Sterling Assurance
Nigeria Limited
Rc155682

# 2015
# Annual Report & Accounts

# CONTENT

## MISSION STATEMENT

TO BE A WORLD CLASS PROVIDER OF INSURANCE AND OTHER FINANCIAL SERVICES THROUGH INNOVATIVE IDEAS USING HIGHLY MOTIVATED WORKFORCE AND MODERN TECHNOLOGY TO DELIVER SUPERIOR RETURNS TO STAKEHOLDERS.

# Core Values

- Teamwork
- Reliability
- Integrity
- Responsibility

# CORPORATE INFORMATION

| | | |
|---|---|---|
| DIRECTORS: | PROF. T.A.J. OGUNBIYI | CHAIRMAN |
| | MR. F. K. LAWAL | MANAGING DIRECTOR/CEO |
| | MR. A. A. AKINGBADE | EXECUTIVE DIRECTOR |
| | MR. P. O. AWOJIDE | EXECUTIVE DIRECTOR |
| | MRS. A. FATADE | |
| | MRS. B. SUBAIR | |

**SECRETARIES:**
NIGERIAN NOMINEES LIMITED
NEW AFRICA HOUSE (12TH FLOOR)
31, MARINA,
LAGOS, NIGERIA

**REGISTERED OFFICE:**
284, IKORODU ROAD,
LAGOS, NIGERIA.

**BRANCHES:**
(a) S/W 1407, (OPP. HONEY PETROL STATION), RING ROAD, IBADAN.
(b) PLOT 24/25, HERBERT MACAULEY WAY, WUSE, ABUJA.
(C) 2, IKWERE ROAD, PORT HARCOURT.
(d) 229, JAKPA ROAD, EFUNRUN WARRI.
(e) 28, MCC ROAD, CALABAR.
(f) 37, NIGER STREET, KANO.
(g) 6, AHMADU BELLO WAY, KADUNA.
(h) 11, IYIN ROAD, BESIDE CAPTAIN COOK, FAJUYI, ADO-EKITI.
(i) 34/36, UNITY ROAD, OPP. GT BANK, ILORIN, KWARA STATE.
(j) 31, MARINA, LAGOS.

**PRINCIPAL BANKERS:**
ACCESS BANK PLC
FIRST CITY MONUMENT BANK PLC
FIRST BANK OF NIGERIA PLC

**AUDITORS:**
AJIBADE DUROJAIYE & CO
(CHARTERED ACCOUNTANTS)
27, AJAYI AINA STREET, IFAKO, GBAGADA
LAGOS, NIGERIA.
FRC/ICAN/2013/00000005422

**ACTUARIES**
HR NIGERIA LIMITED
FRC/NAS/00000000738

**ESTATE VALUER**
NDUBUISI MORDI & ASSOCIATES
FRC/2013/NIESV/00000004196

| | 2015<br>N000 | 2014<br>N000 | Percentage Increase / (Decrease) |
|---|---|---|---|
| UNDERWRITING RESULT | 944,838 | 626,282 | 50.86 |
| PROFIT/(LOSS) BEFORE TAXATION | 130,359 | (123,012) | 205.97 |
| TAXATION | (34,343) | (42,422) | (19.04) |
| PROFIT/(LOSS)AFTER TAXATION | 96,016 | (165,434) | 158.04 |
| TRANSFER TO INSURANCE FUND | 74,661 | 55,556 | 34.39 |
| TRANSFER TO CONTINGENCY RESERVES | 74,418 | 78,813 | (5.58) |
| RETAINED EARNINGS | (1,782,148) | (1,803,745) | 1.20 |
| PAID - UP SHARE CAPITAL | 4,050,351 | 4,034,857 | 0.38 |
| NET ASSETS | 3,125,558 | 3,100,465 | 0.81 |

| Per share data (kobo) | | |
|---|---|---|
| Earnings | 1.19 | (2.05) |
| Net Assets | 38.58 | 38.42 |

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the 17th Annual General Meeting of **Sterling Assurance Nigeria Limited** will be held at **The Board Room 2, Muson Centre, 8/9 Marina, Onikan, Lagos on Thursday, 14th July, 2016 at 1pm** to transact the following business:-

**ORDINARY BUSINESS**

1. Lay before the meeting the Audited Financial Statements for the year ended 31st December, 2015 with the reports of the Directors thereon.

2. Approve the Directors' emoluments

3. Ratification of Director's Appointment

4. Authorise the Directors to fix the remuneration of the Auditors.

**BY ORDER OF THE BOARD**

**NIGERIAN NOMINESS LIMITED**
**SECRETARIES**

**Dated: 22nd June, 2016**
Lagos.

**NOTES**
A member entitled to attend and vote is entitled to appoint to proxy to attend and vote instead of him. A proxy need no be a member of the Company.

To be valid for the purpose of the meeting, the enclosed Proxy Form must be completed, duly executed and deposited at the office of the Company Secretaries, Nigerian Nominees Limited, New Africa House (12th Floor), 31 Marina, P.O. Box 1443, Lagos not less than 48hours prior to the time of the meeting.

# THE BOARD OF DIRECTORS

Prof. Theo A. J. Ogunbiyi
Chairman

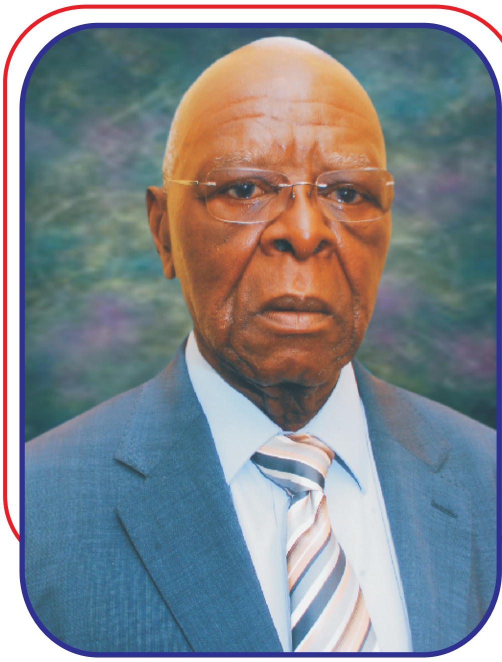
Mrs. A. Fatade
Director

Mrs. B. Subair
Director

P. O. Awojide
Executive Director

F. K. Lawal
Managing Director

A. A. Akingbade
Executive Director



Prof. Theo A. J. Ogunbiyi
Chairman

We had expected that the year 2015 would herald a positive turnaround in the fortunes of the company. Unfortunately this did not materialise partly due to the difficult environment in which our Company operated in that year as a result of the uncertainty preceding the General Elections and other difficult industry challenges. Our strategy for recovery will be outlined later in this address.

## OPERATING ENVIRONMENT

The global economy had a subdued performance in 2015 with divergent outcomes in different economic blocks. Tumbling energy and commodity prices reduced growth in emerging markets like Russia and Brazil and OPEC countries like Nigeria, Venezuela among others. Some emerging markets like India and Vietnam benefitted from the crash of commodity prices. Overall the world economy grew in 2015 by 3.1% against the 3.5% projected for the year.

The strain on the fiscal position of Nigeria continued in 2015 with further slide in crude oil prices. The period leading to the general elections was characterised by marked uncertainty which gave way to palpable optimism following the successful elections and transition to a new government, which has made combating corruption in high places the major plank of its economic recovery programme. The Government also outlined an agenda for diversification of the economy with agriculture, mining and services as priority. The security situation in Nigeria has improved with restoration of relative calm in the North-East, but there is fresh concern about security in the Niger Delta following the resumption of sabotage missions against strategic installations by the region's militants. It is hoped that Government will expeditiously address the security situation in that area.

The Nigerian insurance industry continues to adjust to the no-premium-no-cover policy introduced by NAICOM while challenges of unhealthy competition persist. The regulator is finalizing arrangements for the adoption of Risk-Based supervision which it hopes to launch in due course.

All these will continue to impact on the fortunes of insurance companies.

## OPERATING RESULTS

As stated earlier, our overall results for 2015 fell below our projections.Gross premium income fell by 5.70% from N2.63 billion in 2014 to N2.48 billion in 2015.Profit before taxation increased from a loss of N123.01 million in 2014 to a profit of N130.36 million in 2015, a 206% increase while profit after tax increased by 158% from a loss of N165.43 million to a profit of N96.02 million over the same period. Shareholders' Funds increased marginally from N3.10 billion in 2014 to N3.13 billion in the current year while retained earnings deficit reduced by 2% from N1.80 billion to N1.78 billion over the same period.The company continues to maintain a high level of liquidity, meeting all obligations as they fall due and also continue to record a positive solvency margin.

## BOARD CHANGES

In order to satisfy NAICOM's requirement for a minimum of seven Directors for insurance companies, our Board has appointed Dr. Solomon Adegboyega Alao, as a Director of the company, subject to NAICOM's approval, His appointment will be submitted for Shareholders' ratification after NAICOM's approval.

Dr.Alao is an Associate of the Chartered Insurance Institute of London and a Fellow of the Chartered Insurance Institute of Nigeria. He brings to the Board decades of experience in Insurance, risk management and retirement operations. Dr Alao's appointment will come for ratification at this Annual General Meeting.

## FUTURE PROSPECTS

It is obvious that apart from macro-economic and industry challenges, your Board has tried to identify the internal factors hampering the growth in the company. As a result, a number of steps have been taken to reinvent our marketing strategies. One of the key factors limiting premium income growth is the low capital base of the company which is below the minimum set by major clients for participation in large risks. It is accordingly apparent that an increase in Share Capital is necessary. The Board has therefore initiated discussions that will lead to the injection of substantial new capital into the company on which shareholders will be informed soon.

I assure all Shareholders that their interests will be adequately protected in the process. The Board and Management of your company are fully committed to the growth of this company and are quite optimistic that these difficult times will soon be a part of history.

I take this opportunity to put on record my gratitude to our numerous clients, brokers, bankers, professional advisers, our consultants, regulatory authorities, our entire management and staff and, my Board colleagues for their efforts, guidance and co-operation.

I thank all stakeholders for their forbearance and understanding, and I assure them that we shall continue to strive for a better future for Sterling Assurance Nigeria Limited.

Thank you all.

PROF. THEO. A.J. OGUNBIYI THURSDAY, 14$^{TH}$ JULY, 2016

## 1. REPORT

The Directors forward to the members herewith the audited accounts for the year ended 31st December, 2015.

## 2. RESULT

| | 2015<br>N000 | 2014<br>N000 |
|---|---|---|
| Underwriting Result | 944,838 | 626,282 |
| Investment & Other Income | 212,843 | 176,895 |
| Profit/ (Loss) Before Tax | 130,359 | (123,012) |
| Profit/ (Loss) After Tax | 96,016 | (165,434) |

## 3. PRINCIPAL ACTIVITY

The Company's principal activity is the provision of General Insurance Underwriting Services.

## 4. DIRECTORS

The Directors during the year and their respective Shareholdings are:-

| | 2015<br>Units (000) | 2014<br>Units (000) |
|---|---|---|
| Prof. T.A.J. OGUNBIYI (Chairman) | 56,625 | 37,683 |
| Mr. F. K. LAWAL (Managing) | 50,000 | 50,000 |
| Mr. A. A. AKINGBADE | - | - |
| Mr. P.O. AWOJIDE | - | - |
| Mrs. A. FATADE | - | - |
| Mrs. B. SUBAIR | - | - |

## 5. STAFF

| The number of staff presently in empolyment is: | 2015 | 2014 |
|---|---|---|
| **MANAGEMENT** | 10 | 10 |
| **NON-MANAGEMENT** | 109 | 103 |

BY ORDER OF THE BOARD

LAGOS, NIGERIA.
MARCH 10, 2016.

NIGERIAN NOMINEES LIMITED
SECRETARIES

# AJIBADE DUROJAIYE & CO.
## CHARTERED ACCOUNTANTS

**Partners**
A. A. Durojaiye B.Sc, FCA
K. O. Durojaiye B.A. Hons. ACA. CISA

Tel: 0803 201 5127
0802 330 5714
0803 787 3651
01-2915804
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27, Ajayi Aina Street,
Ifako-Gbagada, Lagos.
P. O. Box 70305,
Victoria Island,
Lagos, Nigeria.

**REPORT OF THE AUDITORS TO THE MEMBERS OF STERLING ASSURANCE NIGERIA LIMITED**

We have audited the accompanying Financial Statements of STERLING ASSURANCE NIGERIA LIMITED which comprise the Statement of Financial Position as at 31st December 2015, the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, and Statement of Cashflows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 33 to 64.

**DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Directors are responsible for the preparation and fair presentation of these Financial Statements in accordance with the International Financial Reporting Standards (IFRS) and in the manner required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act, 2011, the Insurance Act of Nigeria and relevant National Insurance Commission (NAICOM) guidelines and circulars, to the extent that they do not conflict with the requirements of IFRS. This responsibility includes designing, implementing and maintaining internal control systems relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditors' judgement, including the assessment of the risk of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the entity's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**OPINION**

In our opinion, the Company has kept proper accounting records and the financial statements are in agreement with the records in all material respects and give in the prescribed manner, information required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act, 2011, the Insurance Act of Nigeria and relevant National Insurance Commission (NAICOM) guidelines and circulars. The financial statements give a true and fair view of the financial position of STERLING ASSURANCE NIGERIA LIMITED as at December 31, 2015 and of its financial performance and its cash flows for the year ended, in accordance with the International Financial Reporting Standards.

*Report on Other Legal and Regulatory Requirements*

*Compliance with the requirements of Schedule 6 of the Companies and Allied Matters Act of Nigeria*

In our opinion, proper books of account have been kept by the Company, so far as it appears from our examination of those books.

The Statement of Financial position and the statement of comprehensive income are in agreement with the books of accounts.

Contraventions

The Company paid penalty in respect of the 2013 Quarterly Financial Returns. Details of the penalty are disclosed in note 40 to the Financial Statements.

K. Durojaiye
KEHINDE O. DUROJAIYE, ACA, FRC/2013/ICAN/00000005422
FOR: AJIBADE DUROJAIYE & CO
CHARTERED ACCOUNTANTS
LAGOS, NIGERIA.
10TH MARCH, 2016.

