

# **SOVEREIGN TRUST INSURANCE PLC**

**IFRS 17 FINANCIAL STATEMENTS  
30 SEPTEMBER 2023**

# SOVEREIGN TRUST INSURANCE PLC

## FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2023

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# SOVEREIGN TRUST INSURANCE PLC

## FINANCIAL HIGHLIGHTS FOR THE PERIOD ENDED 30 SEPTEMBER 2023

|   | 2023<br>₦'000 | 2022<br>₦'000 | % Change |
|---|---------------|---------------|----------|
| <b>Statement of profit or loss and other comprehensive income</b> |               |               |          |
| Insurance revenue   | 16,838,812    | 11,861,092    | 42%      |
| Insurance service expenses  | (6,356,724)   | (3,248,336)   | 96%      |
| Net expenses from reinsurance contract held                       | (8,306,209)   | (6,784,147)   | 22%      |
| Profit before income tax  | 710,267       | 630,762       | 13%      |
| Profit after income tax   | 592,828       | 527,087       | 12%      |
| <b>Statement of financial position</b>                            |               |               |          |
| Total assets  | 17,584,996    | 17,480,282    | 1%       |
| Total liabilities   | 6,396,236     | 6,884,350     | -7%      |
| Total equity  | 11,188,760    | 10,595,932    | 6%       |
| Insurance contract liabilities                                    | 3,802,067     | 4,220,515     | -10%     |
| <b>Per share data:</b>  |               |               |          |
| Basic earnings per share (kobo)                                   | 5             | 5             | 12%      |

# SOVEREIGN TRUST INSURANCE PLC

## FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2023

### CERTIFICATION PURSUANT TO SECTION 6 0(2) OF INVESTMENT AND SECURITIES ACT NO. 29 of 2007

We the undersigned hereby certify the following with regards to our financial statements for the year ended 31 September 2023 that:

- a) We have reviewed the report;
- b) To the best of our knowledge, the report does not contain:
  - i) Any untrue statement of a material fact, or
  - ii) Omit to state a material fact, which would make the financial statements misleading in the light of circumstances under which such statements were made;
- c) To the best of our knowledge, the financial statements and other financial information included in the report fairly present in all material respects the financial condition and results of operation of the Company as of, and for the years presented in the report.
- d) We:
  - (i) Are responsible for establishing and maintaining internal controls.
  - (ii) Have designed such internal controls to ensure that material information relating to the Company is made known to such officers by others within those entries particularly during the period in which the periodic reports are being prepared;
  - (iii) Have evaluated the effectiveness of the company's internal controls as of date within 90 days prior to the report;
  - (iv) Have presented in the report our conclusions about the effectiveness of our internal controls based on our evaluation as of that date;
- e) We have disclosed to the auditors of the Company and Finance, Investment and General-Purpose Committee:
  - (i) All significant deficiencies in the design or operation of internal controls which would adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the company's auditors any material weakness in internal controls, and
  - (ii) Any fraud, whether or not material, that involves management or other employees who have significant role in the Company's internal controls;
- f) We have identified in the report whether or not there were significant changes in internal controls or other factors that could significantly affect internal controls subsequent to the date of our evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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**Mr. Kayode Adigun**  
Chief Financial Officer  
FRC/2013/ICAN/00000002652

**Dated: 30th October, 2023**

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**Mr. Olaotan Soyinka**  
Managing Director/CEO  
FRC/2013/CIIN/00000002671

**Dated: 30th October, 2023**

## SOVEREIGN TRUST INSURANCE PLC

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023

#### 1. Corporate information

Sovereign Trust Insurance Plc ("The Company") was incorporated as a limited liability company on 26 February reorganized and commenced business as a reorganized non-life insurance company on 2 January 1995 with a capital of ₦30 million and a fully paid up capital of the ₦20 million following the acquisition and recapitalization of Union Assurance Limited. The Company was listed on the Nigerian Stock Exchange on 29 November 2006.

Sovereign Trust Insurance Plc is regulated by the National Insurance Commission of Nigeria.

The principal activity of the Company continues to be the provision of all classes of non-life insurance and special settlement of claims and Insurance of Policyholders' Fund. The Company's head office is at 17, Ademola Adetola Island, Lagos with 17 other branches spread across major cities.

#### 2. Summary of significant accounting policies

##### 2.1 Introduction to summary of significant accounting policies

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

##### 2.2 Basis of preparation

###### 2.2.1 Basis for measurement

The preparation of these financial statements have been based on historical cost basis except for the undermentioned items which are measured on an alternative basis on each reporting date:

- Equity instruments at fair value through profit or loss measured at fair value
- Debt securities at amortised cost
- Equity instrument at fair value through other comprehensive income
- Investment properties measured at fair value
- Land and buildings are carried at revalued amount.
- Insurance contract liabilities measured at present value of projected cash flows

The financial statements were approved by the board of Directors and authorised for issue on 14th March 2024.

###### 2.2.2 Statement of compliance with IFRS

These financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and IFRS Interpretations Committee (IFRIC) for Interpretations reporting under IFRS and in the manner required by the Companies and Allied Matters Act, 2020, the Financial Reporting Regulations for Insurance Companies (FRS) issued by the Insurance Act 2003 and relevant National Insurance Commission (NAICOM) Circulars and Guidelines.

In accordance with IFRS 4 Insurance Contracts, the Company has applied existing accounting policies for Non-Modified as appropriate to comply with the IFRS framework.

## SOVEREIGN TRUST INSURANCE PLC

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023

The preparation of financial statements in conformity with IFRS requires the Company's Board of Directors to apply the Company's accounting policies. The areas involving a higher degree of judgments or complexity, or assumptions or estimates are significant to the financial statements are as disclosed in Note 3.

The financial statements of Sovereign Trust Insurance Plc have been prepared on a going concern basis. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence in the future.

#### 2.3 Presentation currency

The financial statements are presented in Nigerian Naira (₦) and are rounded to the nearest thousand unless otherwise stated.

#### 2.4 Foreign currencies

##### Transactions and balances

Transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the exchange rate prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising from the translation of monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value. Translation differences on items whose fair value gain or loss is recognised in other comprehensive income (OCI) are also recognised in OCI or profit or loss, respectively).

#### Functional currency

Items included in the financial statements of the Company are measured using the currency of the primary economic activity in which the Company operates (the "functional currency"). The Company is incorporated in Nigeria and has adopted the Nigerian Naira as its functional currency.

#### 2.5.1 Summary of Standards and Interpretations effective for the first time

##### 2.5.1.1. Amendments to IAS 16 - Proceeds before intended use

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Early application of the amendments amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from the sale of such an item produced while bringing that asset to the location and condition necessary for it to be capable of operating in its intended use. Instead, an entity recognises the proceeds from selling such items, and the cost of producing the item, as a loss.

The Company does not expect these amendments to have impact on its financial statements when it becomes effective.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

**2.5.1.2. Amendments to IAS 37 - Onerous contracts - Cost of fulfilling a contract**

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Early applica

The changes in Onerous Contracts - Cost of Fulfilling a Contract specify that the 'cost of fulfilling' a contract co relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfillin (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contri be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the c

The Company will not be affected by these amendments on the date of transition.

**2.5.1.3. Amendments to IFRS 16 - COVID-19-related rent concessions**

The amendment is effective for annual reporting periods beginning on or after 1 June 2021. Earlier application in financial statements not yet authorised for issue at 28 May 2021. The amendment is also available for interi in Covid-19-Related Rent Concessions (Amendment to IFRS 16) amend IFRS 16 to:

- provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease mc
- require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were n
- require lessees that apply the exemption to disclose that fact; and require lessees to apply the exemption ret accordance with IAS 8, but not require them to restate prior period figures.

The main change from the proposal in the exposure draft is that the IASB had proposed that the practical expe available for lease payments originally due in 2021. However, after having considered the feedback to the expos decided to extend this period to June 2021 to also capture rent concessions granted now and lasting for 12 mo

The Company does not expect these amendments to have impact on its financial statements when they becom

**2.5.1.4. Amendments to IFRS 3 - Reference to the conceptual framework**

Minor amendments were made to iFRS 3 Business Combinations to update the reference to the Conceptual Fr: Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IA Contingent Liabilities and Contingent Aesets and Interpretation 21 Levies. The amendments also confirm that not be recognised at the acquisition date.

The effective date is 1 January 2022.

The amendment will have no material effect on the Company's financial statements.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

**2.5.1.5. Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Venture**

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is the gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised for the benefit of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of the amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

The Company will apply these amendments when they become effective.

**2.5.1.6. Annual Improvements to IFRS Standards 2018 - 2020**

The following Improvements were finalised in May 2020:

- IFRS 9 Financial Instruments - clarifies which fees should be included in the 10% test for derecognition of financial assets
- IFRS 16 Leases - To remove the illustration of payments from the lessor relating to leasehold improvements, and to clarify the treatment of lease incentives.

The effective date is 1 January 2022.

**2.5.2 Standards Issued and Effective on or after 1 January 2023**

**a) IFRS 17 Insurance Contracts**

IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS.

This standard replaces IFRS 4 – Insurance contracts.

The key principles in IFRS 17 are that an entity:

- a) identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from the policyholder) by agreeing to compensate the policyholder if a specified uncertain, future event (the insured event) occurs to the policyholder;
- b) separates specified embedded derivatives, distinct investment components and distinct performance obligation contracts;
- c) divides the contracts into groups it will recognise and measure;
- d) recognises and measures groups of insurance contracts at a risk-adjusted present value of the future cash flows (the contractual service margin) that incorporates all the available information about the fulfilment cash flows in a way that is consistent with market information plus (if this value is a liability) or minus (if this value is an asset) an amount representing the group of contracts (the contractual service margin);

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

- e) recognises the profit from a group of insurance contracts over the period the entity provides insurance cover. If a group of contracts is or becomes loss-making, an entity recognises the loss immediately released from risk.
- f) presents separately insurance revenue, insurance service expenses and insurance finance income or expenses.
- g) discloses information to enable users of financial statements to assess the effect that contracts within the scope of the Standard have on the financial position, financial performance and cash flows of the entity. To do this, an entity discloses qualitative and quantitative information about:
  - the amounts recognised in its financial statements from insurance contracts;
  - the significant judgements, and changes in those judgements, made when applying the Standard; and
  - the nature and extent of the risks from contracts within the scope of this Standard.

**2.5.3 Narrow Scope Amendments deferred until further notice**

**a) IFRS 10 consolidated financial statements**

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10) scope amendment address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 with the sale or contribution of assets between an investor and its associate or joint venture.

**b) IAS 28 Investments in Associates and Joint Ventures**

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10) scope amendment to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 dealing with the sale or contribution of assets between an investor and its associate or joint venture.

**2.5.4 New standards, amendments and interpretations issued but without an effective date**

At the date of authorisation of these financial statements the following standards, amendments to existing standards and interpretations were in issue, but without an effective date: This includes:

**Amendments to IFRS 10 and IAS 28 consolidated financial statements and Investments in Associates and Joint Ventures**

Amends IFRS 10 consolidated financial statements and IAS 28 Investments in Associates and Joint Ventures (Amendments to IFRS 10) scope amendment to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 dealing with the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- Require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations);
- Require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss to the extent of the unrelated investors' interests in that associate or joint venture.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), the assets themselves.

**2.6 Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short term highly liquid assets. These assets are readily convertible into known amounts of cash.

**2.6.1 Cash and cash equivalents for the purpose of Statement of Cashflow**

The cash and cash equivalents for the purpose of the statement of cashflow comprise of cash on hand, deposits and other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

**2.7 Financial assets**

**2.7.1. Initial recognition and measurement**

Financial assets are classified, at initial recognition and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing the asset. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policy for noninsurance contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cashflows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This is known as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cashflows. The business model determines whether cashflows will result from collecting contractual cashflows, selling the assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

**a. Business model assessment**

There are three business models available under IFRS 9:

- Hold to collect Financial assets with objective to collect contractual cashflows.
- Hold to Collect and sell (Financial assets held with the objective of both collecting contractual cashflows and
- Other Financial Assets held with trading intent or that do not meet the criteria of either "Hold to Collect" or "

The Assessment of the business model requires judgment based on the facts and circumstances as at the date Sovereign Trust Insurance Plc has considered quantitative factors (e.g. expected frequency and volume of sales such as how the performance of the business model and financial assets held within the business model are evaluated; management; the risk that affect the performance of the business, model and the financial assets held within particular, the way in which those risks are managed; and how management received returns on the assets (i.e. are based on fair value of the assets managed or on contractual cashflows collected).

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

**b. Solely payments of principal and interest (SPPI)**

If a financial asset is held in either a Hold to Collect or Hold to Collect and Sell model, then an assessment is done to determine if contractual cashflows are solely payments of principal and interest on principal amount outstanding at initial recognition to determine the classification.

Contractual cashflows that are SPPI on the principal amount outstanding are considered as basic lending arrangements. The time value of money and the credit risk associated with the principal amount outstanding are taken into consideration for the time value of money and the credit risk associated with the principal amount outstanding agreed arrangement. Other basic lending risks like liquidity risk and cost of administration associated with holding the asset for the specified tenor and the profit margin that is consistent with a basic lending arrangement.

**2.7.2. Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon disposal (debt instruments);
- Financial assets at fair value through profit or loss.

**a. Financial assets at amortised cost (debt instruments)**

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cashflows
- The contractual terms of the financial asset give rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and any gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes debt instruments (bonds), fixed deposits with banks

**b. Financial assets at fair value through OCI (debt instruments)**

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cashflows and selling the asset
- The contractual terms of the financial asset give rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. Fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is transferred to profit or loss. During the year under consideration, the Company does not have any debt instruments at fair value through OCI.

**c. Financial assets designated at fair value through OCI (equity instruments)**

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments measured at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments. The classification is made on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income when the right of payment has been established, except when the Company benefits from such proceeds as a return on cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. The Company elected to classify irrevocably its non-listed equity investments in this category.

**d. Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Cashflows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if this so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value. Gains and losses are recognised in profit or loss. This category includes listed equity investments which the Company had to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income when the right of payment has been established.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

**2.7.3. Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial asset) is derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cashflows from the asset have expired Or
- The Company has transferred its rights to receive cashflows from the asset or has assumed an obligation to pay cashflows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cashflows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

**2.7.4. Impairment of financial assets**

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value less impairment. ECLs are based on the difference between the contractual cashflows due in accordance with the contract and the cashflows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The allowance includes cashflows from the sale of collateral held or other credit enhancements that are integral to the contract.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a lifetime ECL allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (lifetime ECL).

For debt instruments at amortised cost, the Company applies the low credit risk simplification. At every reporting date, the Company evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information available without undue cost or effort. In making that evaluation, the Company reassesses the credit rating of the instrument from international credit rating agencies like S&P, Moodys and Fitch as well as local ratings by Agosto and Co. It is only when the credit risk of any bond deteriorates, the Company measures ECLs on such instruments on a 12-month basis. Where the credit risk of any bond deteriorates, the Company recognises ECLs on the bond and purchase bonds meeting the required investment grade.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

The Company's debt instruments at amortised cost comprise solely of quoted bonds that are graded in the top the credit ratings are tracked by the finance and investment teams via publications by International Credit Rating Agency trading exchange platforms.

