

LAW UNION AND ROCK INSURANCE PLC
Lagos, Nigeria

REPORT OF THE DIRECTORS

AND

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

LAW UNION AND ROCK INSURANCE PLC

REPORT OF THE DIRECTORS AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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LAW UNION AND ROCK INSURANCE PLC

DIRECTORS AND ADVISERS

FOR THE YEAR ENDED 31 DECEMBER 2012

DIRECTOR

Princess Adenike Adeniran
Mr. Remi Babalola
Mrs. Toyin Ogunseye
Mr. Victor Faleye
Ms. Toyin Olusanya
Mr. Seni Kusamotu
Mr. Isaac Ajana
Mrs. Funmi Ekundayo

CAPACITY

Chairman
Vice Chairman
Managing Director/CEO
Non-Executive Director
Non-Executive Director
Non-Executive Director
Non-Executive Director
Non-Executive Director

COMPANY SECRETARY/LEGAL ADVISER

Stanley Chikwendu

REGISTERED OFFICE

14 Hughes Avenue,
Alagomeji Yaba, Lagos

WEBSITE

www.lawunioninsurance.com

PHONE

01-8995010-15

AUDITORS

Ernst & Young
(Chartered Accountants)
2A, Bayo Kuku, Ikoyi, Lagos

REGISTRAR

City Securities (Registrars) Limited
Primrose Tower
14A Tinubu Street
Lagos

LAW UNION AND ROCK INSURANCE PLC

FINANCIAL HIGHLIGHTS

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 N'000	2011 N'000
Major Statement of Financial Position items:		
Total Assets	6,617,479	7,555,543
Total Equity	3,522,500	4,765,318
Insurance Contract Liabilities	1,836,299	1,699,770
Major Income Statement items:		
Gross Premium Written	4,163,370	4,219,815
Gross Premium Earned	4,033,952	4,181,397
Net Premium Earned	3,110,568	3,547,524
Claims Incurred	982,231	684,699
(Loss)/Profit Before Taxation	(1,190,800)	289,213
(Loss)/Profit After Taxation	(1,337,180)	249,620
Per 50K Share Data		
(Loss)/Earnings per share (Kobo)	(39)	7
Net Asset per Share (Kobo)	102	139
Stock Exchange quotation (Kobo) as at 31 December	50	50

LAW UNION AND ROCK INSURANCE PLC

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2012

In compliance with the Companies & Allied Matters Act, CAP C20 and Insurance Act 2003, the Directors have pleasure in submitting to members their report together with the audited financial statement of Law Union and Rock Insurance Plc for the year ended 31 December 2012.

1. LEGAL FORM AND PRINCIPAL ACTIVITY

The Company is a public limited liability Company incorporated on the 17 June 1969 in accordance with the provisions of the Companies and Allied Matters Act, 1968 transacting primarily General Insurance business. On 9 July 1990 it was listed on the Nigerian Stock Exchange.

2. RESULTS

	2012	2011
	N'000	N'000
Gross Premium Written	4,163,370	4,219,815
Net Earned Premium	3,110,568	3,547,524
Claims Paid (Net of Recoveries)	982,231	684,699
(Loss)/profit after taxation	(1,337,180)	249,620

3. DIVIDEND

No dividend was proposed in respect of the current year (2011: Nil).

4. BUSINESS REVIEW AND FUTURE DEVELOPMENT

The Company carried out insurance activities in accordance with its Memorandum and Articles of Association. A comprehensive review of the business for the year and prospects for the ensuing year is contained in the Managing Director's Report.

5. DIRECTORS

The following are the names of Directors as at the date of this report and those who held offices during the year under review:

DIRECTORS	CAPACITY	REMARK
Princess Adenike Adeniran	Chairperson	Re-appointed on 11 November 2012
Mr. Remi Babalola	Vice Chairman	Appointed on 1 June 2012
Mrs. Toyin Ogunseye Olusegun	Managing Director/CEO	Appointed on 19 April 2012
Mr. Victor Faleye	Non-Executive Director	Appointed on 1 June 2012
Mr. Seni Kusamotu	Non-Executive Director	Appointed on 16 August 2012
Mr. Isaac Ajana	Non-Executive Director	Re-appointed on 11 November 2012
Ms. Toyin Olusanya	Non-Executive Director	Appointed on 1 June 2012
Mrs. Funmi Ekundayo Akintemi	Non-Executive Director	Appointed on 16 August 2012

a. Change in Composition of Board

Since the last Annual General Meeting, the following developments took place in the composition of the Board:

- Sir Nnamdi Obi was appointed a Non-Executive Director, subject to ratification by members at the Annual General Meeting. However, by a letter dated 7th March 2013, he resigned his appointment.

REPORT OF THE DIRECTORS - Continued

FOR THE YEAR ENDED 31 DECEMBER 2012

5. DIRECTORS - Continued

b. Director's Resignation

Notices of the resignation of the following members of the Board were received:

NAME OF DIRECTOR	CAPACITY	DATE OF RESIGNATION
Mr. Yinka Bolarinwa	Managing Director/CEO	16 May 2012
Mr. Olusegun Illori	Executive Director	12 April 2012
Mr. Femi T. Akingbe	Non-Executive	18 May 2012
Dr. Godswill Ihetu	Non-Executive	31 May 2012
Mr. Timothy Oguntayo	Non-Executive	25 June 2012
Mr. Olusegun Akintemi	Non-Executive	1 August 2012
Mr. Ajibola Jolaosho	Non-Executive	31 May 2012

c. Directors Retiring by Rotation

In accordance with the Company's Articles of Association, the following Directors, Mr. Remi Babalola, Mr. Victor Faleye and Ms. Toyin Olusanya will retire by rotation.

c. Directors' Interest

The names of the Directors and their interests in the issued share capital of the Company as recorded in the Register of Directors' Shareholdings as at 31 December 2012 are as follows:

DIRECTORS NAME	Number of Ordinary Shares held (2012)	Number of Ordinary Shares held (2011)
Princess Adenike Adeniran	Indirect (1) - 1,031,133,728 (Swanlux Solutions and Services Limited) Indirect (2) - 10,147,700 (Nikal Nigeria Limited)	Indirect-1,785,627,772 (Skye Bank)
Mr. Remi Babalola	Indirect - 1,031,133,727 (Alternative Capital Partners)	Nil
Mr. Victor Faleye	Indirect - 1,031,133,728 (Swanlux Solutions and Services Limited)	Nil
Ms. Toyin Olusanya	Indirect - 1,031,133,727 (Alternative Capital Partners)	Nil
Mr. Seni Kusamotu	Indirect - 1,031,133,727 (Alternative Capital Partners)	Nil
Mr. Isaac Olaiya Ajana	Direct - 887,634 Indirect - 1,031,133,728 (Swanlux Solutions and Services Limited)	Direct - 887,634 Indirect - 279,999,999 (Swede Control Intertek)

None of the Directors has notified the Company for the purposes of Section 277 of the Companies and Allied Matters Act CAP C20 Laws of the Federation Nigeria 2004 of any disclosable interests in contracts in which the Company was involved as at 31 December 2012.

REPORT OF THE DIRECTORS - Continued

FOR THE YEAR ENDED 31 DECEMBER 2012

6. EMPLOYMENT AND EMPLOYEES

i. Employee Involvement and Training

Management, professional and technical expertise are the Company's major assets and investment in their training, both locally and overseas, continues.

Presently, a major part of training that the Company is building gradually on is mentoring of new intakes. Mentors are being identified with traits that can positively impact the new generations so that ideas and values can be transmitted to the next generation of the company. Formal and informal channels of communication are employed in keeping staff abreast of various factors affecting the Company's performance.

ii. Employment of Physically Challenged Persons

The Company's recruitment policy, which is based solely on merit, does not discriminate against any person on the grounds of physical disability. The Company has no disabled person on its employment but in the event of any member of staff becoming physically challenged, the Company would make efforts to ensure that his/her employment with the Company is sustained.

iii. Health Safety and Welfare at Work

Health and Safety regulations are in force within the Company's premises and employees are aware of existing regulations. The Company provides subsidy to all levels of employees for medical, transportation, lunch, etc.

7. POST BALANCE SHEET EVENTS

There were no post balance sheet events which could have a material effect on the state of affairs of the Company as at 31 December 2012 or the financial performance for the year ended on that date that have not been adequately provided for or disclosed.

8. EQUITY RANGE ANALYSIS

The range of shareholding as at December 2012 is as follows:

Range	No Of Holders	Percent	Unit	Percent
1 - 500	603	4.902	163,553	0.0048
501 - 1000	1208	9.8203	1,155,529	0.0336
1001 - 5000	4630	37.6392	13,322,198	0.3876
5001 - 10000	1898	15.4296	16,016,002	0.4659
10001 - 50000	2623	21.3235	67,805,623	1.9726
50001 - 100000	605	4.9183	49,338,979	1.4354
100001 - 500000	509	4.1379	112,350,552	3.2685
500001 - 1000000	94	0.7642	74,948,719	2.1804
1000001 - 5000000	90	0.7316	200,472,759	5.8322
5000001 - 10000000	21	0.1707	153,426,050	4.4635
10000001 - 50000000	14	0.1138	291,127,340	8.4696
50000001 - 3437330500	6	0.0488	2,457,203,196	71.4858
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Grand Total	12,301	100	3,437,330,500	100
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LAW UNION AND ROCK INSURANCE PLC

REPORT OF THE DIRECTORS - Continued

FOR THE YEAR ENDED 31 DECEMBER 2012

9. SHAREHOLDERS WITH 5% UNITS AND ABOVE %

Alternative Capital Partners	30
Swanlux Solutions and Services Limited	30

10. SHAREHOLDING HISTORY

Law Union and Rock Insurance Plc began operations in 1951 as a Chief Agency, when the late Sir Mobolaji Bank-Anthony held the Power of Attorney for a leading UK insurance company, Royal International Insurance Holding, the first Nigerian to have such authority. In 1957, the Company acquired Branch status and continued to operate as a branch, transacting all major classes of insurance business until 1st January 1969 when the Federal Government of Nigeria decided to acquire shares in leading Financial Institutions in the country, the company was one of those affected by the exercise. The Federal Government acquired 9,775 shares of N2 each, which was 39.1% of the Company's paid-up capital. In 1989, the Federal Government in pursuit of its Privatisation and Commercialisation policy offered to the public its shares in the Company and this exercise led the Company into being quoted on the floor of the Nigerian Stock Exchange on 9th July 1990. Law Union and Rock is now a fully indigenous quoted insurance company. The Company currently has an Authorised capital of ₦1,800,000,000.

The changes in the share capital of the Company since incorporation are summarized below:

Authorized Share Capital Increase

Issued & Fully Paid Capital Increase

DATE	UNITS	PRICE	FROM AMOUNT	TO AMOUNT	UNITS	PRICE	FROM AMOUNT	TO AMOUNT	CONSIDERATION
	"000"	N	N(000)	N(000)	"000"	N	N(000)	N(000)	
1969	25	2.00	-	50	25	2.00	-	50	Cash
1975	125	2.00	50	250	25	2.00	50	50	Nil
1977	150	2.00	250	300	150	2.00	50	300	Bonus & Cash
1982	500	2.00	300	1,000	150	2.00	300	300	Nil
1983	500	2.00	1,000	1,000	300	2.00	300	600	Bonus Issue
1984	500	2.00	1,000	1,000	500	2.00	600	1,000	Bonus Issue
1987	2,500	2.00	1,000	5,000	1,500	2.00	1,000	3,000	Bonus
1989	10,000	0.50	5,000	5,000	10,000	0.50	3,000	5,000	Stock Split N2.00 to 50K
1993	20,000	0.50	5,000	10,000	15,000	0.50	5,000	7,500	Bonus
1995	20,000	0.50	10,000	10,000	20,000	0.50	7,500	10,000	Bonus
1996	40,000	0.50	10,000	20,000	40,000	0.50	10,000	20,000	Cash
1997	200,000	0.50	20,000	100,000	200,000	0.50	20,000	100,000	Bonus & Cash
2004	1,000,000	0.50	100,000	500,000	700,000	0.50	100,000	350,000	Cash
2006	1,000,000	0.50	500,000	500,000	1,000,000	0.50	350,000	500,000	Bonus
2007	3,600,000	0.50	500,000	1,800,000	3,437,330	0.50	500,000	1,718,665	Cash
2008	3,600,000	0.50	1,800,000	1,800,000	3,437,330	0.50	1,718,665	1,718,665	Nil
2009	3,600,000	0.50	1,800,000	1,800,000	3,437,330	0.50	1,718,665	1,718,665	Nil
2010	3,600,000	0.50	1,800,000	1,800,000	3,437,330	0.50	1,718,665	1,718,665	Nil
2011	3,600,000	0.50	1,800,000	1,800,000	3,437,330	0.50	1,718,665	1,718,665	Nil
2012	3,600,000	0.50	1,800,000	1,800,000	3,437,330	0.50	1,718,665	1,718,665	Nil

11. DONATIONS AND SPONSORSHIP

Below is the list of donations made during the year and the recipients:

Chartered Institute of Insurance Nigeria	350,000	
Modupe Memorial Orphanage Home	60,000	
Nigerian Council of registered Insurance Brokers	250,000	
Iragbiji Day 2012		50,000
Diamond Youth Club of Alagomeji Yaba	20,000	

REPORT OF THE DIRECTORS – Continued

FOR THE YEAR ENDED 31 DECEMBER 2012

12. PROPERTY, PLANT AND EQUIPMENT

Information relating to the Company's property, plant and equipment is detailed in the Note 25 to the Financial Statements.

13. AUDIT COMMITTEE

Pursuant to Section 359(3) of the Companies and Allied Matters Act, Cap C20 Laws of the Federal Republic of Nigeria 2004, the Company has in place an Audit Committee comprising three Shareholders and two Directors as follows:

Chief Sylvanus Ezendu	Shareholder Representative – Chairman (Deceased)
Mr. Ibiyemi Kolawole	Shareholder Representative – Acting Chairman
Mr. Tajudeen Adesina	Shareholder Representative
Ms. Toyin Olusanya	Non-Executive Director
Mr. Isaac Ajana	Non-Executive Director

The functions of the Audit Committee are as laid down in Section 359(6) of the Companies and Allied Matters Act, Cap C20 LFN 2004.

14. AUDITORS

Ernst and Young, having expressed their willingness, will continue in office as auditors of the Company in accordance with Section 357 (2) of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004.

