

AFRICAN AVIATION POOL

**REPORT AND FINANCIAL
STATEMENTS**

31 DECEMBER 2014

AFRICAN AVIATION POOL

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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AFRICAN AVIATION POOL

INSTITUTIONAL INFORMATION

MANAGEMENT BOARD Sen-Re (Chairman)
Misr Insurance Company, Egypt
Tunis Re
SCR Morocco
Ethiopian Insurance Company, Ethiopia
Consolidated Hallmark Insurance Plc, Nigeria

MANAGERS African Reinsurance Corporation
Africa Re
Plot 1679 Karimu Kotun Street
Victoria Island
P.M.B 12765

REGISTERED OFFICE Africa Re
Lagos, Nigeria
Plot 1679 Karimu Kotun Street
Victoria Island
P.M.B 12765

AUDITORS Deloitte Côte d'Ivoire
Rue gourgas Plateau,
Immeuble Alpha 2000, 01 BP 224
Abidjan, Côte d'Ivoire

BANKERS Barclays Bank Plc
1, Churchil Place
London E14 5HP

Ecobank
2 AJose Adeogun Street
Victoria Island, Lagos
Nigeria

AFRICAN AVIATION POOL

REPORT OF THE MANAGEMENT BOARD

The Management Board present their report together with the audited financial statements of the Pool for the year ended 31 December 2014 which disclose the state of affairs of the Pool.

PRINCIPAL ACTIVITIES

The African Aviation Pool was incorporated on 20th June 1986 during the 13th General Assembly of the African Insurance Organization held in Bujumbura, Burundi, for the purpose of sharing Pool business and risks. It was an amorphous organization created to render the following specialized services to the members:

- i. Create capacity within Africa for Aviation insurance risks emanating from Africa, thus minimizing the foreign exchange outgo on aviation reinsurance of African airlines.
- ii. Provide the African Aviation Insurance/ reinsurance marketer with underwriting, training and manpower development facilities to enable them have technically competent underwriters.
- iii. Provide technical/professional services to the members of the pool on matters relating to aviation insurance/ reinsurance.

African Reinsurance Corporation manages the pool and is remunerated by a way of commission based on the gross premiums written.

FINANCIAL RESULTS

The Loss for the year of (USD 1,517,317) (2013 – Profit - USD 371,904) has been transferred to the members account. The members balances as at 31 December 2014 amounted to USD 3,774,856 (2013 – USD 5,650,426).

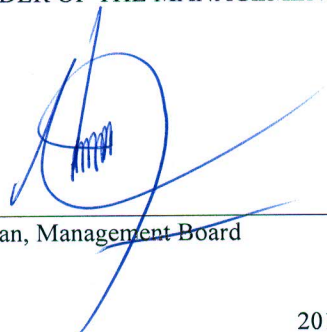
MANAGEMENT BOARD

The current members of the management board are shown on page 2.

AUDITORS

Deloitte Côte d'Ivoire, were appointed as auditors on 6 February 2015.

BY ORDER OF THE MANAGEMENT BOARD



Chairman, Management Board

2014

AFRICAN AVIATION POOL


STATEMENT OF THE MANAGEMENT BOARD RESPONSIBILITIES

The African Aviation Pool Agreement requires the Management Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Pool as at the end of the financial year and of the operating results of the Pool for that year. The Pool's Management Board is also required to ensure that the Pool keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Pool. It is also responsible for safeguarding the Pool's assets.

The Pool's Management Board is 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 African Aviation Pool Agreement and for such internal controls as the management board determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Pool's Management Board accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards. The Pool's Management Board is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Pool. The Pool's Management Board further accepts 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 Management Board to indicate that the Pool will not remain a going concern for at least the next twelve months from the date of this statement.



Chairman, Management Board

Pool Manager

2014

To the Shareholders,

We have audited the accompanying financial statements of African Aviation Pool set out on pages 6 to 25 which comprise the statement of financial position as at 31 December 2014, statement of comprehensive income and statement of underwriting income, statement of changes in members' funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

The Management Board is 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 African Aviation Pool agreement and for such internal controls as the Management Board 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 the auditor's judgment, 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 pool'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 pool's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, 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 accompanying financial statements give a true and fair view of the state of financial affairs of the African Aviation Pool as at 31 December 2014 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the African Aviation Pool agreement.