The Company's fixed income investment portfolio consists of Investment grade and high speculative bonds and considered to be low credit risk investments. It is the Company's policy to measure ECLs on such instruments. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the Company's assessment of the credit risk. The Company uses the ratings from the International Credit Rating Agencies both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, the Company may also consider a financial asset to be in default when internal or external information indicates that it is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual

Further disclosures relating to impairment of financial assets are also provided in the following:

- Disclosures for significant estimates Judgements and assumptions - Note 3;
- Financial assets at amortised cost;
- Other receivables and prepayments.

**2.7.5. Write off**

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to plan with the company. The Company categorises its receivables for write-off when a debtor fails to make contractual payments for more than 360 days past due. Where financial assets have been written off, the company continues to engage in enforcement activities to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The gross carrying amount of an asset is written off (either fully or partially) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the counterparty does not have assets or source of funds to generate sufficient cashflows to repay the amount subject to write off. However, the financial assets that are subject to write off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of financial assets.

**2.7.6. Financial liabilities and equity instruments**

**2.7.6.1 Classification as debt or equity**

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

**2.7.6.2 Equity Instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting equity instruments issued by the Company are recognised as the proceeds received, net of direct issue costs. The Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised on purchase, sale, issue or cancellation of the Company's own equity instruments.

**2.7.6.3 Financial liabilities**

**Initial recognition and measurement**

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payable, attributable transaction costs.

The Company does not have any financial liability that is measured at fair value through profit or loss during the period.

**2.7.6.4 Other financial liabilities**

**2.7.6.4.1. Subsequent measurement**

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including points paid or received that form an integral part of the effective interest rate, transaction costs and other prepayments) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount at recognition.

**2.7.6.4.2 Derecognition of financial liabilities**

The Company derecognises financial liabilities when, and only when, the Company's obligations are extinguished or the obligation specified in the contract is discharged, cancelled or they expire. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the amount of consideration paid and payable is recognised in profit or loss. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the amount of consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substitution of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the issuer) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

**2.7.6.4.3 Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if the Company has a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis and settle the liabilities simultaneously.

**2.8 Other assets**

Other receivables principally consist of prepayments, accrued income and sundry debtors and are carried at amortised cost.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

**2.9 Reinsurance contracts**

The Company enters into reinsurance contracts in the normal course of business in order to limit the potential certain exposures. Outwards reinsurance premiums are accounted for in the same period as the related premium inwards reinsurance business being reinsured.

**2.9.1 Reinsurance assets**

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and ceded premium. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts in accordance with the terms of the reinsurance contract. Reinsurance is recorded as an asset unless a right of set-off exists in case the associated liabilities are reduced to take account of reinsurance.

**Reinsurance assets are subject to impairment testing when and only when:**

- a) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract; and
- b) that event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer.

The carrying amount is reduced to its recoverable amount when there is an impairment loss. The impairment loss is recognised as an expense in the profit or loss. The asset is impaired if objective evidence is available to suggest that it is probably not be able to collect the amounts due from reinsurers.

**2.9.2 Reinsurance recoveries**

Reinsurance recoveries in respect of Incurred but not reported (IBNR) claims are assumed to be consistent with recoveries on paid and outstanding claims, adjusted to reflect changes in the nature and extent of the Company's reinsurance programmes. An assessment is made of the recoverability of reinsurance having regard to available data on the performance of the reinsurance companies. Gains or losses on buying reinsurance are recognised in income at the date of purchase and amortised.

**2.9.3 Reinsurance liabilities**

Reinsurance liabilities comprise premiums payable for outwards reinsurance contracts and are recognised as a liability when incurred.

Reinsurance liabilities are derecognized when, and only when, it is extinguished - i.e. when the obligation specified in the contract is discharged or cancelled or expires.

**SOVEREIGN TRUST INSURANCE PLC**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

Securities Trading Policy

In compliance with Rule 17.15 Disclosure of Dealing in Issuers' Shares, Rulebook of the Exchange 2015 (Issuers Rule) Sovereign Trust Insurance Plc effective Security Trading Policy which guides Director, Audit Committee members employees and all individuals categorized as insiders as to their dealing in the company's shares. The Policy is regularly reviewed and updated by the Board Sovereign Trust Insurance Plc has made specific inquiries of all the Directors and other insiders and is not aware of any infringement of policy during the period.

**Shareholding Structure/ Free Float Status**

| Description                                    | 30-Sep-23                |               | 30-Sep-22                |               |
|--|--------------------------|---------------|--------------------------|---------------|
|  | Units                    | Percentages   | Units                    | Percentages   |
| Issued Share Capital                           | 11,364,466,014.00        | 100%          | 11,364,466,014.00        | 100%          |
| <b>Substantial Shareholding (5% and above)</b> |                          |               |                          |               |
| MORNING SIDE CAPITAL PARTNERS LTD              | 2,499,000,000            | 21.99%        | 2,499,000,000            | 21.99%        |
| SOVEREIGN INVESTMENTS LIMITED                  | 995,100,018              | 8.76%         | 995,100,018              | 8.76%         |
| TEEOF HOLDINGS LIMITED                         | 821,572,742              | 7.23%         | 821,572,742              | 7.23%         |
| TRIPPLE TEES ENDOWMENT LIMITED                 | 684,381,657              | 6.02%         | 684,381,657              | 6.02%         |
| AJAYI OLUSEUN O.                               | 666,156,859              | 5.86%         | 666,156,859              | 5.86%         |
| <b>Total Directors' Shareholdings</b>          | <b>5,666,211,276</b>     | <b>49.89%</b> | <b>5,666,211,276</b>     | <b>49.89%</b> |
| <b>indirect), excluding directors with</b>     |                          |               |                          |               |
| MR. OLUSEUN O. AJAYI                           | 1,661,256,877            | 14.62%        | 1,661,256,877            | 14.62%        |
| MR. OLAOTAN SOYINKA                            | 8,298,960                | 0.07%         | 8,298,960                | 0.07%         |
| MRS. UGOCHI ODEMELAM                           | 6,735,481                | 0.06%         | 6,735,481                | 0.06%         |
| MS. EMI FALOUGHI                               | 848,596,839              | 7.47%         | 848,596,839              | 7.47%         |
| MR. ABIMBOLA OGUNTUNDE                         | 335,414                  | 0.00%         | 335,414                  | 0.00%         |
| MR. ODOH SHEDRACK CHIDOZIE                     | 2,499,000,000            | 21.99%        | 2,499,000,000            | 21.99%        |
| MR. JUDE MODILIM                               | 6,500,000                | 0.04%         | 4,000,000                | 0.04%         |
| <b>Total Directors' Shareholdings</b>          | <b>5,030,723,571</b>     | <b>44.25%</b> | <b>5,028,223,571</b>     | <b>44.25%</b> |
| <b>Other Influential Shareholdings</b>         |                          |               |                          |               |
| OTHERS   | 6,333,742,443            | 99.56         |                          |               |
| <b>Total Other Influential Shareholdings</b>   | <b>0</b>                 | <b>0</b>      | <b>0</b>                 | <b>0</b>      |
| <b>Free Float in Units and Percentage</b>      | <b>11,364,466,014.00</b> | <b>100.00</b> | <b>11,364,466,014.00</b> | <b>100.00</b> |
| <b>Free Float in Value</b>                     | <b>N5,682,233,007.00</b> |               | <b>N5,682,233,007.00</b> |               |

## **SOVEREIGN TRUST INSURANCE PLC**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

#### **2.10 Deferred acquisition costs**

The incremental costs directly attributable to the acquisition of new business are deferred by recognising an asset. For other insurance contracts, acquisition costs including both incremental acquisition costs and other indirect costs of acquiring and processing new business are deferred.

#### **"Where such business is reinsured the reinsurers' share is carried forward as deferred income".**

Deferred acquisition costs and deferred origination costs are amortized systematically over the life of the contracts and tested for impairment at each reporting date. Any amount not recoverable is expensed. They are derecognized when the related contracts are settled or disposed of.

#### **Deferred income - Reinsurance commissions**

The Company recognises commissions receivable on outwards reinsurance contracts as a deferred income and amortised over the average term of the expected premiums payable.

#### **2.11 Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in statement of profit or loss in the period in which they arise. Fair values are determined based on an annual evaluation performed by an accredited independent external valuer applying a valuation model.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in statement of profit or loss in the period in which the property is derecognized.

If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

If a property initially classified as property and equipment becomes an investment property because its use has changed, any difference arising between the carrying amount and the fair value of this item at the date of transfer is recognised in statement of other comprehensive income as a revaluation of property and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in profit or loss. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

#### **2.12 Intangible assets**

##### **Software**

The amount initially recognised for intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognized, development expenditure is recognised in profit or loss in the period in which it is incurred.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of directly attributable overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Subsequent to initial recognition, intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Its estimated useful life typically varies between 3 and 5 years. Amortisation method, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

## **SOVEREIGN TRUST INSURANCE PLC**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

#### **2.13 Property, plant and equipment**

Property, plant and equipment are those owned and used by the Company, and are stated in the statement of financial position at cost except for building which are at revalued amount, less any subsequent accumulated depreciation and accumulated impairment. Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are available for their intended use.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Freehold land is not depreciated. Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with IFRS 5. A non-current asset or disposal group is not depreciated while it is classified as held for sale.

Property, plant and equipment (excluding building) is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Building is measured at fair value less accumulated depreciation and impairment losses recognised after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recorded in statement of other comprehensive income and hence, credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit or loss, in which case, the increase is recognised in the profit or loss. A revaluation deficit is recognised in the profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation.

## SOVEREIGN TRUST INSURANCE PLC

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated on a straight line method to write down the cost of assets in equal instalments over their estimated useful lives, at the following annual rates:

|                        |       |
|------------------------|-------|
| Land                   | -     |
| Building               | 2%    |
| Leasehold improvements | 10%   |
| Motor vehicles         | 25%   |
| Furniture and fittings | 15%   |
| Computer and equipment | 33.3% |
| Office equipment       | 20%   |
| Plant and machinery    | 15%   |

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

#### 2.14 Statutory deposit

Statutory deposit represents a deposit of 10% of the regulatory share capital kept with the Central Bank of Nigeria. The amount held will increase or decrease in relation to the amount of paid up share capital in issue. The cash amount held is considered to be a restricted cash balance.

#### 2.15 Insurance contract liabilities

##### 2.15.1 Provision for outstanding claims and incurred but not reported (IBNR) claims

Provision for liabilities of insurance contracts is made for outstanding claims and settlement expenses incurred at the reporting date including an estimate for the cost of claims incurred but not reported (IBNR) at that date. Included in the provision is an estimate of the internal and external costs of handling the outstanding claims.

Material salvage and other recoveries including reinsurance recoveries are presented as assets. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, environmental and pollution exposures, the ultimate cost of which may vary from the original assessment. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately, if material.

The liability for Incurred but not Reported (IBNR) claims is calculated at the end of the reporting period, using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability was not discounted for time value of money; and no further provision was made for equalisation or catastrophe reserves (as prohibited by IFRS 4). These liabilities are derecognised when the obligation to pay a claim is extinguished (i.e. expired, discharged or cancelled).

##### 2.15.2 Provision for unearned premiums and unexpired risks

The provision for unearned premiums represents that part of written premiums, gross of commission payable to intermediaries that is estimated to be earned in subsequent periods. The change in the provision is recorded in the profit or loss to recognize revenue over the period of the risk.

## SOVEREIGN TRUST INSURANCE PLC

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023

#### 2.15.3 Liability adequacy

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less related deferred acquisition cost to ensure that the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment return.

If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense in the profit or loss and subsequently by recognising an additional liability for claims provisions or recognising a provision for unexpired risks. The unexpired risks provision is assessed in aggregate for business classes which are managed together.

#### 2.16 Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period excluding treasury shares held by the Company.

Diluted earnings per share amounts are calculated by dividing the net profit by the weighted number of ordinary shares

Diluted earnings per share amounts are calculated by dividing the net profit by the weighted number of ordinary shares outstanding during the year plus the weighted number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

#### 2.17 Trade payables

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

#### 2.18 Other payables

Other payables are initially recognised at fair value, fair value represents transaction price and subsequently measured at amortised cost.

#### 2.19 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### 2.19.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**The current taxes include:** Company Income Tax at 30% of taxable profit; Education Tax at 2% of assessable profit; Capital Gain Tax at 10% of chargeable gains; and Information Technology Development Levy at 1% of accounting profit. Minimum tax may be computed based on CITA.

## **SOVEREIGN TRUST INSURANCE PLC**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

#### **2.19.2 Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference, unutilised tax loss and unutilised tax credits.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

#### **2.19.3 Current and deferred tax for the year**

Current and deferred tax are recognized in statement of profit or loss, except when they relate to items that are recognized in statement of other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in statement of other comprehensive income or directly in equity respectively.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

An entity shall offset deferred tax assets and deferred tax liabilities if, and only if:

- a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - (i) 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
  - (ii) 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.

## **SOVEREIGN TRUST INSURANCE PLC**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

#### **2.20 Employee benefit costs**

##### **Defined contribution pension scheme**

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

##### **Defined contribution pension scheme**

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

This is done in line with the Pension Reform Act 2014, whereby the minimum rate of Pension Contribution is 18% of monthly emolument, where 8% will be contributed by employee and 10% by the employer.

##### **Short-term benefits**

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are recognised as employee benefit expenses when the associated services are rendered by the employees of the Company.

##### **Defined benefit plan**

The Company operates a defined benefit plan to employees who are qualified as at the period it was discontinued.

Remeasurements, comprising actuarial gains and losses and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment or the date that the Company recognises related restructuring costs or termination benefits.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognises the following changes in the net defined benefit obligation under 'Management expenses' in the statement of profit or loss:

- Service costs comprising current service costs, past service costs, and non-routine settlements.
- Net interest expense or income.

#### **2.21 Borrowings**

Finance cost comprise interest payable on loans and bank overdrafts. They are charged to profit or loss as incurred, except those that relate to qualifying assets.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that is an integral part of the EIR. The EIR amortisation is included in finance cost in the profit or loss.

## **SOVEREIGN TRUST INSURANCE PLC**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

#### **2.22 Share capital**

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

#### **2.23 Statutory contingency reserve**

The Company maintains Statutory contingency reserve in accordance with the provision of Section 21(2) of the Insurance Act CAP 117, LFN 2004 to cover fluctuations in securities and variations in statistical estimates at a rate equal to greater of 3% of gross premium or 20% of net profits until the accumulated amount reaches the greater of the minimum paid-up capital or 50% of the net premium.

#### **2.24 Retained Earnings**

This account accumulates profits or losses from operations and reduced by dividends declared.

#### **2.25 Dividends**

Dividend to the shareholders of the Company is recognised in the period in which the dividend are declared as a first interim dividend approved by the Board of Directors or a second interim dividend approved by the Company's shareholders at the Company's annual general meeting.

Final dividend for the year that are approved after the reporting date are dealt with as event after the reporting date. This is approved by the shareholders at the Annual General Meeting.