BY ORDER OF THE BOARD

STANLEY CHIKWENDU

FRN No: FRC/2012/NBA/0590

COMPANY SECRETARY/LEGAL ADVISER
14, HUGHES AVENUE,
ALAGOMEJI YABA LAGOS

..... November 2013

LAW UNION AND ROCK INSURANCE PLC

REPORT OF THE STATUTORY AUDIT COMMITTEE

FOR THE YEAR ENDED 31 DECEMBER 2012

To the members of Law Union and Rock Insurance Plc:

In accordance with the provision of Section 359(6) of the Companies and Allied Matters Act CAP C20, Laws of the Federation of Nigeria 2004, the members of the Statutory Audit Committee of Law Union and Rock Insurance Plc hereby report as follows:

- We have exercised our statutory functions under Section 359(6) of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 and we acknowledge the co-operation of management and staff in the conduct of these responsibilities.
- We **confirm** that the accounting and reporting policies of the Company are in accordance with legal requirements and agreed ethical practices and that the scope and planning of both the external and internal audit for the year ended 31 December 2012 were satisfactory and reinforce the Company's internal control systems
- We have deliberated with the external auditors, who have confirmed that necessary co-operation was received from management in the course of their statutory audit and we are satisfied with the management's response to the external auditor's recommendations on accounting and internal control matters and with the effectiveness of the Company's system of accounting and internal control.

.....

AJANA ISAAC OLAIYA

FRN No: FRC/2012/NBA/04751

Acting Chairman, Audit Committee

..... November 2013

Members of the Audit Committee are:

1. Chief Sylvanus Ezendu (Deceased)
2. Mr. Tajudeen Adesina
3. Mr. Ibiyemi Kolawole
4. Mr. Isaac Ajana
5. Ms. Toyin Olusanya

Secretary to the Committee

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2012

The Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of financial affairs of the Company at the end of the year and of its profit or loss. The responsibilities include ensuring that the company:

- a) keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company and comply with the requirements of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004;
- b) establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and
- c) prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgments and estimates, and are consistently applied.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with Statements of Accounting Standards issued by the Financial Reporting Council of Nigeria and the requirements of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its profit or loss. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

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Princess Adenike Adeniran

Chairman

FRC/2013/ICAN/2632

.....

Toyin Ogunseye

Managing Director/CEO

FRC/2012/NIGSURERS/583

..... November 2013

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

LAW UNION AND ROCK INSURANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Law Union and Rock Insurance Plc, which comprise the statement of financial position as at 31 December 2012, the income state, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the provisions of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, the Insurance Act 2003, the Financial Reporting Council of Nigeria Act, No 6 2011 and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Law Union and Rock Insurance Plc as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, provisions of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, the Insurance Act 2003, relevant policy guidelines issued by the National Insurance Commission (NAICOM) and the Financial Reporting Council of Nigeria Act No 6, 2011.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

LAW UNION AND ROCK INSURANCE PLC – Continued

Report on Other Legal and Regulatory Requirements

In accordance with the requirement of Schedule 6 of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, we confirm that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books;
- iii) the Company's statement of financial position and statement of comprehensive income are in agreement with the books of account;

Compliance with National Insurance Commission (NAICOM) Guidelines on Finance Companies and circular BSD/1/2004

- i) During the year, the Company contravened a section of the NAICOM Guidelines on Insurance Companies. The particulars thereof and penalties levied are set out in Note 43 to the financial statements;

Lagos, Nigeria

FRC/2012/ICAN/0155

..... November 2013

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

1. Corporate information

Law Union and Rock Insurance Plc was incorporated on 17 June 1969 primarily to market non-life insurance policies. In January 1999, it became a composite insurance Company when it was registered to market all classes of general insurance policies subject to the Insurance Act 2003. The Company is 100% owned by Nigerian shareholders. The Company's shares are listed on the Nigerian Stock Exchange.

The Company was established for the purpose of carrying on general insurance business. It became a composite insurance company in 1999. With effect from 1 January 2007, the Company ceased transacting life insurance business. The net assets of the Life business were transferred to Equity Life Assurance Company Limited (now Crystalife Assurance Company Limited).

2. Summary of significant accounting policies

2.1 Introduction to summary of accounting policies

The following are the significant accounting policies applied by the Company in preparing the separate financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

For all periods up to and including the year ended 31 December 2011, the Company prepared its financial statements in accordance with local generally accepted accounting practice (Nigerian GAAP). These financial statements for the year ended 31 December, 2012 are the first the Company has prepared in accordance with IFRS. IFRS 1: First-time adoption of International Financial Reporting Standards has been applied. An explanation of how the transition from Nigerian GAAP to IFRS has affected the Company's financial position is as detailed in Note 46 to the financial statements.

The financial statements have been prepared on an historical cost basis, except for investment properties and those available-for-sale financial assets that have been measured at fair value.

As permitted by IFRS 4 *Insurance Contracts*, the Company continues to apply the existing accounting policies that were applied prior to the adoption of IFRS, with certain modifications allowed by the standard effective subsequent to adoption for its insurance contracts. The Company has applied Nigerian GAAP in those instances.

The financial statements values are presented in Nigeria Naira (~~N~~) rounded to the nearest thousand (~~N~~000), unless otherwise indicated.

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 42.

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

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2.3 Revenue recognition

2.3.1 Gross premiums

Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily *pro rata* basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

2.3.2 Reinsurance premiums

Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognized on the date on which the policy incepts.

Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

2.3.3 Investment income

Interest income is recognised in the 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 recognised as an adjustment to the effective interest rate of the instrument.

Investment income also includes dividends when the right to receive payment is established. For listed securities, this is the date the security is listed as ex-dividend.

2.3.4 Realized gains and losses

Realized gains and losses recorded in the profit or loss on investments include gains and losses on financial assets and investment properties.

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.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.4 Claims and expenses recognition

2.4.1 Gross claim

General 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.

2.4.2 Reinsurance claims

Reinsurance claims are recognized when the related gross insurance claim is recognized according to the terms of the relevant contract.

2.4.3 Underwriting expenses

Underwriting expenses comprise acquisitions costs and other underwriting expenses. Acquisition costs comprise all direct and indirect costs arising from the writing of insurance contracts. These costs also include fees and commission expense. Other underwriting expenses are those incurred in servicing existing policies and contracts.

2.4.4 Management expenses

These are expenses other than claims and underwriting expenses. They include employee benefits, professional fees, depreciation expenses and other non-operating expenses. Management expenses are accounted for on accrual basis and recognized in the income statement upon utilization of the service or at the date of origination.

2.4.5 Finance costs

Interest paid is recognized in the profit or loss as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

2.5 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less in the statement of financial position.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

2.6 Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets.

The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated. Financial assets are classified as at fair value through profit or loss where the Company's documented investment strategy is to manage financial investments on a fair value basis, because the related liabilities are also managed on this basis. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and/or carried at amortized cost.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.6 Financial assets - continued

Initial recognition and measurement - continued

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

The Company's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, quoted and unquoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Available-for-sale financial assets

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value, with unrealized gains or losses recognized in other comprehensive income in the available-for-sale reserve.

Interest earned whilst holding available-for-sale investments is reported as interest income using the Effective Interest Rate (EIR). Dividends earned whilst holding available-for-sale investments are recognised in the profit or loss as 'Investment income' when the right of the payment has been established. When the asset is derecognised the cumulative gain or loss is recognised in other operating income. When it is determined to be impaired, the cumulative loss is recognised in the profit or loss in finance costs and removed from the available-for-sale reserve.

The Company evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the Company is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the Company may elect to reclassified these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Available-for-sale financial assets in the Company include investment in equity instruments (both quoted and unquoted), investments in unit trust, investments in mutual funds and investment in debt securities (bonds) issued by state governments and other corporate entities.

LAW UNION AND ROCK INSURANCE PLC**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued****2.6 Financial assets – continued*****Loans and other receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortized cost, using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in 'finance income' in the profit or loss. Gains and losses are recognized in the profit or loss when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables in the Company include deposits with bank and other financial institutions having maturity of more than three months, loans to employees and receivable under finance lease in which the Company is a lessor.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the intention and ability to hold until maturity. After initial measurement, held-to-maturity financial assets are measured at amortized cost, using the EIR, less impairment. The EIR amortization is included in 'investment income' in the profit or loss. Gains and losses are recognized in the profit or loss when the investments are derecognized or impaired, as well as through the amortization process.

The Company does not currently have any financial assets classified as held-to-maturity financial assets.

Derecognition of financial assets

A financial asset (or, when applicable, a part of a financial asset or part of a Company of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired

Or

- The Company retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- The Company has transferred substantially all the risks and rewards of the asset

Or

- 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 right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.6 Financial assets – continued

Derecognition of financial assets - continued

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

2.7 Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of investment income in the profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'finance cost' in the profit or loss.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.7 Impairment of financial assets - continued

Financial assets carried at amortized cost - continued

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal credit grading system, which considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a 'significant or prolonged' decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. The Company treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the profit or loss – is removed from other comprehensive income and recognized in the profit or loss. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the profit or loss.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.7 Impairment of financial assets - continued

Financial assets carried at cost

For financial assets carried at cost, if there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed.

2.8 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expense will not be offset in profit or loss unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

2.9 Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the reporting date, without any deduction for transaction costs.

For units in unit trusts and shares in open ended investment companies, fair value is determined by reference to published bid values in an active market.

For other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's best estimate of the most appropriate model assumptions.

For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate for a similar instrument. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair value of floating rate and overnight deposits with credit institutions is their carrying value. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the reporting date.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.10 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognized in the profit or loss in those expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the asset's or CGU's recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually at 31 December, either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

2.11 Trade receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortised cost less provision for impairment. A provision for impairment is made when there is an objective evidence (such as the probability of solvency or significant financial difficulties of the debtors) that the Company will not be able to collect the amount due under the original terms of the invoice. Allowances are made based on an impairment model which consider the loss given default for each customer, probability of default for the sectors in which the customer belongs and emergence period which serves as an impairment trigger based on the age of the debt. Impaired debts are derecognized when they are assessed as uncollectible.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.11 Trade receivables - continued

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previous recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed its amortised cost at the reversed date. Any subsequent reversal of an impairment loss is recognized in the profit and loss.

2.12 Reinsurance

The Company cedes insurance risk in the normal course of business for most of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective

evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets that are recognized based on the consideration paid less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective interest rate method when accrued.

2.13 Deferred expenses

Deferred acquisition costs (DAC)

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts and are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, DAC for general insurance are amortized over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortized in the same manner as the underlying asset amortization is recorded in the profit or loss.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in an accounting estimate.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.13 Deferred expenses – continued

Deferred acquisition costs (DAC) - continued

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognized in the profit or loss. DAC are also considered in the liability adequacy test for each reporting period.

DAC are derecognized when the related contracts are either settled or disposed of.

Deferred expenses - Reinsurance commissions

Commissions receivable on outwards reinsurance contracts are deferred and amortized on a straight line basis over the term of the expected premiums payable.

2.14 Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market

conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognized either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use evidenced by the end of owner-occupation, commencement of an operating lease to another party or completion of construction or development. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

2.15 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.15 Intangible assets - continued

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period (five years) and the amortization method (straight line) for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the profit or loss in the expense category consistent with the function of the intangible asset.

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the profit or loss when the asset is derecognized

Present value of acquired in-force business (PVIF)

When a portfolio of insurance contracts is acquired, whether directly from another insurance company or as part of a business combination, the difference between the fair value and the value of the insurance liabilities measured using the Company's existing accounting policies is recognized as the value of the acquired in-force business.

Subsequent to initial recognition, the intangible asset is carried at cost less accumulated amortization and accumulated impairment losses. The intangible asset is amortized over the useful life of the acquired in-force policy during which future premiums are expected, which typically varies between five and 50 years.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and they are treated as a change in an accounting estimate.

An impairment review is performed whenever there is an indication of impairment. When the recoverable amount is less than the carrying value, an impairment loss is recognized in the profit or loss. PVIF is also considered in the liability adequacy test for each reporting period.

PVIF is derecognized when the related contracts are settled or disposed of.

A summary of the policies applied to the Company's intangible assets is as follows:

	PVIF	Computer
Useful lives	Finite	Five years
Amortization method used	Amortized over period of the policy	Amortized over its useful economic life

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.16 Property and equipment

Property and equipment 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 capitalized 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.

Land and buildings are measured at fair value less accumulated depreciation on leasehold land and on buildings and impairment losses recognized 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 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 recognized in the profit or loss, in which case, the increase is recognized in the profit or loss. A revaluation deficit is recognized in the profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

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 provided on a straight line basis over the useful lives of the following classes of assets:

Leasehold land and buildings	Over the lease period
Plant and machinery	4-6 years
Furniture, fittings	4-6 years
Computer Hardware & equipment	2-4 years
Motor vehicles	3-5 years

The assets' residual values, and useful lives and method of depreciation are reviewed and adjusted, if appropriate, at each financial year end and adjusted prospectively, if appropriate.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognized in the profit or loss as an expense.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognized.

2.17 Statutory deposit

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

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.18 Insurance contract liabilities

Non-life insurance contract liabilities

Non-life insurance contract liabilities include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date 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 is not discounted for the time value of money. No provision for equalization or catastrophe reserves is recognized. The liabilities are derecognized when the obligation to pay a claim expires, is discharged or is cancelled.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognized when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

At each reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognized in the profit or loss by setting up a provision for premium deficiency.

2.19 Trade payables

Trade payables are recognized when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method.

Derecognition trade payables

Trade payables are derecognized when the obligation under the liability is settled, cancelled or expired.

2.20 Classification of financial instrument between debt and equity

A financial instrument is classified as debt if it has a contractual obligation to:

- Deliver cash or another financial asset to another entity
Or
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.21 Financial liabilities

Initial recognition and measurement

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

The Company's financial liabilities include other payables and accruals, borrowings and trade payables.

Subsequent measurement

Interest bearing loans and borrowings

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 method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

2.22 Deferred revenue

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease terms and is included in investment income.

Reinsurance commission

This relates to commissions receivable on outwards reinsurance contracts which are deferred and amortized on a straight line basis over the term of the expected premiums payable.

2.23 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.24 Pension and other post employment benefit

In addition to complying with the provisions of Pension Reforms Act of 2004, the Company operates a defined contribution plan, which requires contributions to be made to a separately administered fund. The Company does not have any obligations beyond the amount contributed to the fund administrator which is currently 5% of Basic Salary, transport allowance and housing allowance.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.25 Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in the profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate.

Deferred tax

Deferred tax is provided using the liability method in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and

are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.26 Leasing

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Company as a lessee

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases that do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the profit or loss on a straight line basis over the lease term. Contingent rentals are recognized as an expense in the period in which they are incurred.

Company as a lessor

Leases in which the Company does not transfer substantially all of the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on a straight line same as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Leases in which the Company transfers substantially all the risks and rewards incidental to legal ownership of the asset are classified as finance lease. The Company recognizes assets held under a finance lease in the statement of financial position and presents them as a receivable at an amount equal to the net investment in the lease. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term using the interest rate implicit in the lease.

Subsequent to initial recognition, the finance income is recognized based on a pattern reflecting a constant periodic rate of return on the Company's net investment in the finance lease.

