

**Deloitte.**

**AFRICAN AVIATION POOL**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2011**

## REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF AFRICAN AVIATION POOL

### Report on the Financial Statements

We have audited the accompanying financial statements of **African Aviation Pool** set out on pages 2 to 10 which comprise the balance sheet as at 31 December 2011, the profit and loss account, statement of cash flows for the year then ended, and a summary of significant accounting policies, value added, financial summary and other explanatory information.

### Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the Companies and Allied Matters Act, Cap C20, LFN 2004, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control 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 the Directors, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **African Aviation Pool** as at 31 December, 2011, and of its financial performance and its cash flows for the year then ended; the company has kept proper books of account, which are in agreement with the balance sheet and profit and loss, in the manner required by the Companies and Allied Matters Act, Cap C20, LFN 2004, and, in accordance with the Statements of Accounting Standards issued by the Financial Reporting Council of Nigeria.

**Chartered Accountants**  
**Lagos, Nigeria**  
**May, 2012**

# AFRICAN AVIATION POOL

## SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2011

The following is a summary of the significant accounting policies applied by the Pool:

**(a) Revenue Recognition**

Premium and underwriting deductions are recognized when advised by ceding companies.

**(b) Underwriting Revenue Account**

Underwriting accounts are kept on underwriting year basis and the accounts of each underwriting year are closed at the end of each year and the result is transferred to the profit and loss account.

**(c) Claim Deposit and Premium Reserve Funds**

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

**(d) Currency Translation**

(i) The pool's reporting currency is the United States Dollars. Financial transactions in the various financial currencies of members of the pool have been converted to the United States dollar using the exchange rates ruling at the balance sheet date

(ii) Underwriting revenue items in currencies other than the United States Dollars are accumulated in the functional currencies and converted at rates of exchange ruling at the Balance Sheet date. Operational expenses are translated at rates ruling at the dates such expenses are incurred.

(iii) Exchange differences arising from translations of assets and liabilities and the settlement of monetary items are taken to the profit and loss account.

**(e) Debtors**

Debtors are stated after deducting specific provision for debts considered doubtful of recovery.

# AFRICAN AVIATION POOL

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 US \$	2010 US \$
Underwriting profit/(loss)	1,219,650	(3,317,690)
Exchange gain	-	-
Interest income	18,971	24,242
	<u>1,238,621</u>	<u>(3,293,448)</u>
<b>Deduct:</b>		
<b>Expenses not charged to Underwriting Revenue Account :</b>		
Management board fees	3,600	5,400
Pool Managers' Commission	199,386	294,595
Exchange loss	179,806	290,550
Provision for doubtful balances	19,939	29,481
Audit fees and expenses	8,000	8,000
Bank charges	420	630
Advertisement expenses - African Insurance Organisation	<u>2,750</u>	<u>2,750</u>
	<u>413,901</u>	<u>631,406</u>

Profit/(loss) for the year transferred to Members' Account (Note 6)

<u>824,720</u>	<u>(3,924,854)</u>
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The accounting policies on page 2 and explanatory notes on pages 7 and 8 form part of these financial statements.

# AFRICAN AVIATION POOL

## UNDERWRITING REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTE	2011 US \$	2010 US \$
<b>UNDERWRITING INCOME</b>			
Gross premiums		3,987,719	5,896,190
Less : Excess of loss premium		<u>673,242</u>	<u>706,878</u>
		<u><b>3,314,477</b></u>	<u><b>5,189,312</b></u>
<b>UNDERWRITING OUTGO</b>			
Losses paid		1,473,761	6,381,179
Commissions		643,082	658,680
Other charges		<u>46,429</u>	<u>19,065</u>
		<u><b>2,163,272</b></u>	<u><b>7,058,924</b></u>
<b>Excess/(deficit) of Income over Outgo</b>		<b>1,151,205</b>	<b>(1,869,612)</b>
Premium reserve and claim deposit fund released		4,017,684	2,569,606
Premium reserve and claim deposit funds retained	7	<u>(3,949,239)</u>	<u>(4,017,684)</u>
<b>Underwriting profit(loss) transferred to profit and loss account.</b>		<u><b>1,219,650</b></u>	<u><b>(3,317,690)</b></u>

The accounting policies on page 2 and explanatory notes on pages 7 and 8 form part of these financial statements.