#### **2.26 Insurance Contracts**

##### **A. Key types of insurance contracts issued, and reinsurance contracts held.**

Non-Life Business - The Company issues non-life insurance to individuals and businesses. Non-life insurance products offered include motor, property, marine, fire and personal accident. These products offer protection of policyholder's assets and indemnification of other parties that have suffered damage as a result of a policyholder's accident.

The Company accounts for these contracts applying the Premium Allocation Approach (PAA).

The Company also holds the following types of reinsurance contracts to mitigate risk exposure.

For the life business, the Company holds quota share reinsurance treaties and accounts for these treaties applying the PAA.

##### **B. Definition and Classification**

Products sold by the Company are classified as insurance contracts when the Company accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

This assessment is made on a contract-by-contract basis at the contract issue date. In making this assessment, the Company considers all its substantive rights and obligations, whether they arise from contract, law or regulation.

The Company determines whether a contract contains significant insurance risk by assessing if an insured event could cause the Company to pay to the policyholder additional amounts that are significant in any single scenario with commercial substance even if the insured event is extremely unlikely or the expected present value of the contingent cash flows is a small proportion of the expected present value of the remaining cash flows from the insurance contract.

The Company does not issue any contracts with direct participating features.

##### **C. Separating components from insurance and reinsurance contracts**

The Company assesses its insurance and reinsurance products to determine whether they contain components which must be accounted for under another IFRS rather than IFRS 17 (distinct non- insurance components). After separating any distinct components, an entity must apply IFRS 17 to all remaining components of the (host) insurance contract.

## SOVEREIGN TRUST INSURANCE PLC

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023

Currently, the Company's products do not include distinct components that require separation.

Some term life contracts issued by the Company include a surrender option under which the surrender value is paid to the policyholder on maturity or earlier lapse of the contract. These surrender options have been assessed to meet the definition of a non-distinct investment component in IFRS 17. IFRS 17 defines investment components as the amounts that an insurance contract requires an insurer to repay to a policyholder in all circumstances, regardless of whether an insured event has occurred. Investment components which are highly interrelated with the insurance contract of which they form a part are considered non-distinct and are not separately accounted for. However, receipts and payments of the investment components are excluded from insurance revenue and insurance expenses. The surrender options are considered non-distinct investment components as the Company is unable to measure the value of the surrender option component separately from the life insurance portion of the contract.

#### D. Level of aggregation

IFRS 17 requires an entity to determine the level of aggregation for applying its requirements. The Company identifies portfolios by aggregating insurance contracts that are subject to similar risks and managed together. In grouping insurance contracts into portfolios, the Company considers the similarity of risks rather than the specific labelling of product lines. The Company has determined that all contracts within each product line, as defined for management purposes, have similar risks. Therefore, when contracts are managed together, they represent a portfolio of contracts.

Each portfolio is subdivided into groups of contracts to which the recognition and measurement requirements of IFRS 17 are applied.

At initial recognition, the Company segregates contracts based on when they were issued. A cohort contains all contracts that were issued within a 12-month period. Each cohort is then further disaggregated into three groups of contracts:

- Contracts that are onerous on initial recognition
- Contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently
- Any remaining contracts

For short term contracts accounted for applying the PAA, the Group determines that contracts are not onerous on initial recognition, unless there are facts and circumstances indicating otherwise. As IFRS 17 does not define what "facts/circumstances" entail; the following are considered on their impact on expected cashflows and resulting profitability:

Significant changes in external conditions including economic or regulatory changes.

Changes to the organization or processes

Changes in underwriting and pricing strategies

Trends in experience and expected variability in cashflows

This consideration is only required for Liabilities for Remaining Claims (LRC) and not Liabilities for Incurred Claims (LIC) which is already measured at the current fulfillment value. Fulfillment cashflows can be estimated at whichever aggregate level is deemed appropriate and then subsequently allocated into IFRS 17 portfolios and groups. The fact that incurred claims of a particular cohort are loss-making does not mean the LRC will also be onerous. Judgment is applied to determine whether each cohort's LRC will be similar to this incurred experience and hence onerous. For example, actions taken to improve profitability a historically loss-making cohort may indicate that the cohort will be non-onerous going forward.

All short-term contracts have currently been assessed as having no possibility of becoming onerous. Though the Fire portfolio (non-Life) has historically been loss-making, the portfolio has been showing some improvement post-implementation of PRAN rates and other underwriting strategies such as removal of some toxic accounts etc. The Company expects that improvements will be sustained in future and therefore the cohort will be non-onerous. In subsequent periods, non-onerous contracts are re-assessed based on the likelihood of prevailing facts and circumstances leading to significant possibility of becoming onerous.

Reinsurance contracts held are assessed for aggregation on an individual contract basis and are assessed separately from insurance contracts. The smallest unit of account is a reinsurance contract, even where this contract covers more than one type of insurance product. However, there are cases where a reinsurance contract covers separate and identifiable product lines which are only included in the same legal document for administrative convenience. These contracts have been separated into its different component

If two or more reinsurance contracts are written on a particular product line, these may be grouped together in the same portfolio as they will be covering risks of the same nature and will be managed together. For example, the Surplus contracts (1&2) on Fire have been grouped together as they cover risks of the same nature and can be measured under the same measurement approach (PAA because they have a contract boundary of 1 year). While, facultative and excess of loss contracts are in separate groups; though they cover the same risks and are even managed together, differing measurement approaches as well as recognition requirements may apply.

## SOVEREIGN TRUST INSURANCE PLC

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023

#### E. Recognition

The Company recognizes groups of insurance contracts issued from the date when the first payment from a policyholder in the group becomes due. As Company adheres to the statutory “no premium no cover”, the date premium is received from the policyholder will always be earlier or on the same date as the coverage period. This premium receipt date would then be used to separate the groups of insurance contracts into yearly cohorts. The contract groupings shall not be reassessed until they are derecognized.

#### F. Contract Boundaries

The Company includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay the premiums, or in which

- The Company has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks Or
- Both of the following criteria are satisfied:
- The Company has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio.
- The pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract are not recognized. Such amounts relate to future insurance contracts.

#### G. Measurement of insurance contracts issued.

##### 1. General Model – Initial Measurement

The Company measures a group of contracts on initial recognition as the sum of the expected fulfilment cash flows within the contract boundary and the contractual service margin representing the unearned profit in the contracts relating to services that will be provided under the contracts  
Fulfilment cash flows within contract boundary

The fulfilment cash flows are the current unbiased and probability-weighted estimates of the present value of the future cash flows, including a risk adjustment for non-financial risk. In arriving at a probability-weighted mean, the Company considers a range of scenarios to establish a full range of possible outcomes incorporating all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of expected future cash flows. The estimates of future cash flows reflect conditions existing at the measurement date including assumptions at that date about the future The Company estimates expected future cash flows for a group of contracts at a portfolio level and allocates them to the groups in that portfolio in a systematic and rational way.

When estimating future cash flows, the Group includes all cash flows within the contract boundary including:

- Premiums and any additional cash flows resulting from those premiums.
- Reported claims that have not yet been paid, claims incurred but not yet reported, future claims expected to arise from the policy and potential cash inflows from recoveries on future claims covered by existing insurance contracts.
- An allocation of insurance acquisition cash flows attributable to the portfolio to which the issued contract belongs.
- Claim handling costs.
- Costs of providing contractual benefits in kind, such as home and vehicle repair
- Policy administration and maintenance costs including recurring commissions expected to be paid to intermediaries for policy administration services only (recurring commissions that are insurance acquisition cash flows are treated as such in the estimate of future cash flows)
- Transaction-based taxes
- **An allocation of fixed and variable overheads directly attributable to the fulfilment of insurance contracts including overhead costs such as accounting, human resources, information technology and support, building depreciation, rent, and maintenance and utilities**
- Costs incurred for performing investment activities that enhance insurance coverage benefits for the policyholder.
- Costs incurred for providing investment-related service and investment-return service to policyholders.
- Other costs specifically chargeable to the policyholder under the terms of the contract

The Company does not provide investment-return services in respect of contracts that it issues, nor does it perform investment activities for the benefit of policyholders.

The Company incorporates, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows.

The Company estimates the probabilities and amounts of future payments under existing contracts based on information obtained, including:

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- Information about claims already reported by policyholders
- Other information about the known or estimated characteristics of the insurance contracts
- Historical data about the Company's own experience, supplemented, when necessary, with data from other sources. Historical data is adjusted to reflect current conditions.
- Current pricing information, when available

The measurement of fulfilment cash flows includes insurance acquisition cash flows which are allocated as a portion of premium to profit or loss (through insurance revenue) over the period of the contract in a systematic and rational way on the basis of the passage of time. The Company does not elect to accrete interest on insurance acquisition cash flows to be allocated to profit or loss.

#### Discount Rate

The time value of money and financial risk is measured separately from expected future cash flows with changes in financial risks recognized in profit or loss at the end of each reporting period unless the Company has elected the accounting policy to present the time value of money separately in profit or loss and other comprehensive income. The Company measures the time value of money using discount rates that reflect the liquidity characteristics of the insurance contracts and the characteristics of the cash flows, consistent with observable current market prices. They exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts (e.g., credit risk).

In determining discount rates for cash flows, the Company uses the 'bottom-up approach' to estimate discount rates starting from a risk-free rate with similar characteristics, plus an illiquidity premium where applicable. Risk free rates are determined by reference to the yields of highly liquid FGN Bonds. The illiquidity premium is determined by reference to observable market rates, including sovereign debt, corporate debt and market swap rates.

#### Risk adjustment for non-financial risk

The Company measures the compensation it would require for bearing the uncertainty about the amount and timing of cash flows arising from insurance contracts, other than financial risk, separately as an adjustment for non-financial risk

The Company uses the cost of capital method in estimating the risk adjustment. The level of capital and the cost of capital rate that feed this estimation technique are calibrated from the Group economic capital's approach within which the Group estimates the impact of non-financial risks. The economic capital approach includes a quantitative measure of the Group's risk appetite which allows a specific measure of the Company's non-financial risk and the degree of its risk aversion for financial reporting purposes. The Company's economical capital approach, and the risk adjustment calculation derived from it, include the benefits of diversification at the issuing entity level. This is allocated to all the groups of insurance contracts. Diversification benefits are derived from a study of the negative correlation that exists among the different non-financial variables impacting the cash flows from the portfolios of the Company and results in lower economic capital being necessary to absorb the residual level of uncertainty.

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#### Contractual Service Margin (CSM)

The CSM is a component of the overall carrying amount of a group of insurance contracts representing unearned profit that the Group will recognize as it provides insurance contract services over the coverage period.

At initial recognition, the Group measures the CSM at an amount that, unless a group of insurance contracts is onerous, results in no gains recognized in profit or loss arising from:

- The expected fulfilment cash flows of the group.
- The amount of any derecognized asset for insurance acquisition cash flows allocated to the group
- Any other asset or liability previously recognized for cash flows related to the group.
- Any cash flows that have already arisen on the contracts as of that date.

If a group of contracts is onerous, the Group recognizes a loss on initial recognition. This results in the carrying amount of the liability for the group being equal to the fulfilment cash flows, and the CSM of the group being nil. A loss component is recognized for any loss on initial recognition of the group of insurance contracts.

The Company determines at initial recognition the group's coverage units. The Company then allocates the group's CSM based on the coverage units provided in the period.

The Company allocates contracts acquired with claims in the settlement phase into annual groups based on the expected profitability of the contracts at the date of acquisition. The Group uses the consideration received or paid as an approximation of premiums to calculate the CSM on initial recognition.

#### Insurance acquisition cash flows

The Company includes insurance acquisition cash flows in the measurement of a group of insurance contracts if they are directly attributable to either the individual contracts in a group, the group itself or the portfolio of insurance contracts to which the group belongs.

The Company estimates, at a portfolio level, insurance acquisition cash flows not directly attributable to the group but directly attributable to the portfolio. The Company then allocates them to the group of newly written and renewed contracts on a systematic and rational basis.

The Company applies judgement in determining the inputs used in the methodology to systematically and rationally allocate insurance acquisition cash flows to groups of insurance contracts. This includes judgements about whether insurance contracts are expected to arise from renewals of existing insurance contracts and, where applicable, the amount to be allocated to groups including future renewals and the volume of expected renewals from new contracts issued in the period.

In the current and prior years, the Company did not allocate any insurance acquisition cash flows to future groups of insurance contracts, as it did not expect any renewal contracts to arise from new contracts issued in the period.

In the current and prior year, the Company did not identify any facts and circumstances indicating that the assets may be impaired.

#### 2. General Model – Subsequent Measurement

In estimating the total future fulfilment cash flows, the Group distinguishes between those relating to already incurred claims and those relating to future service. At the end of each reporting period, the carrying amount of the group of insurance contracts will reflect a current estimate of the liability for remaining coverage (LRC) as at that date and a current estimate of the liability for incurred claims (LIC).

The LRC represents the Group's obligation to investigate and pay valid claims under existing contracts for insured events that have not yet occurred, amounts that relate to other insurance contract services not yet provided (i.e. provision of investment-return and investment-related services) and investment components and other amounts not related to insurance contract services that have not yet been transferred to the LIC.

The LRC is comprised of:

- (a) the fulfilment cash flows relating to future service,
- (b) the CSM yet to be earned and
- (c) any outstanding premiums for insurance contract services already provided.

**The LIC includes the Company's liability to pay valid claims for insured events that have already incurred, other incurred insurance expenses arising from past coverage service and the liability for claims incurred but not yet reported. It also includes the Group's liability to pay amounts the Group is obliged to pay the policyholder under the contract. This includes repayment of investment components, when a contract is derecognized. The current estimate of LIC comprises the fulfilment cash flows related to current and past service allocated to the group at the reporting date.**

#### Changes in fulfilment cash flows

At the end of each reporting period, the Company updates the fulfilment cash flows for both LIC and LRC to reflect the current estimates of the amounts, timing and uncertainty of future cash flows, as well as discount rates and other financial variable.

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The Company has an accounting policy choice which calculates changes in fulfilment cash flows at the end of a reporting period for changes in non-financial assumptions, changes in discount rates and financial assumptions. The Company first calculates the changes in discount rates and financial assumptions on the fulfilment cash flows (as expected at the beginning of the period) and then calculate changes on those cash flows from the change in non-financial assumptions.

Experience adjustments are the difference between:

- The expected cash flow estimates at the beginning of the period and the actual cash flows for premiums received in the period (and any related cash flows paid such as insurance acquisition cash flows and insurance premium taxes)

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- The expected cash flow estimates at the beginning of the period and the actual incurred amounts of insurance service expenses in the period (excluding insurance acquisition expenses)

Experience adjustments relating to current or past service are recognized in profit or loss. For incurred claims (including incurred but not reported) and other incurred insurance service expenses, experience adjustments always relate to current or past service. They are included in profit or loss as part of insurance service expenses.

Experience adjustments relating to future service are included in the LRC by adjusting the CSM. The release of the CSM depends on whether the contract does not participate, participates indirectly, or directly participates in the performance of the specified underlying items.