2.27 Foreign currency translation

The Company's financial statements are presented in Naira and items included in the financial statements are measured using Naira as the functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.27 Foreign currency translation - continued

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as 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 was determined.

2.28 Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Onerous contracts

A provision is recognized for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the expected economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

2.29 Equity movements

Ordinary share capital

The Company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

2.30 Share premium

This represents the excess of the proceeds from issue of share over the nominal value (par value) of the share.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.31 Contingency reserve

Contingency reserve is done in accordance with the provisions of the Insurance Act, CAP I17 LFN 2004:

For general business, the contingency reserve is credited with the higher of an amount not less than 3% of the total premium or 20% of the net profits until the reserve reaches the greater of the minimum paid up capital or 50% of net premium.

2.32 Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year.

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.

2.33 Segment information

For management purposes, the Company is organised into business units based on their products and services. However, operating segments have been aggregated to form the above reportable operating statements.

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from profit or loss in the financial statements. The Company financing (including finance costs) and income taxes are managed on a company basis and not allocated to individual operating segments.

2.34 First-time adoption of IFRS

These financial statements, for the year ended 31 December 2012, are the first the Company has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2011, the Company prepared its financial statements in accordance with local generally accepted accounting practice (Nigerian GAAP). Accordingly, the Company has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 December 2012, together with the comparative period data as at and for the year ended 31 December 2011, as described in the accounting policies. In preparing these financial statements, the Company's opening statement of financial position was prepared as at 1 January 2011, the Company's date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its Local GAAP statement of financial position as at 1 January 2011 and its previously published Local GAAP financial statements as at and for the year ended 31 December 2011.

Exemptions applied

IFRS 1 ***First-Time Adoption of International Financial Reporting Standards*** allows first-time adopter certain exemptions from the retrospective application of certain IFRS.

- The company has elected to designate certain investments in quoted, unquoted equity, corporate bond and state government bonds as available-for-sale financial assets as the date of transition to IFRS despite the fact that such investments were not hitherto classified as such under Nigerian GAAP.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2.34 First-time adoption of IFRS - continued

Exemptions applied - continued

- Leasehold land and building, other than investment property, were carried in the statement of financial position prepared in accordance with local GAAP on the basis of valuations performed on 12 November 2009. The Company has elected to regard those values as deemed cost at the date of the revaluation since they were broadly comparable to fair value.

Insurance contracts

The Company has elected to disclose only five years of claims experience data in its claims development table as permitted in the first financial year in which it adopts IFRS 4 *Insurance Contracts*.

Estimates

The estimates at 1 January 2011 and at 31 December 2011 are consistent with those made for the same dates in accordance with Local GAAP (after adjustments to reflect any differences in accounting policies)

The estimates used by the Company to present this amount in accordance with IAS 8 reflect conditions at 1 January 2011, the date of transition to IFRS and as of 31 December 2011.

3.1 Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

Finance lease commitments – Company as lessor

The Company has entered into finance lease arrangements with certain clients and employees. The Company has determined, based on an evaluation of the terms and conditions of the arrangements that the significant risks and rewards of ownership of the underlying assets have been transferred to the other parties and as such accounts for the transactions as finance lease.

Operating lease commitments - Company as lessor

The Company has entered into commercial property lease on its Investment properties portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and, therefore, accounts for the contracts as operating leases.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

3.1 Significant accounting judgments, estimates and assumptions - continued

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The company based its assumption and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Fair value of financial assets

i. Impairment of available-for-sale equity financial assets

The Company determined that available-for-sale equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Company evaluated among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. In this respect, a decline of 20% or more is regarded as significant, and a period of 12 months or longer is considered to be prolonged. If any such qualitative evidence exists for available-for-sale financial assets, the asset is considered for impairment, taking qualitative evidence into account.

ii. Fair value of held-to-maturity (HTM) financial instruments

Financial instruments designated as held-to-maturity are carried by the Company at amortised cost. The quoted prices for the determination of the fair of such instruments are readily available for quoted instruments and easily determined by using discount cash flow valuation techniques for unquoted instruments. In the latter cases the fair values are estimated from observable date in respect of similar financial instruments.

iii. Impairment on receivables

In accordance with the accounting policy, the Company tests annually whether premium receivables have suffered any impairment. The recoverable amounts of the premium receivables have been determined based on the incurred loss model. These calculations required the use of estimates based on passage of time and probability of recovery.

3.2 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretation issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

3.2 Standards issued but not yet effective - continued

IAS 1 Financial Statement Presentation – Presentation of items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company’s financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental change such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company is currently assessing the full impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to Investments in Joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counter parties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event. The amendments become effective for annual periods beginning on or after 1 January 2014.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures will provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with *IAS 32 Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or ‘similar agreement’, irrespective of whether that is set off in accordance with IAS 32. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

3.2 Standards issued but not yet effective - continued

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 38 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the change introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

The standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venture. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

This standard becomes effective for annual periods beginning on after 1 January 2013.

IFRS 12 Disclosure of Involvements with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosure that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013. However, this standard will not have impact on the financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 14 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – Continued

3.3 Annual improvements project – effective 1 January 2013

IAS 1 Presentation of Financial Statements

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.

An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements.

The opening statement of financial position (known as ‘the third balance sheet’) must be presented when an entity changes its accounting policies (making retrospective restatements or reclassifications) and those changes have a material effect on the preceding period. For example, the beginning of the preceding period for a 31 December 2014 year-end would be 1 January 2013. However, unlike the voluntary comparative information, the related notes are not required to include comparatives as of the date of the third balance sheet.

IAS 16 Property, Plant and Equipment

The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipments are not inventory.

IAS 32 Financial Instruments: Presentation

The amendment removes exiting income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distribution to equity holders

IAS 34 Interim Financial Reporting

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in *IFRS 8 Operating Segments*.

Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity’s previous annual financial statements for that reportable segment.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	Note	2012 N'000	2011 N'000
Gross premium written		4,163,370 =====	4,219,815 =====
Gross premium income	1.1	4,033,952	4,181,397
Premiums ceded to reinsurers	1.2	(923,384)	(633,873)
Net premium income		3,110,568	3,547,524
Fees and commission income	2	224,484	134,205
Net underwriting income		3,335,052	3,681,729
Net benefits and claims	3	(982,231)	(684,699)
Underwriting expenses	4	(938,094)	(943,810)
Underwriting profit		1,414,727	2,053,220
Investment income	5	200,578	235,502
Fair value (loss)/gains	6	(179,135)	72,849
Net realised losses	7	(9,402)	(5,615)
Other operating income	8	44,505	4,730
Management expenses	9	(2,658,141)	(2,065,853)
Results of operating activities		(1,186,868)	294,833
Finance costs	11	(3,932)	(5,621)
(Loss)/profit before taxation		(1,190,800)	289,212
Income tax expenses	12.1	(146,380)	(39,592)
(Loss)/profit after taxation		(1,337,180) =====	249,620 =====

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	Note	2012 ₦'000	2011 ₦'000
(Loss)/profit for the year		(1,337,180)	249,620
Other comprehensive income			
Net gain/(loss) on available-for-sale assets	15	94,362	(41,276)
		-----	-----
Other comprehensive income/(loss) for the year, net of tax		94,362	(41,276)
		-----	-----
Total comprehensive (loss)/ income for the year, net of tax		(1,242,818)	208,344
		=====	=====
 (Loss)/earnings per share			
Basis (kobo)	14	(39)	7

See notes to the financial statements.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

		2012	2011	As at 1 January 2011
	Note	₦'000	₦'000	₦'000
Assets				
Cash and cash equivalents	16	729,168	728,071	1,064,267
Financial assets:				
Available-for-sale financial assets	17.1	1,140,043	968,256	1,590,925
Loans and receivables	17.2	241,463	318,949	614,223
Trade receivables	18	597,825	1,484,694	1,184,479
Reinsurance assets	19	874,056	700,479	448,090
Deferred acquisition costs	21	148,049	186,158	162,127
Other receivables and prepayments	22	67,977	74,686	157,708
Investment properties	23	1,706,382	1,884,718	1,111,188
Intangible assets	24	81,273	98,096	67,490
Property, plant and equipment	25	716,243	796,436	792,507
Statutory deposit	26	315,000	315,000	315,000
Total Assets		6,617,479	7,555,543	7,508,004
		=====	=====	=====
Liabilities and Equity				
Liabilities				
Insurance contract liabilities	27	1,836,299	1,699,770	1,800,622
Trade payables	28	541,364	449,888	418,452
Other payables and accruals	29	325,922	306,626	205,686
Other financial liabilities	30	778	10,456	24,862
Borrowings	31.1	1,452	36,081	18,620
Book overdraft	31.2	21,896	40,415	69,856
Employee benefit obligations	32	117,594	108,400	87,237
Current tax payable	20.1	79,852	90,808	111,263
Deferred tax liability	20.2	169,822	47,781	42,564
Total liabilities		3,094,979	2,790,225	2,779,162
		=====	=====	=====
Equity				
Issued share capital	33	1,718,665	1,718,665	1,718,665
Share premium	34	1,363,034	1,363,034	1,363,034
Contingency reserve	35	775,192	654,173	527,579
Retained earnings		(1,016,068)	442,131	490,973
Revaluation reserve	36	551,025	551,025	551,025
Available-for-sale reserve		130,652	36,290	77,566
Total equity		3,522,500	4,765,318	4,728,842
		=====	=====	=====
Total liabilities and equity		6,617,479	7,515,128	7,438,148
		=====	=====	=====

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Princess Adenike Adeniran
Chairman
FRC/2013/ICAN/2632

.....
Toyin Ogunseye
Managing Director/CEO
FRC/2012/NIGSURERS/583

.....
Fadeyi Ajibola
Chief Financial Officer
FRC/2012/ICAN/586

See notes to the financial statements.

LAW UNION AND ROCK INSURANCE PLC
STATEMENT OF CHANGE IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER

	Issued share capital N'000	Retained earnings N'000	Share premium N'000	Contingency reserve N'000	Available-for- -sale reserve N'000	Revaluation reserve N'000	Total equity N'000
As at 1 January 2012	1,718,665	442,131	1,363,034	654,173	36,290	551,025	4,765,318
Loss for the year after taxation	-	(1,337,180)	-	-	-	-	(1,337,180)
Transfer to contingency reserve	-	(121,019)	-	121,019	-	-	-
Other comprehensive income	-	-	-	-	94,362	-	94,362
Total comprehensive income for the period	1,718,665	(1,016,068)	1,363,034	775,192	130,652	551,025	3,522,500
Transactions with owners, recorded directly in equity contributions by and distribution to owners owners -							
Dividend paid	-	-	-	-	-	-	-
As at 31 December 2012	1,718,665 =====	(1,016,068) =====	1,363,034 =====	775,192 =====	130,652 =====	551,025 =====	3,522,500 =====
As at 1 January 2011	1,718,665	490,973	1,363,034	527,579	77,566	551,025	4,728,842
Profit for the year	-	249,620	-	-	-	-	249,620
Transfer to contingency	-	(126,594)	-	126,594	-	-	-
Other comprehensive income	-	-	-	-	(41,276)	-	(41,276)
Total comprehensive income for the period	1,718,665	613,999	1,363,034	654,173	36,290	551,025	4,937,186
Transactions with owners, recorded directly in equity contributions by and distribution to owners owners -							
Dividend paid	-	(171,868)	-	-	-	-	(171,868)
As at 31 December 2011	1,718,665 =====	442,131 =====	1,363,034 =====	654,173 =====	36,290 =====	551,025 =====	4,765,318 =====

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

	Note	2012 £'000	2011 £'000
Operating activities			
Premium received		3,794,997	3,414,463
Commission received		224,483	134,205
Commission paid		(700,498)	(768,772)
Reinsurance premium paid		(1,124,146)	(754,186)
Gross claims paid net of recoveries		(947,935)	(956,044)
Payments to employees		(959,248)	(890,386)
Other operating cash payments		(312,706)	(102,512)
Other income received		44,505	4,730
Interest paid		(3,932)	(5,621)
Tax paid		(35,295)	(54,830)
Net cash flow from operating activities	38	(19,774)	21,047
Investing activities:			
Investment income received		164,501	322,410
Purchase of property and equipment	25	(68,962)	(101,758)
Proceed from sale of property and equipment		14,223	163
Purchase of intangible assets	24	(14,515)	(54,031)
Purchase of investments		(41,680)	(408,113)
Proceed from sale of investments		21,252	135,517
Additions to investment properties	23	(800)	(67,584)
Net cash flows from investing activities		74,019	(173,395)
Financing activities:			
Dividend paid to equity holders		-	(171,868)
Net cash flow from financing activities		-	(171,868)
Net increase/(decrease)in cash and cash equivalents		54,245	(324,216)
Cash and cash equivalents at 1 January	37	651,575	975,791
Cash and cash equivalents at 31 December	37	705,820	651,575

See notes to the financial statements.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

1. Net premiums income		2012	2011
		₤'000	₤'000
1.1 Gross premiums on insurance contracts			
Premiums written in the year		4,163,370	4,219,815
Change in unearned premium provision		(129,418)	(38,418)
Total gross premium income		4,033,952	4,181,397
1.2 Premiums ceded to reinsurers on insurance contracts			
Premiums ceded to reinsurers		(1,040,562)	(655,472)
Change in unearned premiums provision – reinsurers	117,178	21,599	
Total premiums ceded to reinsurers		(923,384)	(633,873)
Total net premiums income		3,110,568	3,547,524
		=====	=====
2. Fees and commission income			
Reinsurance commission income		224,484	134,205
		=====	=====
Reinsurance commission income represents commission received on direct business and transactions ceded to re-insurance during the year under review.			
3. Net benefits and claims		2012	2011
		₤'000	₤'000
Gross claims paid		1,637,433	1,230,291
Recoveries		(618,638)	(314,453)
Change in outstanding claims provision		(36,564)	(231,139)
Net benefits and claims		982,231	684,699
		=====	=====
4. Underwriting expenses			
Amortisation of deferred acquisition costs	21642,020	621,378	
Maintenance costs		296,074	322,432
		938,094	943,810
		=====	=====
5. Investment income			
Rental income from investment properties		42,941	31,155
Available-for-sale financial assets:			
Interest income		14,975	14,459
Dividend income		33,387	91,892
Interest income on statutory deposit		35,634	17,588
Loans and receivables interest income		57,872	26,043
Cash and cash equivalents interest income		15,769	54,365
Total investment income		200,578	235,502
		=====	=====