Abidjan, May 21st, 2015

Certified public Accountants

Deloitte Côte d'Ivoire



Marc WABI
Chartered Accountant
Partner

AFRICAN AVIATION POOL

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

		2014 USD	2013 USD
	Notes		
UNDERWRITING (DEFICIT)/SURPLUS	(Page 7)	(1,489,112)	481,363
INTEREST INCOME		45,861	56,377
		<hr/>	<hr/>
		(1,443,251)	537,740
MANAGEMENT EXPENSES	3	(74,066)	(165,836)
		<hr/>	<hr/>
(LOSS) / PROFIT FOR THE YEAR		(1,517,317)	371,904
		<hr/>	<hr/>
OTHER COMPREHENSIVE INCOME			
Exchange difference on translation of foreign operations		(358,253)	116,013
		<hr/>	<hr/>
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR		(1,875,570)	487,917
		<hr/> <hr/>	<hr/> <hr/>

AFRICAN AVIATION POOL

STATEMENT OF UNDERWRITING INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

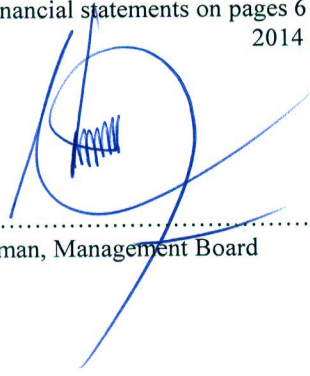
	2014 USD	2013 USD
Underwriting income		
Gross written premiums	1,021,177	2,670,621
Premium Reserve brought forward	801,186	974,773
Premium Reserve carried forward	(306,353)	(801,186)
	<hr/>	<hr/>
Gross premium earned	1,516,010	2,844,208
Re-insurance premiums	(590,000)	(640,000)
	<hr/>	<hr/>
Net earned premiums	926,010	2,204,208
	<hr/>	<hr/>
Underwriting Outgo		
Gross Claims paid	(1,074,187)	(2,085,674)
Claim Reserve brought forward	803,364	1,023,556
Claim Reserve carried forward	(1,905,000)	(803,364)
	<hr/>	<hr/>
Gross Claims incurred	(2,175,823)	(1,865,482)
Claim recoveries	-	-
	<hr/>	<hr/>
Net Claim incurred	(2,175,823)	(1,865,482)
Commissions	(154,772)	45,326
Charges	(84,527)	97,311
	<hr/>	<hr/>
Total net expenses	(2,415,122)	(1,722,845)
	<hr/>	<hr/>
Underwriting surplus/(deficit) transferred to statement of comprehensive income (Page 6)	(1,489,112)	481,363
	<hr/>	<hr/>

AFRICAN AVIATION POOL

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

		2014	2013
	Note	USD	USD
ASSETS			
Amount due from Ceding Companies	4	10,861,232	11,975,678
Sundry receivables	5	115,978	224,516
Short term deposits	9	1,493,220	226,413
Bank balance	9	476,235	949,255
		<u>12,946,665</u>	<u>13,375,862</u>
		<u><u>12,946,665</u></u>	<u><u>13,375,862</u></u>
MEMBERS' FUNDS AND LIABILITIES			
Participating members' account	6	<u>3,774,856</u>	<u>5,650,426</u>
LIABILITIES			
Premium reserve and claim Reserve	7	2,211,353	1,604,550
Amount due to ceding companies		3,928,502	3,170,680
Sundry Creditors	8	<u>3,031,954</u>	<u>2,950,206</u>
		<u>9,171,809</u>	<u>7,725,436</u>
		<u>12,946,665</u>	<u>13,375,862</u>
		<u><u>12,946,665</u></u>	<u><u>13,375,862</u></u>

The financial statements on pages 6 to 25 were approved and authorized for issue by the Management Board on 2014 and were signed on its behalf by:


.....
Chairman, Management Board


.....
Pool Manager

AFRICAN AVIATION POOL

STATEMENT OF CHANGES IN MEMBERS' FUNDS

	Participating members account USD	Translation reserve USD	Total USD
At 1 January 2013			
-As previously reported	5,162,509	-	5,162,509
Total comprehensive income for the year	371,904	116,013	487,917
	<u>5,534,413</u>	<u>116,013</u>	<u>5,650,426</u>
At 31 December 2013			
At 1 January 2014			
-As previously reported	5,534,413	116,013	5,650,426
Total comprehensive (loss) for the year	(1,517,317)	(358,253)	(1,875,570)
	<u>4,017,096</u>	<u>(242,240)</u>	<u>3,774,856</u>
At 31 December 2014			

The participating members account represents cumulative profits not distributed over years. The surplus is to be shared out by participating members per their respective shares.

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 USD	2013 USD
Cash flows generated from operating activities			
Reconciliation of the (deficit) / surplus for the year to cash used in operations			
(Loss) / Profit for the year		(1,517,317)	487,914
Movement in premium reserve and claim reserve		606,803	(393,779)
Net exchange (losses)/gains on liquid assets		(358,253)	116,012
Working capital changes;			
Decrease / (Increase) in amount due from ceding companies		1,114,446	(801,728)
Decrease in sundry receivables		108,539	1,996,332
Increase / (Decrease) in amount due to ceding companies		757,822	(1,230,204)
Increase in sundry creditors		81,748	29,345
Cash generated from / (used in) operating activities		793,788	203,895
Cash and cash equivalents at the beginning of the year	9	1,175,668	1,087,785
Cash and cash equivalents at the end of the year	9	<u>1,969,456</u>	<u>1,175,668</u>

AFRICAN AVIATION POOL

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1 ACCOUNTING POLICIES

a) Statement of compliance

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

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

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

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

Amendments to IAS 1
Presentation of Financial
Statements (as part of
Improvements to IFRSs issued
in 2013)

The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income item by item in the statement of changes in equity or in the notes to the financial statements. In the current year, the Pool has chosen to present this analysis in the statement of changes in equity therefore this has not resulted to any change in presentation.

(ii) *New and amended standards and 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 7, Financial Instruments: Disclosures –
Amendments enhancing disclosures about offsetting
financial assets and financial liabilities

1 January 2014

IFRS 7, Financial Instruments: Disclosure –
Amendments requiring disclosures about initial
application of IFRS 9

1 January 2014 or otherwise when IFRS 9
is first applied

IFRS 9, Financial Instruments – Classification and
Measurement of financial assets

1 January 2015

IFRS 9, Financial Instruments – Accounting for financial
liabilities and derecognition

1 January 2015

IFRS 12, Disclosure of Interests in Other Entities

1 January 2014

IFRS 13, Fair Value Measurement

1 January 2014

IAS 32, Financial Instruments: Presentation –
Amendments to application guidance on the offsetting of
financial assets and financial liabilities

1 January 2014

AFRICAN AVIATION POOL

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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

(iii) Impact of new and relevant 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.

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

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The Management Board anticipates that IFRS 9 will be adopted in the pool's financial statements for the annual period beginning 1 January 2015, and that the application of IFRS 9 may have significant impact on amounts reported in respect of the pool's financial assets and liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detail review has been carried out.

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

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

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

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

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

Management anticipates that IFRS 12 will be adopted in the pool's financial statements for the annual period beginning 1 January 2014 and that the application of the new standard would result in more extensive disclosures in the financial statements.

AFRICAN AVIATION POOL

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

(iii) *Impact of new and relevant standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods (Continued)*

- **IFRS 13, Fair Value Measurement**

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

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

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

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

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g. whether it is recognised in the financial statements or merely disclosed) and the level in which it is classified.

IFRS 13 is effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

The management board anticipate that IFRS 13 will be adopted in the pool's financial statements for the annual period beginning 1 January 2014 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

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

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

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

This amendment is effective for annual periods beginning on or after 1 January 2014.

The Management Board anticipates that this amendment will be adopted in the pool's financial statements for the annual period beginning 1 January 2014 and that the application will not have a significant impact on amounts reported in respect of the Pool's financial assets and financial liabilities.