At the end of each reporting period, the Group re-estimates the LRC fulfilment cash flows, updating for changes in assumptions relating to financial and non-financial risks.

#### Adjustments to the CSM

The following changes in fulfilment cash flows are considered to be related to future service and adjust (or 'unlock') the CSM of the group of insurance contracts:

- Experience adjustments relating to the premiums received in the period that relate to future service, and any relate cash flows such as insurance acquisition cash flows and premium-based taxes measured at the 'locked in' discount rates applicable when the contracts in the group were initially recognized.
- **The change in the estimate of the present value of expected future cash flows in the liability for remaining coverage, related to non-financial variables, measured at the 'locked in' discount rates applicable when the contracts in the group were initially recognized. All financial variables are locked in at initial recognition.**
- Changes in the risk adjustment for non-financial risk relating to future service. The Company has elected not to disaggregate the change in the risk adjustment for non-financial risk between:
  - o a change related to non-financial risk and
  - o the effect of the time value of money and changes in the time value of money.
- Differences between the amount of investment components that were expected to be payable in the period and the amount of investment components that actually became payable. The amount of investment components expected to be payable in the period is measured at the discount rates applicable before it became payable.

The following adjustments do not relate to future service and thus do not adjust the CSM:

- Changes in fulfilment cash flows for the effect of the time value of money and the effect of financial risk and changes thereof.
- Changes in the fulfilment cash flows relating to the LIC.
- Experience adjustments relating to insurance service expenses (excluding insurance acquisition cash flows)

Any further increases in fulfilment cash flows relating to future coverage are recognized in profit or loss as they occur, increasing the loss component of the group of insurance contracts. Any subsequent decreases in fulfilment cash flows related to future coverage do not adjust the CSM until the loss component of the group is fully reversed through profit or loss.

At the end of the reporting period, the carrying amount of the CSM for a group of insurance contracts without direct participating features is the carrying amount at the beginning of the period adjusted for:

- The effect of any new contracts added to the group.
- Interest accreted on the carrying amount of the CSM measured at the discount rates determined at initial recognition.
- The changes in fulfilment cash flows related to future service, except:
  - o Increases in fulfilment cash flows that exceed the carrying amount of the CSM, giving rise to a loss that results in the group of contracts becoming onerous or more onerous.
  - o Decreases in fulfilment cash flows that reverse a previously recognized loss on a group of onerous contracts.
- The effect of any currency exchange differences on the CSM
- The amount recognized as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the CSM remaining at the end of the reporting period over the current and remaining coverage period.

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Recognition of the CSM in profit or loss

An amount of the CSM is released to profit or loss in each period during which the insurance contract services are provided.

In determining the amount of the CSM to be released in each period, the Company follows three steps:

- Determine the total number of coverage units in the group. The amount of coverage units in the group is determined by considering the quantity of benefits provided under the contract and the expected coverage period for each contract.
- Allocate the CSM at the end of the period (before any of it is released to profit or loss to reflect the insurance contract services provided in the period) equally to each of the coverage units provided in the current period and expected to be provided in the future
- Recognize in profit or loss the amount of CSM allocated to the coverage units provided during the period.

lapse or surrender and new contracts are added to the group. The total number of coverage units depends on the expected duration of the obligations that the Company has from its contracts. These can differ from the legal contract maturity because of the impact of policyholder behavior and the uncertainty surrounding future insured events.

By determining a number of coverage units, the Company exercises judgement in estimating the likelihood of insured events occurring and policyholder behavior to the extent that they affect expected period of coverage in the group, the different levels of service offered across periods and the 'quantity of benefits' provided under a contract.

### 3. Premium Allocation Approach (PAA)

This is a simplification of the general model. The Company applies the PAA to the measurement of group life and non-life insurance contracts with a coverage period of each contract in the group of one year or less.

Contracts with coverage period above one year which are not immediately eligible for the PAA, will be subjected to a PAA eligibility by assessing the expected LRC cashflows under both the PAA and General Model approaches. However, there is no material difference in the measurement of the liability for remaining coverage between PAA and the general model, therefore, these qualify for PAA.

On initial recognition, the Group measures the carrying amount of the Liability for remaining coverage for insurance contracts held as the premiums received - Gross Written premium

At subsequent measurement, the LRC is effectively the unearned premium reserve (UPR) under IFRS 4 less the deferred acquisition costs (DAC). Unlike IFRS 4, DAC will not be presented as an asset under IFRS17. It is instead reflected in the overall insurance contract liability for remaining coverage, without being identified as a separate component in the balance sheet.

Premium Experience Adjustment: Where premium experience adjustments relate to current/ past service and are treated at the end of the period, this will be immediately recognized in the P&L as insurance revenue.

Insurance acquisition cash flows

IFRS 17 defines insurance acquisition cash flows as cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts to which the group belongs. These include direct and indirect costs incurred in originating insurance contracts, including cashflows related to unsuccessful efforts to obtain new business.

Under the PAA, an entity can choose to immediately expense insurance acquisition cash flows in the P&L when incurred if and only if each insurance contract in a group has a coverage period of one year or less. AIICO has opted not to expense acquisition cash flows immediately when incurred. Alternatively, an entity can recognize insurance acquisition cash flows in the measurement of liability for remaining coverage (LRC) and amortize insurance acquisition cash flows in the P&L (systematically - in line with earning pattern of premium revenue OR passage of time, with the former being the method adopted by the Company).

The exiting IFRS 4 approach is to recognize a separate deferred acquisition cost (DAC) assets for costs associated with writing new insurance contracts (e.g., commissions paid to brokers). Under IFRS 17, if acquisition costs are paid before the related insurance groups are recognized, an entity shall recognize an asset. These assets are derecognized when the group of insurance contracts are recognized. If insurance acquisition cash flows are expected to be paid after the related group is recognized, then they are included as part of the measurement of insurance contracts (LRC).

IFRS 17 allows for the deferral of acquisition costs to smooth out the recognition of profits. Paid acquisition costs are an asset that is amortized (or derecognized) when they are included in the measurement of the related group of insurance contracts. Company has chosen to defer all insurance acquisition cash flows and recognize them over the coverage period of contracts or groups they are attributed to. Therefore, acquisition costs and related revenue are recognized over the same periods and in the same pattern, based on the passage of time.

It must be noted that IFRS 17 requires allocation to future renewals if the acquisition cashflows are judged to support future renewals. Also the expensing acquisition costs policy choice only applies for contracts with coverage period one year or less.

For contracts measured under PAA in the Group, insurance acquisition costs comprise of costs:

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that are directly attributable to individual contracts or groups of contracts in a portfolio

that are not directly attributable to individual contracts but, directly attributable to the portfolio of insurance contracts to which the group belongs; with the costs being allocated to groups on a systematic and rationale method e.g., Activity-Based Costing method or based on GWP proportions or claims cost etc.

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#### **4. Onerous contracts**

The Company considers an insurance contract to be onerous if the expected fulfilment cash flows allocated to the contract, any previously recognized acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total result in a net cash outflow.

On initial recognition, the onerous assessment is done on an individual contract level assessing future expected cash flows on a probability-weighted basis including a risk adjustment for non-financial risk. Contracts expected on initial recognition to be loss-making are grouped together and such groups are measured and presented separately. Once contracts are allocated to a group, they are not re-allocated to another group, unless they are substantively modified.

On initial recognition, the CSM of the group of onerous contracts is nil and the group's measurement consists entirely of fulfilment cash flows. A net outflow expected from a group of contracts determined to be onerous is considered to be the group's 'loss component'. It is initially calculated when the group is first considered to be onerous and is recognized at that date in profit or loss. The amount of the group's loss component is tracked for the purposes of presentation and subsequent measurement.

After the loss component is recognized, the Group allocates any subsequent changes in fulfilment cash flows of the LRC on a systematic basis between the loss component and the LRC excluding the loss component. For groups of onerous contracts, without direct participating features, the Group uses locked-in discount rates. They are determined at initial recognition to calculate the changes in the estimate of future cash flows relating to future service (both changes in a loss component and reversals of a loss component).

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For all issued contracts, other than those accounted for applying the PAA, the subsequent changes in the fulfilment cash flows of the LRC to be allocated are:

- Insurance finance income or expense
- Changes in risk adjustment for non-financial risk recognized in profit or loss representing release from risk in the period.
- Estimates of the present value of future cash flows for claims and expenses released from the LRC because of incurred insurance service expenses in the period.

The Company determines the systematic allocation of insurance service expenses incurred based on the percentage of loss component to the total fulfilment cash outflows included in the LRC, including the risk adjustment for non-financial risk, excluding any investment component amount.

For contracts that are measured under PAA, the assumption is that there are no onerous contracts at initial recognition, unless facts and circumstances indicate otherwise. If the measurement of the LIC results in a loss-making group, this does not translate to the LRC being onerous. In this case, the group will be assessed as to whether its LRC will be similar to the incurred experience and hence considered to be onerous. For example, actions taken to improve profitability on the fire portfolio which has been historically loss-making may indicate that the LRC will have a different loss experience.

If facts and circumstances indicate that a group of contracts is onerous during the coverage period, the onerous liability is calculated as the difference between:

the carrying amount of the liability for remaining coverage; and

the FCF that relates to remaining coverage similar to what is needed under the GMM.

This difference is recognized as a loss and shall increase the liability for remaining coverage.

I. Measurement of Reinsurance contracts issued.

#### 1. Recognition

Proportional reinsurance contracts held will be first recognized on the later of the beginning of the coverage period of the reinsurance contract or the date that the first underlying insurance contract in the treaty is initially recognized.

For example, if we enter a surplus fire reinsurance contract on 1 January 2022 and the first fire insurance policy in the treaty is written in February 2022, then the date of recognition of the surplus reinsurance contract will be February 2022. Though the contract agreement is in place in January, cashflows on the contract don't start until February.

Non-Proportionate reinsurance coverage will be recognized at the beginning of the coverage period of the contract.

#### 2. Reinsurance contracts held measured under the PAA.

All reinsurance contracts with contract boundaries not exceeding one year are automatically considered to meet PAA eligibility. Most of the Group's Surplus reinsurance contracts are immediately eligible for PAA as they are written on a clean-cut basis. At the end of the period, the reinsurer withdraws from the contract and the reinsurance held portfolio (including outstanding recoveries and ceded portion of unexpired premiums) is transferred to a new reinsurer.

A smaller number of surplus reinsurance contracts and all Facultative contracts are written on an underwriting year basis. This basis extends the contract boundary beyond one year as coverage of contracts ceded to the treaty may continue even after the underwriting year has ended.

For example, if an insurance contract inception in May 2022 and cedes to the Marine Hull Surplus reinsurance treaty (which inception 1 January 2022); the contract boundary extends till May 2023 when the insurance contract will expire. So, the contract boundary for the reinsurance contract is beyond one year i.e.. 1 Jan 2022 – May 2023.

Where the reinsurance contracts held covers a group of onerous underlying insurance contracts, the Group adjusts the carrying amount of the asset for remaining coverage and recognizes a gain when, in the same period, it reports a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to a group. The recognition of this gain results in the recognition for the loss recovery component of the asset for the remaining coverage of a group of reinsurance contracts held.

#### J. Modification and Derecognition

The Company derecognizes the original contract and recognizes the modified contract as a new contract, if the terms of insurance contracts are modified and the following are met: conditions

- If the modified terms were included at contract inception and the Group would have concluded that the modified contract:
  - Is outside of the scope of IFRS 17
  - Results in a different insurance contract due to separating components from the host contract
  - Results in a substantially different contract boundary
  - Would be included in a different group of contracts.
- The original contract met the definition of an insurance contract with direct participating features, but the modified contract no longer meets the definition.

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- The original contract was accounted for applying the PAA, but the modified contract no longer meets the PAA eligibility criteria for that approach.

If the contract modification meets any of the conditions, the Group performs all assessments applicable at initial recognition, derecognizes the original contract and recognizes the new modified contract as if it was entered for the first time.

If the contract modification does not meet any of the conditions, the Group treats the effect of the modification as changes in the estimates of fulfilment cash flows.

For insurance contracts accounted for applying the General Model, a change in the estimates of fulfilment cash flows results in a revised end of period CSM (before the current period allocation). A portion of the revised end of period CSM is allocated to the current period, as is the revised CSM amount applied from the beginning of the period but reflecting the change in the coverage units due to the modification during the period.

This portion is calculated using updated coverage unit amounts determined at the end of the period and weighted to reflect the fact that the revised coverage existed for only part of the current period.

For insurance contracts accounted for applying the PAA, the Group adjusts insurance revenue prospectively from the time of the contract modification.

The Company derecognizes an insurance contract when, and only when the contract is:

- Extinguished (when the obligation specified in the insurance contract expires or is discharged or cancelled)
- Modified and the derecognition criteria are met.
- When the Group derecognizes an insurance contract from within a group of contracts, it:
  - Adjusts the fulfilment cash flows allocated to the group to eliminate the present value of the future cash flows and risk adjustment for non-financial risk relating to the rights and obligations that have been derecognized from the group.
  - Adjusts the CSM of the group for the change in the fulfilment cash flows (unless it relates to the increase or reversal of the loss component)
  - Adjusts the number of coverage units for expected remaining insurance contract services to reflect the coverage units derecognized from the group and recognizes in profit or loss in the period the amount of CSM based on that adjusted number.

When the Company transfers an insurance contract to a third party and that results in derecognition, the Group adjusts the CSM of the group from which the contract has been derecognized for the difference between the change in the carrying amount of the group caused by the derecognized fulfilment cash flows and the premium charged by the third party for the transfer.

When the Company derecognizes an insurance contract due to modification, it derecognizes the original insurance contract and recognizes a new one. The Group adjusts the CSM of the group from which the modified contract has been derecognized for the difference between the change in the carrying amount of the group as a result of adjustment to fulfilment cash flows due to derecognition and the premium the Group would have charged had it entered into a contract with equivalent terms as the new contract at the date of the contract modification, less any additional premium actually charged for the modification.

#### **K. Presentation**

The Company has presented separately in the consolidated statement of financial position the carrying amount of portfolios of insurance contracts that are assets and those that are liabilities, and the portfolios of reinsurance contracts held that are assets and those that are liabilities.

The Company disaggregates the amounts recognized in the consolidated statement of profit or loss and other comprehensive income into an insurance service result sub-total that comprises insurance revenue and insurance service expenses and, separately from the insurance service result, the 'net insurance finance income or expenses' sub-total. The Group has voluntarily included the net insurance finance income or expenses line in another sub-total: net insurance and investment result, which also includes the income from all the assets backing the Group's insurance liabilities.

The Company includes any assets for insurance acquisition cash flows recognized before the corresponding groups of insurance contracts are recognized in the carrying amount of the related portfolios of insurance contracts issued.

##### **1. Insurance Revenue**

As the Company provides insurance services under a group of insurance contracts issued, it reduces its LRC and recognizes insurance revenue, which is measured at the amount of consideration the Company expects to be entitled to in exchange for those services.