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

6. Fair value gains	Note	2012	2011 N'000	N'000
Fair value (loss)/gains on investment properties	(179,135)	72,849	=====	=====
7. Net realised losses				
<i>Property, plant and equipment</i>				
Realised gains		45	-----	163
<i>Available-for-sale financial assets</i>				
Realised gains on equity securities		2,530		26,182
Realised losses on equity securities		(11,977)	-----	(31,960)
<i>Total net realised losses for Available-for-sale financial assets</i>		(9,447)	-----	(5,778)
Total net realised losses		(9,402)	=====	(5,615)
8. Other operating income				
Sundry income		39,661		3,319
Exchange gains		4,844	-----	1,411
		44,505	=====	4,730
9. Management expenses				
Amortisation of intangible assets	24	31,338		23,425
Impairment loss on trade receivables		1,255,243		505,137
(Recovery)/Impairment loss on available-for-sale - financial assets		(59,100)		215,108
Impairment loss on loans and receivables	59,173	220		
Impairment loss on other receivables		55,875		-
Depreciation on property and equipment	25134,978	97,826		
Investment property related expenses		8,316		4,624
Auditors' remuneration		11,500		11,500
Employee benefits expenses	10	968,442		911,549
Other expenses		192,376	-----	296,464
Total other operating and administrative expenses		2,658,141	=====	2,065,853
10. Employee benefits expense				
Wages and salaries		924,466		853,244
Defined contribution pension costs		43,976	-----	58,305
Total employee benefits expense		968,442	=====	911,549

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

11. Finance cost	2012 N'000	2011 N'000
Current borrowing:		
Interest expense on bank overdraft	3,932	5,621
	-----	-----
Total finance cost	3,932	5,621
	=====	=====

12. Income tax expense

The major components of income tax expense for the year ended ended 31 December 2012 and 2011 are:

12.1 Current tax year charge

Current taxation		
Company income tax	24,339	28,646
Education tax	-	5,730
	-----	-----
Total current tax	24,339	34,376
	-----	-----
Deferred taxation		
Origination of temporary differences	122,041	5,217
	-----	-----
Total deferred taxation	122,041	5,217
	-----	-----
Total income tax expense	146,380	39,592
	=====	=====

12.2 Reconciliation of tax charge

(Loss)/profit before taxation	(1,190,800)	289,213
	-----	-----
Tax at Nigerian's statutory income tax rate of 30%	-	86,764
Disallowable expenses	-	36,799
Investment allowance	-	(2,043)
Tax effect of capital allowance	122,041	(57,299)
Education tax @ 2% of assessable profit	-	5,730
Tax rate differential on fair value gain	-	(14,570)
Effect of different tax rate in other country	- (2,067)	
Tax effect of IFRS adjustments to investment income	-	575
Minimum tax	24,339	-
Tax effect of IFRS adjustments to other operating expenses	- (14,295)	
	-----	-----
Total tax charge for the year	146,380	39,592
	=====	=====

Reconciliation of tax charge

The company was assessed based on minimum tax: In line with Section 33, of Companies Income Tax Act 2004 of Federation of Republic of Nigeria, where in any year of assessment the ascertainment of total assessable profits from all sources of a company results in a loss or where a company's ascertained total profits results in no tax payable or tax payable which is less than the minimum tax there shall be levied and paid by the company the minimum tax as prescribed in subsection (2) of this sections. There is no education tax for the year due to assessable loss position of the company.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

13. Dividends paid and proposed	2012	2011
	₦'000	₦'000
<i>Declared and paid during the year</i>		
Equity dividends on ordinary shares:		
Final dividend for 2011: Nil (2010: 5 kobo)	- 171,868	
	-----	-----
Total dividends paid in the year	-	171,868
	=====	=====
Proposed for approval at AGM (not recognised as a liability as equity dividends on ordinary shares at 31 December: -	-	
	-----	-----
Final dividend for 2011: Nil (2010: 5 kobo)	-	
	=====	=====

14. (Loss)/earnings per share

Basic (loss)/earnings per share amounts is calculated by dividing the net (loss)/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:

	2012	2011
	₦'000	₦'000
Net (loss)/profit attributable to ordinary shareholders for basic earnings	(1,337,180)	249,620
	-----	-----
Weighted average number of ordinary shares for basic earnings per share	3,437,351	3,437,351
	-----	-----
Basic earnings per ordinary share (kobo)	(39) 7	
	==	==

There have been no other transactions involving ordinary share or potential ordinary share between the reporting date and the date of completion of these financial statements.

15. Components of other comprehensive income	2012	2011
	₦'000	₦'000
Available-for-sale financial assets:		
Gains/(loss) arising during the year	94,362	(41,276)
Income tax relating to components of other comprehensive income	-	-
	-----	-----
Other comprehensive income/(loss) for the year, net of tax	94,362(41,276)	
	=====	=====

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

	2012 N'000	2011 N'000	As at 1 January 2011 N'000
16. Cash and cash equivalents			
Cash at hand	93	84	96
Short-term deposits (including demand and time deposits)	729,075	727,987	1,064,171
	-----	-----	-----
Total cash and cash equivalents	729,168	728,071	1,064,267
	=====	=====	=====

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company. All deposits are subject to an average variable interest rate of 10% (2011: 6.5%), (1 January, 2011: 6.5%).

The carrying amounts disclosed above reasonably approximate fair value at the reporting date. The cash and cash equivalents position for cash flow purposes, net of the Company's overdraft as per note 38, is N705,821,000 for 2012 (2011: N651,574,000, 1 January: N975,791,000).

17. Financial assets

The Company's financial assets are summarised by categories as follows: N'000	2012 N'000	2011 N'000	As at 1 January 2011
Available-for-sale financial assets	1,140,043	968,256	1,590,925
Loan and advances	241,463	318,949	614,223
	-----	-----	-----
Total financial instruments	1,381,506	1,287,205	2,205,148
	=====	=====	=====

17.1 Available-for-sale financial assets

Equity securities	957,621	688,733	1,424,844
Debt securities	123,102	123,177	83,000
	-----	-----	-----
Total available-for-sale financial assets at fair value	1,080,723	811,910	1,507,844
Equity securities at cost	59,320	156,346	83,081
	-----	-----	-----
Total available-for-sale financial assets	1,140,043	968,256	1,590,925
	=====	=====	=====

17.2 Loans and receivables at amortised cost

Loans to related parties	-	39,768	47,020
Receivables under finance lease	84,917	141,480	147,865
Fixed term deposit	108,653	117,649	367,827
Other loans	78,614	24,271	55,510
Allowance for impairment losses	(30,721)	(4,219)	(3,999)
	-----	-----	-----
Total loans and receivables at amortised cost	241,463	318,949	614,223
	=====	=====	=====

The carrying amounts of loans and receivables as disclosed above approximate fair value at the reporting date.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

	2012	2011	As at 1 January 2011
	₤'000	₤'000	₤'000
17. Financial assets - continued			
Allowances for impairment losses			
At the beginning of the year	4,219	3,999	5,051
Impairment charge for the year	59,173	220	-
Recoveries	(32,671)	-	(1,052)
	-----	-----	-----
At the end of the year	30,721	4,219	3,999
	=====	=====	=====
Analysis of impairment			
Receivable under finance lease	30,721	4,219	3,999
	-----	-----	-----
	30,721	4,219	3,999
	=====	=====	=====

	Sale	Receivables	Total
	₤'000	₤'000	₤'000
17.3 Carrying values of financial instruments Available-forLoans and			
At 1 January 2011	1,590,925	614,223	2,205,148
Purchases	408,113	-	408,113
Maturities	-	(305,413)	(305,413)
Disposals	(141,301)	-	(141,301)
Transfer (633,097)	-	(633,097)	
Fair value (losses) recorded in other comprehensive income	(41,276)	-	(41,276)
Interest receivable	-	10,359	10,359
Movement in impairment allowance (215,108)	(220)	(215,328)	
	-----	-----	-----
At 31 December 2011	968,256	318,949	1,287,205
Purchases	41,680	-	41,680
Maturities	(5,000)	(46,754)	(51,754)
Disposals	(18,355)	-	(18,355)
Fair value gains recorded in other comprehensive income	94,362	-	94,362
Movement in impairment allowance 59,100	(59,173)	(73)	
Interest receivable	-	28,441	28,441
	-----	-----	-----
At 31 December 2012	1,140,043	241,463	1,381,506
	=====	=====	=====

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements i.e. Loans and receivables and trade receivables.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than three months), demand deposits and savings accounts without a specific maturity, the carrying amounts approximate to their fair value. The carrying amounts of loans and receivables as disclosed above approximate fair value at the reporting date.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

17. Financial assets – continued

17.4 Determination of fair value and fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by value technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

31 December 2012	Level 1	Level 2	Level 3	Total fair value
	₤'000	₤'000	₤'000	₤'000
Available-for-sale financial assets:				
Equity securities	957,621	-	59,320	1,016,941
Debt securities	-	-	123,102	123,102
	-----	-----	-----	-----
Total financial assets	957,621	-	182,422	1,140,043
	=====	=====	=====	=====

31 December 2011

Available-for-sale financial assets:				
Equity securities	688,733	-	156,346	845,079
Debt securities	-	-	123,177	123,177
	-----	-----	-----	-----
Total financial assets	688,733	-	279,523	968,256
	=====	=====	=====	=====

1 January 2011

Available-for-sale financial assets:				
Equity securities	1,424,844	-	83,081	1,507,925
Debt securities	-	-	83,000	83,000
	-----	-----	-----	-----
Total financial assets	1,424,844	-	166,081	1,590,925
	=====	=====	=====	=====

	2012	2011	As at 1
	₤'000	₤'000	January 2011
			₤'000
18. Trade receivables			
Due from Insurance brokers	381,884	1,136,242	346,820
Due from Insurance companies	178,455	301,508	679,808
Due from agents	37,486	46,944	157,851
	-----	-----	-----
Total Trade receivables	597,825	1,484,694	1,184,479
	=====	=====	=====

The carrying amounts disclosed above approximate fair value at the reporting date and are net of impairment charges of ₦1,255,243,000 (2011: ₦505,137,000)(2010: ₦529,020,000) charges during the year.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

19. Reinsurance assets	2012	2011	As at 1 January 2011
	₦'000	₦'000	₦'000
Reinsurance share of outstanding claims	211,665	167,025	
Reinsurance receivables	344,701	261,119	162,401
Prepaid reinsurance	317,690	200,511	118,664
	-----	-----	-----
Total reinsurance asset	874,056	700,479	448,090
	=====	=====	=====

At 31 December 2012, the Company conducted an impairment review of the reinsurance assets but no impairment loss resulted from this exercise. The carrying amounts disclosed above approximate fair value at the reporting date.

20. Taxation	2012	2011	As at 1 January 2011
	₦'000	₦'000	₦'000
20.1 Current tax payable			
At the beginning of the period	90,808	111,263	104,598
Amounts recorded in the profit or loss	24,339	45,329	
Payments made on-account during the year	(35,295)	(38,664)	
	-----	-----	-----
At the end of the period	79,852	90,808	111,263
	=====	=====	=====

20.2 Deferred tax expense

Fair value (loss)/gains on investment properties	(26,956)	5,215	42,564
Accelerated capital allowance	148,997	-	-
	-----	-----	-----
Total deferred tax expenses	122,041	5,215	42,564
	=====	=====	=====

Deferred tax liability

Fair value gains on investment properties	47,781	47,781	42,564
Accelerated capital allowance	122,041	-	-
	-----	-----	-----
Total deferred tax expenses	169,822	47,781	42,564
	=====	=====	=====

Reconciliation of deferred tax liability is as shown below:

At the beginning of the period	47,781	42,564	-
Amounts recorded in the profit or loss	122,041	5,217	
	-----	-----	-----
At the end of the period	169,822	47,781	42,564
	=====	=====	=====

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

21. Deferred acquisition costs

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

	Note	Fire N'000	Motor N'000	General accident N'000	Engineering N'000	Marine & aviation N'000	Bond and credit N'000	Oil and gas N'000	Total N'000
At 1 January 2011		30,023	20,392	54,183	28,174	11,450	13,039	4,866	162,127
Expenses deferred		137,267	215,370	81,901	56,546	73,495	43,671	37,159	645,408
Amortisation	4	(126,527)	(163,828)	(122,149)	(71,894)	(57,962)	(43,405)	(35,613)	(621,378)
At 31 December 2011		40,763	71,934	13,935	12,826	26,983	13,305	6,412	186,158
Expenses deferred		111,866	113,376	79,379	29,238	65,680	23,335	55,738	603,911
Amortisation	4	(123,604)	(143,980)	(75,531)	(29,602)	(72,894)	(27,695)	(43,415)	(642,020)
At 31 December 2012		29,025	41,330	17,783	12,462	19,769	8,945	18,735	148,049

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

	2012	2011	January 2011	As at 1
22. Other receivables and prepayments		₦'000	₦'000	₦'000
Other receivables		38,133	42,020	136,390
Former management (note 22.1)		55,875	-	-
Prepayments		29,844	32,666	21,318
		-----	-----	-----
		123,852	74,686	157,708
Impairment loss		(55,875)	-	-
		-----	-----	-----
		67,977	74,686	157,708
		=====	=====	=====

22.1 The balance is in respect of total amount receivable from former executive management team of the Company in respect of Share Purchase Loans, aborted Management buy-out of Law Union and Rock and outstanding on up-front allowances collected while in the services of the company. However, the balance has been fully provided for in the current financial year.

The carrying amounts disclosed above reasonable approximate the fair value at the reporting date. All other receivable amounts are collectable within one year and the prepayment utilisable within one year.

	2012	2011	As at 1
23. Investment properties	₦'000	₦'000	January 2011 ₦'000
At the beginning of the period	1,884,718	1,111,188	-
Additions	799	67,584	-
Transfer from available for sale			
Investment	- 633,097		-
Fair value (loss)/gains	(179,135)	72,849	-
	-----	-----	-----
At the end of the period	1,706,382	1,884,718	1,111,188
	=====	=====	=====

Investment properties are stated at fair value, which has been determined based on valuations performed by Rogba Orimolade & Co, Leye Adepoju & Co. and Tunde Adejumo & Co. Who are accredited independent valuers, as at 31 December 2012 and 31 December 2011 respectively. These valuers are specialists in valuing these types of Investment properties. The fair value of the properties has not been determined on transactions observable in the market because of the nature of the properties and lack of comparable data. Instead, a valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied. Valuations are performed on an annual basis and the fair value gains and losses are recorded within the profit or loss.

The Company enters into operating leases for all of its Investment properties. The rental income arising during the period amounted to ₦42,941,000 (year ended 31 December, 2011: ₦31,155,000) which is included in investment income. Direct operating expenses arising in respect of such properties during the period are included in within operating and administrative expenses.

There are no restrictions on the realisability of Investment property or the 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.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

In 2011 Law Union obtained 100% interest of Vandt Properties Limited Ghana. However, the acquisition is regarded as acquisition of a group of identifiable assets or liabilities not a business. IFRS 3 requires that Business combination should not be applied in accounting for the acquisition of an asset or a group of assets that does not constitute a business. It requires that “in such cases, the acquirer shall identify and recognize the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 Intangible Assets) and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of the relative fair values at the date of purchase. Such a transaction or event does not give rise to “Goodwill”. The implication of the above paragraph of IFRS 3 is that at the time of acquiring controlling interest in Vandt, the total amount paid should be allocated between Land, Bank Balance and accruals which represent that assets and liabilities acquired rather than being accounted for as a business.