AFRICAN AVIATION POOL

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

(iii) *Impact of new and relevant standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods (Continued)*

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

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

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

This amendment is effective for annual periods beginning on or after 1 January 2014.

The management board anticipate that this amendment will be adopted in the Pool's financial statements for the annual period beginning 1 January 2014 and that the application will not have a significant impact on amounts reported in respect of the Pool's financial assets and financial liabilities.

(iv) *Early adoption of standards*

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

Classification of insurance contracts

Contracts under which the pool accepts significant insurance risk from another party (the ceding company or cedant) by agreeing to compensate the cedant or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

Recognition and measurement of insurance contracts

Short-term insurance contracts are accounted for on an annual basis.

i. *Short-term insurance contract premium*

Written premium on short-term insurance contracts comprises premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premium income for the period includes adjustments to premiums written in prior accounting periods or premium not yet advised by the cedant for contracts in force at the end of the period. An estimate is made at the reporting date to recognise retrospective adjustments to premium or commission.

The outward reinsurance premiums relating to earned premiums are recognised as expense in accordance with the reinsurance services received.

ii. *Claims arising from short-term insurance contracts*

Claims incurred in respect of short-term insurance contracts consist of claims and claims handling expenses paid during the financial year as well as movements in premium reserve and claim deposit fund. Outstanding claims comprise provisions for all the Pool's estimated ultimate costs of settling all claims incurred but unpaid at the reporting date whether reported or not and related claim handling expenses. Outstanding claims that have occurred at the reporting date and have been notified to the Pool by the cedants are carried at their face value. Adequate provisions are also made for claims incurred but not reported at the reporting date using best available information. Outstanding claim provisions are disclosed at their carrying amounts and are not discounted except where there is a particularly long period from the claim incident to settlement in which case outstanding claims are discounted using a discount rate that best reflects current assessment of time value of money and associated risks. Anticipated reinsurance recoveries on claims are disclosed separately as assets.

iii. *Claim reserve and Premium reserves*

These consist of 100% of estimated losses reported by cedants and premium reserve established at the rate of 30% of the gross premiums. The premium reserve retained is released in the corresponding period of the following year.

AFRICAN AVIATION POOL

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Foreign currency translation

i. Functional and presentation currencies

The pool's constituent offices are geographically dispersed within Africa, and it conducts its operations in several currencies. In line with IAS 21 revised, the pool has selected a common currency, United States dollars, as its functional and presentation currency.

ii. Foreign currency translation

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 recognised in the statement of comprehensive income. Translation differences on equities held at fair value through profit or loss are reported as part of the fair value gain or loss.

Underwriting results

Underwriting results of the Pool are determined by compiling information received from the member insurance companies in returns detailing, inter-alia, premiums, commissions and claims.

The reserves are computed on the basis of the best information available at the end of the reporting period date, including past experience as adjusted for changes in circumstances and information supplied in returns submitted by the member insurance companies.

Investment income

Investment income comprises interest receivable on term deposits, treasury bills and bonds for the year and is recognised on the accrual basis.

Investments

Investments comprise equity investments, fixed and floating rate instruments and deposits. At the initial recognition of an investment, management determines its classification, which is dependent on the purpose for which the investment was acquired, and re-evaluates that classification at every reporting date.

Financial instruments

Financial assets – Recognition, classification and measurement

Financial assets and liabilities are recognised when the pool becomes a party to the contractual provisions of the instrument. The pool classifies its financial assets into the following categories:

i. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and are not quoted in an active market. After initial measurement at cost, receivables are subsequently remeasured to amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate.

ii. Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments classified as fair value through profit or loss are initially recognised at cost and subsequently re-measured to fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realised and unrealised gains and losses are included in the profit or loss. Interest earned whilst holding held for trading investments is reported as investment income.

AFRICAN AVIATION POOL

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Reinsurance receivables

All amounts receivable are initially recognised at fair value.

Amounts recoverable under the retrocession contracts are recognised in the same year as the related claims and are disclosed in the income statement and statement of financial position on a gross basis.

Amounts recoverable under reinsurance and retrocession contracts are assessed for impairment losses at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition that the pool may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the pool will receive from the debtors.

The carrying amounts of the assets are reduced by the impairment losses and the impairment losses recognised in the profit and loss account for the period.