For groups of insurance contracts measured under the General Model, insurance revenue consists of the sum of the changes in the LRC due to:

- The insurance service expenses incurred in the period measured at the amounts expected at the beginning of the period, excluding:
  - o Amounts allocated to the loss component.
  - o Repayments of investment components.
  - o Amounts that relate to transaction-based taxes collected on behalf of third parties.

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- o Insurance acquisition expenses.
- o Amounts relating to risk adjustment for non-financial risk.
  - The change in the risk adjustment for non-financial risk, excluding:
- o Changes that relate to future service that adjust the CSM.
- o Amounts allocated to the loss component.
  - The amount of CSM for the services provided in the period.
  - Other amounts, such as experience adjustments for premium receipts that relate to current or past service, if any Insurance revenue also includes the portion of premiums that relate to recovering those insurance acquisition cash flows included in the insurance service expenses in each period.

Both amounts are measured in a systematic way on the basis of the passage of time.

When applying the PAA, the Group recognizes insurance revenue for the period based on the passage of time by allocating expected premium receipts including premium experience adjustments to each period of service.

At the end of each reporting period, the Group considers whether there was a change in facts and circumstances indicating a need to change, on a prospective basis, the premium receipt allocation due to changes in the expected pattern of claim occurrence.

#### 2. Insurance service expenses

Insurance service expenses arising from a group of insurance contracts issued comprises:

- Changes in the LIC related to claims and expenses incurred in the period excluding repayment of investment components.
- Changes in the LIC related to claims and expenses incurred in prior periods (related to past service)
- Other directly attributable insurance service expenses incurred in the period.
- Amortization of insurance acquisition cash flows, which is recognized at the same amount in both insurance service expenses and insurance contract revenue.
- Loss component of onerous groups of contracts initially recognized in the period.
- Changes in the LRC related to future service that do not adjust the CSM, because they are changes in the loss components of onerous groups of contracts.

#### 3. Income or expenses from reinsurance contracts held.

The Company presents income or expenses from a group of reinsurance contracts held and reinsurance finance income or expenses in profit or loss for the period separately. Income or expenses from reinsurance contracts held are split into the following two amounts:

- Amount recovered from reinsurers.
- An allocation of the premiums paid.

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The Company presents cash flows that are contingent on claims as part of the amount recovered from reinsurers. Ceding commissions that are not contingent on claims of the underlying contracts are presented as a deduction in the premiums to be paid to the reinsurer which is then allocated to profit or loss.

The Company establishes a loss recovery component of the asset for the remaining coverage for a group of reinsurance contracts held. This depicts the recovery of losses recognized on the initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to a group. The loss recovery component adjusts the CSM of the group of reinsurance contracts held. The loss recovery component is then adjusted to reflect:

- Changes in the fulfilment cash flows of the underlying insurance contracts that relate to future service and do not adjust the CSM of the respective groups to which the underlying insurance contracts belong to.
- Reversals of loss recovery component to the extent those reversals are not changes in the fulfilment cash flows of the group of reinsurance contracts held.
- Allocations of the loss recovery component against the amounts recovered from reinsurers reported in line with the associated reinsured incurred claims or expenses.

#### 4. Insurance finance income and expenses

Insurance finance income or expenses present the effect of the time value of money and the change in the time value of money, together with the effect of financial risk and changes in financial risk of a group of insurance contracts and a group of reinsurance contracts held.

The use of OCI presentation for insurance finance income and expenses

The Company has an accounting policy choice to present all the period's insurance finance income or expenses in profit or loss or to split the amount between profit or loss and other comprehensive income (OCI). When considering the choice of presentation of insurance finance income or expenses, the Group examines the assets held for that portfolio and how they are accounted for.

Currently the Company present all the period's insurance finance income or expenses in the profit or loss.

The Company may reassess its accounting policy choice during the duration of a group of direct participating contracts when there is a change in whether the Company holds the underlying items or no longer holds the underlying items. When such change occurs, the Group includes the amount accumulated in OCI by the date of change as a reclassification adjustment to profit or loss spread across the period of change and future periods based on the method and on assumptions that applied immediately before the date of change.

Comparatives are not restated.

When applying the PAA, the Group does not discount the liability for remaining coverage to reflect the time value of money and financial risk for group life and non-life policies with a coverage period of one year or less. For those claims that the Group expects to be paid within one year or less from the date of incurrence, the Group does not adjust future cash flows for the time value of money and the effects of financial risks. However, claims expected to take more than one year to settle are discounted applying the discount rate at the time the incurred claim is initially recognized.

#### L. Contracts existing at transition date.

On transition date, 1 January 2022, the Group:

- Has identified, recognized and measured each group of insurance contracts as if IFRS 17 had always applied (unless impracticable).
- Has identified, recognized and measured assets for insurance acquisition cash flows as if IFRS 17 had always applied. However, no recoverability assessment was performed before the transition date. At transition date, a recoverability assessment was performed, and no impairment loss was identified.
- Derecognized any existing balances that would not exist had IFRS 17 always applied.
- Recognized any resulting net difference in equity.

In determining the appropriate transition approach, the following were considered:

- the coverage period of the in-force policies
- the availability of historical data and assumptions driving measurement and the ability to obtain these without undue cost and effort.

#### 1. Full Retrospective approach

On transition to IFRS 17, the Company applied the full retrospective approach unless impracticable to do so.

The Company has applied the full retrospective approach on transition to all short-term contracts in force at the transition date.

## **SOVEREIGN TRUST INSURANCE PLC**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

To do this, at the transition date, we have identified, recognized and measured each group of insurance contracts as if IFRS 17 had always applied; and derecognized any existing balances that would not exist had IFRS 17 always applied; and finally recognized any resulting net difference in equity.

#### **2. Fair Value approach**

The Company has applied the fair value approach on transition for individual life contracts as, prior to transition, it grouped contracts from multiple cohorts and years into a single unit for accounting purposes. Obtaining reasonable and supportable information to apply the full retrospective approach was impracticable without undue cost or effort. The Company has determined the CSM of the liability for remaining coverage at the transition date, as the difference between the fair value of the group of insurance contracts and the fulfilment cash flows measured at that date. In determining fair value, the Company has applied the requirements of IFRS 13 Fair Value Measurement, except for the demand deposit floor requirement.

The Company has aggregated contracts issued more than one year apart in determining groups of insurance contracts under the fair value approach at transition as it did not have reasonable and supportable information to aggregate groups into those including only contracts issued within one year.

#### **2.25.1 Investment income**

Investment income consists of dividend, interest and rent received, movements in amortized cost on debt securities and other loans and receivables, realized gains and losses, and unrealized gains and losses on fair value assets.

#### **Interest income**

Interest income is recognized in the statement of profit or loss as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognized as an adjustment to the effective interest rate of the instrument.

#### **Dividend income**

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

#### **Rental income**

Rental income is recognized on an accrual basis.

#### **Realized gains and losses**

Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortized cost and are recorded on occurrence of the sale transaction.

#### **Unrealised gains and losses**

Unrealized gains or losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognized unrealized gains and losses in respect of disposals during the year.

## **SOVEREIGN TRUST INSURANCE PLC**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

#### **2.26 Benefits, claims and expenses recognition**

##### **2.26.1 Insurance benefits and claims**

Insurance claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

##### **Reinsurance claims**

The Company recognises reinsurance claims when the related gross insurance claims are recognised according to the terms of the relevant contracts.

##### **2.26.2 Underwriting expenses**

Underwriting expenses refer to all expenses, inclusive of net commissions, that are applicable to the servicing of net premiums written. These expenses encompass all that are incurred by an insurance company.

Underwriting expenses for insurance contracts are recognised as expense when incurred, with the exception of acquisition costs which are recognised on a time apportionment basis in respect of risk.

Acquisition costs comprise all direct and indirect costs arising from the writing of insurance contracts.

Other underwriting expenses are those incurred in servicing existing policies/contract. These expenses are charged in the accounting period in which they are incurred.

##### **2.26.3 Other expenses**

All other operating expenses are recognized directly in profit or loss and when incurred.

#### **2.27 Related parties**

Related parties include the company and other connected entities. Directors, their close family members and any employees who is able to exert a significant influence on the operating policies of the Company, are also considered to be related parties. Key management personnel are also regarded as related parties. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity.

## **SOVEREIGN TRUST INSURANCE PLC**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

#### **2.28 Contingent liabilities and assets**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company or the Company has a present obligation as a result of past events which is not recognised because it is not probable that an outflow of resources will be required to settle the obligation; or the amount cannot be reliably estimated. Contingent liabilities normally comprise of legal claims under arbitration or Court process in respect of which a liability may crystallise.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Contingent assets are never recognised but are disclosed in the financial statements when they arise.

#### **Initial recognition and measurement**

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

#### **Company as a lessee**

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### **i) Right-of-use assets**

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). The cost of a right-of-use asset at inception of the lease includes an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. The Company incurs the obligation for those costs at the commencement date or as a consequence of having used the underlying asset during a particular period.

Right-of-use assets are subsequently measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets (Real Estate 2 to 5 years). If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section(s) Impairment of non-financial assets Property and equipment - (Note 2.13).

The Company's lease arrangements are majorly real estate leases which include leases of office spaces. These lease arrangements do not contain an obligation to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to a specified condition.

In the financial statements for the current and prior periods, no right of use (ROU) asset is recognized because of the application of short term lease exception.

## **SOVEREIGN TRUST INSURANCE PLC**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

#### **ii) Lease liabilities**

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date where the interest rate implicit in the lease is not clearly stated in the lease contract. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

#### **iii) Short-term leases and leases of low-value assets**

The Company applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

#### **Company as a lessor**

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

#### **Tenant deposits**

Tenant deposits are initially recognised at fair value and subsequently measured at amortised cost. Any difference between the initial fair value and the nominal amount is included as a component of operating lease income and recognised on a straight-line basis over the lease term.

#### **3. Critical accounting judgments and key sources of estimation uncertainty**

In the application of the Company's accounting policies, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

## **SOVEREIGN TRUST INSURANCE PLC**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### **Critical judgments in applying the Company's accounting policies**

The following are the critical judgments, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

#### **Going Concern**

The financial statements have been prepared on the going concern basis and there is no intention to curtail business operations. Capital adequacy, profitability and liquidity ratios are continuously reviewed and appropriate action taken to ensure that there are no going concern threats to the operation of the Company. The Directors have made assessment of the Company's ability to continue as a going concern and have no reason to believe that the Company will not remain a going concern in the years ahead.

#### **Determining the lease term of contracts with renewal and termination options – Company as lessee**

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Company included the renewal period as part of the lease term for leases of office spaces and plant and machinery with shorter non-cancellable period (i.e., three to five years) where this is expressly stated in the lease contract or enforceable at law per the lease contract. The Company typically exercises its option to renew for these leases because there will be a significant negative effect on its operation if a replacement asset is not readily available. The renewal periods for leases of office spaces are not included as part of the lease term as these are not reasonably certain to be exercised. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

## **SOVEREIGN TRUST INSURANCE PLC**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

#### **Property lease classification – Company as lessor**

The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

#### **Product classification and contract liabilities**

The Company's Non-life insurance contracts are classified as insurance contracts. As permitted by IFRS 4, assets and liabilities of these contracts are accounted for under previously applied GAAP.

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

#### **Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

#### **Valuation of liabilities of non-life insurance contracts**

Estimates are made for both the expected ultimate cost of claims reported and claims incurred but not reported (IBNR) at the statement of financial position date. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder, Stochastic reserving (Bootstrap) and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

## **SOVEREIGN TRUST INSURANCE PLC**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment. The carrying amount for non-life insurance contract liabilities at the reporting date is  $\text{¥}4.32$  billion (2021 :  $\text{¥}3.96$  billion).

#### **Fair value of financial instruments using valuation techniques**

The Directors use their judgment in selecting an appropriate valuation technique. Where possible, financial instruments are marked at prices quoted in active markets. In the current market environment, such price information is typically not available for all instruments and the company uses valuation techniques to measure such instruments.

These techniques use “market observable inputs” where available, derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable market data. For positions where observable reference data are not available for some or all parameters the company estimates the non-market observable inputs used in its valuation models.

Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates although some assumptions are not supported by observable market prices or rates.

#### **Impairment under IFRS 9**

The impairment requirements of IFRS 9 apply to all debt instruments that are measured at amortised cost. The determination of impairment loss and allowance moves from the incurred credit loss model whereby credit losses are recognised when a defined loss event occurs under IAS 39, to expected credit loss model under IFRS 9, where expected credit losses are recognised upon initial recognition of the financial asset based on expectation of potential credit losses at the time of initial recognition.

## SOVEREIGN TRUST INSURANCE PLC

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023

#### Staged Approach to the Determination of Expected Credit Losses

IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition. These stages are as outlined below:

**Stage 1:** The Company recognises a credit loss allowance at an amount equal to the 12 months expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after the initial recognition.

**Stage 2:** The Company recognises a credit loss allowance at an amount equal to the lifetime expected credit losses (LTECL) for those financial assets that are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on Lifetime probabilities of default that represents the probability of a default occurring over the remaining lifetime of the financial assets. Allowance for credit losses is higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in stage 1.

**Stage 3:** The Company recognises a loss allowance at an amount equal to life-time expected credit losses, reflecting a probability of default (PD) of 100% via the recoverable cash flows for the asset. For those financial assets that are credit impaired. The Company's definition of default is aligned with the regulatory definition. The treatment of the loans and other receivables in stage 3 remains substantially the same as the treatment of impaired financial assets under IAS 39 except for the portfolios of assets purchased or originated as credit impaired.

The determination of whether a financial asset is credit-impaired focuses exclusively on default risk, without taking into consideration the effect of credit risk mitigants such as collateral or guarantees. Specifically, the financial asset is credit impaired and in stage 3 when: the Company considers the obligor is unlikely to pay its credit obligations to the company. The termination may include forbearance actions, where a concession has been granted to the borrower or economic or legal reasons that a qualitative indicators of credit impairment; or contractual payments of either principal or interest by the obligor are pass due by more than 90 days.

For financial assets considered to be credit impaired, the ECL allowance covers the amount of loss the Company is expected to suffer. The estimation of ECLs is done on a case by case basis for non-homogenous portfolios, or by applying portfolio based parameters to individual financial assets in this portfolios by the Company's ECL model for homogenous portfolios.

Forecast of future economic conditions when calculating ECLs are considered. The lifetime expected losses are estimated based on the probability - weighted present value of the difference between:

- The contractual cash flows that are due to the Company under the contract; and
- The cash flows that the Company expects to receive.

#### Elements of ECL models that are considered accounting judgements and estimates include:

- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels, interest rate, Gross Domestic Product (GDP) and collateral values, and the effect on Probability of Default (PDs), Exposure at Defaults (EADs) and Lost Given Defaults (LGDs)
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

## SOVEREIGN TRUST INSURANCE PLC

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023

#### Expected lifetime:

The expected life time of a financial asset is a key factor in determine the life time expected credit losses. Lifetime expected credit losses represents default events over the expected life of a financial asset. The company measures expected credit losses considering the risk of default over the maximum contractual period (including any borrower's extension option) over which it is exposed to credit risk.

#### 4. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

##### 4.1 Standards issued and effective on or after 1 January 2022

###### 4.1.1 IFRS 17 Insurance contracts

A comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required.