The analysis of the identifiable assets and liabilities are as follow:

	31 December 2012 ₦'000	31 December 2011 ₦'000
Landed property	412,090	592,946
Cash and cash equivalent	1,548	1,548
	-----	-----
	413,638	594,494
Accrued professional fee	(340)	(340)
	-----	-----
	413,298	594,154
	=====	=====

24. Intangible asset:

	Computer Software ₦'000
Cost:	
At 1 January 2011	94,952
Additions	54,031

At 31 December 2011	148,983
Additions	14,515

At 31 December 2012	163,498

Accumulated amortisation and impairment:	
At 1 January 2011	27,462
Amortisation	23,425

At 31 December 2011	50,887
Amortisation	31,338

At 31 December 2012	82,225

Carrying amount:	
At 31 December 2012	81,273
	=====
At 31 December 2011	98,096
	=====
At 1 January 2011	67,490
	=====

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

25. **Property, plant and equipment**

Cost	Leasehold land building N'000	Furniture & fittings N'000	Plant & machinery N'000	Motor vehicle N'000	Computer & equipment N'000	Total N'000
At 1 January 2011	560,000	116,728	277,188	235,742	78,259	1,267,917
Additions	-	24,673	12,065	44,995	20,025	101,758
Disposals	-	-	-	(3,270)	-	(3,270)
	-----	-----	-----	-----	-----	-----
At 31 December 2011	560,000	141,401	289,253	277,467	98,284	1,366,405
Additions	-	7,322	265	52,967	8,408	68,962
Disposals	-	-	-	(94,657)	-	(94,657)
	-----	-----	-----	-----	-----	-----
At 31 December 2012	560,000	148,723	289,518	235,777	106,692	1,340,710
	=====	=====	=====	=====	=====	=====
Accumulated depreciation						
At 1 January 2011	16,307	81,798	189,879	151,507	35,921	475,412
Depreciation	11,199	24,353	15,944	19,670	26,660	97,826
Disposals	-	-	-	(3,270)	-	(3,270)
	-----	-----	-----	-----	-----	-----
At 31 December 2011	27,506	106,151	205,823	167,907	62,582	569,968
Depreciation	11,200	11,566	25,295	63,073	23,844	134,978
Disposal	-	-	-	(80,479)	-	(80,479)
	-----	-----	-----	-----	-----	-----
As 31 December 2012	38,706	117,717	231,118	150,501	86,424	624,466
	=====	=====	=====	=====	=====	=====
Carrying amount						
At 31 December 2012	521,294	31,006	58,400	85,276	20,267	716,243
	=====	=====	=====	=====	=====	=====
At 31 December 2011	532,494	35,250	83,430	109,560	35,702	796,436
	=====	=====	=====	=====	=====	=====
At 1 January 2011	543,693	34,930	87,309	84,235	43,338	792,507
	=====	=====	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS – Continued

25. **Property, plant and equipment - continued**

Leasehold land and buildings at 14, Hughes Avenue, Yaba, Lagos (with initial cost of N4.009 million) was valued on the basis of an open market valuation for existing use on 4 November 1993 for N82,150,000 by Oludemi Jagun Dosumu & Co. Chartered Surveyors, Valuers and Real Estate Consultants. The buildings were also revalued at N130m on 20 November, 1997 by the same valuers on open market basis.

The leasehold land and buildings at 14, Hughes Avenue, Yaba, Lagos was further revalued on the basis of an open market valuation for existing use on 12 November 2009 for N560,000,000 by Leye Adepoju & Co. Estate Surveyors & Valuers. The revaluation surplus at the revaluation date has been included in revaluation reserve.

26. **Statutory deposit**

This represent the amount deposited with the Central Bank of Nigeria as at 31 December 2012 (31 December 2011: ₦315,000,000.00; 1 January 2011: ₦315,000,000.00) in accordance with Section 10 (3) of Insurance Act 2003. Interest income is earned at an average rate of 5.6% (2011: 5.6%) and this is included within investment income. The deposit is however restricted.

	Note	2012	2011	As at 1 January 2011
27. Insurance contract liabilities				
<i>Insurance contract liabilities consists of the following:</i>	<i>₦'000</i>	<i>₦'000</i>	<i>₦'000</i>	
Provision for reported claims by policyholders	27.1	278,577	368,363	606,654
Provisions for claims incurred but not reported (IBNR)	27.1	212,659	115,763	76,991
Outstanding claims provisions		491,236	484,126	683,645
Provision for unearned premiums	27.2	1,345,063	1,215,644	1,116,977
Total Insurance contract liabilities	1,836,299	1,699,770	1,800,622	
27.1 Outstanding claims provision				
At 1 January		484,126	683,645	-
Claims incurred in the current accident	1,644,543	1,030,772	-	-
Claims paid during the year		(1,637,433)	(1,230,291)	-
		491,236	484,126	683,645
27.2 Provision for unearned premiums				
At 1 January		1,215,644	1,116,977	-
Premiums written in the year	1	4,163,370	4,219,815	-
Premiums earned during the year		(4,033,952)	(4,121,148)	-
		1,345,063	1,215,644	1,116,977

28. **Trade payables**

This represents the amount payable to insurance and reinsurance companies.

NOTES TO THE FINANCIAL STATEMENTS – Continued

29. Other payables and accruals	2012 N'000	As at 1 2011 N'000	January 2011 N'000
Accrued expenses	129,732	127,351	120,407
Deferred revenue	71,232	89,228	12,143
Other payables	124,958	90,047	73,136
	-----	-----	-----
	325,922	306,626	205,686
	=====	=====	=====

30. Other financial liabilities

This represents deposit received as collateral in respect of a finance lease transaction for in which Company is a lessor. The total amount of ₦9,678,000 was utilised during the year to repay lease facility of the lessee. The carrying amounts disclosed approximate fair value at the reporting date. All amounts are payable with one year.

31.1 Borrowings

Bank overdrafts	1,452	36,081	18,620
	=====	=====	=====

All borrowing is current and expected to be settled within 12 months of the reporting date. The carrying value of bank overdrafts approximates their fair value.

31.2 Book overdrafts

Book overdrafts	21,896	40,415	69,856
	=====	=====	=====

The Company has a cash management system under which overdrawn book balances exist at the reporting date due to un-posted lodgements and un-cleared cheques.

32. Employee benefit obligations

Employee benefit obligations represent the amount payable to fund manager under a defined contributions plan. The plan is fully funded and the plan assets consist of Treasury bills, Investment risk is fully borne by employees. The Company contributes 5% of employee basic salary, housing and transport allowance monthly.

33. Issued share capital	2012 N'000	2011 N'000	As at 1 January 2011 N'000
Authorised share capital:			
Ordinary share of ₦0.50k each	1,800,000	1,800,000	1,800,000
	=====	=====	=====
Ordinary share issued and fully paid			
At 31 December	1,718,665	1,718,665	1,718,665
	=====	=====	=====
34. Share premium			
At 31 December	1,363,034	1,363,034	1,363,034
	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS – Continued

35. Contingency reserve

Contingency reserve in respect of non-life business is the higher of 20% of net profit and 3% of gross premium income as specified in Section 21(2) of the Insurance Act 2003.

36. Revaluation reserve

This is revaluation surplus in respect of Property, plant and equipment in line with the Company's accounting policies.

37. Cash and cash equivalents for the purpose of statements of cash flows consist of the following:	2012 Note	2011 N'000	January 2011 N'000	As at 1
				N'000
Cash and cash equivalents per statement of financial position	16	729,168	728,071	1,064,267
Bank overdraft	31.1	(1,452)	(36,081)	(18,620)
Book overdraft	31.2	(21,896)	(40,415)	(69,856)
		-----	-----	-----
Cash and cash equivalents per statements of cash flows		705,820	651,575	975,791
		=====	=====	=====
38. Reconciliation of (loss)/profit before tax to cash flows provided by operating activities:	Note	2012 N'000	2011 N'000	
(Loss)/profit before taxation			(1,190,800)	289,213
<i>Adjustments for non-cash items:</i>				
Depreciation of property and equipment		25	134,978	97,826
Amortisation of intangible		24	31,338	23,425
Profit from sale of property and equipment	7	(45)	(163)	
Loss on sale of investments		7	9,447	5,778
Investment income		5	(200,578)	(235,502)
Fair value loss/(gains)		6	179,135	(72,849)
Impairment loss on trade receivables	9	1,255,243	505,137	
(Recovery)/Impairment loss on available-for-sale financial assets		9	(59,100)	215,108
Impairment loss on other receivables	9	55,875	-	
Decrease/(Increase) in loans and receivables		88,566	285,454	
Increase in provision for unearned premium		37,797	98,666	
Increase in employee benefit obligation			9,194	21,163
(Increase)/decrease in other receivables and prepayment			(49,167)	83,023
Increase in deferred acquisition costs		38,109	(24,031)	
(Decrease)/Increase other payables and accruals			36,951	23,854
Increase in trade receivables			(368,373)	(805,352)
Increase in reinsurance assets			(81,956)	(252,388)
Increase in trade payables			91,476	31,436
Decrease in other financial liabilities		(9,678)	(14,405)	
Decrease in provision for outstanding claim		7,110	(199,519)	
Tax paid		20	(35,295)	(54,830)
			-----	-----
Net cash (outflow)/inflow from operating activities			(19,774)	21,047
			=====	=====

NOTES TO THE FINANCIAL STATEMENTS – Continued

39. Related party disclosures**(a). Transactions with related parties**

The Company enters into transactions with parent company (Skye Bank Plc) and other fellow subsidiaries and key management personnel during the year in the normal course of business. The sales to and purchases from related parties are made at normal market prices. However, during the year, Skye Bank divested their investment in Law Union and Rock Insurance Plc in compliance with Central Bank of Nigeria pronouncement. Details of significant transactions carried out during the year with related parties are as follows:

	2012 ₦'000	2011 ₦'000
Sale of		
Insurance contracts to fellow subsidiaries:		
- Skye Trustees Limited	3,164	2,658
- Skye Financial Services Limited	5,000	2,517
- Skye Stockbrokers Limited	423	525
- Alternative Capital Partners	1,131	-
- Swede control	3,485	3,727
Purchase of		
Financial services from fellow subsidiaries:		
- Skye Trustees Limited	117,617	-
- Skye Financial Services Limited	-	30,000
- Skye Stockbrokers Limited	219,171	175,176
- Alternative Capital Partners	50,000	-

(b). Balances with related parties

	2012 ₦'000	2011 ₦'000	As at 1 January 2011 ₦'000
--	---------------	---------------	----------------------------------

1. Receivables from and payables to Related parties are as follows:**Receivables from related parties**

- Skye Bank Plc	56,810 ¹	93,773	-
- Skye Mortgages Limited	-	1,310	-
- Skye Stockbrokers Limited	-	125	-
- Skye Trustees Limited	-	51	-
- Key management personnel	55,875 ²	42,687	47,050

¹ As at year end, the company ceased to be related party due to loss of control during the year.

² The balance is in respect of total amount receivable from former executive management team of the Company in respect of Share Purchase Loans, aborted Management buy-out of Law Union and Rock and outstanding on up-front allowances collected while in the services of the company. However, the balance has been fully provided for (see Note 22) in the current financial year.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

39. Related party disclosures - continued

(b). Balances with related parties

	2012 £'000	2011 £'000	As at 1 January 2011 £'000
Payables to related parties			
- Skye Bank Plc	20,462 ³	13,671	83,321
- Skye Mortgages Limited	100	100	-
- Skye Financial Services Limited	-	-	-

Outstanding balances at the reporting date are unsecured. Settlement will take place in cash. There was no allowance for impairment on receivable at the reporting date and no bad debt expense in the year (2011: Nil).

2. Loans to related parties are, as follows:

	2012 £'000	2011 £'000	As at 1 January 2011 £'000
Key management personnel	-	42,687	47,050

The Company offers the possibility for senior management to receive up to a maximum of £50,000,000 repayable within five years from the date of disbursement. Such loans are secured and the same interest rate as for long term company loans is applicable Nil (2011:13%). However, this policy has been put on hold by the new management during the year.

(c). Compensation of key management personnel:

	2012 £'000	2011 £'000
Salaries	100,065	121,051
Fees	1,500	333
Bonuses	-	-
Other short-term employment benefits	-	-
Post employment pension benefits	3,274	4,960
Total compensation of key management Personnel	104,839	126,344

40. Risk management framework

a. Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

³ As at year end, the Company ceased to be related party due to loss of control during the year.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

40. Risk management framework – continued

a. Governance framework continued - continued

The Company has established a risk management function with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, a Company policy framework which sets out the risk profiles for the Company, risk management, control and business conduct standards for the Company's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Company.

The board of directors approves the Company risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

b. Capital management objectives, policies and approach

The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

1. To maintain the required level of stability of the Company thereby providing a degree of security to policyholders;
2. To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;
3. To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
4. To align the profile of assets and liabilities taking account of risks inherent in the business;
5. To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders;
6. To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value.

In reporting financial strength, capital and solvency are measured using the rules prescribed by the National Insurance Commission. These regulatory capital tests are based upon required levels of solvency, capital and a series of prudent assumptions in respect of the type of business written.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

40. Risk management framework – continued

b. Capital management objectives, policies and approach continued

The Company's capital management policy for its insurance business is to hold sufficient capital to cover the statutory requirements based on the NAICOM directives, including any additional amounts required by the regulator.

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Company has had no significant changes in its policies and processes to its capital structure during the past year from previous years.

Available capital resources as at 31 December 2012

		N'000
Total shareholders' funds per financial statements	3,522,500	
Adjustments to a regulatory basis		(1,736,613)

Available capital resources		1,785,887
Minimum capital based required by regulator		(3,000,000)

Shortfall in Solvency Margin	(1,214,113)	=====

From the above the company has a shortfall of N1.214 billion in meeting the regulatory minimum capital requirement of N3billion. The shortfall in Solvency Margin is due to inadmissible assets worth N1.9billion. In addition, the sum of N457million was recovered from Premium debt which had not been considered in the Solvency computation. The Board and Management have put the following strategy in place to immediately rectify the Solvency Margin shortfall as computed above:

	N'000
Disposal of investment properties	500,000
Investment of estimated inflow from new business	500,000

	1,000,000
	=====

Available capital resources as at 31 December 2011

		N'000
Total shareholders' funds per financial statements	4,765,318	
Adjustments to a regulatory basis		(1,643,322)

Available capital resources		3,121,996
		=====

The adjustments to a regulatory basis represent assets inadmissible for regulatory reporting purposes. However, current year available capital resources are subject to the Regulators commission review and approval.

c. Regulatory framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

40. Risk management framework – continued

d. Asset liability management (ALM) framework - continued

The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. For each category of liabilities, a separate portfolio of assets is maintained.

