b>	(143,023)	63,745	(79,278)
	=====	=====	=====	=====	=====	=====

**Notes to the financial statement** *(continued)*

**10. Tax account (continued)**

**e. Movement in temporary differences during the year 2013**

<i>In thousands of Leones</i>	<b>Opening balance</b>	<b>Recognised in profit and loss</b>	<b>Recognised in equity</b>	<b>Closing balance</b>
Property and equipment	62,773	42,991	-	105,764
Employee benefit plan	(1,991)	(3,737)	-	(5,728)
Unrealized foreign exchange gains	972	(247)	-	725
Tax loss carried forward	(141,032)	(174,065)	-	(315,097)
Deferred tax asset recognised	-	-	-	-
	<b>(79,278)</b>	<b>(135,058)</b>	<b>-</b>	<b>(214,336)</b>

Movement in temporary differences during the year 2012

<i>In thousands of Leones</i>	Opening balance	Recognised in profit and loss	Recognised in equity	Closing balance
Property and equipment	41,890	20,883	-	62,773
Employee benefit plan	(1,991)	-	-	(1,991)
Unrealized foreign exchange gains	1,682	(710)	-	972
Tax loss carried forward	(232,216)	91,184	-	(141,032)
Deferred tax asset recognised	-	-	-	-
	<b>(190,635)</b>	<b>111,357</b>	<b>-</b>	<b>(79,278)</b>

**11. Earnings per share**

**Basic**

Basic (loss)/ earnings per share is calculated by dividing the net profit attributable to the equity holders of the company by the weighted average number of shares in issue during the year.

<i>In thousands of Leones</i>	<b>2013</b>	2012
(Loss)/ profit attributed to equity holders	<b>(125,266)</b>	696,195
Weighted average number of ordinary shares in issue (thousands)	<b>1,000,000</b>	1,000,000
Basic (loss)/ earnings per share (expressed in Leones per share)	<b>(125)</b>	696

**Notes to the financial statement** *(continued)*

**11. Earnings per share (continued)**

*Diluted*

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares, to assume all dilutive potential ordinary shares. At 31 December 2013, the company had no dilutive potential ordinary shares.

<i>In thousands of Leones</i>	<b>2013</b>	2012
(Loss)/ profit attributed to equity holders	<b>(125,266)</b> =====	696,195 =====
Weighted average number of ordinary shares in issue (thousands)	<b>1,000,000</b> =====	1,000,000 =====
Diluted (loss)/ earnings per share (expressed in Leones per share)	<b>(125)</b> =====	696 =====

**Notes to the financial statement** *(continued)*

**12. Property and equipment**

<i>In thousands of Leones</i>	<b>Motor vehicle</b>	<b>Furniture and equipment</b>	<b>Total</b>
At 1 January 2012	230,650	278,751	509,401
Additions	-	265,600	265,600
<b>At 31 December 2012</b>	<b>230,650</b>	<b>544,351</b>	<b>775,001</b>
At 1 January 2013	<b>230,650</b>	<b>544,351</b>	<b>775,001</b>
Additions	<b>319,633</b>	<b>76,014</b>	<b>395,647</b>
Disposal	<b>(142,950)</b>	-	<b>(142,950)</b>
<b>At 31 December 2013</b>	<b>407,333</b>	<b>620,365</b>	<b>1,027,698</b>
<b>Accumulated depreciation</b>			
At 1 January 2012	122,087	62,923	185,010
Charge for the year	45,740	43,791	89,531
<b>At 31 December 2012</b>	<b>167,827</b>	<b>106,714</b>	<b>274,541</b>
At 1 January 2013	167,827	106,714	274,541
Charge for the year	58,315	56,053	114,368
Disposal	(139,378)	-	(139,378)
<b>At 31 December 2013</b>	<b>86,764</b>	<b>162,767</b>	<b>249,531</b>
<b>Carrying amounts</b>			
At 1 January 2012	108,563	215,828	324,391
At 31 December 2012	62,823	437,637	500,460
<b>At 1 January 2013</b>	<b>62,823</b>	<b>437,637</b>	<b>500,460</b>
<b>At 31 December 2013</b>	<b>320,569</b>	<b>457,598</b>	<b>778,167</b>