# AFRICAN AVIATION POOL

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 US \$	2010 US \$
<b>Cash flows from operating activities:</b>			
Premium earned		3,314,477	5,189,312
Interest and other income		18,971	24,242
Losses paid		(1,473,761)	(6,381,179)
Commissions		(643,082)	(658,680)
Charges		(46,429)	(19,065)
Cash payment to managers and suppliers		<u>(393,962)</u>	<u>(601,924)</u>
Operating profit/(loss) before changes in operating assets and liabilities		<b>776,214</b>	<b>(2,447,294)</b>
<b>Changes in operating assets and liabilities</b>			
(Increase)/decrease in account with ceding companies		(3,899,483)	2,479,587
Increase in Managers' commission payable		199,386	294,595
(Decrease)/increase in Sundry debtors		12,213	(402,212)
Increase/(decrease) in Sundry creditors		<u>1,970,800</u>	<u>(667,734)</u>
Net cash used in operating activities	8	<u><b>(940,870)</b></u>	<u><b>(743,058)</b></u>
Cash and cash equivalents at the beginning of the year		<u>3,972,392</u>	<u>4,715,450</u>
Cash and cash equivalents at the end of the year	9	<u><u><b>3,031,522</b></u></u>	<u><u><b>3,972,392</b></u></u>

# AFRICAN AVIATION POOL

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### 1. Background of the Pool

The African Aviation Pool was established by the African Insurance Organisation to:

- a Create capacity within Africa for aviation insurance risks emanating from Africa, in order to minimise the foreign exchange outgo on reinsurance of African Airlines;
- b Provide the African aviation insurance/reinsurance market with underwriting, training and manpower development to enable them have technically competent aviation underwriters;
- c Provide technical/professional services to the members of the pool on matters relating to aviation insurance/reinsurance.

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

	2011 US \$	2010 US \$
<b>2. Bank placements</b>		
BAC London	2,428,703	3,364,572
Ecobank	341,552	345,450
Barclays Bank	-	-
	<u>2,770,255</u>	<u>3,710,022</u>
<b>3. Amount due from ceding companies</b>		
Amount due from ceding companies	19,823,842	12,949,310
Provision for impairment	(124,376)	(104,437)
	<u>19,699,466</u>	<u>12,844,873</u>
<b>4. Sundry debtors</b>		
African Reinsurance Corporation	2,019,668	1,608,278
African Oil and Energy Pool	-	424,547
Accrued Interest	1,360	416
	<u>2,021,028</u>	<u>2,033,241</u>
<b>5. Sundry creditors</b>		
Provision for Management Board Fees	9,000	9,000
African Oil and Energy Pool	1,970,800	-
African Insurance Organisation	2,750	2,750
Accrued audit fees	23,000	23,000

