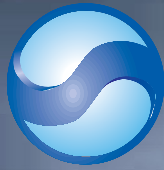
Financial Statements

For the Year ended 31 December 2013

FBC Reinsurance Limited

strength • diversity • service

A Subsidiary of FBC Holdings Ltd



FBC Reinsurance Limited

Disasters happen every day.
We protect your business all the time.

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General Information

Year ended 31 December 2013

REGISTERED OFFICE

4th Floor, FBC Centre
45 Nelson Mandela Avenue
Harare

CONTACT DETAILS

P.O. Box 4282
Harare
Telephone: 263 (4) 772 705/7
Fax: 263 (4) 742 568

HOLDING COMPANY REGISTERED OFFICE

FBC Holdings Limited
6th Floor, FBC Centre
45 Nelson Mandela Avenue
Harare

AUDITORS

KPMG Chartered Accountants (Zimbabwe)
Mutual Gardens
100 The Chase (West)
Emerald Hill
P.O. Box 6
Harare

ATTORNEYS

Dube, Manikai & Hwacha Legal Practitioners
Eastgate Building
6th Floor Goldbridge, Southwing
Cnr S.Nujoma/ Robert Mugabe Road
P.O. Box CR36 Cranborne
Harare

Directorate And Management

Year ended 31 December 2013

BOARD OF DIRECTORS AND OFFICERS

DIRECTORS

At the date of approval of these financial statements, the Company's Board of Directors comprised of the following members:

D W Birch (Chairman)
K Chiketsani (Managing Director)*
K Chibota
J R Mawere
J Mushayavanhu
T Kufazvinei
* Executive director

BOARD ATTENDANCE

	QUARTER 1	QUARTER 2	QUARTER 3	QUARTER 4
D W Birch	√	√	√	√
K Chibota	√	√	√	√
K Chiketsani	√	√	√	√
J R Mawere	√	√	√	√
J Mushayavanhu	√	√	√	√
T Kufazvinei	√	√	√	√

√ Present
X Absent

GROUP COMPANY SECRETARY

T Mabeza

EXECUTIVE MANAGEMENT

K Chiketsani Managing Director
T Mabeza Group Company Secretary

Directorate And Management

Year ended 31 December 2013

COMMITTEES

The FBC Holdings Limited (the parent company) Board of Directors has constituted separate committees which include; the Group Audit Committee, Finance and Strategy Committee, Credit Review Committee, Risk and Compliance Committee, Human Resources and Remuneration Committee, Loans Review Committee, Asset and Liability Committee, and the Board Nominations Committee, whose members are shown below:

Group Audit Committee

P. M. Chiradza (Chairman), J. R. Mawere, G. G. Nhemachena,
C. Malunga, C. Mutasa.

Group Finance and Strategy Committee

K. Chibota (Chairman), G. Chikwava, T. Kufazvinei,
J. Mushayavanhu, W. Rusere, F. Gwandekwande, K. Chiketsani, J. Matiza.

Group Credit Review Committee

B. N. Kumalo (Chairman), G. R. Bera, J. Mushayavanhu,
S. Mutangadura.

Group Risk and Compliance Committee

G. G. Nhemachena (Chairman), K. Chibota, K. Chiketsani,
J. Mushayavanhu, W. Rusere, P. M. Chiradza,
F. Gwandekwande.

Group Human Resources and Remuneration Committee

H. Nkala (Chairman), J. Mushayavanhu, P. M. Chiradza,
J. R. Mawere.

Group Loans Review Committee

P. F. Chimedza (Chairman), D. W. Birch, S. Mutangadura.

Group Asset and Liability Committee

B. N. Kumalo (Chairman), G. Bera, D. W. Birch, J. Mushayavanhu, S. Mutangadura.

Group Board Nominations Committee

H. Nkala (Chairman), S. A. Munyeza, G. G. Nhemachena.

Report Of The Directors To Shareholder

Year ended 31 December 2013

The directors have pleasure in submitting the audited financial statements of FBC Reinsurance Limited ('the company') as at 31 December 2013.

ACTIVITIES AND INCORPORATION

The company is incorporated in Zimbabwe and is locally controlled, provides a wide range of reinsurance services and is registered in terms of the Companies Act [Chapter 24:03] and the Insurance Act [Chapter 24:07].

General review

The results for the year are summarised as follows:

	31 Dec 2013 US$	31 Dec 2012 US$
Gross written premium	15 227 990	13 708 902
Net premium written	11 591 758	11 839 896
Underwriting profit before investment income	1 223 597	873 363
Investment and other income/(expense)	1 640 352	1 190 715
Profit before taxation	2 863 949	2 064 078
Profit after taxation	2 157 130	1 452 781

The underwriting business recognized a profit during the year under review, credited to strict underwriting discipline that focused on risk management. The stock market closed in the positive, while money market rates remained stable throughout the year. Interest income contribution to investment income stood at 58% (2012: 75%), and equities contributed 31% (2012:12%).

Authorised and issued share capital

The authorised share capital of the company is divided into 10 000 ordinary shares of US$100,00 each, of which 6 000 ordinary shares have been issued and are fully paid. The issued share capital after redenomination is US$600 000 (2012: US$600 000).

Directorate

There were no changes in the board composition during the year under review.

Minimum capital requirements

The total of the company's capital and reserves was US$8 743 520 (2012: US$6 987 220) which exceeds the regulatory minimum requirement of US$1.5 million.

Dividend

The board has taken into account the good performance of the company and the improving macroeconomic environment. We are pleased to advise the shareholder that an interim dividend of US$40.08 per share was paid on the 20th September 2013.

Report Of The Directors To Shareholder - (cont'd)

Year ended 31 December 2013

Directors' Responsibility Statement

The directors are responsible for the preparation and fair presentation of the annual financial statements of FBC Reinsurance, comprising the statement of financial position at 31 December 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act (Chapter 24:03) and Insurance Act (Chapter 24:07). In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

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

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the International Financial Reporting Standards and the requirements of the Companies Act (Chapter 24:03) and Insurance Act (Chapter 24:07).

Approval of annual financial statements

The annual financial statements of FBC Reinsurance Limited, as identified in the first paragraph, were approved and signed by the Board of Directors on the 17th of March 2014.

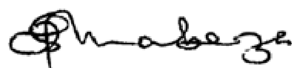
Reserves

The company's total shareholder' funds as at 31 December 2013 were US$8 743 520. Further details of the movement in reserves are shown on the statement of changes in equity on page 13.

Auditors

Messrs KPMG Chartered Accountants (Zimbabwe), have expressed their willingness to continue in office and shareholder will be asked to confirm their re-appointment at the forthcoming Annual General Meeting and to fix their remuneration for the year.

By order of the Board



T K MABEZA

GROUP COMPANY SECRETARY

25 March 2014

KPMG
Mutual Gardens
100 The Chase (West)
Emerald Hill
P. O. Box 6 Harare
Zimbabwe

Tel: +263 (4) 303700
+263 (4) 302600
Fax: +263 (4) 303699

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF FBC REINSURANCE LIMITED

We have audited the financial statements of FBC Reinsurance Limited, which comprise the statement of financial position at 31 December 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 52.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act (Chapter 24:03) and the Insurance Act (Chapter 24:07), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of FBC Reinsurance Limited at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Companies Act (Chapter 24:03) and the Insurance Act (Chapter 24:07).