**Notes to the financial statement** *(continued)*

**13. Financial assets**

**a. Investments**

<i>In thousands of Leones</i>	<b>2013</b>	2012
	<b>2,853,429</b>	2,271,041
<b>Total investments</b>	<b>2,853,429</b>	2,271,041

The statutory deposit was made with the Bank of Sierra Leone in compliance with Section 23(1) of the Insurance Act 2000. The deposit of Le 150 million for each class of business (Le750 million in total) is, and will continue to be maintained at the Bank of Sierra Leone, so long as the company continues to transact insurance business in Sierra Leone. The deposits are invested in treasury bills (Government Securities) by the Bank of Sierra Leone on behalf of the company.

<i>In thousands of Leones</i>	<b>2013</b>	2012
Held to maturity	<b>2,807,466</b>	2,248,729
<b>Total financial assets</b>	<b>2,807,466</b>	2,248,729

Held to maturity constitute assets expected to be realised within one year

**Investments in equities**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Shares	<b>45,963</b>	22,312

**c. Held to maturity financial assets**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Treasury bills	<b>1,342,324</b>	1,281,623
Fixed deposit	<b>1,352,242</b>	735,306
Treasury bond	<b>112,900</b>	231,800
<b>Total held to maturity financial assets</b>	<b>2,807,466</b>	2,248,729

The fair value of the held to maturity financial assets approximate to the carrying amount.

**d. Investment in equities**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Shares	<b>45,963</b>	22,312

**Notes to the financial statement** *(continued)*

**14. Loans and receivables including insurance receivables**

<i>In thousands of Leones</i>	<b>2013</b>	2012
<b>Receivables arising from insurance contracts</b>		
Due from agents and brokers	<b>1,672,972</b>	1,102,636
Impairment provision	<b>(894,368)</b>	(584,853)
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	<b>778,604</b>	517,783
<b>Other loans and receivables</b>		
Prepayments	<b>107,855</b>	79,506
Loans to staff	<b>36,286</b>	6,333
Others	<b>71,457</b>	525
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
<b>Total loans and receivables including insurance receivables</b>	<b>994,202</b>	604,147
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

The total amount of receivables is deemed current.

**15. Cash and cash equivalents**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Bank balances	<b>458,954</b>	689,795
Cash balances	<b>1,898</b>	12,209
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
<b>Total cash and cash equivalent</b>	<b>460,852</b>	702,004
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

**16. Share capital**

<i>In thousands of Leones</i>	<b>2013</b>		2012	
<b>Authorised:</b>	<b>No. of shares</b>	<b>Le'000</b>	No. of shares	Le'000
1 million ordinary shares of Le100each	<b>1,000,000</b>	<b>100,000</b>	1,000,000	100,000
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
<b>Issued and fully paid:</b>				
At 1 January	<b>1,000,000</b>	<b>100,000</b>	1,000,000	100,000
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
<b>At 31 December</b>	<b>1,000,000</b>	<b>100,000</b>	1,000,000	100,000
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

**Notes to the financial statement** *(continued)*

**17. Deposit for shares**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Balance at 1 January	<b>1,349,618</b>	1,349,618
Received during the year	-	-
	<u><b>1,349,618</b></u>	<u>1,349,618</u>
	=====	=====

**18. Contingency reserves**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Balance at 1 January	<b>184,699</b>	97,547
Transfer from retained earnings	<b>115,154</b>	87,152
	<u><b>299,853</b></u>	<u>184,699</u>
	=====	=====