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## General information

### 1.1 Reporting entity

The Company, Sterling Assurance Nigeria Limited formerly, known as Whispering Hope Insurance Limited was incorporated as a Limited Liability Company on 11th October 1990 under the law of Nigeria and is subject to the Nigerian Insurance Act CAP I17 LFN 2004. The Company is licensed mainly to carry out underwriting, claims payment and investment. Its head office and registered office is at 284, Ikorodu Road, Lagos, Nigeria.

These Financial Statements were authorised for issue by the Board of directors on March 10, 2016.

### 1.2 Regulation

Sterling Assurance Nigeria Limited is regulated by the National Insurance Commission, NAICOM and all regulatory requirements and guidelines of the Commission are operative. This regulatory requirements, is a rigid observance of the 'no premium, no cover' provision of the Insurance Act, 2003.

### 1.3. Going concern

The Company is a going concern entity with very profitable operations and ready access to financial resources. These financial statements were prepared on a going concern basis.

## 2. Basis of preparation

### 2.1. Statement of compliance

These financial statements have been prepared using critical accounting estimates and judgements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. (The IASB), the Insurance Act of Nigeria and the relevant National Insurance Commission (NAICOM) guidelines and circulars, Company and Allied Matters Act, CAP C20, LFN 2004, the Financial Reporting Council of Nigeria Act, 2011 and other relevant statutes to the extent that they do not conflict with the provisions of IFRSs.

The financial statements present fairly the statement of financial position, statement of comprehensive income and the statement of cash flows of Sterling Assurance Nigeria Limited for the year ended 31st December, 2015.

### 2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis as modified by the revaluation of certain non-current assets except for the following material items in the statement of financial position:

i) available-for-sale financial assets which are measured at fair value;

ii) investment property is measured at fair value.

## 3. New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year.
Standards effective during the reporting period

| Standard | Content | Effective Year |
|---|---|---|
| **(i) Standards and interpretations issued but not yet effective** | | |
| IFRS -9 | Financial Instruments | 1 January 2018 |

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2018. (The initial effective date was January 1, 2015, but due to delay in completing the rest of the phases of the project, the effective date has been moved out to 2018).

In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities.

The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, we will now have two main categories of financial assets i.e. Fair value and amortized cost (as opposed to the four categories prescribed by IAS39 -fair value through profit and loss, loans & receivables, held to maturity and available - for-sale financial assets) but will potentially have no impact on classification and measurements of financial instruments.

The Company intends to adopt IFRS 9 not later than the accounting period beginning 1 January, 2018.

## 4.0 Foreign currency

**Foreign currency translation**

Transactions in foreign currencies are translated into Nigerian Naira at exchange rates at the

dates of the transaction. At the year end date, unsettled monetary assets and liabilities are related transaction differences are recognised in income statement. Non-monetary assets and Nigerian Naira at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in income, except for differences arising on the translation of available-for-sale equity instruments, financial liability designated as a hedge of the net investment in a foreign operation or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions.
Foreign exchange gains and losses are presented in the income statement under Other operating income.

## 5.0 Summary of significant accounting policies

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

## 5.1 Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank, unrestricted balances held with a Central Bank, call deposits and short term highly liquid financial assets (bank deposits) with original maturities of about three months, which are subject to insignificant risk of changes in their value and used by the Company in the management of its short-term commitments.

For the purpose of the statement of cash flow, cash and cash equivalents consist of cash and cash equivalents, net of outstanding bank overdrafts.

## 5.2 Financial assets

The Company classifies its financial assets into the following categories; at fair value through profit or loss, available-for-sale, held-to-maturity and loans and receivables. The classification is determined by management at initial recognition and depends on the purpose for which the investments were acquired.

### 5.2.1 Classification

**(a). Financial assets at fair value through profit or loss**

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or if the Company manages such investments and makes purchases and sales decisions based on their fair value in accordance with the Company's documented risk management or investment strategy.

Such investments include but not limited to fixed interest investments (bank deposits) which form part of cash and cash equivalents.

**(b). Available-for-sale-financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the assets within twelve months of the end of the financial reporting period.

**(c). Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when the Company sells goods and/or provides services directly to a debtor with no intention of trading the receivable.

Loans and receivables after initial recognition at fair value are measured at amortised cost, using the effective interest rate method less impairments. Amortised costs is calculated by taking into consideration any discount or premium on fee or costs that are integral part of effective interest rate. The effective interest rate is included in finance income in the income statement.

**(d) Held-to-maturity financial assets.**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity, other than:

- those that the Company upon initial recognition designates as fair value through profit or loss;
- those that the Company designates as available-for-sale; and
- those that meet the definition of loans and receivables.

Interest on held-to-maturity investments are included in the statements of comprehensive income and are reported as investment income. In the case of an impairment, it is reported as a deduction from the carrying value of the investment and recognised in the statements of comprehensive income as 'Net gains/(losses) on financial assets'.

**5.2.2 Recognition and measurements of financial assets**

Financial assets are initially recognised at fair value. Financial assets carried at fair value through profit or loss are initially recognised at fair value and all the transaction costs are recognised in the statement of comprehensive income. However, all the transaction costs associated with financial assets not carried at fair value through profit or loss and are directly attributable to their acquisition are added to the cost of acquisition.

Upon initial recognition, a financial asset classified into the financial assets at fair value through profit or loss category are designated as such if acquired principally for the purpose of selling in the short-term, if it forms part of a portfolio of financial assets in which there is an evidence of short-term profit taking or if so designated by management.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in income statement. Net gains or losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income.

Financial assets are derecognised when the right to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair-value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of available-for-sale (AFS) measured at fair value are recognised in the equity statement.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Dividend and interest income from available-for-sale (AFS) financial assets are recognised in the statement of comprehensive income when the Company's right to receive payments are established.

### 5.2.3 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial asset is based on quoted market prices or dealer price quotations. This includes listed equity securities.

The fair values of quoted investments and federal government bonds are based on current bid price. If the market for a financial asset is not active (and for unlisted securities), the Company establishes carrying value by using valuation techniques. These include the use of recent arms' length transactions, reference to other instruments that are substantially the same and discounted cash flows analysis.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or Regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the aforementioned criteria are not met, the market is regarded as being inactive.

Investments in equity instrument that do not have a quoted market price in active market are stated at cost using valuation technique. The valuation technique used is the cost of the instruments which is the price at which the transaction is exchanged between knowledgeable parties at arm's length.

Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised in equity.

### 5.2.4 Reclassification of financial assets

Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to- maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

### 5.2.5 Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset and can be estimated reliably.

### Available-for-sale-financial assets

The Company assesses at end of financial reporting period whether there is objective evidence that a financial assets or a group of financial assets is impaired.
A significant or prolonged decline in the fair value of the security below its costs is considered in determining whether the security is impaired. If any such evidence exists for available-for- sale financial assets, the cumulative loss, measured as the difference between acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in equity is removed from equity and recognised in the income statement.
Impairment losses recognised in the income statement for a financial asset classified as available-for-sale are not reversed through the income.
Impairment losses on available-for-sale investment securities are recognized when, and only when both quantitative and qualitative evidences have been taken to consideration. The cumulative loss that has been recognized in other comprehensive income, and presented in the cumulative loss measured as: the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the in income statement.
If, in a subsequent period, the fair value of an impaired available-for-sale equity security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

### 5.3 Trade receivables.

Trade receivables arising from insurance contracts are stated after deducting allowance made for specific debts considered doubtful of recovery as in consonance with NAICOM guideline on 'no premium no cover'. Trade receivables are reviewed at every reporting period for impairment.

### 5.3.1 Impairment on trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment. A provision for impairment is made when there is an objective evidence (such as the probability of solvency or significant financial difficulties of the debtors or indications that a debtor will become bankrupt) that the Company will not be able to collect all the amount due under the original terms of the invoice.

Allowances are made based on an impairment model which considers the loss given default for each customer, probability of default for the sectors in which the customer belongs and emergence period which serves as an impairment trigger based on the age of the debt.

Impaired debts are derecognised when they are assessed as uncollectible. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previous recognised impairment loss is reversed to the extent that the carrying value of the asset does not exceed its any subsequent reversal of an impairment loss is recognised in the income statement.

The Company considers evidence of impairment for receivables at both a specific asset and collective level all individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

### 5.3.3 Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet for use, the recoverable amount is estimated each year at the same time. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair valueless costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the" cash-generating unit, or CGU").

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

### 5.3.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 5.4 Reinsurance assets

Reinsurance assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in compliance with the terms of each reinsurance contract.

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

### 5.5 Deferred acquisition cost

Deferred acquisition costs represent the proportion of acquisition costs which corresponds to the unearned premium and are deferred as an asset and recognized in the subsequent period Acquisition costs comprise all direct and indirect costs arising from the writing of non-life. unearned premium to written premium.

### 5.6 Other receivables and prepayments

Other receivables and prepayments are carried at amortised cost less accumulated impairment losses. Prepayments are amortised on straight line basis to the profit or loss.

### 5.7 Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes or occupied substantially for use in the operations of the enterprise and/or members of the Company. An occupation of more than15% of the property is considered substantial.

The Company recognises investment property as an asset when, and only when it is probable that the future economic benefits that are associated with the investment property will flow to the

Company; and the cost of the investment property can be measured reliably.

Investment property is initially recognised at its costs and subsequently measured at fair value. A gain or loss arising from a change in the fair value of investment property shall be recognised in the income statement in the year in which it arises.

When there is a decline in value of an investment property, the carrying amount of the property is written down to recognise the loss. Such a reduction is charged to the statement of comprehensive income. Reductions in carrying amount are reversed when there is an increase, following a revaluation in accordance with the company's policy, on investment property, or if the reasons for the reduction no longer exist.

An increase in carrying amount arising from the revaluation of investment property is credited to Revaluation Reserve Account. To the extent that a decrease in carrying amount offsets a previous increase, for the same property that has been credited to revaluation surplus and not Subsequently reversed or utilised, it is charged against that revaluation surplus rather than the profit and loss account (Income Statement).

An increase in revaluation which is directly related to a previous decrease in carrying amount for the same property that was charged to the profit and loss account is credited to profit and loss account to the extent that it offsets the previously recorded decrease.

Investment properties are classified separately from other properties used for the purposes of the business.
When the use of a property changes such that it is reclassified as property, plant and equipment, its cost less impairment (if any) at the date of reclassification becomes its cost for Subsequent accounting.

The investment property in this financial statements is stated at fair value which is the revalue amount as being reported by Ndubuisi Mordi and Associate a registered professional estate surveying and valuation with registration number FRC/2013/NIESV/00000004196 on their revaluation exercise carried out on these investment properties on February 29, 2016. Valuation of investment property is reviewed annually by an independent valuation expert.

## 5.8 Property, plant and equipment

### 5.8.1 Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after 1 January 2011.

Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, Plant and equipment, and are recognized net within other income in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably.

All other repairs and maintenance costs are charged to income statement during the financial period in which they are incurred.

### 5.8.2 Payments in advance

Payments in advance for items of fixed assets are classified under prepayments and upon delivery are reclassified as additions to the appropriate category of property, plant and equipment.

### 5.8.3 Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property to the extent that an amount had previously been included in the revaluation reserve relating to the specific property, with any remaining loss recognized immediately in profit or loss.

### 5.8.4 Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably.
The costs of the day-to-day servicing of property, plant and equipment is recognised in income statement.

### 5.8.5 Depreciation

Depreciation is calculated on property, plant and equipment on the straight line basis to write down the cost of each asset to its residual value over its estimated useful life. No depreciation is charged on fixed assets until they are brought into use.

The principal annual rates used for this purpose, which are consistent with those for the previous years, are as follows:

| Asset | Depreciation rate (%) |
|---|---|
| Motor vehicles | 25 |
| Office equipment | 20 |
| Furniture and fittings | 20 |

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the Carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's value less costs to sell and value in use.

Each item of Property, Plant and Equipment with not less than 20% of its total cost for its class shall be depreciated separately while others with less than 20% of the total of its class shall be accumulated and depreciated (in group) together.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate

### 5.8.6 Disposal

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other operating income in income statement. This, in effect implies that the carrying amounts of property, plant and equipment disposed have been derecognised.

### 5.9 Statutory deposit

Statutory deposit represents 10% of the minimum paid up share capital of the Company deposited with the Central Bank of Nigeria (CBN) in pursuant to Section 10(3) of the Insurance Act, 2003. Statutory deposit is measured at cost.

### 5.10 Insurance contracts

### 5.10.1 Classification

Insurance contracts are those contracts that transfer significant insurance risks. Such contracts may also transfer financial risks. In the case of Sterling Assurance Nigeria Limited, these insurance contracts are: fire insurance business; general accident insurance business; motor vehicle insurance business, marine and aviation insurance business; oil and gas insurance business; engineering insurance business, bonds credit guarantee and surety ship insurance business; and miscellaneous insurance business. These can be broadly classified as General Accident and Property Insurance.

General Accident Insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for Employers who become legally liable to pay compensation to injured employees (employers' liability)and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).
Others include but not limited to oil & gas, engineering, special risk, workmen compensation motor and marine.

**Receivables and payables related to insurance contracts**
Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in the income statement. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for receivables. The impairment loss is calculated under the same method (incurred loss method) used for these financial assets.

**5.10.2 Premiums and claims**
For all the insurance contracts, premiums are recognized as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability or unexpired risks.

Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance.

**Refund of premium**
Under certain circumstances, the Company may declare a refund to its policy holders based on the premiums paid in the year, when, and only when, the risks associated with the policy are no longer under the Company's cover . This refund is recognised as a reduction of revenue in the year for which it is declared
**5.10.3 Reinsurance**

The Company holds the under-noted reinsurance contracts:

- Treaty Reinsurance Outward is usually between the Company and Reinsurers.

- Facultative Reinsurance Outward is usually between the Company and other insurance companies or between the Company and Reinsurers.

- Facultative Reinsurance Inwards is usually between the Company and other insurance Companies or between the Company and Reinsurers.

All business written under these reinsurance contracts are on cash and carry basis except where brokers give credit note to the fact that they have collected money from the insured. Premiums due to the reinsurers are paid and all claims and recoverable due from reinsurers are received.