The Company's ALM is:

- An integral part of the insurance risk management policy, to ensure in each period sufficient cash flows is available to meet liabilities arising from insurance contracts.

41. Insurance and financial risk

a. Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Company purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure of the Company to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Company's net exposure to catastrophe losses. Retention limits for the excess-of-loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 20% of total reinsurance assets at the reporting date.

The Company principally issues the following types of general insurance contracts: fire, motor, general accident, engineering, marine and aviation, bond and credit and oil and gas. Risks under non-life insurance policies usually cover twelve months duration. For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities. For longer tail claims that take some years to settle, there is also inflation risk.

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

a. Insurance risk - continued

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage).

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management. The overall aim is currently to restrict the impact of a single catastrophic event to approximately 50% of shareholders' equity on a gross basis and 10% on a net basis. In the event of such a catastrophe, counterparty exposure to a single reinsurer is estimated not to exceed 2% of shareholders' equity. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

Key assumptions

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example: once-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

The Company has taken advantage of the transitional rules of IFRS 4 that permit only five years of information to be disclosed upon adoption of IFRS.

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

a. Insurance risk - continued

In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherited in the estimation process, the actual overall claim provision may not always be in surplus.

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of each below illustrates how the Company's estimate of total claims outstanding for each year has changed at successive year-ends.

Claims Paid Triangulations as at December 2012

Development Years					
Motor	1	2	3	4	5
Accident year	N'000	N'000	N'000	N'000	N'000
2008	130,380	224,364	244,177	245,238	247,615
2009	195,804	300,628	308,365	314,615	
2010	196,942	281,735	282,827		
2011	201,525	304,525			
2012	205,423				

Development Years					
Fire	1	2	3	4	5
Accident year	N'000	N'000	N'000	N'000	N'000
2008	20,433	42,014	52,472	61,768	62,629
2009	59,355	77,287	81,354	85,255	
2010	20,897	38,084	48,594		
2011	53,653	87,084			
2012	47,290				

Development Years					
General Accident	1	2	3	4	5
Accident year	N'000	N'000	N'000	N'000	N'000
2008	16,892	42,555	49,782	54,718	57,667
2009	20,951	53,144	58,123	65,043	
2010	11,166	38,842	57,025		
2011	21,610	47,842			
2012	27,139				

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

a. Insurance risk - continued

Claims Paid Triangulations as at December 2012 continued

Development Years					
Engineering	1	2	3	4	5
	N'000	N'000	N'000	N'000	N'000
Accident year					
2008	2,603	10,163	12,816	12,817	12,817
2009	6,782	25,217	19,171	33,454	
2010	1,285	16,434	22,860		
2011	13,462	19,021			
2012	9,245				

Development Years					
Marine	1	2	3	4	5
	N'000	N'000	N'000	N'000	N'000
Accident year					
2008	1,497	24,374	29,007	32,399	35,900
2009	19,988	28,647	36,703	36,703	
2010	28,794	57,576	61,212		
2011	32,144	59,669			
2012	41,576				

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

b. Financial risks - continued

(i). Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of director and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- The Company sets the maximum amounts and limits that may be advances to corporate counterparties by reference to their long-term credit ratings.
- The credit risk in respect of customer balances incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document until expiry, when the policy is either paid or fully provided for and Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.
- Net exposure limits are set for each counterparty i.e limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may be held.
- A Company credit risk policy which sets out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

Credit exposure

The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2012 and 2011 is the carrying amounts as presented in Notes 17,18 & 22.

The credit risk analysis below is presented in line with how the Company manages the risk. The Company manages its credit risk exposure based on the carrying value of the financial instruments.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

Industry analysis	Financial services N'000	Government N'000	Consumer N'000	Oil & Gas N'000	Other N'000	Total N'000
31 December 2012						
Loans and receivables	-	-	-	-	241,463	241,463
Other receivables	-	-	-	-	67,977	67,977
Statutory deposit	-	315,000	-	-	-	315,000
Available-for-sale financial assets						
- Debt securities	-	123,104	-	-	-	123,104
- Unit trusts and mutual funds	219,779	-	-	-	-	219,779
	-----	-----	-----	-----	-----	-----
	219,779	438,104	-	-	309,440	967,323
Reinsurance assets	464,745	-	-	-	409,311	874,056
Trade receivables	-	-	-	-	597,825	597,825
Cash and cash equivalents	729,168	-	-	-	-	729,168
	-----	-----	-----	-----	-----	-----
Total credit risk exposure	1,413,692	438,104			1,316,576	3,168,372
	=====	=====	=====	=====	=====	=====
31 December 2011						
Loans and receivables	-	-	-	-	318,949	318,949
Other receivables	-	-	-	-	74,686	74,686
Available-for-sale financial assets						
- Debt securities	-	123,177	-	-	-	123,177
- Unit trusts and mutual funds	196,783	-	-	-	-	196,783
	-----	-----	-----	-----	-----	-----
	196,783	123,177	-	-	393,635	713,595
Reinsurance assets	452,022	-	-	-	248,457	700,479
Trade receivables	-	-	-	-	1,484,694	1,484,694
Cash and cash equivalents	728,071	-	-	-	-	728,071
	-----	-----	-----	-----	-----	-----
Total credit risk exposure	1,376,831	123,177	-	-	2,126,786	3,626,839

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

Industry analysis

1 January 2011	Financial services N'000	Government N'000	Consumer N'000	Oil & Gas N'000	Others N'000	Total N'000
Loans and receivables	-	-	-	-	614,223	614,223
Other receivables	-	-	-	-	157,708	157,708
Available-for-sale financial assets						
- Debt securities	-	83,000	-	-	-	83,000
- Unit trusts and mutual funds	202,710	-	-	-	-	202,710
	202,710	83,000	-	-	751,750	1,057,641
Reinsurance assets	313,100	-	-	-	134,990	448,090
Trade receivables	-	-	-	-	1,184,479	1,184,479
Cash and cash equivalents	1,064,267	-	-	-	-	1,064,267
Total credit risk exposure	1,510,221	83,000	-	-	2,091,400	3,754,477

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counter parties:

		Neither past-due nor impaired			Total N'000
		Non-investment grades satisfactory N'000	Non-investment grades unsatisfactory N'000	Past-due but not impaired N'000	
31 December 2012	Investment Grade N'000				
Loans and receivables -	241,463	-	-	241,463	
Other receivables	-	67,977	-	-	67,977
Statutory deposit	315,000	-	-	-	315,000
Available-for-sale financial assets					
- Debt securities	123,101	-	-	-	123,101
- Unit trusts and mutual funds	219,779	-	-	-	219,779
Reinsurance assets	-	-	-	874,056	874,056
Trade receivables	-	-	-	597,824	597,824
Cash and cash equivalents	648,549	80,619	-	-	729,168
Total	1,306,429	390,059	-	1,471,880	3,168,368
	=====	=====	=====	=====	=====
31 December 2011					
Loans and receivables -	318,949	-	-	318,949	
Other receivables	-	74,685	-	-	74,686
Available-for-sale financial assets					
- Debt securities	123,177	-	-	-	123,177

- Unit trusts and mutual funds	196,783	-	-	-	196,783
Reinsurance assets	-	-	-	700,479	700,479
Trade receivables	-	-	-	1,484,694	1,484,694
Cash and cash equivalents	407,820	320,251	-	-	728,071
	-----	-----	-----	-----	-----
Total	727,780	713,885	-	2,185,173	3,626,838
	=====	=====	=====	=====	=====

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counter parties:

Neither past-due nor impaired					
	Investment Grade N'000	Non-investment grades satisfactory N'000	Non-investment grades unsatisfactory N'000	Past-due but not impaired N'000	Total N'000
1 January 2011					
Loans and receivables -	614,223	-	-	614,223	
Other receivables	-	157,708	-	-	157,708
Available-for-sale financial assets					
- Debt securities	83,000	-	-	-	83,000
- Unit trusts and mutual funds	202,710	-	-	-	202,710
Reinsurance assets	-	-	-	448,090	448,090
Trade receivables	-	-	-	1,184,479	1,184,479
Cash and cash equivalents	952,505	111,762	-	-	1,064,267
	-----	-----	-----	-----	-----
Total	1,238,215	883,693	-	1,632,569	3,754,477
	=====	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

Age analysis of financial assets past due but not impaired			Total past	
	< 30 days	31 to 60	61 to 90	due but not
	days	days	days	impaired
	₦'000	₦'000	₦'000	₦'000
31 December 2012				
Loans and receivables	-	-	-	-
Other receivables	-	-	-	-
Reinsurance assets	215,052	456,856	202,148	874,056
Trade receivables	143,444	211,327	243,154	597,825
Total	358,496	668,183	445,302	1,471,981
	=====	=====	=====	=====
31 December 2011				
Loans and receivables	-	-	-	-
Other receivables	-	-	-	-
Reinsurance assets	193,622	334,503	172,354	700,479
Trade receivables	305,688	568,445	610,561	1,484,694
Total	499,310	902,948	782,915	2,185,173
	=====	=====	=====	=====
1 January 2011				
Loans and receivables	-	-	-	-
Other receivables	-	-	-	-
Reinsurance assets	138,649	232,122	77,319	448,090
Trade receivables	345,444	467,788	371,247	1,184,479
Total	484,093	699,910	448,566	1,632,569
	=====	=====	=====	=====

Impaired financial assets

At 31 December 2012, there are no impaired reinsurance assets of ₦'000 (2011: ₦'000) (1 January 2011: ₦'000), impaired loans and receivables of ₦'30,721,263 (2011: ₦4,219,989)(1 January 2011: ₦3,999,201 and trade receivables ₦1,255,243,000 (2011: ₦505,137,000)(2010: ₦529,020,000)

For assets to be classified as 'past-due and impaired' contractual payments must be in arrears for more than 90 days. No collateral is held as security for any past due or impaired assets.

The Company records impairment allowances for loans and receivables in a separate impairment allowance account. See Note 17 above for the reconciliation of allowance for receivable accounts.

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

(ii). Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meeting insurance and investment contracts obligations.
- The Company's catastrophe excess-of-loss reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.
- Contingency funding plans are place, which specify minimum proportions of funds to meet emergency calls well as specifying events that would trigger such plans.

Maturity profiles

The table that follows summarises the maturity profile of the financial assets and financial liabilities of the Company based on remaining undiscounted contractual obligations, including interest payable and receivable.

For insurance contracts liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs to assist users in understanding how assets and liabilities have been matched. Reinsurance assets have been presented on the same basis as insurance liabilities. Loans and receivables include contractual interest receivable.

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

Maturity analysis (contractual undiscounted cash flow basis)

31 December 2012	Carrying amount N'000	Up to 1 year N'000	1-3 years N'000	3-5 years N'000	Over 5 years N'000	No maturity date N'000	Total N'000
Financial assets							
Loans and receivables	241,463	241,463	-	-	-	-	241,463
Other receivables	67,977	-	67,977	-	-	-	67,977
Available-for-sale financial assets	1,140,043	55,832	69,150	37,050	-	924,218	1,086,250
Reinsurance assets	874,056	409,310	-	-	-	464,746	874,056
Trade receivables	597,825	597,825	-	-	-	-	597,825
Cash and cash equivalents	729,168	729,168	-	-	-	729,168	
Total financial assets	3,650,532	2,033,598	137,127	37,050	-	1,388,964	3,596,739
Financial liabilities							
Insurance contract liabilities	1,836,299	1,836,299	-	-	-	-	1,836,299
Borrowings	1,452	1,452	-	-	-	-	1,452
Book overdraft	21,896	21,896	-	-	-	-	21,896
Other financial liabilities	778	778	-	-	-	-	778
Trade payables	541,364	541,364	-	-	-	-	541,364
Other payables and accruals	325,922	325,922	-	-	-	-	325,922
Total financial liabilities	2,727,711	2,727,711	-	-	-	-	2,727,711
Total liquidity gap	922,821	(694,113)⁴	137,127	37,050	-	1,388,964	869,028

⁴ The shortfall was largely due to provision for unexpired risk, this can be financed through the disposal of available-for-sale instruments during the period.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

Maturity analysis (contractual undiscounted cash flow basis)

31 December 2011	Carrying amount N'000	Up to 1 year N'000	1-3 years N'000	3-5 years N'000	Over 5 years N'000	No maturity date N'000	Total N'000
Financial assets							
Loans and receivables	318,949	318,949	-	-	-	-	318,949
Other receivables	42,020	42,020	-	-	-	-	42,020
Available-for-sale financial assets	968,256	10,050	70,327	75,000	8,100	811,721	975,198
Reinsurance assets	700,479	200,510	-	-	-	499,969	700,479
Trade receivables	1,484,694	1,484,694	-	-	-	-	1,484,694
Cash and cash equivalents	728,071	728,071	-	-	-	728,071	
Total assets	4,242,469	2,784,294	70,327	75,000	8,100	1,311,690	4,249,411
Financial liabilities							
Insurance contract liabilities	1,699,770	1,699,770	-	-	-	-	1,699,770
Borrowings	36,091	36,091	-	-	-	-	36,091
Book overdraft	40,415	40,415	-	-	-	-	40,415
Other financial liabilities	10,456	10,456	-	-	-	-	10,456
Trade payables	449,889	449,889	-	-	-	-	449,889
Other payables and accruals	217,058	217,058	-	-	-	-	217,058
Total liabilities	2,453,679	2,453,679	-	-	-	-	2,453,679

Total liquidity gap	1,788,790	330,615	70,327	75,000	8,100	1,311,690	1,795,732
	=====	=====	=====	=====	=====	=====	=====

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

Maturity analysis (contractual undiscounted cash flow basis)

1 January 2011	Carrying amount N'000	Up to 1 year N'000	1-3 years N'000	3-5 years N'000	Over 5 years N'000	No maturity date N'000	Total N'000
Financial assets							
Loans and receivables	614,223	614,223	-	-	-	-	614,223
Other receivables	136,390	136,390	-	-	-	-	136,390
Available-for-sale financial assets	1,590,925	10,050	30,150	64,100	37,050	1,507,925	1,649,275
Reinsurance assets	448,090	118,664	-	-	-	313,099	431,764
Trade receivables	1,184,479	1,184,479	-	-	-	-	1,184,477
Cash and cash equivalents	1,064,267	-	-	-	-	1,064,267	
Total assets	5,038,374	3,128,073	30,150	64,100	37,050	1,821,024	5,080,397
Financial liabilities							
Insurance contract liabilities	1,800,622	1,800,622	-	-	-	-	1,800,622
Borrowings	18,620	18,620	-	-	-	-	18,620
Book overdraft	69,856	69,856	-	-	-	-	69,856
Other financial liabilities	28,862	28,862	-	-	-	-	28,862
Trade payables	418,452	418,452	-	-	-	-	418,452
Other payables and accruals	193,544	193,544	-	-	-	-	193,544