**19. Retained earnings**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Balance at 1 January	<b>515,788</b>	(93,255)
Net profit for the year	<b>(125,266)</b>	696,195
Transfer to contingency reserves	<b>(115,154)</b>	(87,152)
Dividends to equity holders	<b>(150 000)</b>	-
	<u><b>125,368</b></u>	<u>515,788</u>
	=====	=====

**20. Loans and borrowings**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Balance at 1 January	<b>42,105</b>	5,000
Additions during the year	<b>345,000</b>	100,000
Repayment	<b>(79,605)</b>	(62,895)
	<u><b>307,500</b></u>	<u>42,105</u>
	=====	=====

An additional loan facility was obtained from Access Bank SL Limited and it is secured on a term deposit of Le 345 million which is held by the bank. Interest on loan is at 24% per annum and payable within 48 months commencing from the date of initial disbursement.

**Notes to the financial statement** *(continued)*

**21. Employee benefit provision**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Present value of obligation	<b>19,096</b>	6,638
Recognised liability for end of service benefit obligation	<b>19,096</b>	6,638

**Movement in the present value of end of service benefit**

Liability for end of service obligation at 1 January	<b>6,638</b>	6,638
Current service cost	<b>12,458</b>	-
Payments during the year	-	-
	<b>19,096</b>	6,638
Key valuation assumptions		
Discount rate	<b>13.61%</b>	19%
Salary increase rate	<b>17.5%</b>	16%
Withdrawal rate	<b>5%</b>	5%

**22. Insurance contracts claims**

**2013**

<i>In thousands of Leones</i>	<b>Fire</b>	<b>Motor</b>	<b>Accident</b>	<b>Marine</b>	<b>Total</b>
Claims at start of the year	<b>894</b>	<b>1,250</b>	<b>165,787</b>	-	<b>167,931</b>
Claims incurred during the year	<b>35,736</b>	<b>260,145</b>	<b>506,313</b>	<b>377,362</b>	<b>1,179,556</b>
Claims paid during the year	<b>(35,736)</b>	<b>(201,045)</b>	<b>(500,283)</b>	<b>(185,962)</b>	<b>(923,026)</b>
<b>Claims outstanding at 31 December</b>	<b>894</b>	<b>60,350</b>	<b>171,817</b>	<b>191,400</b>	<b>424,461</b>

**2012**

<i>In thousands of Leones</i>	<b>Fire</b>	<b>Motor</b>	<b>Accident</b>	<b>Marine</b>	<b>Total</b>
Claims at start of the year	-	191,884	11,460	-	203,344
Claims incurred during the year	63,822	(84,379)	281,038	26,059	286,540
Claims paid during the year	(62,928)	(106,255)	(126,711)	(26,059)	(321,953)
<b>Claims outstanding at 31 December</b>	<b>894</b>	<b>1,250</b>	<b>165,787</b>	<b>-</b>	<b>167,931</b>

**Notes to the financial statement** *(continued)*

**23. Trade and other payables**

<i>In thousands of Leones</i>	<b>2013</b>	2012
<b>General</b>		
Commission outstanding	<b>243,937</b>	124,796
Accruals	<b>182,021</b>	115,732
Other creditors	<b>391,927</b>	62,183
	<u><b>817,885</b></u>	<u>302,711</u>
	=====	=====

The estimated fair values of accounts due to other trading parties and trade payables are the amounts repayable on demand. All trade and other payables are current liabilities.

**24. Capital commitment**

There were no capital commitments at 31 December 2013 (2012: Nil).

**25. Contingent liabilities**

The company is defending a claim brought by one of its marine policy holders for a passenger boat insured for Le 879.4 million (US\$200 000). Based on legal advice, management believes that the case will be unsuccessful.

**26. Related party disclosure**

The following transactions were carried out with related parties:

**(a) Key management compensation**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Salaries and other short-term employee benefits	-	-
	<u>-</u>	<u>-</u>
	=====	=====

**27. Events after the financial position date**

Events subsequent to the financial position date are disclosed only to the extent that they relate directly to the financial statements and their effect is material. As there were no such events as at the date the financial statements were signed.