Taxation

The Pool is exempt from taxation.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Comparatives

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key areas of judgment in applying the Pool's accounting policies are dealt with below:

(a) Critical judgements in applying accounting policies

There are no critical judgements, apart from those involving estimations (see b below), that the Management Board have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

(b) Key sources of estimation uncertainty

Claims

A significant degree of judgement has been applied in the determination of the adequacy of provision for outstanding claims and claims incurred but not reported at the reporting date. In addition, the income statement includes estimates for premium, claims and charges data that were not received from ceding companies at the date of the financial statements.

AFRICAN AVIATION POOL

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 MANAGEMENT EXPENSES

	2014 USD	2013 USD
Pool managers' commission – African Reinsurance Corporation	51,059	133,531
Management board fees	4,000	5,400
Auditors' remuneration	10,541	10,141
African Insurance Organisation – advertising expenses	1,925	2,750
Bank charges	1,435	661
Provision for doubtful balances	5,106	13,353
	<u>74,066</u>	<u>165,836</u>
	2014 USD	2013 USD

4 AMOUNT DUE FROM CEDING COMPANIES

Amount due from ceding companies	11,019,958	12,129,298
Provision for impairment	(158,726)	(153,620)
	<u>10,861,232</u>	<u>11,975,678</u>

5 SUNDRY RECEIVABLES

African Reinsurance Corporation	113,449	221,676
Accrued interest	2,529	2,840
	<u>115,978</u>	<u>224,516</u>

6 MEMBERS' ACCOUNT

Balance at the beginning of the year	5,650,426	5,162,509
Net exchange difference on translating foreign operations	(358,253)	116,013
Total comprehensive (loss)/income for the year	(1,517,317)	371,904
	<u>3,774,856</u>	<u>5,650,426</u>

AFRICAN AVIATION POOL

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 USD	2013 USD
7 PREMIUM RESERVE AND CLAIM RESERVE		
Claim reserve	1,905,000	803,364
Premium reserve	306,353	801,186
	<u>2,211,353</u>	<u>1,604,550</u>

The premium reserve and claim reserves represents 100% of estimated losses reported by cedants and a premium reserve established at the rate of 30% of the gross premiums written in a particular year. The premium reserve retained in a particular year is released in the corresponding period of the following year.

	2014 USD	2013 USD
8 SUNDRY CREDITORS		
Managers' commission payable	1,147,807	1,096,748
Management board fee	10,800	10,800
Audit fees	8,000	8,000
African Oil & Energy Insurance Pool	1,855,722	1,826,408
African Insurance Organisation	9,625	8,250
	<u>3,031,954</u>	<u>2,950,206</u>

9 CASH AND CASH EQUIVALENTS		
	2014 USD	2013 USD
Short term deposits	1,493,220	676,921
Bank balance	476,235	498,747
	<u>1,969,455</u>	<u>1,175,668</u>

AFRICAN AVIATION POOL

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 RELATED PARTY BALANCES AND TRANSACTIONS

The African Aviation Pool is related to various insurance and reinsurance companies who are members of the African Insurance organisation. All premium and claims paid as disclosed in the underwriting revenue statement represents related party transactions. In addition, the pool is related to African Reinsurance Corporation as the Corporation is a member of the Pool and also serves as the Pool manager.

Below is an analysis of balances held with the members of the pool and transactions entered into with the members.

	2014 USD	2013 USD
a) Net premium income earned	<u>926,010</u>	<u>2,204,208</u>
b) Gross claims Paid	<u>1,074,187</u>	<u>2,085,674</u>
c) Commission	<u>154,772</u>	<u>45,323</u>
d) Charges	<u>84,527</u>	<u>97,311</u>
e) Management commission paid to African Reinsurance Corporation	<u>51,059</u>	<u>133,531</u>
f) Key management compensation Management board fees	<u>4,000</u>	<u>5,400</u>
g) Amount due from Ceding Companies	<u>10,861,232</u>	<u>11,975,678</u>
h) Amount due to Ceding Companies	<u>3,928,502</u>	<u>3,170,680</u>

The balances held with related parties are disclosed in notes 4, 5, 6 and 8 of the financial statements

AFRICAN AVIATION POOL

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 FINANCIAL RISK MANAGEMENT

The pool's activities expose it to a variety of financial risks, including market credit and liquidity risks. The pool's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the management under policies approved by the Management Board. The pool members identify, evaluate and manage financial risks. The board provides the overall principles for overall risk management policies covering areas such as market risk, interest rate risk, and credit risk and investing excess liquidity.

a) Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk, and other price risks.