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and

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

In certain cases, a reinsurance contract is entered into retrospectively to reinsure a notified claim under the Company's property or casualty insurance contracts. Where the premium due to their insurer differs from the liability established by the Company for the related claim, the difference is amortised over the estimated remaining settlement period.

The Company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for receivables.

The impairment loss is calculated following the same method (incurred loss method) used for these financial assets.

**Reinsurers' share of unearned premium**
The reinsurers' share of unearned premium is recognised as an asset using principles consistent with the Company's method for determining unearned premium liability.

Reinsurers share of provisions for unpaid claims and adjustment expenses
The Company enters into reinsurance contracts in the normal course of business in order to limit same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprise premiums payable for the purchase of reinsurance contracts and are included in accounts payable and are recognised as an expense in the income statement when due. Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognised as assets at the same time and using principles consistent with the Company's method for establishing the related liability.

**5.10.4 Claims**
Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims other than for disability claims. Liabilities for unpaid claims are estimated using the impute of assessments for individual cases reported to the Company and analysis for the claims incurred but not reported and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Balances arising from insurance contracts primarily include premiums and unearned premiums, provisions for unpaid claims and adjustment expenses, the reinsurers share of provisions for unearned premiums and unpaid claims and adjustment expenses, deferred policy acquisition expenses and salvage and subrogation receivables.

Claims and loss adjustment expenses are charged to income statement as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims other than disability claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases.

**5.10.5 Underwriting expenses**
Underwriting expenses comprise acquisition costs and other underwriting expenses. Acquisition costs comprise all direct and indirect costs arising from the writing of insurance contracts. Examples of these costs include, but are not limited to, commission expense, supervisory levy, superintending fees and other technical expenses. Other underwriting expenses are those incurred in servicing existing policies/contract.

Underwriting expenses are measured at amortised costs and are recognised in the financial statements as expense using the effective interest rate method.

### 5.10.6 Salvages

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

Salvage recoveries are used to reduce the claim expense when the claim is settled.

### 5.10.7 Subrogation

Subrogation is the right for an insurer to pursue a third party that caused an insurance loss to the insured.

This is done as a means of recovering the amount of the claim paid to the insured for the loss. A receivable for subrogation is recognized in other assets when the liability is settled and the Company has the right to receive future cash flow from the third party.

### 5.10.8 Reserves for unearned premium

In compliance with Section 20(1)(a) of Insurance Act, 2003, the reserve for unearned premium is calculated on a time apportionment basis in respect of the risks accepted during the year.

### 5.10.9 Reserves for outstanding claim

The reserve for outstanding claims is maintained at the total amount of outstanding claims incurred and reported plus claims incurred but not reported (IBNR) as at the balance sheet date. The IBNR is based on the liability adequacy test carried out by independent actuary.

### 5.10.10 Reserves for unexpired risk

A provision for Additional Unexpired Risk Reserve (AURR) is recognized for an underwriting year where it is envisaged that the estimated cost of claims and expenses would exceed the Unearned Premium Reserve (UPR)"

At each date, liability adequacy tests are performed by an actuary to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to income statement by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

### 5.10.11 Deferred policy acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the writing of non-life insurance contracts. Deferred Acquisition Costs (DAC) represents a proportion of commission which are incurred during a financial year and are deferred to the extent that they are recoverable out of future revenue margins. It is calculated by applying to the acquisition expenses the ratio of unearned premium to written premium.

### 5.11 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. The fair value of a non-interest bearing liability s its discounted repayment amount. If the due date of the liability is less than one year discounting is omitted.

### 5.12 Provisions, contingent liabilities and contingent assets

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost. Provision will be measured at the Director's best of estimate of the expenditure required to settle the obligation at the end of the reporting period. Provisions will be reviewed at the end of the reporting period and adjusted to reflect the current best estimate.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company or the company has a present obligation as a result of past events but is not recognized because it is not likely that an outflow of resources will be required to settle the obligation; or the amount cannot be reliably estimated.

Contingent liabilities normally comprise legal claims under arbitration or court process in respect of which a liability is not likely to materialize

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company.

Contingent liabilities and contingent assets are never recognised rather they are disclosed in the financial statements when they are due.

### 5.13 Employee benefits

#### 5.13.1 Defined contribution plans

The Company operates a defined contributory pension scheme as stipulated in the Pension Reform Act 2014. Under the defined contributory scheme, the Company pays 10% of total emolument as defined by the Act to Pension Fund Administrator while employees pay 5% to the same entity. Total emolument comprises basic salary, housing and transport allowances. Once the contributions have been paid, the Company retains no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to finance benefits accruing under the retirement benefit plan. The Company's obligations are recognized in the profit and loss account as employee benefit expenses when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or reduction in the future payments is available.

### 5.13.2 Defined benefit plan

The company operates a non-contributory defined benefits service gratuity scheme for its employees. The employees' entitlement to retirement benefits under the service gratuity scheme depends on the individual years of service, terminal salary and condition of service. The liability recognised in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the date of the statement of financial position less the fair value of plan assets, together with adjustment for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method.

**Gratuity basis**

Any employee leaving either voluntarily or otherwise is entitled to:
Less than 5 years = NIL

Above 5yrs = 4weeks basic salary for every completed year

The company funds the gratuity benefit by setting aside certain amount.

### Valuation of post- employment benefit obligation

The cost of defined gratuity plan and the present value of the gratuity obligation are determined periodically.

The valuation involves making assumptions about discount rates, future salary increases, and expected years in employment. The valuation of the defined benefit obligation is highly sensitive to changes in these underlying assumptions. All assumptions are reviewed at each reporting date.

The valuation of the staff gratuity plan was professionally carried out by HR Nigeria Limited. Actuarial gains and losses are recognised in full in other comprehensive income when they occur. Past-service costs are recognised immediate in income.

### 5.13.3 Short-term employee benefits

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

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

### 5.14 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

### 5.14.1 Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years. It further excludes items that are never taxable or deductible. The company's liabilities for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

### 5.14.2 Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### 5.15 Share capital and premium

Shares are classified as equity when there is no obligation to transfer cash or other assets.

Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

### 5.16 Contingency reserves

In compliance with Section 21 (2) of Insurance Act, 2003, the contingency reserve is credited with the greater of 3% of total premiums, or 20% of the net profits. This shall accumulate until it reaches the amount of greater of minimum paid-up capital or 50 percent of net premium.

### 5.17 Retained earnings

The retained earnings comprise undistributed profit/(loss) from previous years and current year. Retained earnings are classified as part of equity in the statement of financial position.

### 5.18 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for- sale financial assets until the investments are derecognized.

Revaluation reserve is one of the reserves under equity. A revaluation reserve is an increase in the value of property, plant and equipment. The Company credit it when noncurrent assets like building or land is revalue.

This line item is used when the revaluation finds the current and probable future value of the asset is higher than the recorded historic cost of the same asset.

### 5.19 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

### 5.20 Dividends

Dividends on the Company's ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders. Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the year in which the dividend is approved by the Company's shareholders.

### 5.21 Revenue recognition

Revenue comprises the fair value of services rendered, net of value-added tax.

Revenue is recognised as follows:

(a). Premium is recognised in the financial statement when the revenue can be reliably measured and that it is probable that the economic benefits associated with the transaction will flow to the entity.

(b). Interest income from financial assets is recognised monthly on an accrual basis when it is probable that the economic benefits will flow to the entity and the amount of income benefits can be measured reliably.

Interest income is accrued on a time basis with reference to the principal outstanding (face value) and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Interest income is recognised in these financial statements using the effective interest method.

(c). Dividend income: Dividend income from available-for-sale equities is recognised when the right to receive payment is established, this is the ex-dividend date for equity securities.

### 5.22 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided.

A commission is payable according to a pre-determined formula as an incentive and reward for profitable underwriting. The following are examples of profit commission:

(a) the commission paid to a cover holder by a managing agent for underwriting a profitable account;

(b) the commission paid by a member to a managing agent in respect of the profitability of its syndicate in a given year of account; and

(c) the commission paid by a reinsurer to an insurer in respect of a profitable reinsurance treaty. Fee and commission income is reported on the statement of comprehensive income.

### 5.23 Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments including financial instruments measured at fair value through profit or loss, are recognised within 'investment income and finance cost in the income statement using the effective interest rate method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

**5.24 Reinsurance expenses**

Reinsurance cost represents outward premium paid to reinsurance companies less the unexpired portion as at the end of the accounting year.

**5.25 Underwriting expenses**

Underwriting expenses comprise acquisition costs and other underwriting expenses. These costs incurred by an insurer when deciding whether to accept or decline a risk may include meetings with the insured or brokers, actuarial review of loss history, or physical inspections of exposures.

All expenses deducted from the Company revenues, inclusive of net commissions, salaries, and advertising costs are aggregated to determine underwriting profit.

Underwriting expenses are measured at amortised costs and are recognised in the financial statements as expense using the effective interest rate method.

**5.26 Management expenses**

Management expenses are charged to profit or loss when the goods are received or services rendered. They are expenses other than claims, investments and underwriting expenses and include employee benefits depreciation charges and other operating expenses.

**5.27 Finance cost** – Comprises interest on borrowing and other finance costs such as bank charges, COT, etc.

Finance costs are interest costs. Usually they are thought to refer to interest expense on short-term borrowings (for example bank overdraft and notes payable) and long-term borrowings(for example term loans and real estate mortgages). The term “finance cost” is broader and also includes costs other than just interest expense.

Finance costs as “interest and other costs that the Company incurs in connection with the borrowing of funds and bank service charges”.

Finance cost is measured at fair value and it is recognised as expense in the period in which they are incurred using the effective rate method. When this treatment for recognizing finance cost is used, these costs should be expensed regardless of how they are applied.

**5.28 Critical accounting estimates and judgments**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### 5.28.1 Provision for unpaid claims

The estimation of the provision for unpaid claims and the related reinsurers' share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims.

The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience.

### 5.28.2 Impairment of available- for-sale investments

The Company determines that available-for-sale investments are impaired when there has been a significant or prolong decline in fair value below its cost. The determination of what is significant or prolong requires judgment.

In making this judgment the Company considers among other factors, the normal volatility in market price, the financial health of the investee and industry and sector performance.

### 5.28.3 Income taxes

The Company periodically assesses its liabilities and contingencies related to income taxes for all years opens to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the task liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

### 5.29 Valuation of insurance contract liability

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a period of time before the ultimate claims cost can be established with certainty.

The ultimate cost of outstanding claims is estimated by using one of the range of standard actuarial claims projection techniques - Chain Ladder method.

Unearned Premium Reserve (UPR) was based on each policies unexpired insurance period (UP) as the exact number of days of insurance cover available after the review date and calculate the UPR as the annualised premium.

Unexpired Risk Reserve (URR) was calculated by multiplying the loss ratio by unexpired premium (UP).This is the indication of the cost of the future claims and all expenses expected to be incurred in the future by the unexpired portion of existing policies.

**Assumptions**

Chain Ladder method is calculated on the assumption that the future claims will follow a regression pattern from the historical data.

Hence payment patterns will be broadly similar in each accident year. Thus the proportionate increases in the known cumulative payments from one development year to the next, is used to calculate the expected cumulative payments for the future development periods.

An implicit assumption of the chain ladder is that weighted past average inflation will remain unchanged into the future.

The maximum run off period is six (6) years.

Gross claim amounts include all related claim expenses.

The UPR is calculated on the assumption that risk will occur evenly during the duration of the policy.

The Liability Adequacy Test (LAT) was carried out by HR Nigeria Limited (Consultant Actuaries).

The claims reserve was calculated using the Discounted Inflation Adjusted Basic Chain Ladder method.

The carrying value at the reporting date of non-life insurance contract liabilities is N1,513,769,000 (2014: N 1,439,108,000).

# STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2015

| ASSETS | NOTES | 2015 N'000 | 2014 N'000 |
|---|---|---|---|
| Cash and Cash Equivalents | 6 | 951,521 | 980,611 |
| Financial Assets | 7 | 892,970 | 969,853 |
| Trade Receivables | 8 | 3,282 | 16,652 |
| Reinsurance Assets | 9 | 1,015,353 | 919,696 |
| Deferred Acquisition Cost | 10 | 118,678 | 82,137 |
| Other Receivables and Prepayments | 11 | 68,282 | 79,891 |
| Investment Properties | 12 | 1,060,000 | 1,060,000 |
| Property, Plant and Equipment | 13 | 408,972 | 410,703 |
| Statutory Deposits | 14 | 300,150 | 300,150 |
| **Total Assets** | | **4,819,208** | **4,819,694** |
| **LIABILITIES** | | | |
| Insurance Contract Liabilities | 15 | 1,513,769 | 1,439,108 |
| Trade Payables | 16 | 15,852 | 9,501 |
| Provisions and Other Payables | 17 | 36,012 | 78,472 |
| Retirement Benefit Obligations | 18 | 68,280 | 47,391 |
| Current Income Tax Liabilities | 19 | 10,046 | 108,980 |
| Deferred Tax Liabilities | 19 | 49,692 | 35,776 |
| **Total Liabilities** | | **1,693,651** | **1,719,228** |
| **Net Assets** | | **3,125,558** | **3,100,465** |
| **EQUITY** | | | |
| Paid-up Share Capital | 20 | 4,050,351 | 4,034,857 |
| Share Premium | 20 | 70,393 | 70,393 |
| Statutory Contigency Reserve | 21 | 790,504 | 716,085 |
| Retained Earnings | 22 | (1,782,148) | (1,803,745) |
| Other Reserves | | (5,947) | - |
| Fair- value Reserves | 23 | 2,405 | 82,875 |
| **Total Equity** | | **3,125,558** | **3,100,465** |
| **Total Liabilities and Equity** | | **4,819,208** | **4,819,694** |

**The financial statements and notes on pages 33 to 64 were approved by the Board of Directors of Sterling Assurance Nigeria Limited on March 10, 2016 and signed on its behalf by:**

Prof. T.A.J. Ogunbiyi
FRC/2014/IODN/00000006925 ............................ Chairman

Fatai K. Lawal
FRC/2013/CIIN/00000003330 ............................ Managing Director/CEO