KPMG

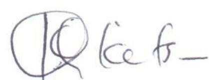
KPMG CHARTERED ACCOUNTANTS (ZIMBABWE)

25 March 2014

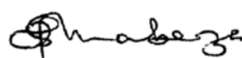
Statement Of Financial Position

As at 31 December 2013

	Note	31 Dec 2013 US$	31 Dec 2012 US$
ASSETS			
Non-current assets			
Property and equipment	7	215 585	260 817
Intangible assets	7.2	84 836	80 416
Investment in associate	8	491 139	491 139
Deferred tax	15	276 630	315 257
Investments held for trading	9	2 025 606	1 286 152
Non-current receivables		1 125 593	2 415 513
		4 219 389	4 849 294
Technical assets			
Reinsurer's share of technical provisions:			
Outstanding claims	16	4 216 799	4 497 710
Deferred acquisition costs	11	955 364	788 314
		5 172 163	5 286 024
Current assets			
Receivables and prepayments	12	3 805 305	2 835 148
Cash and cash equivalents	13	9 041 260	6 251 241
		12 846 565	9 086 389
Total assets		**22 238 117**	**19 221 707**


.... KLETO CHIKETSANI

.... JOHN MUSHAYAVANHU


.... TICHAONA MABEZA

25 March 2014

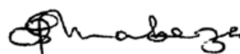
Statement Of Financial Position - (cont'd)

As at 31 December 2013

	Note	31 Dec 2013 US$	31 Dec 2012 US$
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	14	600 000	600 000
Share premium	14	2 203 332	2 203 332
Non distributable reserve	14	2 837 350	2 837 350
Revaluation reserve		32 547	32 547
Retained profits		3 070 291	1 313 990
		8 743 520	6 987 219
Technical liabilities			
Gross outstanding claims	16	6 323 010	6 637 855
Provision for unearned premium	17	3 368 375	2 664 702
		9 691 385	9 302 557
Current liabilities			
Trade and other payables	18	3 615 744	2 888 157
Current tax liabilities		187 468	43 774
		3 803 212	2 931 931
Total equity and liabilities		**22 238 117**	**19 221 707**

.... KLETO CHIKETSANI

.... JOHN MUSHAYAVANHU


.... TICHAONA MABEZA

25 March 2014

Statement Of Comprehensive Income

For the year ended 31 December 2013

	Note	31 Dec 2013 US$	31 Dec 2012 US$
Gross premium written		15 227 990	13 708 902
Outward reinsurance premiums		(3 636 232)	(1 869 006)
NET PREMIUM WRITTEN		**11 591 758**	**11 839 896**
Change in provision for unearned premium		(703 673)	(923 067)
EARNED PREMIUM NET OF REINSURANCE		**10 888 085**	**10 916 829**
Claims paid		(3 856 757)	(3 035 255)
- Gross amount		(3 856 757)	(3 035 255)
- Retrocessionnaire's share		-	-
Change in provision for gross claims outstanding		33 934	(744 938)
- Gross amount		33 934	(744 938)
- Retrocessionnaire's share		-	-
NET INSURANCE CLAIMS INCURRED		**(3 822 823)**	**(3 780 193)**
Operating expenses	4	(2 328 618)	(2 975 697)
Acquisition costs	4.1	(3 989 976)	(3 497 338)
Commission received		476 929	209 762
UNDERWRITING PROFIT		**1 223 597**	**873 363**
Investment income		952 574	899 606
Realised and unrealised gains on equities		514 481	141 075
Exchange losses		51 096	7 351
Profit on disposal of property and equipment		12 754	-
Other income		109 447	142 683
INVESTMENT AND OTHER INCOME		**1 640 352**	**1 190 715**
PROFIT BEFORE TAXATION		**2 863 949**	**2 064 078**
Income tax expense	6.1	(706 819)	(611 297)
PROFIT FOR THE YEAR		**2 157 130**	**1 452 781**
TOTAL COMPREHENSIVE INCOME		**2 157 130**	**1 452 781**

Statement Of Changes In Equity

For the year ended 31 December 2013

	Ordinary share capital US$	Share premium US$	Non distributable reserve US$	Revaluation reserve US$	Retained earnings US$	Total US$
Balance as at 1 January 2012	600 000	2 203 332	2 837 350	32 547	(1 339)	5 671 890
Profit for the year	-	-	-	-	1 452 781	1 452 781
Transactions with owners in their capacity as owners						
Dividend paid	-	-	-	-	(137 452)	(137 452)
Balance at 31 December 2012	600 000	2 203 332	2 837 350	32 547	1 313 990	6 987 219

	Ordinary share capital US$	Share premium US$	Non distributable reserve US$	Revaluation reserve US$	Retained earnings US$	Total US$
Balance as at 1 January 2013	600 000	2 203 332	2 837 350	32 547	1 313 990	6 987 219
Transactions with owners in their capacity as owners						
Dividend paid	-	-	-	-	(400 830)	(400 830)
Profit for the year	-	-	-	-	2 157 131	2 157 131
Balance at 31 December 2013	600 000	2 203 332	2 837 350	32 547	3 070 291	8 743 520

Statement Of Cash Flows

For the year ended 31 December 2013

	Notes	31 Dec 2013 US$	31 Dec 2012 US$
Cash flows from operating activities			
Profit before taxation		2 863 949	2 064 078
Adjustments for non-cash items:			
Depreciation	7	52 610	63 046
Amortisation	7.2	25 435	18 829
Gains on sale of property and equipment		(628)	1 615
Gains on revaluation of investments		(307 160)	(141 075)
Operating cash flow before working capital changes		2 634 206	2 006 493
Changes in working capital			
(Decrease)/ Increase in reinsurer's share of outstanding claims		280 910	(493 435)
Increase in deferred acquisition costs		(167 050)	(130 090)
Increase in receivables and prepayments		(970 156)	(165 346)
Increase in trade and other payables		727 587	1 335 015
Increase in gross outstanding claims		(314 845)	1 238 372
Increase in unearned premium reserve		703 673	923 067
(Decrease)/ Increase in non-current receivables		1 289 920	(935 844)
		1 550 039	1 771 739
Taxation paid		(524 484)	(566 941)
Net cash (used in)/generated from operating activities		3 659 761	3 211 291
Cash flows from investing activities			
Purchase of investments held for trading		(432 294)	(53 315)
Purchase of property and equipment	7	(36 618)	(41 602)
Net cash flow used in investing activities		(468 912)	(94 917)
Cash flows from financing activities			
Dividend paid		(400 830)	(137 452)
Increase in cash and cash equivalents		2 790 019	2 978 922
Movement in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		6 251 241	3 272 319
Increase during the year		2 790 019	2 978 922
Cash and cash equivalents at the end of year	13	9 041 260	6 251 241

Notes To The Financial Statements

31 December 2013

1. INCORPORATION AND ACTIVITIES

The company is incorporated in Zimbabwe and transacts in short term reinsurance business. The functional is the United States Dollar ("US$") which is also the presentation currency.

2. CHANGES IN ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

New and revised IFRSs

New standard not yet effective in 2013:

New standard	Effective date	Major requirements
IFRS 9 Financial Instruments	1 January 2018	IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition. Key requirements of IFRS 9 are described as follows: • IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

2. CHANGES IN ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

New standard not yet effective in 2013:

New standard	Effective date	Major requirements
IFRS 9 Financial Instruments (continued)		• The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss. • The effective date of IFRS 9 was 1 January 2015, which has been postponed and a new date is yet to be specified. The directors anticipate that the application of IFRS 9 may have significant impact on amounts reported in respect of the company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2. CHANGES IN ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

New Standards applied in 2013:

New standard	Effective date	Major requirements
IFRS 12 Disclosure of Interests in Other Entities	1 Jan 2013	IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.
IFRS 13 Fair Value Measurement	1 Jan 2013	IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures, will be extended by IFRS 13 to cover all assets and liabilities within its scope. IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that IFRS 13 will be adopted in the company's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	1 Jul 2012	The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that

2. CHANGES IN ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

New Standards applied in 2013:

New standard	Effective date	Major requirements
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (continued)	1 Jul 2012	will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.
IAS 19 (as revised in 2011) Employee Benefits	1 Jan 2013	The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus. The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the company's financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 will not have an impact on amounts reported in respect of the company's financial statement as currently all pension schemes are on a defined contribution plan.
IAS 27 (as revised in 2011) Separate Financial Statements	1 Jan 2013	IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate statements, with some minor clarifications. The adoption of IAS 27 (2011) will not have a significant impact on the company's separate financial statements.