However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

IFRS 17 is a comprehensive standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows).
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period).
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period.
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period.
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in profit or loss, but are recognised directly on the statement of financial position.
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense.
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The company is in compliance with IFRS 17 implementation which is effective 1st January,2023.

## SOVEREIGN TRUST INSURANCE PLC

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE PERIOD ENDED 30 SEPTEMBER 2023

#### 4.1.2 Amendments to IAS 1 - Classification of liabilities as current or non-current

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

In May 2021, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to 1 January 2023.

The effective date is 1 January 2022 (possibly deferred to 1 January 2023).

The impact of this amendment on the Company financial statements is currently under assessment.

Securities Trading Policy

In compliance with Rule 17.15 Disclosure of Dealings in Issuers' Shares Rulebook of the Exchange 2015

Securities Trading Policy

In compliance with Rule 17.15 Disclosure of Dealings in Issuers' Shares, Rulebook of the Exchange 2015 (Issuers Rule) Sovereign Trust Insurance Plc effective Security Trading Policy which guides Director, Audit Committee members employees and all individuals categorized as insiders as to their dealing in the company's shares. The Policy is regularly reviewed and updated by the Board. Sovereign Trust Insurance Plc has made specific inquiries of all the Directors and other insiders and is not aware of any infringement of policy during the period.

#### Shareholding Structure/ Free Float Status

| Description   | 30-Sep-23                |             | 30-Sep-22                |              |
|---|--------------------------|-------------|--------------------------|--------------|
|   | Units                    | Percentages | Units                    | Percentages  |
| Issued Share Capital  | 11,364,466,014           | 100%        | 11,364,466,014           | 100%         |
| <b>Substantial Shareholding (5% and above)</b>  |                          |             |                          |              |
| MORNING SIDE CAPITAL PARTNERS   | 2,499,000,000            | 22%         | 2,499,000,000            | 22.0%        |
| SOVEREIGN INVESTMENTS LIMITED   | 995,100,018              | 9%          | 995,100,018              | 8.8%         |
| TEEOF HOLDINGS LIMITED  | 821,572,742              | 7%          | 821,572,742              | 7.2%         |
| TRIPPLE TEES ENDOWMENT LIMITED  | 684,381,657              | 6%          | 684,381,657              | 6.0%         |
| AJAYI OLUSEUN O.  | 666,156,859              | 6%          | 666,156,859              | 5.9%         |
| <b>Total Directors' Shareholdings</b>   | <b>5,666,211,276</b>     | <b>50%</b>  | <b>5,666,211,276</b>     | <b>50%</b>   |
| <b>Directors' Shareholdings (direct and indirect), excluding directors with substantial interests</b> |                          |             |                          |              |
| MR. OLUSEUN O. AJAYI  | 1,661,256,877            | 15%         | 1,661,256,877            | 14.6%        |
| MR. OLAOTAN SOYINKA   | 8,298,960                | 0%          | 8,298,960                | 0.1%         |
| MRS. UGOCHI ODEMELAM  | 6,735,481                | 0%          | 6,735,481                | 0.1%         |
| MS. EMI FALOUGHI  | 848,596,839              | 7%          | 848,596,839              | 7.5%         |
| MR. ABIMBOLA OGUNTUNDE  | 335,414                  | 0%          | 335,414                  | 0.0%         |
| MR. ODOH SHEDRACK CHIDOZIE  | 2,499,000,000            | 22%         | 2,499,000,000            | 22.0%        |
| MR. JUDE MODILIM  | 6,500,000                | 0%          | 4,000,000                | 0.0%         |
| <b>Total Directors' Shareholdings</b>   | <b>5,030,723,571</b>     | <b>44%</b>  | <b>5,028,223,571</b>     | <b>44.2%</b> |
| <b>Other Influential Shareholdings</b>  |                          |             |                          |              |
| OTHERS  | 6,333,742,443            | 64%         |                          |              |
| <b>Total Other Influential Shareholdings</b>  | <b>6,333,742,443</b>     | <b>64%</b>  | <b>0</b>                 | <b>0%</b>    |
| <b>Free Float in Units and Percentage</b>   | <b>11,364,466,014</b>    | <b>100</b>  | <b>11,364,466,014</b>    | <b>100</b>   |
| <b>Free Float in Value</b>  | <b>N5,682,233,007.00</b> |             | <b>N5,682,233,007.00</b> |              |


## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

|  | Note      | 30 Sept.<br>2023 | 30 Sept.<br>2022 |
|--|-----------|------------------|------------------|
| Insurance Revenue  | 5         | 16,838,812       | 11,861,092       |
| Insurance Service Expenses   | 6         | (6,356,724)      | (3,248,336)      |
| Net Expenses from Reinsurance Contracts Held   | 7         | (8,306,209)      | (6,784,147)      |
| <b>Insurance service result</b>  |           | <b>2,175,879</b> | <b>1,828,609</b> |
| Interest Revenue Calculated Using The Effective Interest Method                        | 8         | 272,145          | 285,367          |
| Net Fair Value Gains/(losses) on Financial Assets at Fair Value Through Profit or Loss | 8.1       | 204,613          | 39,696           |
| Finance Expenses From Insurance Contracts Issued                                       | 9         | (214,714)        | (296,752)        |
| Finance Income From Reinsurance Contracts Issued                                       | 10        | 243,450          | 169,028          |
| Other Finance Costs  | 11        | (201,692)        | (92,459)         |
| Other Operating Expenses   | 12        | (1,769,413)      | (1,302,727)      |
| <b>Profit Before Income Tax</b>  |           | <b>710,267</b>   | <b>630,762</b>   |
| Tax Expense  | 13        | (117,439)        | (103,675)        |
| <b>Profit For The Year</b>   |           | <b>592,828</b>   | <b>527,087</b>   |
| <b>EPS</b>   | <b>15</b> | <b>5</b>         | <b>5</b>         |


**STATEMENT OF FINANCIAL POSITION**

| <b>ASSETS</b>                       | <b>Note</b> | <b>Sept. 2023</b><br><b>N000</b> | <b>Dec.2022</b><br><b>N000</b> |
|-------------------------------------|-------------|----------------------------------|--------------------------------|
| Cash and Cash Equivalents           | 15          | 5,858,407                        | 8,678,703                      |
| Investment Securities               | 16          | 1,936,241                        | 1,786,707                      |
| Trade Receivables                   | 17          | 1,095,829                        | 894,416                        |
| Reinsurance Contract Assets         | 18          | 3,677,574                        | 2,475,282                      |
| Other Receivables and Prepayments   | 19          | 664,937                          | 217,386                        |
| Investment in Associate             | 20          | 100,550                          | 100,550                        |
| Investment Properties               | 21          | 1,158,470                        | 1,158,470                      |
| Intangible Assets                   | 22          | 83,038                           | 61,604                         |
| Deferred Acquisition Costs          | 23          | 978,165                          | 332,407                        |
| Right of Use Assets                 | 24          | 19,688                           | 31,500                         |
| Property, Plant and Equipment       | 25          | 1,697,097                        | 1,428,256                      |
| Statutory Deposit                   | 26          | 315,000                          | 315,000                        |
| <b>Total Assets</b>                 |             | <b>17,584,996</b>                | <b>17,480,282</b>              |
| <b>Liabilities and Equity</b>       |             |                                  |                                |
| <b>Liabilities</b>                  |             |                                  |                                |
| Insurance Contract Liabilities      | 27          | 3,802,067                        | 4,220,515                      |
| Borrowings                          | 28          | 2,280,027                        | 2,078,536                      |
| Trade Payables                      | 29          | 123,650                          | 257,464                        |
| Other Payables and Accruals         | 30          | 59,688                           | 83,907                         |
| Lease Liabilities                   | 24.2        | 5,112                            | 19,273                         |
| Current Income Tax Payable          | 27          | 118,926                          | 161,488                        |
| Deferred Tax Liabilities            | 27.2        | 6,765                            | 63,167                         |
| <b>Total Liabilities</b>            |             | <b>6,396,236</b>                 | <b>6,884,350</b>               |
| <b>Equity</b>                       |             |                                  |                                |
| Share Capital                       | 32.1        | 5,682,248                        | 5,682,248                      |
| Share Premium                       | 32.2        | 74,057                           | 74,057                         |
| Contingency Reserve                 | 32.3        | 4,652,032                        | 4,146,418                      |
| Revaluation Reserve                 | 32.4        | 390,560                          | 390,560                        |
| Fair Value Reserve                  | 32.5        | 4,792                            | 4,793                          |
| Retained Earnings                   | 32.6        | 385,070                          | 297,856                        |
| <b>Total Equity</b>                 |             | <b>11,188,760</b>                | <b>10,595,932</b>              |
| <b>Total Liabilities and Equity</b> |             | <b>17,584,996</b>                | <b>17,480,282</b>              |

The financial statements and accompanying summary of accounting policies and notes to the financial statements were approved and authorised for issue by the Board of Directors on 30th October 2023 and were signed on its behalf by:

  
 Mr. Oluseun O. Ajayi  
 Chairman  
 FRC/2013/CIIN/00000003373

  
 Mr. Olaotan Soyinka  
 Managing Director/CEO  
 FRC/2013/CIIN/ 00000002672

  
 Mr. Kayode Adigun  
 Chief Financial Officer  
 FRC/2013/ICAN/00000002652

# SOVEREIGN TRUST INSURANCE PLC

## STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 SEPTEMBER 2023

|  | Ordinary<br>share<br>capital<br>₦'000 | Share<br>premi<br>₦'000 | Contingency<br>reserve<br>₦'000 | Revaluation<br>reserve<br>₦'000 | Fair value<br>reserve<br>₦'000 | Accumulated<br>losses<br>₦'000 | Total equity<br>₦'000 |
|--|---------------------------------------|-------------------------|---------------------------------|---------------------------------|--------------------------------|--------------------------------|-----------------------|
| <b>At 1 January 2023</b>                             | 5,682,248                             | 74,057                  | 4,146,418                       | 390,560                         | 4,793                          | 297,856                        | 10,595,932            |
| Profit after income tax for the year                 | -                                     | -                       | -                               | -                               | -                              | 592,828                        | 592,828               |
| <b>Total comprehensive income for the year</b>       | -                                     | -                       | -                               | -                               | -                              | 592,828                        | 592,828               |
| <b>Transaction directly affecting equity holders</b> |                                       |                         |                                 |                                 |                                |                                |                       |
| Transfer between reserves                            | -                                     | -                       | 505,614                         | -                               | -                              | (505,614)                      | -                     |
| Revaluation gain during the year                     | -                                     | -                       | -                               | -                               | -                              | -                              | -                     |
| Effect of deferred tax                               | -                                     | -                       | -                               | -                               | -                              | -                              | -                     |
| Fairvalue gain during the year                       | -                                     | -                       | -                               | -                               | -                              | -                              | -                     |
|  | -                                     | -                       | 505,614                         | -                               | -                              | (505,614)                      | -                     |
| <b>At 30 Sept 2023</b>                               | <b>5,682,248</b>                      | <b>74,057</b>           | <b>4,652,032</b>                | <b>390,560</b>                  | <b>4,793</b>                   | <b>385,070</b>                 | <b>11,188,760</b>     |

## SOVEREIGN TRUST INSURANCE PLC

### STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 SEPTEMBER 2023

|   | 2023<br>₦'000    | 2022<br>₦'000    |
|---|------------------|------------------|
| <b>Operating activities:</b>                        |                  |                  |
| Insurance revenue                                   | 14,838,812       | 10,341,185       |
| Insurance service expenses                          | (6,356,724)      | (3,248,336)      |
| Net expenses from reinsurance contracts held        | (8,306,209)      | (6,784,147)      |
| Interest Income                                     | 272,145          | 285,367          |
| Other Income  | 204,613          | 39,696           |
| Payment for the year                                | (115,670)        | (123,675)        |
| <b>Net cash flows from operating activities</b>     | <b>536,967</b>   | <b>510,090</b>   |
| <b>Investing activities:</b>                        |                  |                  |
| Purchase of property, plant and equipment           | (234,024)        | (155,133)        |
| Purchase of intangible assets                       | (42,479)         | (50,678)         |
| Receipts from mortgage loans                        |                  | 2,319            |
| Proceed on disposal of property plant and equipment |                  | -                |
| Purchase of debt instruments at amortised cost      | (40,183)         | (89,549)         |
| Purchase of equity instrument FVTOCI                |                  |                  |
| Proceeds from bonds maturity                        |                  |                  |
| Purchase of quoted shares                           | (119,225)        | (93,834)         |
| Proceeds from disposal of quoted stock              |                  |                  |
| <b>Net cash flows from investing activities</b>     | <b>(435,911)</b> | <b>(386,875)</b> |
| <b>Financing activities:</b>                        |                  |                  |
| <b>Net cash flows from financing activities</b>     | <b>-</b>         | <b>-</b>         |
| <b>Net increase in cash and cash equivalents</b>    | <b>101,056</b>   | <b>123,215</b>   |
| Short term investments above 91 days                | -                |                  |
| Short term investments above 91 days at 1 January   |                  |                  |
| Cash and cash equivalents at 1 January              | 5,757,351        | 5,114,937        |
| <b>Cash and cash equivalents at 31 December</b>     | <b>5,858,407</b> | <b>5,238,152</b> |

The accompanying summary of significant accounting policies and notes to the financial statements are an integral part of these financial statements.