Peter O. Awojide
FRC/2012/ICAN/00000000383 ............................ Executive Director/CFO

| | NOTES | 2015 N'000 | 2014 N'000 |
|---|---|---|---|
| **Gross Premium Written** | 24 | **2,480,611** | **2,627,110** |
| **Gross Premium Earned** | 24 | 2,509,657 | 2,773,551 |
| **Reinsurance Premium Expenses** | 25 | (649,339) | (830,857) |
| **Net Premium Income** | | 1,860,318 | 1,942,694 |
| Fee income-Insurance | 26 | 61,667 | 74,621 |
| **Net underwriting Income** | | **1,921,985** | **2,017,315** |
| Claims Expense (Net) | 27 | (512,338) | (744,288) |
| Underwriting Expenses | 28 | (464,809) | (646,745) |
| **Total Underwriting Expenses** | | **(977,147)** | **(1,391,033)** |
| **Underwriting Results** | | **944,838** | **626,282** |
| Investment Income | 29 | 118,717 | 100,231 |
| Other Operating Income | 30 | 94,126 | 76,664 |
| Employee Benefit Expense | 31 | (523,615) | (547,623) |
| Management Expenses | 32 | (411,791) | (362,526) |
| Fund loss on Cash and Cash Equivalent | 33 | (79,312) | - |
| **Results of Operating Activities** | | **(801,875)** | **(733,254)** |
| Finance Costs | 34 | (12,604) | (16,040) |
| **Profit/(Loss) before Taxation** | | **130,359** | **(123,012)** |
| Income Tax Expense | 19 | (34,343) | (42,422) |
| **Profit/(Loss) after Taxation** | | **96,016** | **(165,434)** |
| **Other Comprehensive Income** | | | |
| Actuarial Gains/ (Losses) | | (5,947) | - |
| Changes in available-for-sale financial assets | | (80,470) | (30,873) |
| **Total comprehensive income for the year** | | **9,599** | **(196,307)** |
| Basic and adjusted earnings per Share | | **1.19** | **(2.05)** |

The accounting policies on pages 6 to 28 and notes on pages 33to 64 form integral parts of these Financial Statements.

| | Share Capital | Share Premium | Contingency Reserves | Fair-value Reserves | Other Reserves | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|
| | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 |
| Balance at 1st January, 2014 | 3,711,345 | 70,393 | 639,730 | 113,748 | - | (1,467,370) | 3,067,847 |
| Transfer of Life portion | - | - | (2,458) | - | - | - | (2,458) |
| Adjustment on Tax | - | - | - | - | - | (107,287) | (107,287) |
| Issued during the year | 323,512 | - | - | - | - | - | 323,512 |
| Loss for the year | - | - | - | - | - | (165,434) | (165,434) |
| Changes in fair value of available-for-sale | - | - | - | (30,873) | - | - | (30,873) |
| Adjustment on defined benefit obligations | - | - | - | - | - | 15,160 | 15,160 |
| Transfer to the contingency reserves | - | - | 78,813 | - | - | (78,813) | - |
| **Balance at 31st December, 2014** | **4,034,857** | **70,393** | **716,086** | **82,875** | **-** | **(1,803,745)** | **3,100,466** |
| Balance at 1st January, 2015 | 4,034,857 | 70,393 | 716,086 | 82,875 | - | (1,803,745) | 3,100,466 |
| Rights Issues during the year | 15,494 | - | - | - | - | - | 15,494 |
| | | | | | | | - |
| Profit for the year | - | - | - | - | - | 96,016 | 96,016 |
| Actuarial Gains/ (Losses) | - | - | - | - | (5,947) | - | (5,947) |
| Changes in fair value of available-for-sale | - | - | - | (80,470) | - | - | (80,470) |
| | | | | | | | - |
| Transfer to the contingency reserves | - | - | 74,418 | - | - | (74,418) | - |
| **Balance at 31st December, 2015** | **4,050,351** | **70,393** | **790,504** | **2,405** | **(5,947)** | **(1,782,148)** | **3,125,559** |

| CASH FLOWS FROM OPERATING ACTIVITIES | Notes | 2015 N'000 | 2014 N'000 |
|---|---|---|---|
| Premium Received | 24 | 2,493,981 | 2,754,790 |
| Reinsurance Premium Paid | 24 | (859,714) | (830,857) |
| Fees and Commission Received | 24 | 61,667 | 74,621 |
| Claims Paid during the year | 24 | (774,124) | (876,707) |
| Claims Paid recovered from Reinsurers | 24 | 53,110 | 66,627 |
| Commission Paid | 28 | (175,984) | (194,024) |
| Maintenance Cost Paid | 28 | (325,366) | (452,722) |
| Cash Paid to and on behalf of Employees | 31 | (509,279) | (557,047) |
| Management and Other Expenses | | (30,770) | (441,918) |
| Tax paid during the year | | (119,362) | (27,676) |
| **Net Cash Flow from Operating Activities (A)** | | **(185,841)** | **(484,912)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Investment Income | 29 | 129,658 | 140,599 |
| Purchase of AFS Financial Assets | 7(i) | (53,399) | (3,738) |
| Redemption/(Addition) of Loans and Receivables Financial Assets | 7(ii) | 49,812 | 53,410 |
| Disposal of Other Financial Assets | | - | (20,000) |
| Purchase of property, plant and equipment | 14 | (41,932) | (120,881) |
| Proceeds from disposal of property, plant and equipment | 30 | 586 | 136 |
| Other Operating Income | 30 | 69,136 | 3,205 |
| **Net Cash Flow from Investing Activities (B)** | | **153,861** | **52,731** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceed from Right Issue | 20 | 15,494 | 80,563 |
| Finance Cost | 34 | (12,604) | (16,040) |
| **Net Cash Flow from FinancingActivities (C)** | | **2,890** | **64,523** |
| **Net Increase / (Decrease) in cash and cash equivalents (A+B+C)** | | (29,090) | (367,658) |
| **Cash and cash equivalent at the beginning of the year** | | 980,611 | 1,348,269 |
| **Cash and cash equivalent at the end of the year** | | **951,521** | **980,611** |

| | 2015 | 2014 |
|---|---|---|
| **6. Cash and Cash Equivalents** | **N'000** | **N'000** |
| Cash | 7,124 | 876 |
| Local bank balances | 79,568 | 53,381 |
| Short-term Bank deposits | 944,141 | 926,354 |
| Less loss to Cyber Criminals | (79,312) | |
| | **951,521** | **980,611** |

Cash and cash equivalents comprise of short term deposites and placements with maturity period of less than 90 days from the value date of the placements.

| | | |
|---|---|---|
| **7. Financial Assets** | | |
| (i) Available-for-sale measured at fair value | 450,018 | 477,089 |
| (ii) Available-for-sale measured at cost | 179,907 | 179,907 |
| Total Available-for-sale | 629,925 | 656,996 |
| (iii) Loans and receivables | 25,545 | 75,357 |
| (iv) Held-to-Maturity | 237,500 | 237,500 |
| | **892,970** | **969,853** |

| | | |
|---|---|---|
| **7 (i) Available-for-sale investments carried at fair value** | | |
| Federal government bonds | 153,399 | 100,000 |
| Quoted investments | 296,619 | 377,089 |
| | **450,018** | **477,089** |

| | | |
|---|---|---|
| **Movement in Available-for-sale investments (Federal Government bonds) carreid at fair value** | | |
| Balance at the beginning | 100,000 | 100,000 |
| Acquired during the year | 53,399 | - |
| Balance at the end | **153,399** | **100,000** |

| | | |
|---|---|---|
| **Movements in Available-for-sale (quoted investments) carried at fair value** | | |
| Balance at the beginning | 377,089 | 164,685 |
| Transfer of GTB shares during the year | - | 242,949 |
| Acquired during the year | - | 3,738 |
| Disposed during the year | - | (3,410) |
| Fair value changes | (80,470) | (30,873) |
| Balance at the end | **296,619** | **377,089** |

Quoted Investments and Government bonds are stated at market value which is the value at which they can be exchanged between knowlegeable parties at arms length.
The Company recognises dividend income in the financial statements whenever it has right to do so.

| | 2015 | 2014 |
|---|---|---|
| **7 (ii) Available-for-sale investments carried at cost** | **N'000** | **N'000** |
| Investment in unlisted Shares | **179,907** | **179,907** |
| | | |
| Current | 179,907 | 179,907 |
| Non-current | - | - |

**Analysis of unlisted available for sale instruments is shown:**

| | | |
|---|---|---|
| NLPC Pension Fund Admnistrators Limited | 37,775 | 37,775 |
| Golden Capital Plc. | 4,422 | 4,422 |
| WAICA Re | 37,710 | 37,710 |
| Medexia Limited | 40,000 | 40,000 |
| Grand Cereals Limited | 60,000 | 60,000 |
| | **179,907** | **179,907** |

| | | |
|---|---|---|
| **7 (iii) Loans and Receivables** | **25,545** | **75,357** |
| | | |
| **Movement in Loans and Receivables** | | |
| Balance at the beginning | 75,357 | 55,357 |
| (Redemption)/Addition during the year | (49,812) | 20,000 |
| Balance at the end | **25,545** | **75,357** |

| | | |
|---|---|---|
| **7 (iv) Held- to- Maturity** | | |
| Unlisted securities | **237,500** | **237,500** |
| | | |
| Current | - | - |
| Non-current | **237,500** | **237,500** |

| | | |
|---|---|---|
| **8. Trade Receivables** | **3,282** | **16,652** |
| | | |
| **Categorisation of Insurance Receivables** | | |
| Insurance brokers | 1,843 | 15,775 |
| Agents | 370 | 611 |
| Insurance companies | 1,069 | 266 |
| | **3,282** | **16,652** |
| | | |
| **Maturity day of Trade Receivables are stated below:** | | |
| Within 30 Days | 3,282 | 16,652 |
| Above 30 Days | - | - |
| **Total** | **3,282** | **16,652** |

| **9. Reinsurance Assets** | **2015 N'000** | **2014 N'000** |
|---|---|---|
| Prepaid reinsurance | 107,174 | 323,900 |
| Reinsurance share of Incurred But Not Reported (IBNR) | 54,658 | 230,966 |
| Outstanding Claims | 148,584 | - |
| Reinsurances share of claims paid not yet recovered | 704,937 | 364,830 |
| | **1,015,353** | **919,696** |
| Current | 1,015,353 | 919,696 |
| Non-current | - | - |

**9.1 Movement in prepaid reinsurance**

| | | |
|---|---|---|
| Balance at the beginning of the year | 323,900 | 259,167 |
| Additions during the year | (216,726) | 64,733 |
| Balance at the end of the year | **107,174** | **323,900** |

**9.2 Movement in IBNR**

| | | |
|---|---|---|
| Balance at the beginning of the year | 230,966 | 218,189 |
| Additions during the year | (176,308) | 12,777 |
| Balance at the end of the year | **54,658** | **230,966** |

**10. Deferred Acquisition Cost**

| | | |
|---|---|---|
| Marine | 1,567 | 1,084 |
| Motor | 22,922 | 15,864 |
| Fire | 24,567 | 17,003 |
| Bond | 36 | 25 |
| Oil and energy | 51,273 | 35,486 |
| General accident | 14,636 | 10,129 |
| Engineering | 3,678 | 2,546 |
| | **118,678** | **82,137** |
| Current | 118,678 | 82,137 |
| Non-current | - | - |

**Movement in deferred acquisition costs**

| | | |
|---|---|---|
| Acquisition costs brought forward | 82,137 | 44,034 |
| Addition during the year | 175,984 | 232,127 |
| Amortisation during the year | (139,443) | (194,024) |
| | **118,678** | **82,137** |

The deferred acquisition cost above represesnts commission on unearned premium relating to unexpired period of risks.

| | 2015 | 2014 |
|---|---|---|
| **11. Other Receivables and Prepayments** | **N'000** | **N'000** |
| Prepayments | 11,543 | 7,535 |
| Interest Receivables | 49,828 | 60,769 |
| Staff Advances | 1,351 | 4,548 |
| Sundry Debtors | 5,560 | 7,039 |
| | **68,282** | **79,891** |
| Current | 68,282 | 79,891 |
| Non-current | - | - |

**(11(i)) Interest Receivables breakdown**

| | 2015 | 2014 |
|---|---|---|
| FGN Bonds Investment | 12,854 | 12,854 |
| Short term Investment (Bank Placements) | 36,974 | 47,915 |
| | 49,828 | 60,769 |

**12. Investment Property**

| | 2015 | 2014 |
|---|---|---|
| Balance at the beginning of the year | 1,060,000 | 1,060,000 |
| Fair value gain | - | - |
| Balance at the end of the year | **1,060,000** | **1,060,000** |

Investement Properties above is stated at the value placed on it by our Estate Valuer, Ndubuisi Mordi & Associates (FRC/2013/NIESV/0000004196 as at the end of the year.

## 13. Property, Plant and Equipment as at 31st December, 2015

| | Land & Building N'000 | Motor Vehicles N'000 | Office Equipment N'000 | Furniture & Fittings N'000 | Total N'000 |
|---|---|---|---|---|---|
| **13a. Cost** | | | | | |
| Balance at January, 2015 | 316,839 | 215,756 | 69,413 | 21,740 | 623,748 |
| Additions | 2,742 | 26,500 | 6,936 | 5,754 | 41,932 |
| Disposals | - | (7,786) | - | - | (7,786) |
| Balance at December, 2015 | **319,581** | **234,470** | **76,349** | **27,494** | **657,894** |
| **13b. Accumulated Depreciation** | | | | | |
| Rates | | **25%** | **20%** | **20%** | |
| Balance at January, 2015 | - | 142,451 | 53,215 | 17,379 | 213,045 |
| Charge for the year | - | 29,099 | 9,208 | 5,356 | 43,663 |
| Disposals | - | (7,786) | - | - | (7,786) |
| Balance at December, 2015 | - | **163,764** | **62,423** | **22,735** | **248,922** |
| **13c. Carrying Amount** | | | | | |
| At 31st December, 2015 | **319,581** | **70,706** | **13,926** | **4,759** | **408,972** |
| At 31st December, 2014 | **316,839** | **73,305** | **16,198** | **4,361** | **410,703** |

Property, plant and equipment were professionally re-valued as at 31st December, 2015

## 14. Statutory Deposits

| | 2015 N'000 | 2014 N'000 |
|---|---|---|
| Statutory deposits | 300,150 | 300,150 |
| | **300,150** | **300,150** |

This represents the amount deposited with the Central Bank of Nigeria (CBN) as at 31st December, 2015 in accordance with sections 9(1) and 10(3) of Insurance Act, 2003. The amount is not available for the day-to-day use in the working capital of the Company. Therefore, it is excluded from cash and cash equivalents.