2. CHANGES IN ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

New Standards applied in 2013:

New standard	Effective date	Major requirements
IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures	1 Jan 2013	IAS 28 (2011) supersedes IAS 28 (2008) and carries forward the existing accounting and disclosure requirements with limited amendments. These include: • IFRS 5 is applicable to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held-for-sale; and • On cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the company does not re-measure the retained interest.

(b) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements include; (i) outstanding claims provisions (see note 16.1), (ii) deferred acquisition costs (see note 11), (iii) estimating residual values and remaining useful lives (see note 3e(iii)), (iv) deferred tax asset recognition (see note 15.3) and (v) unearned premium reserve (see note 17).

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and the International Financial Reporting Interpretations Committee, ("IFRIC") interpretations and in the manner required by the Zimbabwe Companies Act, (Chapter 24:03). The financial statements have been prepared from statutory records that are maintained under historical cost convention as modified by revaluation of financial assets at fair value through profit or loss, investment property and property, plant and equipment.

(a) Insurance contracts

(i) Gross premium written

Gross premiums written reflect business written during the year, and exclude any taxes or duties based on premiums.

The earned proportion of premiums is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of the risks underwritten.

(ii) Unearned premium provision

The provision of unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method, and other suitable basis for uneven risk contracts.

Facultative contracts - the UPR is created at the commencement of each insurance contract and is released as the risk expires. The UPR is computed on a time proportionate basis taking into account the unexpired period of the policy.

Treaty contracts – the 8th basis method was used to compute the UPR for treaty contracts. This estimate is based on the assumption that a portion of the premiums, will overlap into the next financial year, and will only be accounted for as revenue, subsequently. The treaty UPR balance is computed quarterly as an estimate of the gross premiums value. It is assumed that when a contract is entered into during any specific quarter, the start date of the quarter will most likely not be the date that the contract was entered into. Most contracts are entered into during the mid-section of the quarter, as per prior experience. The entity computes the estimate by establishing the mid-point per quarter, and then applies the 8th basis applicable fraction to the business booked in the respective quarter.

(iii) Claims

Claims incurred comprise the settlement and handling costs of paid and movements in outstanding claims arising from events that occurred during the financial year.

Claims outstanding comprise provisions for the company's estimate of the ultimate cost of settling all the claims incurred but unpaid at the statement of financial position date whether reported or not, and related internal and external claims handling expenses and an appropriate prudential margin. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior years are reflected in the financial statements of the period in which the adjustments are made and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Unexpired risk provision

Provision is made for unexpired risks arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision of unexpired risk is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and unexpired claims provision.

(v) Outstanding claims provisions

Provision is made for the estimated costs of claims net of anticipated recoveries under reinsurance arrangements notified but not settled at year end, using the best information available at that time. The estimates include other contingencies arising in the settlement of claims.

Provision is also made for the cost of claims incurred but not reported (IBNR) until after the statement of financial position, and for the estimated administrative expenses that will be incurred after the statement of financial position date in settling claims outstanding at that date. IBNR is calculated as 7% of the net written premium.

(b) Reinsurance assets

The company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities, income and expenses arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expenses from the related insurance contract because the reinsurance arrangements do not relieve the company from its direct obligations to its policyholders.

Only rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial assets.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contract. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The un-expensed portion of ceded reinsurance premiums is included in the reinsurance assets.

The net amounts paid to the reinsurer at the inception of a contract may be less than the reinsurance assets recognised by the company in respect of rights under contracts. Any difference between the premium due to the reinsurer and the reinsurance asset recognised is included in profit or loss in the period in which the reinsurance premium is due.

The amounts recognised as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts.

Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid. These are classified as loans and receivables and are included within insurance and other receivables in the statement of financial position.

Reinsurance assets are assessed for impairment at each statement of financial position date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the company may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the company will receive from the retrocessionaire.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Deferred acquisition costs

Costs incurred in acquiring general insurance, annuity and life assurance contracts are deferred to the extent that they are recoverable out of future margins. Acquisitions costs include direct costs such as commission and medical fees and indirect costs such as administrative expenses connected with the processing of proposals and issuing of policies.

Deferred acquisition costs are amortised over the period in which the costs are expected to be recovered out of future margins in the revenue from the related contracts. The rate of amortisation is consistent with the pattern of emergence of such margins.

For general insurance contracts the deferred acquisition cost asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written which are unearned at the reporting date.

(d) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

Reserves

The non-distributable reserve was derived as the difference between the company's total assets and liabilities as stated in the new functional currency, USD at 1 January 2009.

(e) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at deemed cost less accumulated depreciation and impairment losses, with the exception of freehold land and buildings which are valued annually by an independent appraiser. Items of property and equipment are initially measured at deemed cost.

Cost includes expenditures that are 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 asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property and equipment (continued)

(ii) Subsequent costs

The cost of replacing part of an item of property or 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 FBC Reinsurance Limited and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Amount recognized in the revaluation reserve is recognized when the asset is impaired or on disposal.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated. Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the items disposed of. These are included in profit or loss.

Useful lives assessment

The company assessed the useful lives of property and equipment as follows:

Computers - hardware	-	5 years
Motor vehicles	-	5 years
Office equipment	-	10 years
Furniture and fittings	-	10 years
Buildings	-	50 years

Land is not depreciated.

(f) Intangibles - Computer software development costs

Generally, costs associated with developing computer software programmes are recognised as an expense when incurred. However, costs that are clearly associated with an identifiable and unique product which will be controlled by the company and has a probable benefit exceeding the cost beyond one year, are capitalised. Associated costs include staff costs of the development team and an appropriate portion of relevant overheads.

Expenditure which enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of software. Computer software development costs are recognized using the cost model as assets and amortised using the straight-line method over five years.

(g) Dividend income

Dividend income is recognised in profit or loss on the date that the company establishes a right to receive the dividend.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Taxation

The tax charge/(credit) on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Current tax assets and liabilities are offset when the entity has a legally enforceable right to set off recognised amounts and when it intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset when the entity has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

A deferred tax liability shall be recognised for all taxable temporary differences except to the extent that the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred taxation is recognized on temporary differences between the carrying amounts for financial reporting purposes and the amounts used for tax purposes.

The principal temporary differences arise from movements on technical reserves, accrued interest on fixed date securities, provisions for doubtful debts, depreciation and revaluation of fixed assets accounts. The amount of deferred tax provided is based on the rates enacted or substantially enacted at the statement of financial position date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Foreign currency transactions

Foreign currency transactions are transactions denominated in a currency other than the functional currency. Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to US dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currency are translated using the foreign exchange rate at the date when the fair value was determined.

(j) Employee benefits

(i) Short term employee benefits

Short-term benefits are employee benefits (other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render services. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(ii) Post employment benefits

The company provides for retirement benefit obligations in respect of its employees as follows:

- FBC Holdings Pension Fund – Defined Contribution Fund; and
- National Social Security Authority (NSSA) defined benefit scheme. Contributions to NSSA are made in terms of statutory regulations and are charged in the profit or loss as incurred.

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as employee benefits expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Profit sharing and bonus plans

The company recognises a liability and an expense for profit sharing and bonuses on a formula that takes into consideration the profit attributable to the company's shareholder after an external audit. The company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Employee benefits (continued)

(iv) Termination benefits

Termination benefits are benefits payable as a result of the company's decision to terminate employment before normal retirement date (or contractual date) or employee's decision to accept voluntary redundancy in exchange of those benefits. Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(v) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expenses in profit or loss.