# SOVEREIGN TRUST INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2023

|  | 2023               | 2022               |
|--|--------------------|--------------------|
|  | ¥'000              | ¥'000              |
| <b>Insurance Revenue</b>   |                    |                    |
| 5.0 Net liability for remaining coverage                         | (133,933)          | (632,929)          |
| Interest accreted (incl. change of rates) to insurance contracts | 118,933            | -                  |
| Premiums received  | 16,853,812         | 12,494,021         |
|  | <u>16,838,812</u>  | <u>11,861,092</u>  |
| <b>6.0 Insurance Service Expense</b>                             |                    |                    |
| Change in liabilities on incurred claim                          | (1,297,664)        | 1,211,461          |
| Interest accreted (incl. change of rates) to insurance contracts | 153,030            | -                  |
| Amortisation of insurance acq. cash flows                        | (1,690,273)        | (1,418,711)        |
| Claims and other expenses paid (5.1)                             | (3,521,817)        | (3,041,086)        |
|  | <u>(6,356,724)</u> | <u>(3,248,336)</u> |
| <b>6.1</b>   |                    |                    |
| Gross claims paid  | (2,986,239)        | (2,629,765)        |
| Maintenance cost   | (535,578)          | (411,321)          |
|  | <u>(3,521,817)</u> | <u>(3,041,086)</u> |
| <b>7.0 Net Expense from Reinsurance Contract Held</b>            |                    |                    |
| Change to income statement                                       | 817,561            | 554,082            |
| Interest accreted  | (102,095)          | -                  |
| Premiums received  | (10,034,567)       | (7,735,488)        |
|  | <u>(9,319,101)</u> | <u>(7,181,406)</u> |
| <br>Amounts recoverable from reinsurers for incurred claims      |                    |                    |
| Change to income statement                                       | 294,014            | (849,510)          |
| Interest accreted  | (141,355)          | -                  |
| Amounts received   | 860,233            | 1,246,769          |
|  | <u>1,012,892</u>   | <u>397,259</u>     |
| Net expenses from reinsurance contracts held                     | <u>(8,306,209)</u> | <u>(6,784,147)</u> |

**SOVEREIGN TRUST INSURANCE PLC**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER, 2023**

|   | <b>2023</b>      | <b>2022</b>      |
|---|------------------|------------------|
|   | <b>₦'000</b>     | <b>₦'000</b>     |
| <b>8.0 INVESTMENT INCOME</b>  |                  |                  |
| Interest revenue  | 272,145          | 285,367          |
| <b>Included in investment income is the accrued interest on all the classes of financial assets</b> |                  |                  |
| <b>8.1 Net fair value gain on financial assets at fair value through profit or loss</b>             | <b>₦'000</b>     | <b>₦'000</b>     |
| Fair value gain on equity instruments   | 204,613          | 39,696           |
| <br>  |                  |                  |
| <b>9.0 Insurance finance expense for insurance contract issued</b>                                  |                  |                  |
| Insurance finance expenses total  | 214,714          | 296,752          |
| <br>  |                  |                  |
| <b>10.0 Reinsurance finance income for insurance contracts held</b>                                 |                  |                  |
| Interest accreted   | 243,450          | 169,028          |
| <br>  |                  |                  |
| <b>11.0 Other finance cost</b>  |                  |                  |
| Borrowing cost  | 201,692          | 92,459           |
| <br>  |                  |                  |
| <b>12.0 Management expenses</b>   |                  |                  |
| Employee benefits expense (Note 13.1)   | 929,342          | 688,807          |
| Other expenses (Note 13.2)  | 751,562          | 538,624          |
| Depreciation on property, plant and equipment (Note 25)   | 32,184           | 37,356           |
| Amortisation of right-of-use- assets (Note 24)  | 11,813           | 15,637           |
| Directors fee and allowance   | 23,468           | 14,490           |
| Amortisation of intangible assets (Note 22)   | 21,045           | 7,813            |
|   | <b>1,769,413</b> | <b>1,302,727</b> |
| <br>  |                  |                  |
| <b>12.1 Employee benefits expense</b>   |                  |                  |
| Wages and salaries  | 880,741          | 627,849          |
| Defined contribution pension costs (Note 13.1.1)  | 48,601           | 60,958           |
|   | <b>929,342</b>   | <b>688,807</b>   |

13.1.1 The total contribution pension charged to profit or loss during the year is ~~₦48.6million~~ (2022 : ~~₦60.95million~~).

13.2

**Other expenses**

|   |                |                |
|---|----------------|----------------|
| Advertising   | 53,596         | 52,082         |
| Bank charges  | 69,195         | 68,210         |
| Rent and rate   | 28,980         | 25,754         |
| Fuel, electricity and energy                                      | 52,682         | 44,191         |
| Insurance   | 40,432         | 40,811         |
| Staff training and education                                      | 60,925         | 20,643         |
| NAICOM Levy   | 173,048        | 127,686        |
| Transport and travelling expenses                                 | 13,787         | 9,612          |
| Data processing   | 19,025         | 21,890         |
| Automobile expenses   | 19,337         | 11,729         |
| Professional fees   | 27,028         | 26,384         |
| Telephone expenses  | 4,859          | 6,104          |
| Annual general meeting expenses                                   | 15,354         | 15,671         |
| Forms and printing expenses                                       | 20,651         | 15,823         |
| Contribution to I.T.F. levy                                       | 9,824          | 7,060          |
| Office and stationery expenses                                    | 9,369          | 8,003          |
| Contribution to NSITF   | 6,963          | 5,441          |
| Equipment maintenance and repairs                                 | 7,269          | 4,151          |
| Hotel accommodation   | 3,662          | 2,836          |
| Contribution to NHF   | 6,748          | 7,223          |
| Periodicals and books   | 1,982          | 1,540          |
| Tax consultancy expenses  | 500            | 1,830          |
| Courier and postages expenses                                     | 2,463          | 2,837          |
| Entertainment   | 3,158          | 2,671          |
| Local government dues   | 1,330          | 2,221          |
| Security Exchange Commission and Nigerian Stock Exchange expenses | 3,653          | 945            |
| Contributions and donations                                       | 2,350          | 1,660          |
| Club membership and subscriptions                                 | 4,310          | 3,451          |
| Staff uniforms  | 525            | 938            |
|   | <b>751,562</b> | <b>538,624</b> |

# SOVEREIGN TRUST INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2023

|  | <b>2023</b>                    | <b>2022</b>                    |
|--|--------------------------------|--------------------------------|
|  | ₦'000                          | ₦'000                          |
| <b>13.0 Income tax expense</b>   |                                |                                |
| The major components of income tax expense for the period ended 30 September 2023 is:  | <b>117,439</b>                 | <b>103,675</b>                 |
| <b>14.0 Earnings per share</b>   |                                |                                |
| Basis earnings per share amounts is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary share outstanding at the reporting date. |                                |                                |
| The following reflects the income and share data used in the basic earnings per share computations:  |                                |                                |
| Net profit attributable to ordinary shareholders for basic earnings  | <u><u>592,828</u></u>          | <u><u>527,087</u></u>          |
| Total outstanding number of ordinary shares in the year  | <u><u>11,364,496</u></u>       | <u><u>11,364,496</u></u>       |
| Weighted average number of ordinary shares for basic earning per share   | <u><u>11,364,496</u></u>       | <u><u>11,364,496</u></u>       |
| Basic earnings per ordinary share (kobo)   | <u><u>5</u></u>                | <u><u>5</u></u>                |
| There have been no other transactions involving ordinary share or potential ordinary share between the reporting date and the date of authorisation of these financial statements.                               |                                |                                |
| There is not potential ordinary shares as at year end.   |                                |                                |
| <b>15.0 Cash and cash equivalents</b>  |                                |                                |
| Cash in banks  | 2,360,639                      | <b>5,184,868</b>               |
| Short-term deposits with banks and other financial institutions  | <u>3,504,984</u>               | <u><b>3,501,773</b></u>        |
|  | 5,865,623                      | <b>8,686,641</b>               |
| Allowance for expected credit loss (Note 15.1b)  | <u>(7,216)</u>                 | <u><b>(7,938)</b></u>          |
|  | <u><u><b>5,858,407</b></u></u> | <u><u><b>8,678,703</b></u></u> |

# SOVEREIGN TRUST INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2023

|   | <b>2023</b>             | <b>2022</b>             |
|---|-------------------------|-------------------------|
|   | ₦'000                   | ₦'000                   |
| <b>16.0 Investment securities</b>   |                         |                         |
| Equity instruments at fair value through profit or loss   | <b>1,046,538</b>        | 937,185                 |
| Equity instrument at fair value through other comprehensive income (Note 17.1)  | <b>361,582</b>          | 361,582                 |
| Debt securities at amortised cost (Note 17.2)   | <b>528,121</b>          | 487,940                 |
|   | <b><u>1,936,241</u></b> | <b><u>1,786,707</u></b> |
| <b>16.1 Equity instrument at fair value through other comprehensive income</b>  |                         |                         |
| Waica Reinsurance Corporation   | <b>65,692</b>           | 65,692                  |
| Interconnect Clearinghouse Nigeria Limited  | <b>13,621</b>           | 13,621                  |
| STI Asset Management Limited  | <b>312,821</b>          | 312,821                 |
|   | <b>392,134</b>          | <b>392,134</b>          |
| Fairvalue reserve   | <b>(30,552)</b>         | <b>(30,552)</b>         |
| <b>Fairvalue at 31 September 30</b>   | <b><u>361,582</u></b>   | <b><u>361,582</u></b>   |
| <b>16.1.1</b> STI Asset management limited is a subsidiary of the Company (STI Plc) and is currently undergoing approval and certification by the Securities and Exchange Commission. |                         |                         |
| <b>16.2 Debt securities at amortised cost</b>   |                         |                         |
| Federal Government bonds  | <b>242,601</b>          | <b>76,988</b>           |
| State Government bonds  | <b>97,962</b>           | <b>235,423</b>          |
| Corporate bonds   | <b>194,774</b>          | <b>182,745</b>          |
| <b>Gross amount</b>   | <b><u>535,337</u></b>   | <b><u>495,156</u></b>   |
| Allowance for expected credit loss (Note b)   | <b>(7,216)</b>          | <b>(7,216)</b>          |
|   | <b><u>528,121</u></b>   | <b><u>487,940</u></b>   |

# SOVEREIGN TRUST INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2023

### 16.5.1 Equity instruments at fair value through profit or loss - Quoted

The fair values of the quoted equity instruments are derived from quoted market prices in active market, the Nigerian Stock Exchange (NSE).

### 16.5.2 Equity instruments at fair value through OCI - Unquoted

The fair values of the non-listed equity investments have been estimated using a DCF model. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these non-listed equity investments.

### 16.5.3 Debt instruments at amortised cost - Federal, State Government and Corporate bonds

Certain unquoted investments for which fair values could not be reliably estimated have been carried at cost less impairment. There are no active markets for these financial instruments, fair value information are therefore not available, this makes it impracticable for the Company to fair value these investments. They have therefore been disclosed at cost less impairment. The carrying amount is the expected recoverable amounts on these investments. This investment can be disposed through private placement.

### 16.5.4 Debt instruments at amortised cost - Loans and advances

The fair value of loans and advances was estimated using the maximum lending rate quoted on Central Bank of Nigeria website as at year end.

|                              | <b>2023</b><br>N'000    | <b>2022</b><br>N'000  |
|------------------------------|-------------------------|-----------------------|
| <b>17. Trade receivables</b> |                         |                       |
| Insurance receivables        | 3,594,619               | 3,393,206             |
| Impairment allowance         | <u>(2,498,790)</u>      | <u>(2,498,790)</u>    |
|                              | <u><b>1,095,829</b></u> | <u><b>894,416</b></u> |

The carrying amounts disclosed above approximate fair value at the reporting date.

### 17.1 Age analysis of Trade receivables

| S/No. | Age of debt        | No of policies | <b>2023</b><br>N'000    | <b>2022</b><br>N'000  |
|-------|--------------------|----------------|-------------------------|-----------------------|
| 1     | Within 14 Days     | 14             | 65,509                  | 29,624                |
| 2     | Within 15-30 Days  | 596            | 1,030,320               | 864,792               |
| 3     | Within 31-90 Days  | 0              | -                       | -                     |
| 4     | Within 91-180 Days | 0              | -                       | -                     |
| 5     | Above 180 Days     | 0              | -                       | -                     |
|       | <b>Total</b>       |                | <u><b>1,095,829</b></u> | <u><b>894,416</b></u> |

# SOVEREIGN TRUST INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2023

|  | <b>2023</b><br>N'000    | <b>2022</b><br>N'000    |
|--|-------------------------|-------------------------|
| <b>18. Reinsurance assets</b>                                    |                         |                         |
| Reinsurance asset for incurred claims excluding risk adjustment: | 831,745                 | 528,335                 |
| Reinsurance asset for remaining coverage                         | <u>2,854,828</u>        | <u>1,955,945</u>        |
|  | <b>3,686,573</b>        | <b>2,484,280</b>        |
| Impairment allowance   | <u>(8,998)</u>          | <u>(8,998)</u>          |
|  | <b><u>3,677,575</u></b> | <b><u>2,475,282</u></b> |

At 30 September 2023, the Company conducted an impairment review of the reinsurance assets. The carrying amounts disclosed above approximate the fair value at the reporting date.

### 19. Other receivables and prepayments

|  |                       |                       |
|--|-----------------------|-----------------------|
| Contribution to Nigerian Insurance Association | 50,300                | 50,300                |
| Staff debtors                                  | 97,604                | 19,587                |
| Others   | 93,681                | 117,083               |
| Prepayments                                    | <u>426,763</u>        | <u>33,827</u>         |
|  | <b>668,348</b>        | <b>220,797</b>        |
| Impairment allowance                           | <u>(3,411)</u>        | <u>(3,411)</u>        |
|  | <b><u>664,937</u></b> | <b><u>217,386</u></b> |

# SOVEREIGN TRUST INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2023

|   | <b>2023</b><br>N'000 | <b>2022</b><br>N'000 |
|---|----------------------|----------------------|
| <b>20. Investment in associate</b>                    |                      |                      |
| <b>Investment accounted for using equity method</b>   |                      |                      |
| Investment in STI Leasing                             | 100,550              | 92,130               |
| Share of retained earnings in STI Leasing (Note 20.1) | -                    | 8,420                |
|   | <u>100,550</u>       | <u>100,550</u>       |

**20.1.**The Company has 43% interest in STI Leasing Limited, which is involved in Leasing services to private and public sector contributors. STI Leasing Limited was incorporated as a Limited Liability Company under the Companies and Allied Matters Act, CAP C20 Laws of the Federation 2004 and licensed as a Leasing Company. STI Leasing Limited is domiciled in Nigeria and its registered office is at 22, Keffi Street, Ikoyi, Lagos. Sovereign Trust Insurance Plc does not have control but only has significant influence as it does not control the Board of Directors.

|                                  | <b>2023</b><br>N'000 | <b>2022</b><br>N'000 |
|----------------------------------|----------------------|----------------------|
| <b>21. Investment properties</b> |                      |                      |
| At 1 January                     | 1,158,470            | 1,014,708            |
| Addition during the year         | -                    | -                    |
| Fair value gain                  | -                    | 143,762              |
| <b>At 30</b>                     | <u>1,158,470</u>     | <u>1,158,470</u>     |

**22.1.**The addition to investment property was the recognition of the cost of perfecting the title document in respect of Awolowo Towers Property.

**21.2.**Investment properties are stated at fair value, which has been determined based on valuations performed by Gerry Iputu & Partners. (FRC/2015/NIESV/00000006098), J. Ajayi Patunola & Co. (FRC/2013/00000000679), Rogba Orimolade & Co. (FRC/2012/NIESV/0000000107), Amos Jolaoye & Co. (FRC/2016/NIESV/00000013727) accredited independent valuers as at 31 September 2023. The valuers are specialists in valuing these types of investment properties. The determination of fair value of the investment property was supported by market evidence. The modalities and process of valuation utilized extensive analysis of market data and other sectors specific peculiarities corroborated with available data derived from previous experiences.

Valuations are performed on an annual basis and the fair value gains and losses were recorded within the Statement of profit or loss.

There are no restrictions on the realisability of investment property or remittance of income and proceeds of disposal. The Company has no contractual obligations to purchase, construct or develop investment property or for repairs or enhancement.

