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AFRICAN OIL AND ENERGY INSURANCE POOL

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2012

AFRICAN OIL AND ENERGY INSURANCE POOL

FINANCIAL STATEMENTS
FOR THE YEAR ENDED TO 31 DECEMBER 2012

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AFRICAN OIL AND ENERGY INSURANCE POOL

INSTITUTIONAL INFORMATION

MANAGEMENT BOARD	Leadway Assurance Company, Nigeria (Chairman) Zep Re (PTA Re), Kenya CICA Re, Togo Misr Insurance Company, Egypt CCR, Algeria Custodian & Allied Insurance
MANAGERS	African Reinsurance Corporation Africa Re Plot 1679 Karimu Kotun Street Victoria Island P.M.B 12765
REGISTERED OFFICE	Lagos, Nigeria Africa Re Plot 1679 Karimu Kotun Street Victoria Island P.M.B 12765
AUDITORS	Deloitte & Touché Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P O Box 40092 - 00100 Nairobi
BANKERS	Barclays Bank Plc. 1, Churchil Place London E14 5HP
	Ecobank 2 Ajose Adeogun Street Victoria Island, Lagos Nigeria

AFRICAN OIL AND ENERGY INSURANCE 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 2012 which disclose the state of affairs of the Pool.

PRINCIPAL ACTIVITIES

The African Oil and Energy Insurance Pool was incorporated on 20 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 oil, gas, petrochemical and energy related insurance risks emanating from Africa with a view to reducing foreign exchange outgo.

ii. Provide adequate insurance cover to match the rapid technological advancement of individual African countries and to further ensure that oil companies operating in Africa are charged competitive premium rates in order to enhance profitability and stabilise the African oil insurance market.

iii. Give technical support and advice to insurance companies operating in Africa on matters relating to risk management and insurance of oil and energy related risks.

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

FINANCIAL RESULTS

	USD
Profit for the year transferred to member's account	2,592,709

SURPLUS PAID TO MEMBERS

The Management Board recommend that a total sum of USD 259,271 (2011 – USD 815,307) be paid to the members.

MANAGEMENT BOARD

The current members of the Board are as shown on page 2.

AUDITORS

Deloitte & Touche Kenya were appointed as auditors on 6 February 2013 and have expressed their willingness to continue in office.

BY ORDER OF THE BOARD

Chairman, Management board

23 SEPTEMBER 2013

AFRICAN OIL AND ENERGY INSURANCE POOL

STATEMENT OF THE MANAGEMENT BOARD'S RESPONSIBILITIES

The African Oil and Energy Insurance 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 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 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 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 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 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 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

23 SEPTEMBER 2013

Deloitte.

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AFRICAN OIL AND ENERGY INSURANCE POOL

We have audited the accompanying financial statements of African Oil and Energy Insurance Pool set out on pages 6 to 23 which comprise the statement of financial position as at 31 December 2012, the 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 Oil and Energy Insurance Pool agreement and for such internal controls as the management committee 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 auditors' 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 African Oil and Energy Insurance Pool as at 31 December 2012 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the African Oil and Energy Insurance Pool agreement.

Deloitte & Touche

Certified Public Accountants (Kenya)

23 September **2013**

Nairobi

Partners: S. O. Onyango F. O. Aloo H. Gadhoke* N. R. Hira* B. W. Irungu I. Karim J. M. Kiarie D. M. Mbogho A. N. Muraya R. Mwaura J. Nyang'aya J. W. Wangai
* British

AFRICAN OIL AND ENERGY INSURANCE POOL

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 USD	2011 USD
UNDERWRITING SURPLUS (Page 7)		3,242,302	9,854,851
INTEREST INCOME		137,437	80,972
		3,379,739	9,935,823
MANAGEMENT EXPENSES	3	(837,391)	(915,865)
NET FOREIGN EXCHANGE GAIN/ (LOSS)		50,361	(866,884)
PROFIT FOR THE YEAR		2,592,709	8,153,074
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		2,592,709	8,153,074