The fair value of employee stock options is measured using the intrinsic value method where the intrinsic value of a share option is the difference between the fair value of the shares and the exercise price determined at grant date.

(k) Dividend distribution

A dividend distribution to the company's shareholder is recognised as a liability in the company's financial statements in the period in which dividends are approved by the company's board of directors.

(l) Investments in associates

Investments in associates are measured at cost or deemed cost (as determined on the date of change in functional currency) less impairment losses. Associates are generally entities over which the company has between 20% and 49% of the voting rights, and over which the company has significant influence, but which it does not control. FBC Reinsurance Limited, itself, being a wholly owned subsidiary of FBC Holdings Limited does not equity account for investments in associates in its separate financial statements in accordance with the exemptions in paragraph 17 of IAS 28.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial assets and liabilities

(i) Recognition and initial measurement

The company initially recognises loans and advances, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are recognised on the trade date at which the company becomes a party to the contractual provisions of the instrument and are initially measured at fair value plus transaction costs, except for assets subsequently measured at fair value through profit or loss.

(ii) Derecognition

The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the company is recognised as a separate asset or liability.

The company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The company enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks and rewards of the transferred assets or a portion of them. If substantially all risks and rewards are retained, the transferred assets are not derecognised from the balance sheet. Transfer of assets with retention of substantially all risks and rewards include; securities lending and repurchase transactions. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions. In transactions where the company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The company also derecognises certain assets when it writes-off balances pertaining to the assets deemed to be uncollectible.

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iv) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or predetermined payments that are not quoted in an active market other than:

- Those that the entity intends to sell immediately or in the short term which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- Those that the entity upon initial recognition designates as available for sale; or
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

The entity's loans and receivables comprise of loans to other companies in the group, trade and other receivables.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the company's trading activity.

(vi) Subsequent measurement

- Amortised cost measurement
  The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

- Fair value measurement
  The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

(vii) Identification and measurement of impairment

At each reporting date the company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The company considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial assets and liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the company on terms that the company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the company, or economic conditions that correlate with defaults in the company.

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 judgement 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. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(ix) Designation at fair value through profit or loss

The company has designated financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

(n) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances held with banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the company in the management of its short-term commitments.

(o) Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The company has related party relationships with its shareholder, fellow subsidiaries, associates and key management employees. Transactions and balances with related parties are set out in note 21.

Notes To The Financial Statements

31 December 2013

		Year ended 31 Dec 2013 US$	Year ended 31 Dec 2012 US$
4.	**OPERATING EXPENSES**		
	The following items have been charged in arriving at underwriting profit:		
	Auditors' remuneration	42 353	39 275
	Depreciation on property and equipment (Note 7)	52 610	63 046
	Amortisation expense	25 435	18 829
	Repairs and maintenance expenditure	107 846	185 025
	Directors' emoluments		
	- for services as directors (Note 22)	13 959	36 145
	- for other services (Note 22)	533 432	607 913
	- for bonus	45 772	49 617
	Staff costs (Note 5)	911 838	1 286 445
	Bad debts written off	-	303 099
	Travel and communication	161 784	88 840
	Advertising and publication	70 374	64 755
	Sundry expenses	363 215	232 708
		2 328 618	2 975 697
4.1	**Acquisition costs**		
	Commission paid	4 157 026	3 627 428
	Change in deferred acquisition costs (Note 11)	(167 050)	(130 090)
	Acquisition costs	3 989 976	3 497 33

		31 Dec 2013 US$	31 Dec 2012 US$
5.	**STAFF COSTS**		
	Salaries	636 321	1 093 178
	Pension costs (Note 20)	39 917	39 235
	Other costs	235 600	203 649
		911 838	1 336 062

	Year ended 31 Dec 2013 US$	Year ended 31 Dec 2012 US$
6. INCOME TAX EXPENSE		
6.1 Analysis of tax charge		
Current income tax	668 192	305 186
Deferred income tax	38 627	306 111
Tax charge for the year	706 819	611 297
6.2 Reconciliation of income tax expense		
The tax on the FBC Re's profit before income tax differs from the theoretical amount that would arise using the principal tax rate of 25.75% (2012: 25.75%) as follows:		
Profit before income tax	2 863 949	2 064 078
Income tax charged based on profit for the year at 25.75% (2012: 25.75%)	737 467	531 500
Tax effect of non-deductible/exempt items:		
Dividend income	(8 708)	(4 585)
Expenses not deductible for tax purposes	73 023	84 798
Non-taxable income	(94 963)	(416)
Tax charge for the year	706 819	611 297
Effective tax rate	25%	30%

7. PROPERTY AND EQUIPMENT

7.1 Movement in property and equipment

2012	Motor vehicles US$	Furniture & fittings US$	Computer equipment US$	Other equipment US$	Land and buildings US$	Total US$
Deemed cost						
At 1 January 2012	205 099	1 145	76 876	12 957	177 134	473 210
Additions	-	9 874	8 089	1 639	-	19 602
Disposals	-	-	1 730	-	-	1 730
At 31 December 2012	205 099	11 019	83 235	14 596	177 134	491 082
Accumulated depreciation						
At 1 January 2012	120 049	268	39 953	3 930	3 134	167 334
Charge for the year	41 189	891	14 990	1 398	4 577	63 046
Disposals	-	-	115	-	-	115
At 31 December 2012	161 238	1 159	54 828	5 328	7 711	230 265
Carrying amount at 31 December 2012	43 861	9 860	28 407	9 268	169 423	260 817

2013	Motor vehicles US$	Furniture & fittings US$	Computer equipment US$	Other equipment US$	Land and buildings US$	Total US$
Deemed cost						
At 1 January 2013	205 099	11 019	83 235	14 596	177 134	491 082
Additions	-	1 056	5 229	478	-	6 763
Disposals	22 000	-	-	-	-	22 000
At 31 December 2013	183 099	12 075	88 464	15 074	177 134	475 845
Accumulated depreciation						
At 1 January 2013	161 238	1 159	54 823	5 349	7 710	230 279
Charge for the year	34 046	1 181	12 347	1 493	3 543	52 610
Disposals	(22 629)	-	-	-	-	(22 629)
At 31 December 2013	172 655	2 340	67 170	6 842	11 253	260 260
Carrying amount at 31 December 2013	10 444	9 735	21 294	8 232	165 880	215 585

7.2 Intangible assets

	31 Dec 2013 US$	31 Dec 2012 US$
Opening net book amount	80 416	77 245
Additions	29 855	22 000
Amortizations charge	(25 435)	(18 829)
Closing net book amount	**84 836**	**80 416**
As at 31 December		
Cost	133 165	103 310
Accumulated amortization	(48 329)	(22 894)
Net book amount	**84 836**	**80 416**

The company's intangible asset is in respect of computer software. Computer software development costs are recognized using the cost model as assets and amortised using the straight-line method over five years.

7.3 Valuation of land and buildings

The fair value of freehold land and buildings at 31 December 2013 has been arrived at on the basis of a valuation carried out as at 31 December 2011 which has been rolled forward. No revaluation was done in 2013. Revalued amount approximates the initial cost. The balance in the reserve is denominated in US$ and cannot be distributed to owners/shareholder. Valuation having been done by independent valuers is based on an open market value method. This method involves the use of market transactions for similar properties concluded or not yet concluded (transaction bids) to determine capitalisation rates which are then adjusted to the particular property being valued with factors such as location, the state of the property, etc. Such capitalisation rates are applied on the rentals applicable to similar buildings to derive the value of the property. Fair value hierarchy in terms of IFRS 13 presented under note 24.

8. INVESTMENT IN ASSOCIATE

FBC Reinsurance Limited has a 23.06% shareholding in Eagle Insurance Company Limited. The investment in the associate is accounted for at cost or deemed cost in line with exemptions in paragraph 17 of IAS 28, with a test for possible impairment done at each reporting date.