# AFRICAN AVIATION POOL

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2011

	2011 US \$	2010 US \$
<b>6. Members' account</b>		
Balance at 1 January	8,870,110	12,794,964
Profit/(loss) for the year	824,720	(3,924,854)
Balance at 31 December	<u>9,694,830</u>	<u>8,870,110</u>
<b>7. Premium reserve and claim deposit funds</b>		
Premium reserve	1,196,316	1,768,857
Claim deposit	2,752,923	2,248,827
	<u>3,949,239</u>	<u>4,017,684</u>
<b>8. Reconciliation of Profit/(loss) for the year to net cash provided operating activities:</b>		
Profit/(loss) for the year	824,720	(3,924,854)
Adjustment for:		
Provision for bad debts	19,939	29,481
Premium reserve and claim deposit fund	(68,445)	1,448,078
	776,214	(2,447,295)
<b>Changes in operating assets and liabilities</b>		
(Increase)/decrease in account with ceding companies	(3,899,483)	2,479,587
Increase in Managers' commission payable	199,386	294,595
(Decrease)/increase in Sundry debtors	12,213	(402,212)
Increase/(decrease) in Sundry creditors	1,970,800	(667,734)
	<u>(940,870)</u>	<u>(743,058)</u>
<b>9. Cash and cash equivalents</b>		
Cash	261,266	262,370
Bank placements	2,770,255	3,710,022
	<u>3,031,521</u>	<u>3,972,392</u>
<b>10. Comparative figures</b>		

Certain prior year comparative account balances have been reclassified to conform with the current year presentation.



# AFRICAN AVIATION POOL

## STATEMENT OF VALUE ADDED FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 US \$	%	2010 US \$	%
Underwriting profit/(loss)	1,238,621		(3,293,448)	
Bought in materials and services	(194,576)		(307,330)	
Loan loss expense	(19,939)		(29,481)	
<b>Value added</b>	<b><u>1,024,106</u></b>	<b><u>100</u></b>	<b><u>(3,630,259)</u></b>	<b><u>(100)</u></b>
<b>Applied as follows:</b>				
<b>To pay managers of the pool:</b>				
- Pool Manager's Commission	199,386	19	294,595	8
<b>Retained for the expansion of the business:</b>				
Profit/(loss) for the year	<u>824,720</u>	<u>81</u>	<u>(3,924,854)</u>	<u>(108)</u>
	<b><u>1,024,106</u></b>	<b><u>100</u></b>	<b><u>(3,630,259)</u></b>	<b><u>(100)</u></b>

Value added represents the wealth created by the efforts of the Company and its managers during the year. The statement shows the allocation of that wealth between the pool managers, shareholders, and that re-invested for the future creation of more wealth.

# AFRICAN AVIATION POOL

## FIVE YEAR FINANCIAL SUMMARY FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 US \$	2010 US \$	2009 US \$	2008 US \$	2007 US \$
<b>ASSETS</b>					
Bank balances	261,266	262,370	277,545	258,173	347,932
Investments	2,770,255	3,710,022	4,437,905	3,611,624	1,922,107
Amount due from ceding companies	19,699,466	12,844,873	13,594,559	11,663,092	11,645,958
Sundry debtors	2,021,028	2,033,241	1,631,029	950,257	850,404
<b>Total assets</b>	<b>24,752,015</b>	<b>18,850,506</b>	<b>19,941,038</b>	<b>16,483,146</b>	<b>14,766,401</b>
<b>LIABILITIES</b>					
Amount due to ceding companies	8,077,725	5,102,677	3,343,294	3,231,484	2,688,791
Managers' commission payable	1,024,671	825,285	530,690	250,722	232,566
Sundry creditors	2,005,550	34,750	702,484	500,690	467,383
<b>Total liabilities</b>	<b>11,107,946</b>	<b>5,962,712</b>	<b>4,576,468</b>	<b>3,982,896</b>	<b>3,388,740</b>
<b>FUNDED BY</b>					
Members' account	9,694,830	8,870,110	12,794,964	10,575,387	9,790,304
Premium reserve and claim					
Deposit funds	3,949,239	4,017,684	2,569,606	1,924,863	1,587,357
<b>Total liabilities and member's fund</b>	<b>24,752,015</b>	<b>18,850,506</b>	<b>19,941,038</b>	<b>16,483,146</b>	<b>14,766,401</b>
<b>PROFIT AND LOSS</b>					
Gross premium	3,987,719	5,896,190	5,613,967	4,864,812	4,512,436
Profit/(Loss) for the year	824,720	(3,924,854)	2,219,577	785,083	1,098,133