(i) Foreign exchange risk

The pool maintains assets and liabilities in several currencies and thus is exposed to the risk of exchange rate movements associated with assets and liabilities matching. The pool does not apply hedging techniques to mitigate its currency risk but ensures the net exposure to this risk is within acceptable levels by constantly reviewing the level of mismatch. The pool has offices in various locations whose currencies, in addition to its unit of account, represent approximately 95% of its business volumes. The assets and liabilities in these currencies are matched to the level desired by the pool.

The pool transacts business with counterparties in a number of countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, South African rand and Nigerian naira. However, the pool's primary exposure is to the Nigerian naira. Foreign exchange risk arises from reinsurance transactions recorded in local currencies, investments in non-reporting currencies and recognised assets and liabilities in foreign operations.

The carrying amounts of the pools's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	NAIRA	GBP
2014- Financial assets		
Short term deposits	427,122	
Bank balances	202,757	231,657
	<hr/>	<hr/>
	629,879	231,657
	<hr/>	<hr/>
2013- Financial assets		
Short term deposits	450,508	
Bank balances	184,669	248,495
	<hr/>	<hr/>
	635,177	248,495
	<hr/>	<hr/>

AFRICAN AVIATION POOL

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2014

11 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) **Market risk**

(i) *Foreign exchange risk (Continued)*

Foreign exchange risk – Appreciation/Depreciation of USD against other currencies by 1%.

The following sensitivity analysis shows how profit transferred to members account would change if the US Dollar had weakened/strengthen against the relevant currencies with all other variables held constant at the end of the reporting period.

	2014 USD profit transferred to members account	2013 USD profit transferred to members account
Currency - GB pounds		
+ 1 percentage point movement	2,317	2,485
- 1 percentage point movement	(2,317)	(2,485)
Currency – Naira	6,299	6,352
+ 1 percentage point movement	(6,299)	(6,352)
- 1 percentage point movement		

(i) *Price risk*

Price risk is the risk that the pool will be adversely affected by changes in prices, in relation to investments in instruments such as equity shares or marketable securities. The pool does not hold any quoted shares or marketable securities which are susceptible to changes in prices.

(ii) *Interest rate risk*

Interest rate risk is the risk that the pool will be adversely affected by changes in interest rates of amounts borrowed or invested. The pool has invested in short deposits.

The interest rates vary from time to time depending on the prevailing economic circumstances. To minimise the exposure, the pool closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes.

The table below summarises the exposure to interest rate risk at the end of each reporting period.

	2014 USD	2013 USD
Financial assets		
Short term deposits	1,493,220	226,413

Interest rate risks – increase/decrease of 1% in Net Interest Margin

An increase/decrease of one percentage point in interest yields would result in additional profit/loss for the year of USD 14,932 (2013 – USD 2,264) investment income in the Pool.

A one percentage point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

AFRICAN AVIATION POOL

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Pool is exposed to credit risk through its financial assets, which include short-term bank deposits, fixed income securities and receivables.

Short-term bank deposits are placed with financial institutions of very high credit rating and are spread over a number of them to avoid undue concentration. The pool's financial regulations prescribe minimum acceptable credit rating and maximum allowable exposure to any single counter-party.

The pool's fixed income portfolio is managed through use of prudent standards of diversification and rating quality of issues and issuers. Specific provisions limit the allowable holdings of a single issue and issuer and industry or sector. This is to minimise significant concentration risk associated with the fixed income portfolio.

Credit risk relating to receivables is mitigated by the large number of cedants and their dispersion across the continent. A significant number of the companies from whom receivables are due are equally members of the pool. In addition, the liability for outstanding claims is in respect of insurance contracts with the same counter parties. Receivables are presented at present value net of impairment provision. A periodic evaluation of cedants and retrocessionaires is carried out to minimise exposure to significant losses from insolvencies. Transaction terms are also strictly monitored to keep balances as current as possible.