The investment in associate was accounted for at deemed cost as determined on change in functional currency on 1 January 2009. The deemed cost was taken as the associate's non-distributable reserves as at 1 January 2009 (the date of change in functional currency).

8. INVESTMENT IN ASSOCIATE (continued)

Investment in associate

	31 Dec 2013 US$	31 Dec 2012 US$
Current assets	6 857 122	5 031 633
Non-current assets	2 951 174	2 501 464
Current liabilities	(5 343 254)	(4 576 680)
Non-current liabilities	(908 346)	(765 334)
Equity	3 556 696	2 191 083
Proportion of ownership	23.06%	23.06%
Carrying amount of the investment	820 174	505 264
Net insurance premium revenue	7 162 791	5 372 704
Incurred losses	(2 624 071)	(2 264 447)
Acquisition costs	(388 041)	(301 163)
Operating expenses	(2 726 842)	(2 192 312)
Investment income	247 700	124 769
Profit before tax	1 671 537	739 551
Income tax expense	(194 821)	(232 188)
Profit for the year	1 476 716	507 363
Share of profit for the year	340 530	116 998
Carrying amount of the investment in associate	491 139	491 139

9. INVESTMENTS HELD FOR TRADING

9.1 Equity investments

	31 Dec 2013 US$	31 Dec 2012 US$
Quoted ordinary shares	2 025 606	1 286 152

The last active trading market prices as at 31 December 2013 were used for the valuation of equities, comparative valuation done based on trading market prices as at 31 December 2012.

9.2 The movement in the fair values of investment securities may be summarised as follows:

	31 Dec 2013 US$	31 Dec 2012 US$
Fair value at the beginning of the year	1 286 152	1 091 762
Additions	1 246 803	61 064
Sales	(814 509)	(7 749)
Fair value adjustment	307 160	141 075
Carrying amount at the end of the year	2 025 606	1 286 152

10. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES AND FAIR VALUES

The table below sets out the company's classification of each class of financial assets and liabilities as at 31 December 2012.

	Fair value through profit /loss US$	Held to maturity US$	Loans and receivable US$	Loans and payables US$	Total US$
31 December 2012					
Equity investments	1 286 152	-	-		1 286 152
Loans to group companies	-	-	2 415 513		2 415 513
Money market investments	-	5 019 369	-		5 019 369
Trade and other payables	-	-	-	(2 491 708)	(2 491 708)
Loans from group companies	-	-	-	(396 449)	(396 449)
	1 286 152	5 019 369	2 415 513	(2 888 157)	5 832 877

	Fair value through profit /loss US$	Held to maturity US$	Loans and receivable US$	Loans and payables US$	Total US$
31 December 2013					
Equity investments	2 025 606	-	-		2 025 606
Loans to group companies	-	-	1 125 593		1 125 593
Money market investments	-	7 326 665	-		7 326 665
Trade and other payables	-	-	-	(3 043 253)	(3 043 253)
Loans from group companies	-	-	-	(572 491)	(572 491)
	2 025 606	7 326 665	1 125 593	(3 615 744)	6 862 120

11. DEFERRED ACQUISITION COSTS

	31 Dec 2013 US$	31 Dec 2012 US$
Balance at the beginning of the year	788 314	658 224
Charge to income statement	167 050	130 090
Balances at the end of the year	955 364	788 314

11. DEFERRED ACQUISITION COSTS (continued)

Deferred acquisition cost is the commission embedded in Unearned Premium Reserve (UPR) and is calculated using the individual policy details for facultative business and computed at a rate of 31% across all policies for the treaty business.

12. RECEIVABLES AND PREPAYMENTS

	31 Dec 2013 US$	31 Dec 2012 US$
Due by insurance companies	3 525 730	2 740 689
Due by reinsurers	54 334	11 091
Prepayments	66 655	23 946
Accrued interest	158 586	59 422
	3 805 305	2 835 148

13. CASH AND CASH EQUIVALENTS

13.1 Cash and cash equivalents balances

	31 Dec 2013 US$	31 Dec 2012 US$
Bank balances	1 714 595	1 229 185
Call deposits	7 326 665	5 022 056
	9 041 260	6 251 241

14. ORDINARY SHARES AND SHARE PREMIUM

The authorised number of ordinary shares is 10 000 of US$100.00 each.

Issued and fully paid	Number of shares capital	Ordinary share US$	Share premium US$	Total US$
At 31 December 2013	6 000	600 000	2 203 332	2 803 332
At 31 December 2012	6 000	600 000	2 203 332	2 803 332

14.1 NON DISTRIBUTABLE RESERVE

At the date of the change of the functional currency, the Public Accountants and Auditors Board (PAAB), the Zimbabwe Accounting Practices Board (ZAPB) and the Zimbabwe Stock Exchange (ZSE) issued recommendations that assisted the preparers of financial statements to convert their financial statements from Zimbabwe dollars into their functional currency. The Financial Reporting Guidance suggested that assets and liabilities carried at fair value at the date of change of the functional currency were to be carried at their fair values in the functional currency. Non-monetary assets and liabilities were valued at their deemed cost. Equity was recognized as the residual of the company's net assets and was treated as a non-distributable reserve.

	31 Dec 2013 US$	31 Dec 2012 US$
Non distributable reserve	2 837 350	2 837 350

15. DEFERRED TAX

15.1 The movement in the deferred income tax liability account

	31 Dec 2013 US$	31 Dec 2012 US$
Balance at the beginning of the year	(315 257)	(621 368)
Recognised in profit or loss	38 627	306 111
Balance at the end of the year	(276 630)	(315 257)

15.2 Analysis of deferred tax

	31 Dec 2013 US$	31 Dec 2012 US$
Arising from:		
Unrealised gains on foreign exchange and equities	21 905	38 220
Deferred acquisition costs	246 006	202 990
Prepayments	17 164	6 166
Net outstanding claims reserve	(542 349)	(551 087)
Property and equipment	(19 356)	(11 546)
	(276 630)	(315 257)

15.3 Factors in determining deferred tax

The deferred tax arising from equipment allowances was determined using income tax values that the company ascertained with the aid of guidance issued by the Zimbabwe Revenue Authority (ZIMRA) at the date of change in functional currency. The deferred tax was calculated under the statement of financial position method using an effective tax rate of 25.75%. The company estimates that future taxable profits will be available against which the deferred tax asset can be utilised.

16. GROSS OUTSTANDING CLAIMS

16.1 Movement in gross outstanding claims

	31 Dec 2013 US$	31 Dec 2012 US$
Gross outstanding claims at the beginning of the year	6 637 855	5 399 483
Reinsurer's share of technical provisions	(4 497 710)	(4 004 276)
Net outstanding claims at the beginning of the year	2 140 145	1 395 207
Change in provision for claims	(33 934)	744 938
Reinsurer's share of technical provisions at the end of the year	4 216 799	4 497 710
Gross outstanding claims at the end of the year	6 323 010	6 637 855

16. GROSS OUTSTANDING CLAIMS (CONTINUED)

16.2 Incurred but not reported losses provision

A portion of the gross outstanding claims relates to incurred but not reported losses (IBNR) which are estimated to be 7% of net premium written. The 7% was arrived at after consideration of past experiences. The provision is expected to be maintained at 7% of net premium written for future periods as there have been no circumstances which drastically altered the claims experience of the company.

17. PROVISION FOR UNEARNED PREMIUM

	31 Dec 2013 US$	31 Dec 2012 US$
Balance at the beginning of the year	2 664 702	1 741 635
Change in provision for unearned premium	703 673	923 067
Balance at the end of the year	3 368 375	2 664 702

Unearned premium on facultative business is computed based on the unexpired period of the policy, and the 1/8th method is applied to treaty business.