## 15. Insurance Contract Liabilities

| | 2015 | 2014 |
|---|---|---|
| Insurance Funds for General Business comprise: | N'000 | N'000 |
| Outstanding claims | 651,511 | 372,455 |
| Claims incured but not reported | 224,910 | 400,259 |
| Unearned premium | 637,348 | 666,394 |
| | **1,513,769** | **1,439,108** |
| Current | 1,513,769 | 1,439,108 |
| Non-current | - | - |

## 15a. Provision for Outstanding Claims-General Business

| | 2015 | 2014 |
|---|---|---|
| Fire | 200,029 | 139,833 |
| General accident | 161,729 | 99,699 |
| Motor | 60,826 | 37,606 |
| Marine | 52,289 | 8,580 |
| Engineering | 87,618 | 36,037 |
| Bonds | - | 10,000 |
| Oil & energy | 89,020 | 40,700 |
| Outstanding claims | 651,511 | 372,455 |
| Plus IBNR | 224,910 | 400,259 |
| **Total claims liabilities** | **876,421** | **772,714** |

**The movement in the provision for outstanding claims during the year was as follows:**

| | 2015 | 2014 |
|---|---|---|
| Provision for outstanding claims- closing | 876,421 | 772,714 |
| Less Provision for outstanding claims- opening | (772,714) | (570,717) |
| Increase/(Decrease) in the provision for outstanding claims | 103,707 | 201,997 |

**The age analysis of provision for outstsanding claims is as follows:**

| | 2015 | 2014 |
|---|---|---|
| 0 - 90 days | 40,822 | 24,168 |
| 91- 180 days | 49,370 | 49,782 |
| 181 - 270 days | 66,966 | 66,011 |
| 271 - 365 days | 47,328 | 19,627 |
| Above 365 days | 447,025 | 212,867 |
| | **651,511** | **372,455** |

## 15b. Provision for Unearned Premium

| | 2015 | 2014 |
|---|---|---|
| Marine | 33,146 | 4,597 |
| Motor | 182,149 | 108,125 |
| Fire | 125,320 | 61,322 |
| Bond | 8,964 | 48 |
| Oil & Gas | 205,793 | 440,990 |
| General Accident | 43,026 | 34,031 |
| Engineering | 38,950 | 17,281 |
| **Gross provision for unearned premium** | **637,348** | **666,394** |

The movement in unearned premium account during the year was as follows:

| | 2015 | 2014 |
|---|---|---|
| Balance at the beginning of the year | 666,394 | 812,835 |
| Movement during the year | (29,046) | (146,441) |
| Balance at the end of the year | **637,348** | **666,394** |

No additional provision is required for unexpired risk.

| | 2015<br>N'000 | 2014<br>N'000 |
|---|---|---|
| **16. Trade Payables** | | |
| Reinsurance Premium Payables | **15,852** | **9,501** |
| Current | 15,852 | 9,501 |
| Non-current | - | - |

Reinsurance premium payables are amounts due but yet to be paid to reinsurance companies. This was as a result of arrangements made with reinsurance companies on certain insurance contracts so as to reduce the eventual liability in case of occurrence.

## 17. Provision and Other Payables

| | 2015 | 2014 |
|---|---|---|
| Industrial Tranning Fund | 3,934 | 4,207 |
| National Insurance Commission | 22,012 | 20,182 |
| National Pension Scheme- NLPC | 5,604 | 3,875 |
| Thorburn Investment | - | 20,000 |
| Globe Access Eng. Ltd | - | 12,639 |
| Co-operative Deduction | 3,245 | 3,048 |
| Others | 1,217 | 8,020 |
| Sundry Accrual Accounts | - | 6,218 |
| Dividend payables | - | 283 |
| | **36,012** | **78,472** |
| Current | 36,012 | 78,472 |
| Non-current | - | - |

## 18. Retirement Benefit Obligations

| | 2015 | 2014 |
|---|---|---|
| Balance at the beginning of the year | 47,391 | 63,573 |
| Current service cost | 8,760 | 7,703 |
| Interest cost | 6,788 | - |
| Actuarial (Gain)/ Losses | 5,947 | - |
| Over provision on defined benefit obligations | - | (15,160) |
| Benefit paid during the year | (606) | (8,725) |
| Balance at the end of the year | **68,280** | **47,391** |

## 19. Taxation

### 19.1 Current Tax Expense

| | | |
|---|---|---|
| Company IncomeTtax | 18,034 | 22,371 |
| Education Tax | 1,304 | - |
| Info. Tech. Dev. Levy | 1,090 | - |
| | 20,427 | 22,371 |
| Deferred taxation | 13,916 | 20,051 |
| **Income tax expense recognised in the current year** | **34,343** | **42,422** |

### 19.2 Taxation Payable Account

The movement in taxation payable account during the year is as follows:

| | | |
|---|---|---|
| Balance brought forward | 108,980 | 6,998 |
| Charged for the year | 20,427 | 22,371 |
| Additional liability | - | 107,287 |
| Tax paid during the year | (119,362) | (27,676) |
| Balance at the end of the year | **10,046** | **108,980** |

### 19.3 Deferred Taxation

The movement in deferred taxation account during the year was as follows:

| | | |
|---|---|---|
| Balance at the beginning of the year | 35,776 | 15,725 |
| Charge / (credit) to profit and loss account for the year | 13,916 | 20,051 |
| Balance at the end of the year | **49,692** | **35,776** |

The Company's Deferred taxation is computed using the liability method.

| | **2015** | **2014** |
|---|---|---|
| **20. Authorised Share Capital** | **N'000** | **N'000** |
| 10,000,000,000 Ordinary Shares of 50kobo each | **5,000,000** | **5,000,000** |

### 20a Issued and Fully Paid

| | | |
|---|---|---|
| 8,069,714,635units ordinary shares of 50kobo each | 4,034,857 | 3,711,345 |
| Right Issue during the year | 15,494 | 323,512 |
| Balance at the end of the year | **4,050,351** | **4,034,857** |

During the year, the Company made additional Right Issue of 30,987,104 units of Ordinary Shares at 50k each amounting to N15,493,552.

| | | |
|---|---|---|
| **20b. Share Premium** | **70,393** | **70,393** |

Share premium comprises additional paid-in capital in excess of the par value. However, this reserve is not available for distribution.

## 21. Contigency Reserve

This is maintained in compliance with section 21(1) and (2) and it is credited with the greater of 3% of total premiums, or 20% of profits. This shall accumulate until it reaches the amount of greater of minimum paid-up capital or 50% of net premium.

| | | |
|---|---|---|
| Balance at the beginning of the year | 716,085 | 639,730 |
| Transfer of Life Reassurance business portion to income | - | (2,458) |
| Transfer from retained earnings | 74,418 | 78,813 |
| | **790,504** | **716,085** |

## 22. Retained Earnings

| | | |
|---|---|---|
| Balance at the beginning of the year | (1,803,745) | (1,467,369) |
| Prior year adjustment | - | (92,127) |
| | (1,803,745) | (1,559,496) |
| Transfer from profit & loss account | 96,016 | (165,434) |
| Transfer to contingency reserves | (74,418) | (78,813) |
| Balance at the end of the year | **(1,782,148)** | **(1,803,745)** |

Retained earnings represents the total amount of money available for dividend distributions to the equity shareholders of the Company.

## 23.Reserves

### 23 (i). Fair-value Reserve

Fair-value reserve is the net accumulated changes in the fair value of quoted investments.

**Movement in fair-value reserve**

| | | |
|---|---|---|
| Opening balance | 82,875 | 113,748 |
| Depreciation during the year | (80,470) | (30,873) |
| Closing balance | **2,405** | **82,875** |

### 23(ii). Other Reserves

This represents gain or loss on actuarial valuation relating to retirement benefit obligations.

**Movement in other reserves**

| | | |
|---|---|---|
| Opening balance | 9,424 | - |
| (Decrease)/ Increase during the year | (5,947) | 9,424 |
| Closing balance | **3,477** | **9,424** |

| 24. REVENUE ACCOUNT | | | | | | | | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|
| | Marine | Motor | Fire | Bond | Oil & gas | Gen. acc. | Engnr | TOTAL | TOTAL |
| | ₦'000 | ₦'000 | ₦'000 | ₦'000 | ₦'000 | ₦'000 | ₦'000 | ₦'000 | ₦'000 |
| **INCOME:** | | | | | | | | | |
| Prem. Inc. Direct | 162,113 | 579,618 | 456,557 | 26,327 | 816,163 | 243,614 | 91,800 | 2,376,192 | 2,560,483 |
| Prem. Inc. Fac. | 21,870 | 16,110 | 46,233 | 157 | 4,306 | 7,069 | 8,674 | 104,419 | 66,627 |
| **Gross Premium Written** | 183,983 | 595,728 | 502,790 | 26,484 | 820,469 | 250,683 | 100,474 | 2,480,611 | 2,627,110 |
| Decrease/(Increase) in Unexpired Risk | (6,464) | (44,631) | (37,482) | (72) | 136,047 | (5,593) | (12,759) | 29,046 | 146,441 |
| Gross Premium Earned | 177,519 | 551,097 | 465,308 | 26,412 | 956,516 | 245,090 | 87,715 | 2,509,657 | 2,773,551 |
| Less:Reinsurance Premium Expenses | (72,971) | (64,148) | (235,074) | (4,403) | (159,987) | (63,549) | (49,206) | (649,339) | (830,857) |
| **Net Premium Income** | 104,548 | 486,949 | 230,234 | 22,008 | 796,529 | 181,541 | 38,509 | 1,860,318 | 1,942,694 |
| Fee Income- Insurance | 11,285 | 2,517 | 25,563 | 1,024 | - | 11,444 | 9,834 | 61,667 | 74,621 |
| **Net Underwriting Income** | **115,833** | **489,466** | **255,797** | **23,032** | **796,529** | **192,985** | **48,343** | **1,921,985** | **2,017,315** |
| **EXPENSES:** | | | | | | | | | |
| Claims Expenses (Gross) | 38,192 | 213,284 | 100,618 | 42,041 | 43,849 | 297,758 | 38,382 | 774,124 | 876,707 |
| Decrease/(Increase) in Out/s Claims | (34,619) | 122,529 | 1,634 | 25,640 | 139,342 | (69,153) | (81,666) | 103,707 | 201,997 |
| Gross Claims Incurred | 3,573 | 335,813 | 102,252 | 67,681 | 183,191 | 228,605 | (43,284) | 877,831 | 1,078,704 |
| Claims Expenses Recovered | (34,602) | (22,998) | (100,837) | - | (40,092) | (92,691) | (74,273) | (365,493) | (334,416) |
| Claims Expenses (Net) | (31,029) | 312,815 | 1,415 | 67,681 | 143,099 | 135,914 | (117,557) | 512,338 | 744,288 |
| Acquisition Costs | 10,902 | 17,315 | 29,558 | 1,348 | 58,658 | 15,713 | 5,948 | 139,443 | 194,024 |
| Maintenance Costs | 25,438 | 40,403 | 68,970 | 3,144 | 136,869 | 36,664 | 13,879 | 325,366 | 452,722 |
| **Total Underwriting Expenses** | **5,311** | **370,533** | **99,943** | **72,173** | **338,626** | **188,291** | **(97,730)** | **977,147** | **1,391,033** |
| **UNDERWRITING RESULTS** | **110,522** | **118,933** | **155,855** | **(49,141)** | **457,903** | **4,694** | **146,073** | **944,838** | **626,282** |

| | 2015 | 2014 |
|---|---|---|
| **25. Net Premium Income** | **₦'000** | **₦'000** |
| Gross premium written | 2,480,611 | 2,627,110 |
| Decrease in provision for unearned premium | 29,046 | 146,441 |
| **Gross premium earned** | **2,509,657** | **2,773,551** |
| | | |
| Reinsurance costs | 866,065 | 766,124 |
| Changes in prepaid reinsurance | (216,726) | 64,733 |
| **Reinsurance premium expenses** | **649,339** | **830,857** |
| | | |
| **Net premium income** | **1,860,318** | **1,942,694** |

**26. Fee Income- Insurance**

Fee income is the total commission recieved on direct business and transactions ceded to reinsurance in the year under review. See note 24 for the make up figure of fee income.

**27. Claims Expenses**

| | 2015 | 2014 |
|---|---|---|
| Claims paid during the year | 774,124 | 876,707 |
| Movement in Outstanding claims | 103,707 | 201,997 |
| | 877,831 | 1,078,704 |
| Reinsurance recoveries | (365,493) | (334,416) |
| **Net Claims expense for the year** | **512,338** | **744,288** |

**27.1 Gross Claims Paid**

| | 2015 | 2014 |
|---|---|---|
| Marine | 38,192 | 53,858 |
| Motor | 213,284 | 189,674 |
| Fire | 100,618 | 119,394 |
| Bond | 42,041 | 58,863 |
| Oil & Gas | 43,849 | 93,696 |
| General Accident | 297,758 | 342,600 |
| Engineering | 38,382 | 18,622 |
| | 774,124 | 876,707 |

**27.2 Breakdown of movement in outstanding claims**

| | 2015 | 2014 |
|---|---|---|
| Marine | (34,619) | 23,344 |
| Motor | 122,529 | 75,684 |
| Fire | 1,634 | (55,649) |
| Bond | 25,640 | (3,361) |
| Oil & Gas | 139,342 | 172,106 |
| General Accident | (69,153) | (16,043) |
| Engineering | (81,666) | 5,915 |
| | 103,707 | 201,997 |

**27.3 Breakdown of movement in Reinsurance Recoverable**

| | 2015 |
|---|---|
| Claims Paid during the year recovered from Reinsurance | 53,110 |
| Increase/ (Decrease) in Reinsurance share of Outstanding Claims | 148,584 |
| Increase/ (Decrease) in Reinsurance share of IBNR | (176,308) |
| Increase/ (Decrease) in Reinsurance share of Claims | - |
| Paid not yet recovered | 340,107 |
| **Reinsurance Recoverable** | 365,493 |

**28. Underwriting Expenses**

Underwriting expenses is sub-divided into acquisition and maintenance expenses. Acquisition expenses are those incurred in obtaining and renewing insurance contracts.
Examples of these costs include, but are not limited to, commission expense, supervisory levy, superintending fees and other technical expenses.