AFRICAN OIL AND ENERGY INSURANCE POOL

STATEMENT OF UNDERWRITING INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 USD	2011 USD
Underwriting income			
Gross written premiums		14,904,928	16,350,761
Premium Reserve brought forward		6,540,304	8,441,426
Premium Reserve carried forward		(5,961,971)	(6,540,304)
Gross premium earned		15,483,261	18,251,883
Less: Re-insurance premiums		(688,135)	(1,795,833)
Net earned premiums		14,795,126	16,456,050
Expenses incurred			
Losses paid		(5,713,134)	(3,588,220)
Claim Reserve brought forward		4,714,753	4,771,308
Claim Reserve carried forward		(5,628,831)	(4,714,753)
Gross claims incurred		(6,627,212)	(3,531,665)
Commissions		(4,220,430)	(2,464,016)
Charges		(705,182)	(605,518)
Total expenses		(11,552,824)	(6,601,199)
Underwriting surplus transferred to statement of comprehensive income (Page 6)		3,242,302	9,854,851

AFRICAN OIL AND ENERGY INSURANCE POOL

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	2012 USD	2011 USD
ASSETS			
Amount due from ceding companies	4	25,301,445	23,589,851
Deposits retained by ceding companies		5,817	5,856
Sundry receivables	5	4,463,613	4,063,213
Short term deposits	10(b)	43,076,572	36,110,750
Bank balance	10(b)	79,228	6,197,321
		72,926,675	69,966,991
MEMBERS' FUNDS AND LIABILITIES			
Participating members' account	6	49,771,711	47,994,309
LIABILITIES			
Premium reserve and claim reserve	7	11,590,802	11,255,057
Surplus due to members	8	2,794,431	3,027,267
Amount due to ceding companies		4,328,863	4,000,486
Sundry Creditors	9	4,440,868	3,689,872
		23,154,964	21,972,682
		72,926,675	69,966,991

The financial statements on pages 6 to 23 were approved and authorized for issue by the Management Board on 23 SEPTEMBER 2013 and were signed on its behalf by:

....

Chairman, Management Board Pool Manager

AFRICAN OIL AND ENERGY INSURANCE POOL

STATEMENT OF CHANGES IN MEMBERS' FUNDS

	Participating members account USD
As at 1 January 2011	40,928,043
Surplus due to members (note 8)	(1,086,808)
Total comprehensive surplus for the year (page 6)	8,153,074
At 31 December 2011	47,994,309
As at 1 January 2012	47,994,309
Surplus due to members (note 8)	(815,307)
Total comprehensive surplus for the year (page 6)	2,592,709
At 31 December 2012	49,771,711

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

AFRICAN OIL AND ENERGY INSURANCE POOL

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 USD	2011 USD
Cash flows generated from operating activities			
Cash generated from operating activities	10(a)	1,895,872	6,964,328
Cash flows used in financing activities			
Surplus paid to members	8	(1,048,143)	(311,616)
Increase in cash and cash equivalents		847,729	6,652,712
Cash and cash equivalents at the beginning of the year		42,308,071	35,655,359
Cash and cash equivalents at the end of the year	10(b)	43,155,800	42,308,071

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 2012

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 2011)	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 2012

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 2013
IFRS 7, Financial Instruments: Disclosure – Amendments requiring disclosures about initial application of IFRS 9	1 January 2013 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 2013
IFRS 13, Fair Value Measurement	1 January 2013
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014

1 ACCOUNTING POLICIES (Continued)

b) 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 2012 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.
The management board anticipates that IFRS 12 will be adopted in the pool's financial statements for the annual period beginning 1 January 2013 and that the application of the new standard would result in more extensive disclosures in the financial statements.

1 ACCOUNTING POLICIES (Continued)

b) 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 2012 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.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

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.

The management board anticipate that IFRS 13 will be adopted in the pool's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

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

Amends the disclosure requirements in IFRS 7 Financial Instruments: 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 2013.

The Management Board anticipates that this amendment will be adopted in the pool's financial statements for the annual period beginning 1 January 2013 and that the application will not have a significant impact on amounts reported in respect of the Pool's financial assets and financial liabilities.

1 ACCOUNTING POLICIES (CONTINUED)

b) 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 2012 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 2012.

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 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 40% of the gross premium. The premium reserve retained is released in the corresponding period of the following year.