Total liabilities	2,529,956	2,529,956	-	-	-	-	2,529,956
	-----	-----	-----	-----	-----	-----	-----
Total liquidity gap	2,508,418	598,117	30,150	64,100	37,050	1,821,024	2,550,441
	=====	=====	=====	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

The table below summarises the expected utilisation or settlement of assets and liabilities

Maturity analysis on expected maturity bases

31 December 2012	Current £'000	Non- Current £'000	Total £'000
Cash and cash equivalents	729,168	-	729,168
Financial assets:			
Available-for-sale financial assets	16,902	1,123,141	1,140,043
Loans and receivables	241,463	-	241,463
Trade receivables	597,825	-	597,825
Reinsurance assets	409,311	464,745	874,056
Deferred acquisition costs	148,049	-	148,049
Other receivables and prepayments	67,977	-	67,977
Investment properties	-	1,706,372	1,706,382
Intangible assets	-	81,273	81,273
Property, plant and equipment	-	716,243	716,243
Statutory deposits	-	315,000	315,000
Total Assets	2,210,695	4,406,774	6,617,479
	=====	=====	=====
Liabilities			
Insurance contract liabilities	1,836,299	-	1,836,299
Trade payables	541,364	-	541,364
Other payables and accruals	325,922	-	325,922
Other financial liabilities	778	-	778
Borrowings	23,348	-	23,348
Employee benefit obligations	117,594	-	117,594
Current tax payable	79,852	-	79,852
Deferred tax liability	-	169,822	169,822
Total liabilities	2,925,157	169,822	3,094,979
	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

The table below summarises the expected utilisation or settlement of assets and liabilities

Maturity analysis on expected maturity bases

31 December 2011	Current N'000	Non- Current N'000	Total N'000
Cash and cash equivalents	728,071	-	728,071
Financial assets:			
Available-for-sale financial assets	10,049	958,207	968,256
Loans and receivables	318,949	-	318,949
Trade receivables	1,484,694	-	1,484,694
Reinsurance assets	248,457	452,022	700,479
Deferred acquisition costs	186,158	-	186,158
Other receivables and prepayments	74,686	-	74,686
Investment properties	-	1,884,718	1,884,718
Intangible assets	-	98,096	98,096
Property, plant and equipment	-	796,436	796,436
Statutory deposits	-	315,000	315,000
Total Assets	3,051,063	4,504,480	7,555,543
	=====	=====	=====
Liabilities			
Insurance contract liabilities	1,699,770	-	1,699,770
Trade payables	449,888	-	449,888
Other payables and accruals	306,626	-	306,626
Other financial liabilities	10,456	-	10,456
Borrowings	36,081	-	36,081
Book overdraft	40,415	-	40,415
Employee benefit obligations	108,400	-	108,400
Current tax payable	90,808	-	90,808
Deferred tax liability	-	47,781	47,781
Total liabilities	2,742,444	47,781	2,790,225
	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

The table below summarises the expected utilisation or settlement of assets and liabilities

Maturity analysis on expected maturity bases

1 January 2011	Current N'000	Non- Current N'000	Total N'000
Cash and cash equivalents	1,064,267	-	1,064,267
Financial assets:			
Available-for-sale financial assets	10,050	1,580,875	1,590,925
Loans and receivables	614,223	-	614,223
Trade receivables	1,184,479	-	1,184,479
Reinsurance assets	134,990	313,100	448,090
Deferred acquisition costs	162,127	-	162,127
Other receivables and prepayments	157,708	-	157,708
Investment properties	-	1,111,188	1,111,188
Intangible assets	-	67,490	67,490
Property, plant and equipment	792,507	-	792,507
Statutory deposits	-	315,000	315,000
Total Assets	4,120,351	3,387,653	7,508,004
	=====	=====	=====
Liabilities			
Insurance contract liabilities	1,800,622	-	1,800,622
Trade payables	418,452	-	418,452
Other payables and accruals	205,686	-	205,686
Other financial liabilities	24,862	-	24,862
Borrowings	18,620	-	18,620
Book overdraft	69,856	-	69,856
Employee benefit obligations	-	87,237	87,237
Current tax payable	111,263	-	111,263
Deferred tax liability	-	42,564	42,564
Total liabilities	2,649,361	129,801	2,779,162
	=====	=====	=====

(iii). Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk). The risk management frameworks for each of its components are discussed below:

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

(a). Currency risk

Currency risk is the risk that fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. Our currency risk exposure is minimal and we are currently putting framework to manage our exposures to exchange rate risks emanating from our underwriting some foreign transactions.

Foreign Exchange risk

Law Union and Rock Insurance is exposed to foreign exchange currency risk primarily through certain transactions denominated in foreign currency. The company is exposed to foreign currency through bank balances in other foreign currencies.

The carrying amounts of the company's foreign currency-denominated assets as at end of the year are as follows:

	Cash & Cash Equivalents	Available-for-sale	Total
	₦'000	₦'000	₦'000
Dollars	157	-	157
Euros	27	-	27
Pounds	36	-	36

The Company limits its exposure to foreign exchange to 10% of total investment portfolio. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of the investment policy. The company further manages its exposure to foreign exchange risk using sensitivity analysis to assess potential changes in the value of foreign exchange positions and impact of such changes on the Company's investment income. At the year end, the foreign currency investments held in the portfolio are cash and cash equivalents.

There have been no major changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

The following table details the effect on the profit as at 31st, December 2012 from a N155.77/\$ closing rate favorable/unfavorable change in US dollars against the naira with all other variables held constant.

	Increase by 1%	Increase by 4%	Decrease by 1%	Decrease by 4%
Financial Assets	₦'000	₦'000	₦'000	₦'000
Cash & Cash Equivalents	0.16	0.63	(0.16)	(0.63)
Available-for-sale	-	-	-	-
Impact on financial assets before tax	0.16	0.63	(0.16)	(0.63)
Impact on financial assets after tax	0.11	0.44	(0.11)	(0.44)

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

The following table details the effect on the profit as at 31 December 2012 from a N205.43/€ rate favorable/unfavorable change in Euro against the Naira with all other variables held constant.

	Increase by 1%	Increase by 4%	Decrease by 1%	Decrease by 4%
	N'000	N'000	N'000	N'000
Financial Assets				
Cash & Cash Equivalents	0.03	0.11	(0.03)	(0.11)
Available-for-sale	-	-	-	-
Impact on financial assets before tax	0.03	0.11	(0.03)	(0.11)
Impact on financial assets after tax	0.02	0.08	(0.02)	(0.08)

The following table details the effect on the profit as at 31 December 2012 from a N251.86/£ rate favorable/unfavorable change in Sterling Pounds against the Naira with all other variables held constant.

	Increase by 1%	Increase by 4%	Decrease by 1%	Decrease by 4%
	N'000	N'000	N'000	N'000
Financial Assets				
Cash & Cash Equivalents	0.04	0.14	(0.04)	(0.14)
Available-for-sale	-	-	-	-
Impact on financial assets before tax	0.04	0.14	(0.04)	(0.14)
Impact on financial assets after tax	0.03	0.10	(0.03)	(0.10)

The method used to arrive at the possible risk of foreign exchange rate was based on both statistical and non-statistical analyses. The statistical analysis was based on movement in main currencies for the last five years. This information was then revised and adjusted for reasonableness under the current economic circumstances.

(b). Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fixed interest rate instruments expose the Company to fair value interest risk. The risks arising from fluctuations in our interest rate is managed in line with the investment risk policy. We also manage this risk by reducing the portfolio of our interest rate risk sensitive securities as well as fixed most of interest rate income.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

(b). Interest rate risk continued

The table below details the interest rate sensitivity analysis of Law Union Plc as at 31st December 2012, holding all other variable constant. Based on historical date, 100 & 500 basis points changes are deemed to be reasonably possible and are used when reporting interest rate risk.

Interest earning assets	Amount	Increase by 100bp	Increase by 500bp	Decrease by 100bp	Increase by 500bp
	N'000	N'000	N'000	N'000	N'000
Bond	123,102	456	1,787	(465)	(1,787)
Fixed term deposit	80,212	232	1,065	(232)	(1,065)

(c) Equity Price risk

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

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

The risks arising from change in price of our investment securities is managed through our investment desk and in line with the investment risk policy.

The Company's management of equity price risk is guided by the following:

- Investment Quality and Limit Analysis
- - Stop Loss Limit Analysis
- - Stock to Total Loss Limit Analysis

Investment quality and limit analysis

The Board through its Board Investment Committee set approval limits for taking investment decision approval limits are illustrated using an approval hierarchy that establishes different levels of authority necessary to approve investment decisions of different naira amounts. The approval limits system: sets a personal discretionary limit for Chief Executive Officer; □ requires that investment decisions above this personal discretionary limit requires approval by the Board of Directors and; □ sets out lower limits for Chief Finance Officer (CFO) and, or provides the CFO with the authority to assign limits to subordinates.

Stop loss limit analysis

The eligible stocks are further categorized into class A, B and C based on market capitalizations, liquidities and market volatilities. These classes are assigned stop loss limits and maximum holding days for trading as a measure of the amount of loss the Company is willing to accept. Periodic reviews and reassessments are undertaken on the performance of the stocks. The stop loss limits on classes basis that guide the monitoring of investment in capital markets depicted below:

The Company's ERM function monitors compliance of the Investment arm to these limits and

reports to Management on a weekly basis.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS – Continued

41. Insurance and financial risk – continued

A summary of the Company's Stop Loss Limit position on trading equities as at 31 December 2012 is as follows:

STOCK TO TOTAL LIMIT ON COMPANY'S INVESTMENT PORTFOLIO					
SECTOR OF STOCK	COST PRICE	MARKET PRICE	STOCK CLASS	GAIN/LOSS	Bench Mark
BREWERIES	829	1,413	A	70%	25%
PETROLEUM(MARKETING)	560	140	A	-75%	25%
BANKING	1408	1,087	A	-23%	25%
INSURANCE	63	14	C	-78%	20%
REAL ESTATE	29	24	C	-20%	20%
AVIATION	79	38	C	-52%	20%
FOOD/BEVERAGES & TOBACCO	934	1,700	A	82%	25%
BUILDING MATERIALS	372	495	B	33%	20%

STOCK TO TOTAL LIMIT ON COMPANY'S PORTFOLIO		
SECTOR OF STOCK	MARKET PRICE	%
BREWERIES	1413	29%
PETROLEUM(MARKETING)	139.8	3%
BANKING	1087.25	22%
INSURANCE	14.04	0%
REAL ESTATE	23.6	0%
AVIATION	37.73	1%
FOOD/BEVERAGES & TOBACCO	1700.09	35%
BUILDING MATERIALS	495.25	10%

Operational risks

Our operational risk exposure arises from inadequately controlled internal processes or systems, human error or non-compliance as well as from external events. Operational risk management framework includes strategic, reputation and compliance risks. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

NOTES TO THE FINANCIAL STATEMENTS – Continued

42. Contingencies and commitments**(a). Legal proceedings and regulations**

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

The Company is also subject to insurance solvency regulations of NAICOM. There are no contingencies associated with the Company's compliance or lack of compliance with such regulations.

(b). Capital commitments and operating leases

The Company has no capital commitments at the reporting date.

The Company has entered into commercial property leases on its investment property portfolio and the Company's surplus office buildings. These non-cancellable leases have remaining terms of between one and five years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum lease rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2012 N'000	2011 N'000	As at 1 January 2011 N'000
Within one year	42,941	31,155	15,248
After one year but not more than five years	128,823 93,465	60,992	
More than five years	-	-	-
Total operating lease rentals receivable	171,764	124,620	76,240

The Company has entered commercial leases on certain property and equipment. These leases have an average life of between one and fifty years, with no renewal option included in the contracts. There are no restrictions placed upon the Company by entering into the leases.

Future minimum rentals payable under non-cancellable operating lease as at 31 December are as follows:

	2012 N'000	2011 N'000	As at 1 January 2011 N'000
Within one year	-	-	-
After one year but not more than five year	-	-	-
More than five years	59,319	50,000	50,000
Total operating lease rentals payable	59,319	50,000	50,000

NOTES TO THE FINANCIAL STATEMENTS – Continued

43. Contravention of the NAICOM guideline:

Nature of contravention	Number of Infractions	Penalty ₦'000
Late submission of audited financial statements	1 =	800 ===

44. Events after the reporting date

No significant events has occurred since the reporting date which requires adjustment of, or further disclosure in, the financial statement.

45. Admissible assets

The admissible assets representing insurance funds are included in the Statement of Financial Position as follows:

Total assets representing Insurance funds	₦'000	₦'000
<i>Cash and cash equivalents:</i>		
Cash	93	
Short-term deposits	729,075	

Total cash and cash equivalents		729,168
Total Leases falling due within one year		20,531
<i>Available-for-sale financial assets:</i>		
Quoted equities	1,008,289	
Federal Government bonds	45,102	
State Government bonds	8,000	
Corporate bonds	70,000	

Total Available-for-sale financial assets		1,131,391

Total Assets representing insurance funds		1,881,090
Total Insurance funds		1,836,299

Balance due to shareholders' funds		44,791
		=====

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENT – Continued

46. First-time adoption of IFRS

Reconciliation of equity as at 1 January 2011

		Local GAAP N'000	Reclassifi- - cation N'000	Remeasure- - ment N'000	IFRS as at 1 January 2011 N'000
	Note				
Assets					
Cash and bank balances	A	111,762	(111,762)	-	-
Cash and cash equivalents	A	-	1,074,960	(10,693)	1,064,267
Treasury bills	A	122,866	(122,866)	-	-
Short-term investments	A,D	1,225,185	(1,225,185)	-	-
Advances under finance lease	D	147,865	(147,865)	-	-
Debtors and prepayments	B,C,D,G	1,738,360	(1,738,360)	-	-
Long-term investments	D	1,590,925	(1,590,925)	-	-
Trade receivables	B	-	1,184,479	-	1,184,479
Reinsurance assets	C,M	-	313,100	134,990	448,090
Financial instruments:					
Available-for-sale financial assets	D	-	1,590,925	-	1,590,925
Loans and receivables	D	-	615,791	(1,568)	614,223
Investment properties	E	1,092,952	-	18,236	1,111,188
Fixed assets	F,H	859,997	(859,997)	-	-
Property and equipment	F	-	792,507	-	792,507
Other receivables and prepayments	G	-	157,708	-	157,708
Deferred acquisition costs		162,127	-	-	162,127
Statutory deposit		315,000	-	-	315,000
Intangible assets	H	-	67,490	-	67,490
Total assets		7,367,039	-	140,965	7,508,004
		=====	=====	=====	=====
Liabilities and Equity					
Bank overdraft	K	88,476	(88,476)	-	-
Creditors and accruals	I,J,P	649,000	(649,000)	-	-
Other payables and accruals	I,Q	-	193,544	-	193,544
Trade payables	J	-	418,452	-	418,452
Taxation/Current tax payable	L	111,263	-	-	111,263
Other financial liabilities	P	-	24,862	-	24,862
Deferred revenue	Q	-	12,142	-	12,142
Deferred tax liability	N	-	-	42,564	42,564
Borrowings	K	-	18,620	-	18,620
Book overdraft	K	-	69,856	-	69,856
Staff gratuity -					
Employee benefit obligations	O	87,237	-	-	87,237
Insurance fund	M	1,665,632	(1,800,622)	134,990	-
Insurance contract liabilities	M	-	1,800,622	-	1,800,622
Total liabilities		2,601,608	-	177,554	2,779,162
		=====	=====	=====	=====
Equity					
Issued share capital		1,718,665	-	-	1,718,665
Share premium		1,363,034	-	-	1,363,034
Revaluation reserves	R	958,432	-	(407,407)	551,025
Available-for-sale-reserve	S	-	-	77,566	77,566
Contingency reserve		527,579	-	-	527,579
Retained earnings	T	197,721	-	293,252	490,973
Total equity		4,765,430	-	(36,589)	4,728,842
		=====	=====	=====	=====
Total liabilities and equity		7,367,039	-	140,965	7,438,148
		=====	=====	=====	=====