Maintenance expenses are those incurred in servicing existing policies/contracts.These include processing costs and other incidental costs attributable to maintenance.

| | 2015 ₦'000 | 2014 ₦'000 |
|---|---|---|
| Acquisition expenses | 139,443 | 194,024 |
| Maintenance expenses | 325,366 | 452,722 |
| **Total underwriting expenses** | **464,809** | **646,745** |

**(i) Acquisition expenses**

| | | |
|---|---|---|
| Commission expenses | 139,443 | 194,024 |
| Other acquisition cost | - | - |
| | 139,443 | 194,024 |

**28.1Breakdown of acquisition expenses**

| | | |
|---|---|---|
| Marine | 10,902 | 8,950 |
| Motor | 17,315 | 20,484 |
| Fire | 29,558 | 27,860 |
| Bond | 1,348 | 1,025 |
| Oil & Gas | 58,658 | 112,221 |
| General Accident | 15,713 | 17,652 |
| Engineering | 5,948 | 5,832 |
| | 139,443 | 194,024 |

**28.2 Breakdown of maintenance expenses**

| | | |
|---|---|---|
| Marine | 25,438 | 20,884 |
| Motor | 40,403 | 47,796 |
| Fire | 68,970 | 65,008 |
| Bond | 3,144 | 2,391 |
| Oil & Gas | 136,869 | 261,848 |
| General Accident | 36,664 | 41,187 |
| Engineering | 13,879 | 13,608 |
| | 325,366 | 452,722 |

| | 2015<br>₦'000 | 2014<br>₦'000 |
|---|---|---|
| **29. Investment Income** | | |
| Investment income attributable to shareholders' fund | 76,340 | 50,371 |
| Investment income attributable to policyholders' fund | 42,377 | 49,860 |
| | **118,717** | **100,231** |
| **29a. Attributable to shareholders' fund** | | |
| Interest on federal government bonds | 8,055 | 8,542 |
| Interest on bank deposits. | 16,031 | 15,941 |
| Dividend received on quoted securities | 19,051 | 9,201 |
| Dividend received on unquoted securities | 33,203 | 16,687 |
| | **76,340** | **50,371** |
| **29b.Attributable to policyholders' fund** | | |
| Interest on bank deposits. | 42,377 | 49,860 |
| | **42,377** | **49,860** |
| **30. Other operating income** | | |
| Sundry income | 29,960 | 3,205 |
| Asset disposal | 586 | 136 |
| Interest on foreign currency | 231 | 273 |
| Exchange gain/(loss) | 24,404 | 32,955 |
| Interest on statutory deposits | 38,945 | 40,096 |
| | **94,126** | **76,664** |

| 31. Employee Benefit Expense | 2015<br>N'000 | 2014<br>N'000 |
|---|---|---|
| Salaries | 455,577 | 488,141 |
| Staff training and development | 15,982 | 12,947 |
| Staff medical expenses | 6,565 | 7,072 |
| | 478,124 | 508,160 |
| Gratuity | 14,942 | 7,703 |
| Pension Fund Contribution (PFA) | 30,549 | 31,760 |
| | **523,615** | **547,623** |

| | | |
|---|---|---|
| (i) Short term employee benefits | 478,124 | 508,160 |
| (ii) Post employement benefits (PFA) | 30,549 | 31,760 |
| (iii) Other long term employee benefits (Gratuity) | 14,942 | 7,703 |
| | **523,615** | **547,623** |

Employee benefits are all forms of considerations given by an entity in exchange for service rendered by employees.

(i) short term employee benefits such as wages, salaries, annual and sick leave (monetary) and medical care, housing, car and free or subsidised goods or services (non-monetary) for current employees.

(ii) post employement benefits are employee benefits (other than termination benefits) which are payable after the completion of employement.

(iii) other long term employee benefits are employee benefits (other than post employement benefit and termination benefits) that are not due for settlement within twelve months after the end of the period in which the employee rendered the related service.

(iv) termination benefits are employee benefits payable as a result of either an entity's decision to terminate an employee's employement before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits.

| 32. Management Expenses | N'000 | N'000 |
|---|---|---|
| Establishment expenses (See 33.1) | 76,764 | 64,109 |
| Operating expenses (33.2) | 120,137 | 86,611 |
| Other costs (See 33.3) | 62,938 | 62,100 |
| General expenses (See 33.4) | 108,289 | 109,696 |
| Depreciation | 43,663 | 40,010 |
| | **411,791** | **362,526** |

| 32.1 Analysis of establishment expenses are shown: | N'000 | N'000 |
|---|---|---|
| Fuel | 14,534 | 4,235 |
| Repairs & Maintenance- Machine | 14,361 | 6,313 |
| Repairs & Maintenance- Building | 2,233 | 2,430 |
| Repairs & Maintenance- Vehicle | 14,479 | 11,803 |
| Rent, Rate & Service Charge | 27,356 | 36,826 |
| Electricity | 3,801 | 2,502 |
| | **76,764** | **64,109** |

| | 2015 | 2014 |
|---|---|---|
| **32.2 Analysis of Operating Expenses** | **N'000** | **N'000** |
| Travelling Expenses | 49,080 | 44,622 |
| Gift and Donations | 43,390 | 24,355 |
| Entertainment | 10,297 | 7,868 |
| Public Relation | 17,370 | 9,766 |
| | **120,137** | **86,611** |
| **32.3 Analysis of Other Costs** | | |
| Directors' fees | 20,625 | 20,625 |
| Directors' expenses | 38,813 | 37,975 |
| Audit fee | 3,500 | 3,500 |
| | **62,938** | **62,100** |
| **32.4 General expenses** | | |
| Subsciptions-Professional Bodies | 4,295 | 1,315 |
| Professional Expenses | 8,469 | 27,733 |
| Subsciptions-Clubs & Association | 608 | 4,455 |
| Advertisement | 5,735 | 5,009 |
| Newspapers & Periodicals | 2,319 | 1,525 |
| Communication Expenses | 22,030 | 11,659 |
| Printing & Stationeries | 19,532 | 15,322 |
| Duties, Levies & Fees | 28,684 | 29,140 |
| Office Expenses | 16,617 | 13,538 |
| | **108,289** | **109,696** |

**33. Fund loss on Cash and cash equivalent**

| | | |
|---|---|---|
| Loss on Foreign Investments | **79,312** | - |

This is the amount lost by the company to cyber criminals who hacked into the communication channels of signatories to our account and withdrew the stated sum. The matter has been reported to Action Fraud Unit of National Fraud & Cyber Crime Reporting Centre in the U.K, which has commenced investigation and promised to get back to us as soon as possible.

**34. Finance Costs.**

Finance costs are interests charged on various transactions with our bankers such as COT.

| | | |
|---|---|---|
| Finance Costs | **12,604** | **16,040** |

**35. Directors' Emoluments**

(a) The aggregate emoluments of Directors' were:

| | | |
|---|---|---|
| Fees | 20,625 | 20,625 |
| Expenses | 38,813 | 37,975 |
| | **59,438** | **58,600** |
| (b) The emoluments of the Chairman | **10,313** | **10,313** |
| (c) The emoluments of the highest paid Director | **10,313** | **10,313** |

The table below shows the number of Directors of the Company (excluding the Chairman) whose remuneration in respect of services to the Company fell within the range shown below:

| | **2015** | **2014** |
|---|---|---|
| | Number | Number |
| Above ₦5,000,000 | 3 | 3 |

## 36. Profit/ (Loss) Before Taxation

| | 2015 | 2014 |
|---|---|---|
| The Profit before taxation is stated after charging the following:- | N'000 | N'000 |
| Depreciation of fixed assets | 29,099 | 9,208 |
| Auditors' remuneration | 3,500 | 3,500 |
| Directors' emoluments: | | |
| Directors' fees | 20,625 | 20,625 |
| Directors' expenses | 38,813 | 37,975 |
| Profit on disposal of property, plant & equipment | 586 | 136 |
| Foreign exchange gain / (loss) | 24,404 | 32,955 |

## 37. Employees

| | 2015 | 2014 |
|---|---|---|
| The table below shows the number of employees whose earnings (N) fell within the following range: | Number | Number |
| 250,001 -270,000 | 10 | 10 |
| 270,001 -310,000 | 1 | 1 |
| 310,001 -330,000 | 3 | 4 |
| 330,001 -370,000 | 8 | 8 |
| 370,001- 390,000 | 5 | 5 |
| 390,001 - 410,000 | 2 | 1 |
| 410,001 - 430,000 | 3 | 3 |
| 430,001 -470,000 | 6 | 6 |
| 470,001 - 490,000 | 8 | 7 |
| 490,001 - 510,000 | 2 | 1 |
| Over 510,000 | 71 | 67 |
| | **119** | **113** |

### 37a. Staff

Average number of persons employed in the financial year and their classifications are as follows:

| | 2015 | 2014 |
|---|---|---|
| Management | 10 | 10 |
| Non-Management | 109 | 103 |
| | **119** | **113** |

## 38. Comparative Figures

Comparative figures have been adjusted to conform with changes in presentation in the current year where necessary.

Adjustments in comparative figures were made in order to present the finanncial statements in a manner that will increase the understanding of its users and to conform with provisions of relevant IFRSs.

## 39. Hypothecation

The Company is exposed to a range of financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long term, its investment proceeds will not be sufficient to fund the obligations arising from its insurance and investment contracts. In response to the risk, the company's assets and liabilities are allocated as follows:

| | Total | Shareholders' Fund | Policyholders' Fund |
|---|---|---|---|
| | 2015 | 2015 | 2015 |
| **ASSETS** | **₦'000** | **₦'000** | **₦'000** |
| Cash and Cash Equivalents | 951,521 | 100,000 | 851,521 |
| | | | - |
| Financial Assets: | | | - |
| Available for Sale (Fed. Govt. Bond) | 153,399 | - | 153,399 |
| Available for Sale (Quoted Equities) | 296,619 | - | 296,619 |
| Available for Sale (Unquoted Equities) | 179,907 | 179,907 | - |
| Held to Maturity (Unquoted Equities) | 237,500 | 237,500 | - |
| Loans and Receivables | 25,545 | 25,545 | - |
| | | | - |
| Trade Receivables | 3,282 | 3,282 | - |
| Reinsurance Assets | 1,015,353 | 1,015,353 | - |
| Deferred Acquisition Cost | 118,678 | 118,678 | - |
| Other Receivables and Prepayments | 68,282 | 68,282 | - |
| Investment Properties | 1,060,000 | 690,000 | 370,000 |
| | | | - |
| Property, Plant and Equipment | 408,972 | 408,972 | - |
| | | | - |
| Statutory Deposits | 300,150 | 300,150 | - |
| **Total Assets** | **4,819,208** | **3,147,669** | **1,671,539** |
| | - | | |
| **LIABILITIES** | | | |
| Insurance Contract Liabilities | 1,513,769 | - | 1,513,769 |
| Trade Payables | 15,852 | 15,852 | - |
| Provisions and Other Payables | 36,012 | 36,012 | - |
| Retirement Benefit Obligations | 68,280 | 68,280 | - |
| Current Income Tax Liabilities | 10,046 | 10,046 | - |
| Deferred Tax Liabilities | 49,692 | 49,692 | - |
| **Total Liabilities** | **1,693,651** | **179,882** | **1,513,769** |
| **Surplus** | 3,125,558 | 2,967,788 | 157,770 |

## 40. Fines and Penalties

Paid penalty of N2,000,000 on 2013 Quarterly Financial Returns

## 41. Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Bocaard has established the Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The primary objective of the Company's risk and financial management framework is to protect the Company's stakeholders from events that hinder the sustainable achievement of financial performance objectives, including failure to exploit opportunities. Management recognizes the importance of having an effective and efficient risk management system in place.

The Company strategy for managing risk exposures is to establish and maintain a robust Enterprise Risk Management (ERM) programme that is embedded in all processes and driven by technology with emphasis on protection from unwanted risk while maintain stakeholders' value.

The ERM programme will assist to structure and coordinate all direct and indirect risk management activities within the company, while eliminating redundancies and ensuring consistency in the risk management process. The risk management strategy also entails constantly monitoring daily risk positions, attracting and retaining qualified personnel, reducing or eliminating employee turnover, reducing volatility in supplies, and managing political risk both internal and external. This is supplemented with a clear organizational structure with documented delegated authorities and responsibilities from the Board of Directors to Executive Management Committee and Senior Management.

The Company has a policy framework which sets out the risk profiles; a risk management, control and business conduct standard for the Company's operations has been put in place.

## 42. Insurance Risk

These are fortuitous events that can lead to losses or damage to insured properties. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principle risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities.

This could occur because the frequency or severity of claims and benefits is greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

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

### (a) Premium and Reinsurance Receivables

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

The Credit Control Committee works closely with the Underwriting and Reinsurance Committee to assess the credit worthiness of all reinsurer and intermediaries by setting and reviewing regularly the credit rating of each reinsurer using internal records and other publicly available financial information. Individual operating units maintain records of the payment history for significant contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanism, such as the right of offset where counterparties are both debtors and creditors of the Company.

Management information reported to the Company includes details of provisions for impairment on loans and receivables and subsequent write-off.

Internal audit makes regular reviews to assess the degree of compliance with the Company procedures on credit.

Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the Company risk department.

## 43. Property Insurance Contracts

### Frequency and Severity of Claims

For property insurance contract, climatic changes give rise to more frequent and severe extreme weather events (for example, flooding) and their consequences (for example, flood claims). For certain contracts, the Company has also limited the number of claims that can be paid in any policy year or introduced a maximum amount payable for claims in any policy year.

The Company has the right and duty to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm or flood damage.

The Company has reinsurance contracts are subdivided into the following risk groups: fire, business interruption, and theft. The insurance risk arising from these contracts is not concentrated in any of the territories in which the Company operates, and there is a balance between commercial and personal properties in the overall portfolio of insured building. The Company does not underwrite property insurance contracts outside Nigeria.