18. TRADE AND OTHER PAYABLES

	31 Dec 2013 US$	31 Dec 2012 US$
Due to reinsurers	1 964 812	977 310
Due to insurance companies	702 890	388 724
Bonus payable	-	49 617
Intercompany payable-FBC Bank Limited (Note 21.2)	572 491	396 449
Intercompany payable-FBC Holdings (Note 21.2)	-	753 320
Provisions	375 551	322 737
	3 615 744	2 888 157

19. CAPITAL COMMITMENTS

	31 Dec 2013 US$	31 Dec 2012 US$
Approved and contracted for	-	-
Approved but not yet contracted for	112 500	-

The expenditure will be funded from the company's cash resources.

20. POST EMPLOYMENT BENEFITS

FBC Holdings Pension Fund

The company participates in a group defined contribution pension scheme whose assets are held independently of the individual group companies' assets in a separate trustee-administered pension fund. All employees are members of this fund. Contributions amounted to US$43 679 for the year ended 31 December 2013 (2012 – US$37 687).

NSSA

A national mandatory defined benefit scheme was introduced on 1 October 1994 under the National Social Security Act of 1989. The company contributes 3,5% of pensionable emoluments up to a maximum of US$700 per employee for all employees.

Contributions to the self administered pension fund and National Social Security Authority (NSSA) scheme were as follows:

	31 Dec 2013 US$	31 Dec 2012 US$
NSSA and other social security costs	4 469	1 566
FBCH pension fund	43 679	37 687
	48 148	39 253

21. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The company has related party relationships with its shareholder who own directly or indirectly 10% or more of its share capital or those shareholder who control in any manner, the election of the majority of the directors of the company or have the power to exercise controlling influence over the management or financial and operating policies of the company. The company carried out business with various companies related to its shareholder, all of which were undertaken at arm's length terms. The Group entities are FBC Bank Limited, FBC Building Society, FBC Securities (Private) Limited, Eagle Insurance Limited, and Turnall Holdings Limited, with FBC Holdings Limited being the common parent company. The company issued loans to its staff and these are secured against the acquired asset as well as holding first preference for payment of any outstanding amount on termination of employment.

21.1 Transactions with key management personnel

	31 Dec 2013 US$	31 Dec 2012 US$
Loan balance as at 1 January	129 734	183 587
Loans advanced during the year	169 521	-
Repayments	(88 725)	(53 853)
Loan balance at 31 December	210 530	129 734

21. RELATED PARTIES (continued)

Executive management personnel

K Chiketsani	Managing Director
T Mabeza	Group Company Secretary

Below are the companies related to directors and key senior management:

- Barnfords (Private) Limited t/a Arena Travel and Tours
- Arena Investments (Private) Limited
- Cotition Investments (Private) Limited
- Algorythm (Private) Limited
- Wedgeport Investments (Private) Limited
- Rhombus Investments (Private) Limited
- Dinkrain Investments (Private) Limited
- Tirent Investment (Private) Limited

Compensation of key management personnel

	31 Dec 2013 US$	31 Dec 2012 US$
Short term employee benefits	547 391	644 058
Post-retirement benefits	-	-
	547 391	644 058

21.2 Intercompany balances

The company has balances due from its associated company, fellow subsidiaries and its holding company. These balances are made up of company's transactions and deposits with these related entities and expenses paid on the company's behalf by FBC Bank Limited. Staff loans relate to the motor vehicle scheme and the housing loan agreements with FBC Bank Limited and FBC Building Society respectively. These amounts will be paid to FBC Reinsurance Limited when the schemes lapse.

	31 Dec 2013 US$	31 Dec 2012 US$
FBC Securities Limited	-	(18 804)
Balances with FBC Bank Limited	(572 491)	(396 449)
Balances with FBC Holdings	-	(753 320)
Staff loans: FBC Bank Limited	12 698	396 024
Staff loans: FBC Building Society	30 000	30 000
Eagle Insurance Limited: Reinsurance cover	317 396	90 541
Eagle Insurance Limited	283 768	240 481
Balances held with FBC Bank Limited	2 437 545	3 462 442
Balances held with FBC Building Society	3 368 874	1 903 956
Balances held with FBC Holdings Limited	599 242	1 057 050
Balances held with Turnall Holdings Limited	1 642 833	-
	8 119 865	6 011 921

21. RELATED PARTIES (continued)

21.3 Intercompany transactions

The company had transactions with its parent, FBC Holdings Limited, as well as its fellow subsidiaries FBC Bank Limited, FBC Building Society, Eagle Insurance Limited and FBC Securities (Private) Limited. These transactions relate to reinsurance cover, interest income and operating expenses. The commercial paper to Turnall has a fixed maturity at an interest rate of 19%. A total of US$941 281 was earned as interest income from related parties.

21.4 Transactions with associate

The company underwrites reinsurance business from its associate company, Eagle Insurance Limited. All the transactions are at arm's length terms. The gross premium written from Eagle Insurance Limited during the year ended 31 December 2013 amounted to US$848 959 (2012 – US$418 266).

21.5 Other related party transactions

Other related party transactions included directors' remuneration (see Note 22) and contributions to FBC Holdings Pension Fund, a self administered post employee benefit fund (see Note 20).

22. DIRECTORS' REMUNERATION

	31 Dec 2013 US$	31 Dec 2012 US$
Bonus	45 772	49 617
Fees	13 959	36 145
Other emoluments	533 432	607 913
	593 163	693 675

Other emoluments include the allocation of short term and post employee benefits from the Group.

23. INSURANCE RISK MANAGEMENT

Risk management objectives and policies for mitigating risk

(a) Underwriting strategy

The company's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a large geographical area, as such; it is believed that this reduces the variability of the outcome. The underwriting strategy is set out in an annual business plan that sets out the classes of business to be written, the territories in which business is to be written and the industry sectors to which the company is prepared to expose itself. This strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by the size, class of business, territory and industry in order to enforce appropriate risk selection within the portfolio. The underwriters have the right to refuse renewal or to change the terms and conditions of the contract with 30 days notice, as well as the right to reject the payment of a fraudulent claim.

Insurance contracts also entitle the company to pursue third parties for payment of some or all costs (i.e. subrogation). Adherence to the underwriting authorities is measured through a series of exception reports that are run on a regular basis covering size of risk, class and industry.

23. INSURANCE RISK MANAGEMENT (continued)

Risk management objectives and policies for mitigating risk (continued)

(b) Retrocession strategy

The company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The main classes covered include fire and engineering classes. The company utilises international reinsurance brokers for the placement and arrangement of retrocession programmes with reputable reinsurers. This is led by Aon Africa in South Africa and J B Boda of India.

The treaties are a combination of proportional and non-proportional treaties in order to minimise the net exposure to the company.

(c) Terms and conditions of insurance contracts

The terms and conditions of insurance contracts are underwritten by the company that have a material effect on the amount, timing and uncertainty of future cashflows arising from insurance contracts are set out below.

All insurance contracts are based on the standard wording as approved by the Zimbabwe Institute of Insurance.

(d) Nature of risks covered

The following gives an assessment of the company's main products and the ways in which it manages the associated risks and the concentrations of these risks:

FBC Reinsurance Limited writes the following types of business within its Treaty and Facultative divisions.

Products	Treaty	Facultative
Fire	*	*
Miscellaneous accident	*	*
Motor	*	*
Engineering	*	*
Marine	*	*
Aviation	*	*
Credit	*	*

* Applicable

23. INSURANCE RISK MANAGEMENT (continued)

Risk management objectives and policies for mitigating risk (continued)

(d) Nature of risks covered (continued)

Both treaty and facultative policies provide cover on commercial and personal lines basis. Commercial policies cover small to large business from companies. Personal lines policies cover the general public in their personal capacities. The following perils are covered under the different types of business:

- Fire – storm, explosions, riot, malicious and earthquake.
- Miscellaneous accident – all risks, death, permanent disablement, total disablement and medical expenses.
- Motor – private and commercial (comprehensive, full third party, fire and theft).
- Engineering – machinery breakdown, contracts all risks, traction all risks, applied electronics.
- Marine – hull and cargo.
- Aviation – hull and liabilities.
- Credit – default by debtor, death, permanent disability, bonds.