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.

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.

1 ACCOUNTING POLICIES (Continued)

Reinsurance receivables (Continued)

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 their 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 or 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 have made in the process of applying the entity's accounting policies and that have 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.

	2012 USD	2011 USD
3 MANAGEMENT EXPENSES		
Pool Managers' commission - African Reinsurance Corporation	745,246	817,538
Management board fees	5,400	4,800
Auditors' remuneration	8,000	8,000
Advertising expenses - African Insurance Organisation	2,750	2,750
Bank charges	1,086	1,023
Provision for doubtful balances	74,524	81,754
Other expenses	385	-
	837,391	915,865

		2012 USD	2011 USD
4	AMOUNT DUE FROM CEDING COMPANIES		
	Amount due from Ceding Companies	25,815,135	24,029,017
	Provision for impairment	(513,690)	(439,166)
		25,301,445	23,589,851
5	SUNDRY RECEIVABLES		
	African Reinsurance Corporation	2,522,983	2,076,273
	African Aviation Pool	1,933,345	1,970,800
	Accrued Interest	7,285	16,140
		4,463,613	4,063,213
6	MEMBERS' ACCOUNT		
	Balance at the beginning of the period	47,994,309	40,928,043
	Surplus due to members	(815,307)	(1,086,808)
	Profit for the period	2,592,709	8,153,074
	Balance at the end of the period	49,771,711	47,994,309
7	PREMIUM RESERVE AND CLAIM RESERVE		
	Claim Reserve	5,628,831	4,714,753
	Premium Reserve	5,961,971	6,540,304
		11,590,802	11,255,057

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. The premium reserve retained is released in the corresponding period of the following year.

		2012 USD	2011 USD
8	SURPLUS DUE TO MEMBERS		
	At beginning of year	3,027,267	2,252,075
	Prior year surplus approved for payment in the current year	815,307	1,086,808
	Paid during the year	(1,048,143)	(311,616)
	At end of year	2,794,431	3,027,267
9	SUNDRY CREDITORS		
	Managers` commission payable - African Reinsurance Corporation	4,421,368	3,676,122
	Audit fees	8,000	8,000
	African Insurance Organisation	5,500	2,750
	Board management fee	6,000	3,000
		4,440,868	3,689,872
10	NOTES TO THE STATEMENT OF CASH FLOWS		
	(a) Reconciliation of the surplus for the year to cash generated from operating activities		
	Surplus for the year	2,592,709	8,153,074
	Movement in premium reserve and claim reserve	335,745	(1,957,677)
	Working capital changes;		
	(Increase)/decrease in amount due from Ceding Companies	(1,711,594)	2,753,417
	Increase in sundry receivables	(400,400)	(1,868,483)
	Decrease/(increase) in deposit Retained by Ceding Companies	39	(83)
	Increase/(decrease) in amount due to Ceding Companies	328,377	(493,913)
	Increase in sundry creditors	750,996	377,993
	Cash generated from operations	1,895,872	6,964,328
	(b) Cash and cash equivalents		
	Short term deposits	43,076,572	36,110,750
	Bank balance	79,228	6,197,321
		43,155,800	42,308,071

11 RELATED PARTY BALANCES AND TRANSACTIONS

The African Oil and Energy Insurance Pool is related to various insurance and reinsurance companies who are members of the African Insurance organisation. All premiums 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.

		2012 USD	2011 USD
a)	Net premium income earned from members	14,795,126	16,456,050
b)	Losses paid	5,713,135	3,588,220
c)	Commission	4,220,429	2,464,016
d)	Charges	705,182	605,518
e)	Management commission paid to African Reinsurance Corporation	745,246	817,538
f)	Key management compensation Management board fees	5,400	4,800
g)	Amount due from Ceding Companies	25,301,445	23,589,851
h)	Amount due to Ceding Companies	4,328,863	4,000,486

The balances held with related parties are disclosed in notes 4, 5, 6, 8 and 9 of the financial statements

12 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.

12 FINANCIAL RISK MANAGEMENT (Continued)

a) Market risk (Continued)

(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, Great Britain Pound and Nigerian naira. However, the pool's primary exposure is to the Nigerian naira and Great Britain Pound. 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 pool's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	NAIRA USD	GBP USD
2012- Financial assets		
Bank balances	5,242	48,987
2011- Financial assets		
Bank balances	4,632	52,818

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.