### (a) Sources of Uncertainty in the Estimation of Future Claim Payments

The shorter settlement period for these claims allow the Company to achieve a higher degree of certainty about the estimated cost of claims, and relatively little IBNR is held at year-end. However, the longer time needed to assess the emergence of a flood claim make the estimation process more uncertain for these claims.

The Company has been monitoring numbers of reported claims on a weekly basis and reflected such information in its assessment of the adequacy of the unearned premium provision held at year end.

The effect of this unexpected weather may affect prior year claims, due to the re-opening of old claims and higher settlement costs for flood claims in the current market. However, more permanent changes in the climate may produce a higher frequency and severity of claims than currently expected.

### (b) Process used to decide on Assumption

For non-subsidence-related property risks, the Company uses similar statistical methods used for general accident insurance risks that incorporate the various assumptions made in order to estimate the ultimate cost of claims.

Similar to the approach for the assumptions underlying the casualty insurance liabilities, the choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observe historical developments. In certain instance, this has meant that different techniques or combination of techniques has been selected for individual accident years or groups of accident years within the same class of business. The Company has selected an average cost per claim method using actuarial extrapolation techniques applied to the experience observed for such years. The Company has calculated estimates assuming that the settlement period has remained unchanged. Through this analysis, the Company determines the need for an IBNR or an expired risk liability to be held at each reporting date.

### (c) Changes in Assumption

The Company did not change its assumptions for the insurance contracts disclosed in this note other than updating the costs of rebuilding properties, replacement or indemnity for contents for time value of money.

## 44. Non-life Insurance Contracts (which comprise general insurance)

The Company principally issues the following types of general insurance contracts: motor, fire, marine general accident, bonds, engineering and oil and gas. Risks under-non-life insurance policies usually cover twelve months duration.

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities. For longer tail claims that take some years to settle, there is also inflation risk. For healthcare contracts the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

Strict claim review policies to assess all new and ongoing claims, regular detailed review of claim handing procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The company further enforces a policy of actively managing and promptly pursing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

## 45. Finance risk management

**Credit risk**
**Liquidity risk**
**Market risk**

This note presents information about the Company's exposure to each of the above risks from the use of its financial instruments, the Company's objectives, policies and process for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

### 45.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Key areas where the Company is exposed to credit risk are

i. Reinsurers' share of insurance liabilities;
ii. Amounts due from reinsurers in respect of claims already paid;

iii. Amounts due from insurance contract holders;
iv. Amounts due from insurance intermediaries;
v. Amounts due from loans and receivables;
vi. Amount due from debts securities; and
vii. Amounts due from money market and cash positions.
The Company is exposed to the following categories of credit risk:

**Direct default risk-** the risk of non-receipt of the cash flow or assets to which it is entitled because brokers, clients and other debtors default on their obligations.

**Concentration risk-** this is the exposure to losses due to excessive concentration of business activities to individual counterparties, groups of individual counterparties or related entities, counterparties in specific geographical locations, industry sectors, specific products, etc.

**Counterparty risk-** this is the risk that is counterparty is not able or willing to meet its financial obligations as they fall due.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved by the Board of Directors.

The Company therefore ensures the establishment of principles, policies and process and structure for the management of credit risk. Following is the Company's credit risk tolerance:

* Credit limits shall not exceed 5% of the 2 years gross premium generated from each client;
* Clients are further objectively categorized as depicted below for the purpose of setting credit risk tolerance limit
* Credit tolerance limit for Category A shall not exceed N30 million
* Credit tolerance limit for Category B shall not exceed N15 million
* Credit tolerance limit for Category C is NIL

Individual broker's indebtedness, at the end of each financial year, shall not exceed the limit set by management at the beginning of that financial year.
Credit risk tolerance limits shall be updated from time to time, to reflect changes in the business and to comply with any changes in regulatory provisions.

## Credit risk management

The credit risk management process involves the identification, measurement, mitigation and control, monitoring and reporting credit risk.

Risk Management Committee has the primary responsibility of ensuring that an appropriate, adequate and effective system of risk management and internal control which address credit control is established and maintained.

Investment portfolio
The Company's investment portfolio comprise of Fixed income and money market instruments, Federal Government bonds and quoted and unquoted securities.
The table below shows the investment portfolio structure of the Company.

| Investment | Class | 2015 N'000 | % |
|---|---|---|---|
| Money market instruments | Cash& cash equivalent | 864,829 | 57.86 |
| Federal Government Bond | Available-for-sale | 153,399 | 10.26 |
| Quoted Securities | Available-for-sale | 296,619 | 19.84 |
| Un-quoted Securities | Available-for-sale | 179,907 | 12.04 |
| | | **1,494,754** | **100.00** |

| Investment | Class | 2014 N'000 | % |
|---|---|---|---|
| Money market instruments | Cash& cash equivalent | 926,354 | 58.51 |
| Federal Government Bond | Available-for-sale | 100,000 | 6.32 |
| Quoted Securities | Available-for-sale | 377,089 | 23.82 |
| Un-quoted Securities | Available-for-sale | 179,907 | 11.36 |
| | | **1,583,350** | **100.00** |

The Company's exposure to credit risk is low as money market instruments accounted for the largest part, 57.86% of the total investments as at December, 2015; 58.51% as at December, 2014.

**Fair Value Hierarchy**

Level 1: Fair value measurements classified as level 1 include exchange-trade prices of fixed maturities and equity securities unadjusted in active market for identical assets.

Level 2: Input other than quoted prices included within Level 1 that are observable for the asset either directly or indirectly. This category of instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in market that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: This includes financial instruments, the valuation in which incorporate significant inputs in the assets that is not based on observable market date (unobservable input). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the products.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

| December 31, 2015<br>Asset Type | Level 1<br>N'000 | Level 2<br>N'000 | Level 3<br>N'000 | Total<br>N'000 |
|---|---|---|---|---|
| Equity securities: Available for sale | | | | |
| Federal Government bonds | 153,399 | - | - | 153,399 |
| Quoted Investments | 296,619 | - | - | 296,619 |
| Unlisted Investments | - | - | 179,907 | 179,907 |
| **Total** | **450,018** | **-** | **179,907** | **629,925** |

| December 31, 2014<br>Asset Type | Level 1<br>N'000 | Level 2<br>N'000 | Level 3<br>N'000 | Total<br>N'000 |
|---|---|---|---|---|
| Equity securities: Available for sale | | | | |
| Federal Government bonds | 100,000 | - | - | 100,000 |
| Quoted Investments | 377,089 | - | - | 377,089 |
| Unlisted Investments | - | - | 179,907 | 179,907 |
| **Total** | **477,089** | **-** | **179,907** | **656,996** |

## Outstanding premium

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar on historical data of payment statistics for similar financial assets.

The Company established the following credit risk management strategies as measures to reduce its exposure to credit risks.

* Formulating credit policies with strategic business units, underwriters, brokers, covering brokers grading, reporting, assessment, legal procedures and compliance with regulatory and statutory bodies.

* Identification of credit risk drivers within the Group in order to coordinate and monitor the probability of default that could have an unfortunate impact.

* Continuous reviewing of compliance and processes in order to maintain credit risk exposure within acceptable parameters.

## Impairment model

Premium debtors, which technically falls under receivables is recognized at a fair value and subsequently measured at amortized cost, less provision for impaired receivables. Under IFRS, an asset is impaired if the carrying amount is greater than the recoverable amount. The standard favors the use of the incurred loss model in estimating the impairment of its receivable. Following the provisions of IAS 39, the impairment of the premium debtors will be assess at two different levels, individual or collectively.

The premium debt of the Company will be assessed for impairment using the incurred loss model adapted for insurance business.

The model used is defined at thus:

Impairment loss = EP*LGD*EAD*PD

Where EP is Emergency Period;

LGD is Loss Given Default;

EAD is Exposure At Default; and

PD is 1-year Probability of Default.

## Definition of terms

**Emergency period** is the period between when impairment triggers occur and when the Company identifies them

**Loss given default** is the actual loss that is experienced by the Company when a premium debtor defaults.

**Exposure at default** is the total expected amount of loss that the Company is exposed to at the time of default of the premium debtor.

It is the amount outstanding as the premium debt less any amount due to the debtor that can be netted off.

### 45.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Company does not maintain any lines of credit as it does not envisage any liquidity stress that would stretch its liquidity position.

### Liquidity Risk Management

Liquidity risk exposure is strongly related to the credit and investment risk profile. For instance, an increase in our credit risk exposure may increase our liquidity risk profile; poor performance of the investment portfolio may have severe liquidity risk implications for the Company.

Failure of insurance brokers and clients to meet their premium payment obligation as and when due is the primary cause of liquidity to the Company since premium accounts for the largest portion of income. However, the Company's strategy for managing liquidity risks are as follows:

* Maintain a sound and optimum balance between having sufficient stock of liquid assets, profitability and investment needs.
* Ensure unrestricted access to financial markets to raise funds and also put in place measures to check excesses.
* Develop liquidity risk control limits and strictly adhere to it.
* Communicate to all relevant staff the liquidity risk management objectives and control limits, receive and review feedback.

In managing liquidity risk mitigation and control, one way is having access to financial markets. This is by ensuring that the company has sufficient and unhindered access to funding from a range of sources in the financial markets, also assessing periodically the ability to obtain funds in both local and foreign currencies.

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

| | 0-3 Months | 3-6 Months | 6-9 Months | 9-12 Months | 1 year & above | Total |
|---|---|---|---|---|---|---|
| **December, 2015** | **N'000** | **N'000** | **N'000** | **N'000** | **N'000** | **N'000** |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 951,521 | - | - | - | - | 951,521 |
| Financial assets | 153,399 | 476,526 | 225,545 | - | - | 855,470 |
| Trade receivables | 3,282 | - | - | - | - | 3,282 |
| Reinsurance assets | 1,015,353 | - | - | - | - | 1,015,353 |
| Other receivables and prepayments | 68,282 | - | - | - | - | 68,282 |
| **TOTAL** | **2,122,525** | **476,526** | **225,545** | **-** | **-** | **2,824,596** |
| **Financial Liabilities** | | | | | | |
| Insurance contract liabilities | 1,513,769 | - | - | - | - | 1,513,769 |
| Trade payables | - | - | 15,852 | - | - | 15,852 |
| Provision and other payables | 36,295 | 85,324 | - | - | - | 121,619 |
| **TOTAL** | **1,369,866** | **85,324** | **13443** | **-** | **-** | **1,471,042** |
| **Liquidity ratio** | **1.55** | **5.58** | **14.23** | | | |

| | 0-3 Months | 3-6 Months | 6-9 Months | 9-12 Months | 1 year & above | Total |
|---|---|---|---|---|---|---|
| **December, 2014** | **N'000** | **N'000** | **N'000** | **N'000** | **N'000** | **N'000** |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 980,611 | - | - | - | - | 980,611 |
| Financial assets | 100,000 | 556,996 | 312,857 | - | - | 969,853 |
| Trade receivables | 16,652 | - | - | - | - | 16,652 |
| Reinsurance assets | 919,696 | - | - | - | - | 919,696 |
| Other receivables and prepayments | 79,891 | - | - | - | - | 79,891 |
| **TOTAL** | **2,096,850** | **556,996** | **312,857** | **-** | **-** | **2,966,703** |
| **Financial Liabilities** | | | | | | |
| Insurance contract liabilities | 1,439,108 | - | - | - | - | 1,439,108 |
| Trade payables | - | - | 9,501 | - | - | 9,501 |
| Provision and other payables | 78,472 | 47,391 | - | - | - | 125,863 |
| **TOTAL** | **1,517,580** | **47,391** | **9,501** | **-** | **-** | **1,574,472** |
| **Liquidity ratio** | **1.38** | **11.75** | **32.93** | | | |

## 45.3 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates (currency risks), market interest rates (interest rate risks) and market or equity prices (price risks) will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Guidelines are set for asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and that asset are held to deliver income and gains for policyholders which are in accordance with expectations of the policyholders.

The Company invested in money and capital market instruments, and investments in these instruments are basically for liquidity purposes. Therefore, the values of assets in the investment portfolio are at risk due to volatility in security prices, interest rates, and other market and economic variables.

**Interest rate risk:**
This is the risk of exposures to the volatility of interest rates. It is the risk of the value or future cash flows of financial instruments being affected by changes in interest rates.
Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk. The Company's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets in such a way that interest rate risk is minimal.
The Company has no significant concentration of interest rate risk.

**Currency risk**
The Company's principal transactions are carried out in naira and its exposure to foreign exchange risk is minimal. The Company's financial assets are primarily denominated in the same currencies as its insurance contract liabilities. This mitigates the foreign currency exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets (bank placement) denominated in currencies other than those in which insurance contract liabilities are expected to be settled.

The Company has no significant concentration of currency risk.

**Price risk**
Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices.
The Company has no significant concentration of price risk.

**46. Operational risk**
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's process, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards or corporate behavior. Operational risks arise from all the Company's operations. The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.
The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility

is supported by the development of overall Company standards for the management of operational risk in the following areas:

I. requirements for appropriate segregation of duties, including the independent authorization of transactions
ii. requirements for the reconciliation and monitoring of transactions
iii. compliance with regulatory and other legal requirements
iv. documentation of controls and procedures
v. requirements for the periodic assessment of operational risk faced, and the adequacy or controls and procedures to address the risks identified
vi. requirements for the reporting of operational losses and proposed remedial action
vii. development of contingency plans
viii. training and professional development
ix. ethical and business standards
x. risk mitigation, including insurance when this is effective..

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the executive management of the Company.

## 47. Capital Management

The National Insurance Commission (NAICOM), sets and monitors capital requirements for Insurance Companies.
The Company's policy is to maintain a strong capital base to foster investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised and afforded by a sound capital position.

### 47.1 Capital Management Objectives

The Company has established the following capital management objectives that affect its capital structure:
To ensure that the Minimum Capital Requirement ratio as required by the Insurance Act 2003 be maintained at all times.

This is a risk based capital method of measuring the minimum amount appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile.

To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits for other stakeholders; and

To provide an adequate return to shareholders by pricing insurance contracts and other services commensurately with the level of risk.