The return to shareholder under these products arises from the total premiums charged to policyholders less the amounts paid to cover commissions, retrocessions, claims and the expenses incurred by the company. There is also certain limited scope for the company to earn investment income owing to the time delay between the receipt of premiums and the payment of claims.

The event giving rise to a claim usually occurs suddenly (such as a fire) and the cause is easily determinable. The claim will thus be notified promptly and can be settled without delay.

(e) Management of risks

The key risks associated with these products are underwriting risk, competitive risk, credit risk and claims experience risk (including the variable incidence of natural disasters). The company is also exposed to fraud risk by policyholders.

Underwriting risk is the risk that the company does not charge premiums appropriate for the risk that it accepts. The risk on any policy will vary according to many factors such as location, safety measures in place, age of property etc. For domestic property insurance, it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this will not be the case.

Many commercial property proposals will comprise of a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky. The risk is managed primarily through sensible pricing, product design, risk selection, appropriate investment strategy, rating and retrocession. The company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

Reinsurance companies are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of a portfolio.

23. INSURANCE RISK MANAGEMENT (continued)

Risk management objectives and policies for mitigating risk (continued)

(e) Management of risks (continued)

Measures are also in place to improve the company's ability to proactively detect fraudulent claims. The company has a risk manager who determines the value of claims in cases of uncertainty.

(f) Concentration of insurance risk

With the insurance process, concentration of risk may arise where a particular event or series of events could impact heavily upon the company's liabilities. Such concentration may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

Property is subject to a number of risks, including theft, fire, business interruption and weather. For the property business there is a very significant geographical concentration of risk so that external factors such as adverse weather conditions may adversely impact upon a large proportion of a particular geographical portion of the company's property risks. Claim inducing perils such as storms, floods, subsidence, fires, explosions, and rising crime levels will occur on a regional basis, meaning that the company has to manage its geographical risk dispersion very carefully.

For the motor business the main risks relate mainly to losses arising from theft, fire, third party losses and accident. Claims including perils such as increase in crime levels, adverse weather and bad road networks will occur on a seasonal and regional scale, meaning that the company has to ensure that all products are adequately priced and that salvage recovery is pursued in order to mitigate losses.

(g) Claims development

The company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the contract term, subject to pre-determined time scales dependent on the nature of the insurance contract. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The claims liability comprises a provision for outstanding claims and a provision for claims incurred but not yet reported ("IBNR") at the reporting date.

In calculating the estimated cost of outstanding claims, the company uses the estimates determined by external assessors who would have calculated the total estimated cost of the claim. The company provides for IBNR at 7% of net premium written and this is based on past experience. This provision is expected to be maintained at 7% for future periods as there are no expectations of a drastic change in the company's claims experience.

23. INSURANCE RISK MANAGEMENT (continued)

Risk management objectives and policies for mitigating risk (continued)

(h) Management of risk relating to changes in underwriting variables

Profit or loss and equity are sensitive to changes in variables that have a material effect on them. These variables are mainly significant classes of transactions and their corresponding balances. These variables are gross premium written, commissions, IBNR and outstanding claims. The company has put in place procedures to identify and control the impact of these variables on the profit or loss and equity through financial analysis which entails scrutiny of key performance indicators (includes ratio analysis) on a regular basis. The results of the financial information are taken into account when budgets are made and when pricing decisions for different types of policies is done to ensure that the company is adequately pricing its insurance products to avoid future losses. Due to the volatile economy, the company is reviewing the relevant key performance indicators on a monthly basis to ensure accurate results and timely action.

24. TREASURY AND RISK MANAGEMENT

Financial risk management

The company's senior executives analyse, on a regular basis, currency exposures and re-evaluate treasury management strategies against revised economic forecasts. Compliance with exposure limits is reviewed at the management committee meetings.

The company's exposure to foreign currency risk exposure as at 31 December 2013, based on notional amounts is as follows:

	31 Dec 2013 US$	31 Dec 2012 US$
GBP: assets	1 489 303	884 842
GBP: liabilities	-	-
Net exposure	**1 489 303**	**884 842**
ZAR: assets	96 060	104 481
ZAR: liabilities	-	-
Net exposure	**1 489 303**	**104 481**

Exchange rates applicable at year end were as follows:

	Reporting date spot rate	
	31 Dec 2013 US$	31 Dec 2012 US$
GBP	1.6481	1.5456
ZAR	10.4284	8.4875

24. TREASURY AND RISK MANAGEMENT (continued)

The table below illustrates the sensitivity of the exchange rate for the British pound and the impact to the profit or loss and to the statement of financial position.

GBP Account:	Profit before tax	Total assets
Upward exchange rate shock	**US$**	**US$**
5%	74 465	74 465
10%	148 930	148 930
15%	233 395	233 395
Downward exchange rate shock		
5%	(74 465)	(74 465)
10%	(148 930)	(148 930)

ZAR Account:	Profit before tax	Total assets
Upward exchange rate shock	**US$**	**US$**
5%	4 803	4 803
10%	9 606	9 606
15%	14 409	14 409
Downward exchange rate shock		
5%	(4 803)	(24 015)
10%	(9 606)	(9 606)

Liquidity risk management

The directors consider that the company has adequate liquidity as shown by cash resources of US$9 041 260 (2012: US$6 251 241). This is managed through timeous collection of debtors that are due as well as investing in short-term and highly liquid investments.

The following are contractual maturities of financial liabilities and assets, including estimated interest payments and excluding the impact of netting agreements:

Notes To The Financial Statements

31 December 2013

Analysis of the statement of financial position

Liquidity gap as at 31 December 2012

	up to 1 month US$	1 to 3 months US$	3 to 6 months US$	6 months to 1 year US$	1 year to 5 years US$	Over 5 years US$	Total US$
Assets							
Cash	6 251 241	-	-	-	-	-	6 251 241
Due from insurers	-	2 740 689	-	-	-	-	2 740 689
Due from reinsurers	-	11 091	-	-	-	-	11 091
Outstanding losses	-	-	-	-	4 497 710	-	4 497 710
Deferred acquisition costs	-	788 314	-	-	-	-	788 314
Non-current receivables	-	-	-	-	2 415 513	-	2 415 513
Investments held for trading	-	-	-	-	1 286 152	-	1 286 152
Investment in associate	-	-	-	-	491 139	-	491 139
Other assets	83 368	-	-	-	315 257	-	398 625
Property and equipment	-	-	-	-	260 817	-	260 817
Intangible assets	-	-	-	-	80 416	-	80 416
Total	**6 334 609**	**3 540 094**	**-**	**-**	**9 347 004**	**-**	**19 221 707**
Liabilities							
Gross outstanding losses	-	-	-	-	6 637 855	-	6 637 855
Unearned premium	-	2 664 702	-	-	-	-	2 664 702
Due to reinsurers	977 310	-	-	-	-	-	977 310
Due to insurers	388 724	-	-	-	-	-	388 724
Other liabilities	-	-	416 128	-	1 149 769	-	1 565 897
Total	**1 366 034**	**2 664 702**	**416 128**	**-**	**7 787 624**	**-**	**12 234 488**
Gap	4 968 034	875 392	(416 128)	-	1 559 380	-	6 987 219
Cumulative gap	4 968 034	5 843 967	5 427 839	5 427 839	6 987 219	6 987 219	