	2012 USD profit transferred to members account	2011 USD profit transferred to members account
Currency - GB pounds		
+ 1 percentage point movement	490	528
- 1 percentage point movement	(490)	(528)
Currency – Naira	52	46
+ 1 percentage point movement	(52)	(46)
- 1 percentage point movement		

12 FINANCIAL RISK MANAGEMENT (Continued)

a) Market risk (Continued)

(ii) Price risk

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

(iii) 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.

	2012 USD	2011 USD
Financial assets		
Short term deposits	43,076,572	36,110,750

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

Based on a sensitivity rate of 1%, with all other variables held constant, the Pool's profit for the year would decrease/increase by USD 430,766 (2011 – USD 361,108). A 1% increase or decrease represents management's assessment of the reasonably possible change in interest rates.

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 institutions 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.

12 FINANCIAL RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

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:

2012

	Fully Performing USD	Past Due USD	Impaired USD	Total USD
Amount due from ceding companies	25,301,445	-	513,690	25,815,135
Short term deposits	43,076,572	-	-	43,076,572
Bank balances	79,228	-	-	79,228
	68,457,245	-	513,690	68,970,935

2011

Amount due from ceding companies	23,589,851	-	439,166	24,029,017
Short term deposits	36,110,750	-	-	36,110,750
Bank balances	6,197,321			6,197,321
	65,897,922	-	439,166	66,337,088

a) 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.

12 FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity risk (Continued)

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 2012							
Amount due to Ceding Companies	4,328,863	-	-	-	-	-	4,328,863
African Reinsurance Corporation	4,421,368	-	-	-	-	-	4,421,368
African Insurance Organisation	5,500	-	-	-	-	-	5,500
	8,755,731						8,755,731
At 31 December 2011							
Amount due to Ceding Companies	4,000,486	-	-	-	-	-	4,000,486
African Reinsurance Corporation	3,676,122	-	-	-	-	-	3,676,122
African Insurance Organisation	2,750	-	-	-	-	-	2,750
	7,679,358	-	-	-	-	-	7,679,358

13 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.

14 CURRENCY

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

AFRICAN OIL AND ENERGY INSURANCE POOL

FIVE YEAR FINANCIAL SUMMARY
YEAR ENDED 31 DECEMBER 2012

	2012 USD	2011 USD	2010 USD	2009 USD	2008 USD
ASSETS					
Bank balances	79,227	6,197,321	2,625,468	816,953	84,869
Investments	43,076,573	36,110,750	33,029,891	27,143,469	21,455,427
Deposit retained by ceding companies	5,817	5,856	5,773	5,596	5,681
Amount due from ceding companies	25,301,445	23,589,851	26,343,268	18,619,871	15,124,425
Sundry debtors	4,463,613	4,063,213	2,194,732	4,359,274	1,637,436
Total assets	**72,926,675**	**69,966,991**	**64,199,132**	**50,945,163**	**38,307,838**
LIABILITIES					
Surplus due to members	2,794,431	3,027,267	2,252,075	1,451,501	811,811
Amount due to Ceding Companies	4,328,863	4,000,486	4,494,399	4,536,272	3,819,891
Managers' Commission Payable	4,421,368	3,676,122	2,858,584	1,808,485	819,450
Sundry Creditors	19,500	13,750	453,297	15,000	8,000
Premium reserve and claim reserve	11,590,802	11,255,057	13,212,734	12,175,187	10,237,853
Total liabilities	23,154,964	21,972,682	23,271,089	19,986,445	15,697,005
FUNDED BY:					
Members' account	49,771,711	47,994,309	40,928,043	30,958,718	22,610,833
Total liabilities and members funds	**72,926,675**	**69,966,991**	**64,199,132**	**50,945,163**	**38,307,838**
PROFIT AND LOSS					
Gross premium	14,904,928	16,350,761	21,103,565	19,818,826	16,401,293
Profit for the year	2,592,709	8,153,074	10,868,083	8,987,575	6,396,896