To maintain, at all times, the required level of stability of the Company thereby providing a degree of confidence to policy holders;

To maintain financial strength to support new business growth and satisfy the requirements of the policy holders, regulators and other stakeholders;

To ensure that capital is efficiently allocated and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;

To maintain adequate financial asset portfolio in order to maximize the use of fund and high solvency
margin. The insurance Act, 2003 specifies the amount of capital that must be held in proportion to the Company's liabilities, i.e. in respect of outstanding claim liability risk, unearned premium liability risk, investment risk, catastrophe risk and reinsurance ceded.

The Company is also subject to a solvency requirement under the Insurance Act 2003 and is required to maintain its solvency at the minimum capital required at all times.

The Company's operations are also subject to regulatory requirements of the National Insurance Commission (NAICOM). Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimize the risk of default and insolvency on the part of the insurance company and enhance its ability to meet unforeseen liabilities as they arise.

**47.2 Capital Management Approach**
The primary source of capital used by the Company is equity shareholders' funds. The Company's capital management strategy focuses on the creation of shareholders' value while meeting the crucial and equally important objective of providing an appropriate level of capital to protect stakeholders' interests and satisfy regulators.
The adequacy level of capital determines the degree of confidence that stakeholders (suppliers, clients, investors, depositors and counterparties) would have in a business. Hence, the company ensures that adequate capital exists to buffer the following:

* Absorb large unexpected losses;
* Provide confidence to external investors and rating agencies
* Run operations of the Company efficient and generate commensurate returns
* Protect clients and other creditors
* Support a good credit rating; and
* Maintain adequate solvency margin

### 47.3 Capital Management Process

The capital management process is governed by the Board of Directors who has the ultimate responsibility for the capital management process. The Board of Directors is supported by the ERM committee drawn from various departments and Financial Control Department who all have various inputs into the capital management process.
The capital management process involved establishing the methodology for determining and maintaining an appropriate quantity of capital and solvency. The capital adequacy and solvency margin comprises the:

* Valuation of liabilities (including liability adequacy test);
* Requirements on assets, including requirements for valuation of assets;
* Definition of appropriate forms of capital; and
* Required solvency margin

The Company maintains economic capital levels sufficient to meet internal capital needs. The capital plan reflects the Company's current capital needs, planned capital consumption, targeted future capital level given the risk appetite/tolerance, and the plans for external and internal sources of capital. To withstand adverse economic conditions, the capital plan incorporates various potential scenarios and is responsive to changes in the economy, market, competitive/political and other external factors. The Company plans its capital needs throughout the product and business life cycle, and also ensures that capital management is integrated with the business plan and risk management systems.

Capital is carefully allocated to activities that provide considerable returns. The process clearly specifies the basis for the calculation of capital to be allocated to risk types (known as the 'risk capital”) and the limits on capital to be allocated to each of the risk categories, business activities and units. The allocation of capital is based on the risk profiles of the business activities and business units (i.e. based on the “contribution” of each business unit to the overall volatility of cash flows).

### 47.4 Regulatory Capital

Management uses regulatory capital to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on the regulatory capital, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Management, and is subject to review by the Board of Directors as appropriate. The Company ensures it maintains the minimum required capital at all times throughout the year.

The table below summarises the composition of regulatory capital.

| | 2015 N'000 | 2014 N'000 |
|---|---|---|
| Share Capital | 4,050,351 | 4,034,857 |
| Share Premium | 70,393 | 70,393 |
| Other Reserves | 786,962 | 808,384 |
| Retained Earnings | (1,782,148) | (1,813,170) |
| **Total regulatory capital held** | **3,125,558** | **3,100,465** |
| **Minimum regulatory capital** | **3,000,000** | **3,000,000** |

During the year under review, the Company complied with externally imposed capital requirements to which they are subject by NAICOM.

### 47.5 Solvency Margin

During the year under review the Company attained the minimum solvency margin requirement of N3b stipulated by NAICOM. The solvency margin achieved by the company was N3,108,318,000 compared to the minimum requirement of N3b giving a surplus of N108,318,000.

### Consequences of non-compliance

The consequences of non-compliance with the minimum regulatory capital as stated in Section 24 (5)-(8) of the Insurance Act, 2003 are:

(I) The Company to make good the deficiency by way of cash payment into its account and satisfactory evidence of such payment shall be produced to the Commission within 60 days of the receipt of the directive;

(ii) If satisfactory evidence of payment is not produced within the time stipulated, the Company shall not undertake a new insurance business until it produces satisfactory evidence of payment to the Commission;

Failure to comply with (i & ii) above, shall constitute a ground for the cancellation of the registration of the Company under section 8 of the Insurance Act, 2003.

| The Solvency Margin for the non life business as at 31st December, 2015 is arrived as follows: | | |
|---|---|---|
| **Admissible Assets** | **2015 N'000** | **2014 N'000** |
| Cash and cash equivalents | 951,521 | 980,611 |
| Financial assets | 892,970 | 929,198 |
| Trade receivables | 3,282 | 16,652 |
| Reinsurance assets | 1,015,353 | 919,696 |
| Deferred acquisition cost | 118,678 | 82,137 |
| Other receivables & prepayments | 1,350 | 4,548 |
| Investments properties | 1,060,000 | 1,060,000 |
| Property, plant & equipment | 408,972 | 410,703 |
| Statutory deposit | 300,150 | 300,150 |
| **Total Admissible assets** | **4,752,276** | **4,692,937** |
| Provision for unexpired risk | 637,348 | 666,394 |
| Provision for outstanding claims | 651,510 | 372,455 |
| Provision for claims IBNR | 224,910 | 400,259 |
| Funds to meet other liabilities | 130,190 | 244,342 |
| **Total Admissible liabilities** | **1,643,958** | **1,683,453** |
| **Solvency Margin** | **3,108,318** | **3,009,487** |
| The higher of 15% of Net premium income and Shareholders funds | 3,000,000 | 3,000,000 |
| Surplus | 108,318 | 9,487 |
| **Solvency ratio** | **103.61%** | **100.32%** |

| | 2015 N'000 | | 2014 N'000 | % |
|---|---|---|---|---|
| Gross premium earned | 2,509,657 | | 2,773,551 | |
| Reinsurance, claims and commission and others | (2,024,863) | | (2,485,825) | |
| | 484,794 | | 287,726 | |
| Investment and other income | 212,843 | | 176,895 | |
| **VALUE ADDED** | **697,637** | **100.0** | **464,621** | **100.0** |
| Applied as follows: | | | | |
| 1 Staff costs | 523,615 | 75.1 | 547,623 | 117.9 |
| 2 Government as tax | 34,343 | 4.9 | 42,422 | 9.1 |
| 3 Depreciation | 43,663 | 6.3 | 40,010 | 8.6 |
| 4 Retained for Company's growth | 96,016 | 13.8 | (165,434) | (35.6) |
| **VALUE ADDED** | **697,637** | **100.0** | **464,621** | **100.0** |

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **STATEMENT OF COMPREHENSIVE INCOME** | **N'000** | **N'000** | **N'000** | **N'000** | **N'000** |
| Gross Premium Written | 2,480,611 | 2,627,110 | 3,038,487 | 2,714,080 | 2,303,934 |
| Direct Premium | 2,376,192 | 2,560,483 | 2,976,206 | 2,479,360 | 2,010,926 |
| Net Premium Earned | 1,860,318 | 1,942,694 | 2,030,444 | 2,454,599 | 2,057,240 |
| Profit/(Loss) Before Tax | 130,359 | (123,012) | (544,889) | (64,529) | 332,837 |
| Profit/(Loss) for the period | 96,016 | (165,434) | (595,354) | (59,967) | 317,321 |
| Basic Earnings Per Share (k) | 1.19 | (2.05) | (8.02) | (0.81) | 4.28 |
| Adjusted Earnings Per Share (k) | 1.19 | (2.05) | (8.02) | (0.81) | 4.28 |
| **STATEMENT OF FINANCIAL POSITION** | | | | | |
| **ASSETS** | | | | | |
| Cash and Cash Equivalent | 951,521 | 980,611 | 1,348,269 | 1,266,555 | 1,628,529 |
| Trade and Other Receivables | 71,564 | 96,543 | 252,258 | 662,740 | 1,181,721 |
| Deferred Acquisition Cost | 118,678 | 82,137 | 44,034 | 35,680 | 25,339 |
| Reinsurance Assets | 1,015,353 | 919,696 | 678,546 | 742,852 | 455,839 |
| Financial Assets | 892,970 | 969,853 | 787,449 | 719,408 | 426,897 |
| Investment Properties | 1,060,000 | 1,060,000 | 1,060,000 | 1,010,000 | 791,780 |
| Statutory Deposits | 300,150 | 300,150 | 300,150 | 300,150 | 300,150 |
| Property, Plant and Equipment | 408,972 | 410,703 | 329,832 | 48,334 | 62,537 |
| **TOTAL ASSETS** | **4,819,208** | **4,819,694** | **4,800,538** | **4,785,719** | **4,872,792** |
| **LIABILITIES** | | | | | |
| Trade and Other Payables | (61,910) | (196,953) | (269,840) | (271,256) | (300,714) |
| Deferred Taxation | (49,692) | (35,776) | (15,725) | 13,028 | (4,273) |
| Retirement Benefit Obligation | (68,280) | (47,391) | (63,573) | (38,750) | (25,783) |
| Insurance Contract Liabilities | (1,513,769) | (1,439,108) | (1,383,552) | (902,835) | (745,234) |
| **NET ASSETS** | **3,125,559** | **3,100,465** | **3,067,847** | **3,585,906** | **3,796,789** |
| **EQUITY** | | | | | |
| Share Capital | 4,050,351 | 4,034,857 | 3,711,345 | 3,711,345 | 3,711,345 |
| Share Premium | 70,393 | 70,393 | 70,393 | 70,393 | 70,393 |
| Contigency Reserves | 790,504 | 716,085 | 639,730 | 548,575 | 467,153 |
| Other Reserves | (5,947) | - | - | - | - |
| Fair Value Reserves | 2,405 | 82,875 | 113,748 | 36,452 | 1,802 |
| Retained Earnings | (1,782,148) | (1,803,745) | (1,467,369) | (780,860) | (453,904) |
| **SHAREHOLDERS FUND** | **3,125,559** | **3,100,466** | **3,067,847** | **3,585,905** | **3,796,789** |

The adjusted earnings per share are computed on profit after tax and the number of Ordinary Shares in issue as at 31st December, 2015.

**STERLING ASSURANCE NIGERIA LIMITED**
**SOLVENCY MARGIN COMPUTATION**
**FOR THE YEAR ENDED 31ST DECEMBER, 2015**

| | TOTAL 2015 | ADMISSIBLE | INADMISSIBLE |
|---|---|---|---|
| **ASSETS** | **N'000** | **N'000** | **N'000** |
| Cash and Cash Equivalents | 951,521 | 951,521 | - |
| Financial Assets | 892,970 | 892,970 | - |
| Trade Receivables | 3,282 | 3,282 | - |
| Reinsurance Assets | 1,015,353 | 1,015,353 | - |
| Deferred Acquisition Cost | 118,678 | 118,678 | - |
| Other Receivables and Prepayments | 68,282 | 1,350 | 66,932 |
| Investment Properties | 1,060,000 | 1,060,000 | - |
| Property, Plant and Equipment | 408,972 | 408,972 | - |
| Statutory Deposits | 300,150 | 300,150 | - |
| **TOTAL ASSETS (A)** | **4,819,208** | **4,752,276** | **66,932** |
| **LIABILITIES** | | | |
| Insurance Contract Liabilities | 1,513,769 | 1,513,769 | - |
| Trade Payables | 15,852 | 15,852 | - |
| Provision and Other Payables | 36,012 | 36,012 | - |
| Retirement Benefit Obligation | 68,280 | 68,280 | - |
| Current Income Tax Liabilities | 10,046 | 10,046 | - |
| Deferred Tax Liabilities | 49,692 | - | 49,692 |
| **TOTAL LIABILITIES (B)** | **1,693,651** | **1,643,959** | **49,692** |
| SOLVENCY MARGIN (A-B) | | **3,108,318** | |
| Subject to higher of: 15% of Net Premium Income and Shareholders Funds | | | |
| Minimum paid up Capital | | **3,000,000** | |
| **SURPLUS OF SOLVENCY MARGIN** | | **108,318** | |
| **SOLVENCY RATIO** | | 103.60% | |

# MANAGEMENT

F. K. Lawal
Managing Director

A. A. Akingbade
Executive Director

P. O. Awojide
Executive Director

M. K. Watti
GM (Business Devpt.)

S. A. Adegbesan
GM (Technical)

S. A. Adedigba
GM (Special Risks)

T. A. Olorunmakomi
AGM (Claims)

S. A. Olabanji
AGM (Marketing)

Mrs J.I. Oyelade
AGM (Underwriting)

S. O. Agboola
AGM (Finance & Admin)

## PROXY FORM

| FOR OFFICE USE |
|---|
| HOLDING |

I/WE.........................................
(In Block).................................
................................................
................................................

A member/members of the above Company, appoint............................................................or failing him, the duly appointed Chairman of the meeting to be my/our proxy to vote on my/our behalf at the Annual General Meeting of the company to be held Thursday, 14th July, 2016 and any adjournment thereof.

Date................................ Signature.........................................................

Please indicate below with a cross how you wish your votes to be ca

| FOR | AGAINST |
|---|---|
| | |
| | |
| | |
| | |

ORDINARY BUSINESS

1. Lay before the meeting the audited Financial Statement fo th Year ended 31st December, 2015

2. Approve the Directors' emoluments

3. Ratification of Director's Appointment

4. Authorised the Directors to fix the remuneration of the Auditors.

**NOTES**

If this Proxy Form is to be valid, it must duly stamped by the member, and be lodged with the Secretaries, Nigerian Nominess Limited, New Africa House (12th Floor), 31 Marina, Lagos not less than forty-eght(48) hours before the time fixed for holding the meeting or any adjournment thereof.

The signature of any one of holders will be accepted bu the names of all joint holders must be stated.

In the event of this form not indicating as to how the proxy shall vote on any resolution, the proxy may exercise his discretion as to how votes or he may abstain form voting.

If the appointor is a corporation this form must be under the Common Seal or signature by an officer or attorney duly authorised to do so.

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