Notes To The Financial Statements

31 December 2013

Analysis of the statement of financial position

Liquidity gap as at 31 December 2013

	up to 1 month US$	1 to 3 months US$	3 to 6 months US$	6 months to 1 year US$	1 year to 5 years US$	Over 5 years US$	Total US$
Assets							
Cash and cash equivalents	9 041 260	-	-	-	-	-	9 041 260
Due from insurers	-	3 525 730	-	-	-	-	3 525 730
Due from reinsurers	-	54 334	-	-	-	-	54 334
Outstanding losses	-	-	-	-	4 216 799	-	4 216 799
Deferred acquisition costs	-	955 364	-	-	-	-	955 364
Non-current receivables	-	-	-	-	1 125 593	-	1 125 593
Investments held for trading	-	-	-	-	2 025 606	-	2 025 606
Investment in associate	-	-	-	-	491 139	-	491 139
Other assets	225 241	-	-	-	276 630	-	501 871
Property and equipment	-	-	-	-	215 585	-	215 585
Intangible assets	-	-	-	-	84 836	-	84 836
Total	**9 266 501**	**4 535 428**	**-**	**-**	**8 436 188**	**-**	**22 238 117**
Liabilities							
Gross outstanding losses	-	-	-	-	6 323 010	-	6 323 010
Unearned premium	-	3 368 375	-	-	-	-	3 368 375
Due to reinsurers	1 963 550	-	-	-	-	-	1 963 550
Due to insurers	702 890	-	-	-	-	-	702 890
Other liabilities	-	-	1 136 771	-	-	-	1 136 771
Total	**2 666 440**	**3 368 375**	**1 136 771**	**-**	**6 323 010**	**-**	**13 494 596**
Gap	6 600 061	1 167 053	(1 136 771)	-	2 113 177	-	8 743 520
Cumulative gap	6 600 061	7 767 114	6 630 343	6 630 343	8 743 520	8 743 520	

24. TREASURY AND RISK MANAGEMENT (continued)

Interest rate risk

The interest rates for both interest receivable and payable from/to financial institutions are generally market driven. The company's interest rate risk is limited to short-term money market investments and overdraft facilities obtained to finance operational expenditure.

The company manages this risk by investing short - term and keeping overdrafts facilities to a minimal to minimise interest rate risk.

Sensitivity analysis of interest bearing assets as at 31 December 2013

The company has a significant exposure to money market investments as at 31 December 2013, but due to the very low returns being offered on the money market, no sensitivity analysis was performed.

Equity price risk

The company held a portfolio of equities as at 31 December 2013 and is thus exposed to stock market volatilities. Management uses a combination of risk management tools to manage the company's exposure to market risk. The company uses among other tools, limits and Value-at-Risk analysis to control exposure to equity price risk.

	31 Dec 2013 US$	31 Dec 2012 US$
Investments held for trading as at 31 December	2 025 606	1 286 152
Value-at-risk		
One day holding period at 95% Confidence Interval	15 082	13 804
Five day holding period at 95% Confidence Interval	33 725	30 867

Credit risk management

Potential concentrations of credit risk consist principally of short-term cash and cash equivalent investments and trade debtors. The company deposits short-term cash surpluses only with major banks of high credit standing.

Trade debtors comprise a large, widespread customer base and the company performs credit evaluations of the financial conditions of its customers. Accordingly, the company has no significant concentration of credit risk.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

	31 Dec 2013 US$	31 Dec 2012 US$
Retrocessionnaires share of technical provisions (note 16)	4 216 799	4 497 710
Receivables and prepayments (note 12)	3 805 305	2 835 148
Cash and cash equivalents (note 13)	9 041 260	6 251 241
Non-current receivables (note 10)	1 125 593	2 415 513
	18 188 957	15 999 612

24. TREASURY AND RISK MANAGEMENT (continued)

Reputational risk

This is the potential that negative publicity regarding the company, whether true or not, will cause a decline in the customer base, costly litigation or revenue reductions.

The Board through the Group Executive Committee ensures effective reputational risk management through inter-alia; codes of conduct, staff training, plus policies and independent oversight of functions. Reviews of the Group business practices are done periodically by the Group Internal Audit, the Group Compliance Officer and the Risk Management department.

Foreign exchange risk

The company's foreign cash resources are deposited with Barclays Plc in the United Kingdom which has maintained a high credit rating. Barclays Plc has not been spared by the credit crisis. However, Moody's has rated Barclays as stable but downgraded its rating to Aa3, its fourth highest ranking. A constant monitoring of the international exchange rates is performed to manage the exposure to foreign exchange risk.

Compliance risk

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with laws, rules, regulations, prescribed practices, internal policies and procedures or ethical standards.

The Board, through delegation to the Group Compliance Officer, has put in place an adequate compliance program, covering the legal and compliance issues associated with the company's operations.

Operational risk

This relates to risk of loss due to fraud, incompetence, systems breakdown and sabotage.

The company manages these risks through insurance policies, supervision of work done, training staff, segregation of duties, regular internal and independent audits and disaster recovery plans.

24. TREASURY AND RISK MANAGEMENT (continued)

In addition, the company has operating manuals to guide staff on the execution of their duties. These manuals are updated regularly.

Capital management

The Board of Directors' policy is to maintain a strong capital base which is in line with the regulatory threshold of US$1.5 million, so as to maintain creditor and market confidence and to be able to write more business in future. The Board of Directors monitors the solvency ratio, which the company defines as shareholder' funds divided by net premium written. The minimum required ratio is 25% according to the regulatory authorities. As at 31 December 2013, the company's solvency ratio was 77% (2012 - 59%).

Fair value hierarchy for financial assets

IFRS 7 specifies a hierarchy of valuation techniques based on whether inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the entity's market assumptions. These two types of inputs have created the following fair value hierarchy.

Level 1 - Quoted prices (un-adjustable) in active markets for identical assets or liabilities. This level includes listed equity securities traded on the Zimbabwe Stock Exchange.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for the asset or liabilities that are not based on observable market data (un-observable inputs). This level includes non-listed equity investments.

The table below summarises the assets measured at fair value and the level on the fair value hierarchy.

31 December 2013	Level 1 US$	Level 2 US$	Level 3 US$	Total as at 31 Dec 2013 US$
Investments held for trading (Note 9)	2 025 606	-	-	2 025 606

31 December 2012	Level 1 US$	Level 2 US$	Level 3 US$	Total as at 31 Dec 2012 US$
Investments held for trading (Note 9)	1 286 152	-	-	1 286 152

24. TREASURY AND RISK MANAGEMENT (continued)

Fair value hierarchy for non-financial assets

IFRS 13 specifies a hierarchy of valuation techniques based on whether inputs to those valuation techniques are observable or unobservable. All assets for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

External valuers are involved for valuation of significant assets, such as properties, selection criteria includes market knowledge, reputation, independence and whether professional standards are maintained.

The entity had no non-financial liabilities measurable at fair value both as at 31 December 2013 and 31 December 2012.

The table below summarises the assets measured at fair value and the level on the fair value hierarchy.

31 December 2013	Level 1 US$	Level 2 US$	Level 3 US$	Total as at 31 Dec 2013 US$
Land and buildings (Note 7.1)	-	165 881	-	165 881

31 December 2012	Level 1 US$	Level 2 US$	Level 3 US$	Total as at 31 Dec 2012 US$
Land and buildings (Note 7.1)	-	169 423	-	169 423

The fair value of freehold land and buildings at 31 December 2013 has been arrived at on the basis of a valuation carried out as at 31 December 2011 which has been rolled forward. No revaluation was done in 2013. Revalued amount approximates the initial cost. The balance in the reserve is denominated in US$ and cannot be distributed to owners/shareholder. Valuation having been done by independent valuers is based on an open market value method. This method involves the use of market transactions for similar properties concluded or not yet concluded (transaction bids) to determine capitalisation rates which are then adjusted to the particular property being valued with factors such as location, the state of the property, etc. Such capitalisation rates are applied on the rentals applicable to similar buildings to derive the value of the property.

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