The amount that best represents the pool's maximum exposure to credit risk as at 31 December is made up as follows:

	Fully Performing USD	Past Due USD	Impaired USD	Total USD
31 December 2014				
Amount due from ceding companies	10,861,232		158,726	11,019,958
Short term deposits	1,493,220			1,493,220
Bank balances	476,235			498,747
	<hr/>	<hr/>	<hr/>	<hr/>
	12,830,687		158,726	12,989,413
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2013				
Amount due from ceding companies	11,975,678		153,620	12,129,298
Short term deposits	226,413			226,413
Bank balances	949,255			949,255
	<hr/>	<hr/>	<hr/>	<hr/>
	13,151,346		153,620	13,304,966
	<hr/>	<hr/>	<hr/>	<hr/>

AFRICAN AVIATION POOL

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2014

11 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the management board, which has built an appropriate liquidity risk management framework for the management of the pool's short, medium and long term funding and liquidity management requirements. The pool 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 following table analyses the pool's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

	Up to 1 year USD	1-2 years USD	2-3 years USD	3-4 years USD	4-5 years	Over 5 years USD	Total USD
Financial liabilities							
At 31 December 2014							
Amount due to Ceding Companies	3,928,502	-	-	-	-	-	3,928,502
African Reinsurance Corporation	1,147,807	-	-	-	-	-	1,147,807
African Oil & Energy Pool	1,855,722	-	-	-	-	-	1,855,722
African Insurance Organisation	9,625	-	-	-	-	-	9,625
	<u>6,941,656</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,941,656</u>
At 31 December 2013							
Amount due to Ceding Companies	3,170,680	-	-	-	-	-	3,170,680
African Reinsurance Corporation	1,096,748	-	-	-	-	-	1,096,748
African Oil & Energy Pool	1,826,408	-	-	-	-	-	1,826,408
African Insurance Organisation	8,250	-	-	-	-	-	8,250
	<u>6,102,086</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,102,086</u>

12 CONTINGENT LIABILITIES

There are no material contingent liabilities in respect of pending litigations involving the pool for which no provisions have been made in these financial statements.

13 CURRENCY

The financial statements are presented in United States Dollar (USD).

2. FIVE YEAR FINANCIAL SUMMARY
YEAR ENDED 31 DECEMBER 2014

	2014 USD	2013 USD	2012 USD	2011 USD	2010 USD
ASSETS					
Bank balances	476,235	949,255	675,977	261,266	262,370
Investments	1,493,220	226,413	411,808	2,770,255	3,710,022
Amount due from ceding companies	10,861,232	11,975,678	11,173,950	10,737,108	8,322,158
Sundry receivables	115,978	224,516	2,220,848	2,006,028	2,033,241
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>12,946,665</u>	<u>13,375,862</u>	<u>14,482,583</u>	<u>15,774,657</u>	<u>14,327,791</u>
LIABILITIES					
Premium reserve and claim reserve	2,211,353	1,604,550	1,998,329	3,927,947	4,017,684
Amount due to Ceding Companies	3,928,502	3,170,680	4,400,884	3,883,138	5,102,677
Managers' Commission Payable	1,147,807	1,096,748	963,216	800,754	604,918
Sundry Creditors	1,884,147	1,853,458	1,957,645	1,990,550	34,750
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
			-		
Total liabilities	<u>9,171,809</u>	<u>7,725,436</u>	<u>9,320,074</u>	<u>10,602,389</u>	<u>9,760,029</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
			-		
FUNDED BY:					
Members' account	3,774,856	5,650,426	5,162,509	5,172,268	4,567,762
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and member's funds	<u>12,946,665</u>	<u>13,375,862</u>	<u>14,482,583</u>	<u>15,774,657</u>	<u>14,327,791</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
PROFIT AND LOSS					
Gross premium	1,021,177	2,670,621	3,249,244	3,916,746	5,896,190
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
(Loss)/Profit for the year	<u>(1,517,317)</u>	<u>371,904</u>	<u>(9,759)</u>	<u>604,506</u>	<u>(3,924,853)</u>