# SOVEREIGN TRUST INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2023

|                                  | 2023           | 2022           |
|----------------------------------|----------------|----------------|
|                                  | ₦'000          | ₦'000          |
| <b>22. Intangible assets</b>     |                |                |
| <b>Computer software</b>         |                |                |
| <b>Cost:</b>                     |                |                |
| At 1 January                     | 165,067        | 74,551         |
| Additions                        | 42,479         | 90,516         |
| <b>At 30 Sept , 2023</b>         | <b>207,546</b> | <b>165,067</b> |
| <b>Accumulated amortization:</b> |                |                |
| At 1 January                     | 103,463        | 72,707         |
| Amortisation charge              | 21,045         | 30,756         |
| <b>At 30 Sept , 2023</b>         | <b>124,508</b> | <b>103,463</b> |
| <b>Carrying amount</b>           | <b>83,038</b>  | <b>61,604</b>  |

22.1 Intangible assets represent externally purchased software for the running of the business.

### 23. Deferred acquisition costs

This represents commission paid to brokers on unearned premium relating to the unexpired tenure of risk.

|                            | Fire           | Motor          | General<br>accident | Engineering    | Marine &<br>aviation | Oil and<br>gas | Total          |
|----------------------------|----------------|----------------|---------------------|----------------|----------------------|----------------|----------------|
|                            | ₦'000          | ₦'000          | ₦'000               | ₦'000          | ₦'000                | ₦'000          | ₦'000          |
| <b>At 1 January 2022</b>   | 194,453        | 19,945         | 41,463              | 42,939         | 74,941               | 20,501         | 394,242        |
| Commission paid            | 205,516        | 593,937        | 251,879             | 210,484        | 235,646              | 161,451        | 1,658,913      |
| Amortisation (Note 8)      | (252,271)      | (592,024)      | (221,168)           | (195,272)      | (284,275)            | (175,738)      | (1,720,748)    |
| <b>At 31 December 2022</b> | <b>147,698</b> | <b>21,858</b>  | <b>72,174</b>       | <b>58,151</b>  | <b>26,312</b>        | <b>6,214</b>   | <b>332,407</b> |
| Commission paid            | 332,466        | 276,295        | 207,291             | 201,418        | 158,446              | 33,607         | 1,209,523      |
| Amortisation (Note 8)      | (147,828)      | (56,874)       | (121,765)           | (122,500)      | (101,111)            | (13,687)       | (563,765)      |
| <b>At 30 Sept , 2023</b>   | <b>332,336</b> | <b>241,279</b> | <b>157,700</b>      | <b>137,069</b> | <b>83,647</b>        | <b>26,134</b>  | <b>978,165</b> |
| <b>Current</b>             | <b>332,336</b> | <b>241,279</b> | <b>157,700</b>      | <b>137,069</b> | <b>83,647</b>        | <b>26,134</b>  | <b>978,165</b> |
| <b>Non-current</b>         | <b>-</b>       | <b>-</b>       | <b>-</b>            | <b>-</b>       | <b>-</b>             | <b>-</b>       | <b>-</b>       |

|  | 2023<br>N'000 | 2022<br>N'000 |
|--|---------------|---------------|
| <b>24. Leases</b>                              |               |               |
| <b>24.1 Right of use assets</b>                |               |               |
| <b>Motor vehicle</b>                           |               |               |
| <b>Cost</b>                                    |               |               |
| At 1 January                                   | 63,000        | 63,000        |
| Additions                                      | -             | -             |
| <b>At 30 Sept , 2023</b>                       | <u>63,000</u> | <u>63,000</u> |
| <b>Accumulated depreciation</b>                |               |               |
| At 1 January                                   | 31,500        | 15,750        |
| Depreciation charge                            | 11,812        | 15,750        |
| <b>At 30 Sept , 2023</b>                       | <u>43,312</u> | <u>31,500</u> |
| <b>Carrying amount</b>                         | <u>19,688</u> | <u>31,500</u> |
| Charge and depreciation will commence in 2022. |               |               |
| <b>24.2 Lease liabilities</b>                  |               |               |
| At 1 January                                   | 19,869        | 19,869        |
| Additions                                      | -             | -             |
| Interest expense                               |               | 13,566        |
| Repayments                                     | (14,757)      | (14,162)      |
| <b>At 30 Sept , 2023</b>                       | <u>5,112</u>  | <u>19,273</u> |

**SOVEREIGN TRUST INSURANCE PLC**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2023**

**25. Property, plant and equipment**

|                                 | Land<br>N'000  | Building<br>N'000 | Leasehold<br>improvements<br>N'000 | Office<br>equipment<br>N'000 | Furniture &<br>fittings<br>7982828.45 | Plant &<br>machinery<br>N'000 | Motor<br>vehicles<br>N'000 | Computer &<br>equipment<br>N'000 | Total<br>N'000   |
|---------------------------------|----------------|-------------------|------------------------------------|------------------------------|---------------------------------------|-------------------------------|----------------------------|----------------------------------|------------------|
| <b>Cost/revaluation</b>         |                |                   |                                    |                              |                                       |                               |                            |                                  |                  |
| At 1 January 2023               | <u>758,367</u> | <u>558,104</u>    |                                    | <u>105,557</u>               | <u>125,555</u>                        | <u>98,096</u>                 | <u>1,303,433</u>           | <u>321,277</u>                   | <u>3,270,389</u> |
| Additions in the year           | -              | -                 | -                                  | 5,038                        | 10,422                                | -                             | 210,071                    | 8,493                            | 234,024          |
| <b>At 30 Sept. 2023</b>         | <u>758,367</u> | <u>558,104</u>    | -                                  | <u>110,595</u>               | <u>135,977</u>                        | <u>98,096</u>                 | <u>1,513,504</u>           | <u>329,770</u>                   | <u>3,504,413</u> |
| Additions in the year           | -              | -                 | -                                  | -                            | -                                     | -                             | -                          | -                                | -                |
| Disposal                        | -              | -                 | -                                  | -                            | -                                     | -                             | -                          | -                                | -                |
| <b>At 30 Sept. 2023</b>         | <u>758,367</u> | <u>558,104</u>    | -                                  | <u>110,595</u>               | <u>135,977</u>                        | <u>98,096</u>                 | <u>1,513,504</u>           | <u>329,770</u>                   | <u>3,504,413</u> |
| <b>Accumulated depreciation</b> |                |                   |                                    |                              |                                       |                               |                            |                                  |                  |
| At 1 January 2023               | -              | <u>22,324</u>     | -                                  | 94,988                       | <u>117,491</u>                        | <u>91,077</u>                 | <u>1,177,635</u>           | <u>271,617</u>                   | <u>1,775,132</u> |
| Charge for the year             | -              | 5,037             | -                                  | 2,341                        | 2,079                                 | 790                           | 16,413                     | 5,524                            | 32,184           |
| <b>At 30 Sept. 2023</b>         | -              | <u>27,361</u>     | -                                  | <u>97,329</u>                | <u>119,570</u>                        | <u>91,867</u>                 | <u>1,194,048</u>           | <u>277,141</u>                   | <u>1,807,316</u> |
| Charge for the year             | -              | -                 | -                                  | -                            | -                                     | -                             | -                          | -                                | -                |
| Disposal                        | -              | -                 | -                                  | -                            | -                                     | -                             | -                          | -                                | -                |
| <b>At 30 Sept. 2023</b>         | -              | <u>27,361</u>     | -                                  | <u>97,329</u>                | <u>119,570</u>                        | <u>91,867</u>                 | <u>1,194,048</u>           | <u>277,141</u>                   | <u>1,807,316</u> |
| <b>Carrying amount</b>          |                |                   |                                    |                              |                                       |                               |                            |                                  |                  |
| <b>At 30 Sept. 2023</b>         | <u>758,367</u> | <u>530,743</u>    | -                                  | <u>13,266</u>                | <u>16,407</u>                         | <u>6,229</u>                  | <u>319,456</u>             | <u>52,629</u>                    | <u>1,697,097</u> |

# SOVEREIGN TRUST INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2023

|  | <b>2023</b>           | <b>2022</b>           |
|--|-----------------------|-----------------------|
|  | ₦'000                 | ₦'000                 |
| <b>26. Statutory deposit (Note 27.1)</b> | <b><u>315,000</u></b> | <b><u>315,000</u></b> |

### 26.1. Statutory deposit

The statutory deposit of ₦315,000,000 represents the amount deposited with the Central Bank of Nigeria as at 30 September 2023 (30 September 2022: ₦315,000,000) in accordance with Section 10 (3) of Insurance Act 2003. The deposit has been tested for adequacy as at 30 September 2023 and found to be adequate.

### 27. Taxation

#### 27.1 Current income tax payable

|                        |                       |                       |
|------------------------|-----------------------|-----------------------|
| At 1 January           | <u>118,926</u>        | <u>161,488</u>        |
| <b>At 30 September</b> | <b><u>118,926</u></b> | <b><u>161,488</u></b> |

#### 27.2 Deferred tax liabilities

|                          |              |               |
|--------------------------|--------------|---------------|
| Deferred tax liabilities | <u>6,765</u> | <u>63,167</u> |
|--------------------------|--------------|---------------|

Interest income earned at annual average rate of 4.2% per annum (2022 : 2.5%) and this is included within investment income. However, access to the deposit is restricted.

|   | <b>2023</b>             | <b>2022</b>             |
|---|-------------------------|-------------------------|
|   | ₦'000                   | ₦'000                   |
| <b>28. Insurance contract liabilities</b> |                         |                         |
| Liabilities for incurred claims           | 1,933,400               | 1,945,395               |
| Liabilities for remaining coverage        | <u>1,868,667</u>        | <u>2,275,120</u>        |
|   | <b><u>3,802,067</u></b> | <b><u>4,220,515</u></b> |

# SOVEREIGN TRUST INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER, 2023

|                              | <b>2023</b><br>¥'000 | <b>2022</b><br>¥'000 |
|------------------------------|----------------------|----------------------|
| <b>29. Borrowings</b>        |                      |                      |
| Convertible bond (Note 30.1) | <u>2,280,027</u>     | <u>2,078,536</u>     |
| <b>30.1 Convertible bond</b> |                      |                      |
| At 1 January                 | 2,078,535            | 1,714,241            |
| Interest capitalised         | 54,604               | 252,403              |
| Foreign exchange difference  | <u>146,888</u>       | <u>111,892</u>       |
| <b>At 30 September</b>       | <u>2,280,027</u>     | <u>2,078,536</u>     |

This represents zero coupon JPY 846,000,000 direct, unconditional, unsubordinated and unsecured European Bond with options issued to Daewoo Securities Europe Limited in 2008. The underlying Bond had a put period of 30 months with a yield to put of 4.25% per annum while the tenor of the convertible option is valid up to year 2024. The purpose for which the Bond was issued relates to Expansion of Branch Network, Upgrade of Information and Communication Technology and Working Capital. However, the Company has secured the consent and agreement of Daewoo Securities (Europe) Limited to restructure the bond for a period of 5 years commencing from year 2013 to 2017 under a new interest rate (10%) arrangement which incorporate any previous default interest.

|                                   | <b>2023</b><br>¥'000 | <b>2022</b><br>¥'000 |
|-----------------------------------|----------------------|----------------------|
| <b>30. Trade payables</b>         |                      |                      |
| Deferred commission income (31.1) | 14,988               | 30,239               |
| Due to reinsurance companies      | <u>108,662</u>       | <u>227,225</u>       |
|                                   | <u>123,650</u>       | <u>257,464</u>       |

# SOVEREIGN TRUST INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2023

|  | <b>2023</b><br>₦'000    | <b>2022</b><br>₦'000    |
|--|-------------------------|-------------------------|
| <b>30.1 Deferred commission income</b>   |                         |                         |
| At 1 January   | 373,096                 | 178,315                 |
| Additions during the year  | 541,080                 | 974,001                 |
| Credit to profit or loss (Note 6)  | (883,937)               | (779,220)               |
| <b>At 30 September</b>   | <b><u>30,239</u></b>    | <b><u>373,096</u></b>   |
| <b>30.1.1.</b> Deferred commission income relates to unearned commission income on premium received in the year. |                         |                         |
| <b>31 Other payables and accruals</b>  |                         |                         |
| Account payable  |                         | 5,900                   |
| Pension payable  |                         | 7,800                   |
| Accrued expense  |                         | 16,700                  |
| Unclaimed dividends  | 46,444                  | 46,444                  |
| Sundry creditors   | 13,244                  | 7,063                   |
|  | <b><u>59,688</u></b>    | <b><u>83,907</u></b>    |
| <b>32. Equity</b>  |                         |                         |
| <b>32.1 Authorised and Issued and paid-up share capital</b>  |                         |                         |
| Authorised share capital 15 billion (2022 : 15 billion) units of ordinary share of ₦0.50k each                   |                         |                         |
| At 1 January   | 7,500,000               | 7,500,000               |
| <b>At 30 September</b>   | <b><u>7,500,000</u></b> | <b><u>7,500,000</u></b> |
| <b>Ordinary shares issued and fully paid</b>   |                         |                         |
| 11,364,466,014 ordinary shares at ₦0.50k each  |                         |                         |
| At 1 January   | 5,682,248               | 5,682,248               |
| <b>At 30 September</b>   | <b><u>5,682,248</u></b> | <b><u>5,682,248</u></b> |

# SOVEREIGN TRUST INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2023

|   | <b>2023</b>      | <b>2022</b>      |
|---|------------------|------------------|
|   | ₹'000            | ₹'000            |
| <b>32.2 Share premium</b>   |                  |                  |
| At 1 January  | 74,057           | 74,057           |
| Capital raising expenses  | -                | -                |
| <b>At 30 September</b>  | <b>74,057</b>    | <b>74,057</b>    |
| <b>32.3 Contingency reserve</b>   |                  |                  |
| At 1 January  | 4,146,418        | 3,689,555        |
| Transfer from retained earning/(accum.loss) (Note 33.6)   | 505,614          | 456,863          |
| <b>At 30 September</b>  | <b>4,652,032</b> | <b>4,146,418</b> |
| <p>Contingency reserve in respect of non-life business is the higher of 20% of net profit and 3% of total premium as specified in Section 21 (2) of the Insurance Act 2003.</p>                                       |                  |                  |
| <b>32.4 Revaluation reserve</b>   |                  |                  |
| <p>This is revaluation surplus in respect of building in line with the Company's accounting policy.</p>   |                  |                  |
| At 1 January  | 390,560          | 390,560          |
| Revaluation gain during the year  | -                | -                |
| Effect of deferred tax (Note 26.2)  | -                | -                |
| <b>At 30 September</b>  | <b>390,560</b>   | <b>390,560</b>   |
| <b>32.5 Fair value reserve</b>  |                  |                  |
| <p>The Fair value reserve represents the net cumulative change in the fair value of equity instrument measured at fair value through other comprehensive income until the investment is derecognised or impaired.</p> |                  |                  |
| At 1 January  | 4,792            | 16,947           |
| Fairvalue (loss)/gain during the year   | -                | (12,154)         |
| <b>At 30 September</b>  | <b>4,792</b>     | <b>4,793</b>     |
| <b>32.6 Retained earnings</b>   |                  |                  |
| At 1 January  | 297,856          | 145,772          |
| Profit or loss for the year   | 592,828          | 374,821          |
| Transfer to contingency reserve (Note 33.3)   | (505,614)        | (374,821)        |
| Impact of IFR 17  |                  | 152,084          |
| <b>At 30 September</b>  | <b>385,070</b>   | <b>297,856</b>   |