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENT – Continued

46. First-time adoption of IFRS - continued

Reconciliation of equity as at 31 December 2011

		Local GAAP N'000	Reclassifi - - cation N'000	Remeasure - - ment N'000	IFRS as at 31 December 2011 N'000
	Note				
Assets					
Cash and bank balance	A	396,745	(396,745)	-	-
Cash and cash equivalents	A	-	732,294	(9,223)	728,071
Treasury bills	A	119,919	(119,919)	-	-
Short-term investments	A,D	327,919	(327,919)	-	-
Advances under finance lease	D	139,932	(139,932)	-	-
Debtors and prepayments	B,C,D,G	2,090,129	(2,090,129)	-	-
Long-term investments	D	1,561,607	(1,561,607)	-	-
Trade receivables	B	-	1,484,694	-	1,484,694
Reinsurance assets	C,M	-	452,022	248,457	700,479
Financial instruments:					
Available-for-sale financial assets	D	-	1,561,607	(593,351)	968,256
Loans and receivables	D	-	325,949	(7,000)	318,949
Investment properties	E	1,160,536	-	724,182	1,884,718
Fixed assets	F,H	894,533	(894,533)	-	-
Property and equipment	F	-	796,436	-	796,436
Other receivables and prepayments	G	-	74,686	-	74,686
Deferred acquisition costs		186,158	-	-	186,158
Statutory deposit		315,000	-	-	315,000
Intangible assets	H	-	98,096	-	98,096
Total assets		7,192,478	-	363,065	7,555,543
		=====	=====	=====	=====
Liabilities and Equity					
Bank overdraft	K	76,496	(76,496)	-	-
Creditors and accruals	I,J,P,Q	766,630	(766,630)	-	-
Other payables and accruals	I	-	217,058	340	217,399
Trade payables	J	-	449,888	-	449,888
Taxation/Current tax payable	L	90,808	-	-	90,808
Other financial liabilities	P	-	10,456	-	10,456
Deferred revenue	Q	-	89,228	-	89,227
Deferred tax liability	N	-	-	47,781	47,781
Borrowings	K	-	36,081	-	36,081
Bank overdraft	K	-	40,415	-	40,415
Staff gratuity -					
Employee benefit obligations	O	108,400	-	-	108,400
Insurance fund	M	1,420,332	(1,668,789)	248,457	-
Insurance contract liabilities	M	-	1,668,789	30,981	1,699,770
Total liabilities		2,462,666	-	327,559	2,790,225
		=====	=====	=====	=====
Equity					
Issued share capital		1,718,665	-	-	1,718,665
Share premium		1,363,034	-	-	1,363,034
Revaluation reserves	R	958,432	-	(407,407)	551,025
Available-for-sale-reserve	S	-	-	36,290	36,290
Contingency reserve		654,173	-	-	654,173
Retained earnings	T	35,508	-	406,623	442,131
Total equity		4,729,811	-	33,438	4,765,318
		=====	=====	=====	=====
Total liabilities and equity		7,192,478	-	363,065	7,515,128
		=====	=====	=====	=====

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENT – Continued

46. First-time adoption of IFRS - continued

Reconciliation of total comprehensive income for the year ended 31 December 2011

	Note	Local GAAP N'000	Reclassifi - cation N'000	Remeasure - ment N'000	IFRS as at 31 December 2011 N'000
Gross premium written	A	4,219,815	(4,219,815)	-	-
Movement in reserve for unexpired risks	A	(38,418)	38,418	-	-
Gross premium earned		4,181,397	(4,181,397)	-	-
Gross premium income	A	-	4,181,397	-	4,181,397
Outward reinsurance premium	B	(655,472)	655,472	-	-
Movement in reserve for unexpired risks ceded to reinsurance	B	21,599	(21,599)	-	-
Premiums ceded to reinsurers	B	-	633,873	-	(633,873)
Net premium earned/income		3,547,524	-	-	3,547,524
Commission received	C	134,205	(134,205)	-	-
Fees and commission income	C	-	134,205	-	134,205
Net underwriting income		3,681,729	-	-	3,681,729
Less:					
Acquisition cost	D	(621,378)	621,378	-	-
Maintenance cost	D	(1,054,041)	1,054,041	-	-
Claims incurred (net of recoveries)	E	(653,718)	653,718	-	-
Net benefits and claims	E	-	(653,718)	(30,981)	(684,699)
Underwriting expenses	D	-	(943,810)	-	(943,810)
Underwriting profit		1,352,592	731,609	(30,981)	2,053,220
Investment income	F	228,634	12,705	(5,837)	235,502
Fair value gains	I	-	-	72,849	72,849
Net realised gains and losses	G, H	-	(5,615)	-	(5,615)
Other operating income	G, H	7,738	(3,008)	-	4,730
General administration	J	(619,040)	619,040	-	-
Other operating and administrative expenses	J	-	(2,065,775)	(78)	(2,065,853)
Profit before provision for doubtful Accounts/Results from operating activities		969,924	(711,044)	35,953	294,834
Provision for doubtful accounts	J	(799,300)	799,300	-	-
Finance costs	J, K	-	(5,621)	-	(5,621)
Profit before taxation		170,624	82,635	35,953	289,213
Taxation/Income tax expense	L	(34,375)	-	(5,217)	(39,592)
Profit for the year		136,249	82,635	28,668	249,620
Other comprehensive income:					
Net loss on available-for-sale assets	M	-	(41,276)	-	(41,276)
Total comprehensive income for the year		136,249	41,359	28,668	208,344

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENT – Continued

46. First-time adoption of IFRS - continued

Notes to the reconciliation of equity as at 1 January 2011 and 31 December 2011

	31 December 2011 N'000	1 January 2011 N'000
A. Cash and cash equivalents		
Cash and bank balances per Nigerian GAAP	396,745	111,762
Reclassification from treasury bills	53,043	122,866
Reclassification from short-term investments	287,506	840,332
IFRS adjustment as a result of impairment loss on placements and similar deposit with banks	(10,771)	(10,693)
IFRS adjustment as a result of allocation of investment in Vandt Developers Ltd	1,548	-
	-----	-----
Per IFRS	728,071 =====	1,064,267 =====

Under Nigerian GAAP, the company recognised impairment loss on financial asset based on the number of days that the unpaid principal or interest due on the financial assets has been outstanding. At the date of transition to IFRS, the application of incurred loss model under IFRS showed that there is objective evidence that a financial asset (placement with a bank) has been impaired by ₦10.693 million (2011: ₦10.771 million). This has been recognised to reduce both cash and cash equivalents and retained earnings. The effect on earnings for the year ended 31 December 2011 is also recognised in the profit for the year under IFRS. Also, the initial allocation of purchase price relating to bank and cash of N1.55 million of the company investment in Vandt Developers Ltd as a result of 100% holding in 2011 has been recognised in cash and cash equivalents.

	31 December 2011 N'000	1 January 2011 N'000
B. Trade receivables		
Debtors and prepayments per Nigerian GAAP	2,090,129	1,738,360
Reclassification to reinsurance assets	(452,022)	(313,100)
Accrued income reclassified to available-for-sale financial assets	(10,359)	(20,179)
Receivables reclassified to loans and receivables	(68,369)	(62,894)
Reclassification to other receivables and prepayments	(74,686)	(157,708)
	-----	-----
Per IFRS	1,484,694 =====	1,184,479 =====

C. Reinsurance assets

Reclassification from debtors and prepayments	452,022	313,100
Prepaid reinsurance reclassified from insurance funds	200,511	118,664
Reinsurance outstanding claims reclassified from insurance funds	47,946	16,326
	-----	-----
Per IFRS	700,479 =====	448,090 =====

The impact of changes in reinsurance assets from the Nigerian GAAP to IFRS balance were mainly attributable to the reclassification of reinsurance assets of ₦200.5 million (2010: ₦118.7 million)

NOTES TO THE FINANCIAL STATEMENT – Continued

46. First-time adoption of IFRS - continued

Notes to the reconciliation of equity as at 1 January 2011 and 31 December 2011

million) and reinsurer's share of outstanding claims of ₦47.9 million (2010: ₦16.3 million) from insurance funds in order to conform with the IFRSs presentation requirements of disclosing insurance liabilities gross re-insurance.

	31 December 2011 ₦'000	1 January 2011 ₦'000
D. Financial assets		
<i>Available-for-sale financial assets</i>		
AFS quoted equity reclassified from long-term investments	597,013	1,034,444
AFS debt instruments reclassified from long-term investments	123,177	83,000
AFS unquoted equity at cost reclassified from long-term investment	841,418	473,481
IFRS adjustments as a result of measurement of AMCON bond at amortised cost	(405)	-
IFRS adjustment as a result of allocation of investment in Vandt Developers Ltd	(592,947)	-
	-----	-----
Per IFRS	968,256 =====	1,590,925 =====

Under Nigerian GAAP, Investment in AMCON bond, a zero coupon bond, was initially recognised at fair value being the consideration paid by the Company to purchase the bond. Subsequently, this bond is measured at a value calculated at the previous carrying value plus the difference between maturity value and initial value divided by the tenor in days and multiplied by the number of days expired at the reporting date from the date of purchase. Under IFRS, Interest Income on such zero coupon bond and the amortised cost balance have been calculated using EIR method. This resulted in a reduction of ₦405,109 in the carrying value of the bond as at 31 December 2011. The corresponding effect of this has been recognised in Profit or loss as a reduction in Investment Income. Also, the unquoted investment in Vandt Developers Ltd in 2011 classified as available for sale and impairment loss on this financial asset has been derecognised.

	31 December 2011 ₦'000	1 January 2011 ₦'000
<i>Loans and receivables</i>		
Trading securities reclassified from treasury bills	66,875	-
Accrued income on AFS reclassified from debtors and prepayment	10,359	20,181
Trading securities reclassified from short-term investments	40,413	384,852
Receivables reclassified from advances under finance lease	139,932	147,864
Receivables reclassified from debtors and receivables	68,369	62,894
IFRS adjustment arising on re-measurement of loans and receivables at amortised cost	(7,000)	(1,568)
	-----	-----
Per IFRS	318,949 =====	614,223 =====

Under Nigerian GAAP, staff loans are recognised at the initial loan amount given to staff. IFRS requires the fair value of receivable that carries no interest to be estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for instruments that are similar as to currency, term, type of interest rate, credit risk and other factors. The measurements of the staff loans are based on the average prime lending rate obtained from the

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENT – Continued

46. First-time adoption of IFRS - continued

Notes to the reconciliation of equity as at 1 January 2011 and 31 December 2011

Financial assets – continued

Central Bank of Nigeria. At the date of transition to IFRS, a decrease of N2.621 million (31 December 2011 – N3.276 million) has been recognised in loans and receivables. The corresponding adjustment has been recognised in the retained earnings. The effects on earnings for the year ended December 2011 are recognised in finance income under IFRS.

Loans and receivables – continued

Also, under Nigerian GAAP, the company recognised impairment loss on receivables under finance lease based on the number of days that the unpaid principal or interest due on the financial asset has been outstanding. At the date of transition to IFRS, the application of incurred loss model under IFRS showed an excess provision for receivables under finance lease of N1.052 million. This has been recognised in retained earnings. However, for the year ended 31 December 2011, the application of incurred loss model under IFRS resulted in an additional impairment loss of N3.724 million which was recognised in the profit for the year with a corresponding reduction in loans and receivables.

	31 December 2011 N'000	1 January 2011 N'000
E. Investment properties		
Per Nigerian GAAP	1,160,536	1,092,952
Fair value gains	132,444	18,236
IFRS adjustment as a result of allocation of investment in Vandt Developers Ltd	591,738	-
	-----	-----
Per IFRS	1,884,718 =====	1,111,188 =====

Under Nigerian GAAP, the company measured investment properties at revalued amount. Revaluation of Investment properties is not one on an annual basis. Previous increase in fair value of these investments has been recognised in investment property revaluation reserve. Under IFRS, the Company has opted to use fair value model for subsequent measurement of all investment properties. As a result, all Investment properties were fair valued at the date of transition to IFRS and changes in fair value of these Investment properties were recognised in retained earnings. The previous Investment properties revaluation reserves were equally reclassified to retained earnings. The effect of using fair value model on 2011 has been recognised both in Profit or loss for the year ended 31 December 2011 and in the Investment property. Also, the investment property in Vandt Developers were fair valued and the resulting fair value changes adjustment have been recognised in investment property of the company.

Prior to the enactment of SAS 31 on 1 January 2011 under the Nigerian GAAP, which is in line with IFRS as regards the classification of intangible assets acquired software was capitalised as computer software and computer equipment under property and equipment, and depreciated over the estimated useful life of the asset. IAS 16 requires that software should be classified as intangible assets. As a result, the net book value of software was reclassified from property and equipment to intangible assets. The reclassification did not impact the profit and loss account, neither did it impact equity.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENT – Continued

46. First-time adoption of IFRS - continued

Notes to the reconciliation of equity as at 1 January 2011 and 31 December 2011

	31 December 2011	1 January 2011
F. Property and equipment		
	<u>N'000</u>	<u>N'000</u>
Per Nigerian GAAP – Fixed assets	894,532	859,997
Reclassification to intangible assets	(98,096)	(67,490)
	-----	-----
Per IFRS	796,436	792,507
	=====	=====

Prior to the enactment of SAS 31 on 1 January 2011 under the Nigerian GAAP, which is in line with IFRS as regards the classification of intangible assets acquired software was capitalised as computer software and computer equipment under property and equipment, and depreciated over the estimated useful life of the asset. IAS 16 requires that software should be classified as intangible assets. As a result, the net book value of software was reclassified from property and equipment to intangible assets. The reclassification did not impact the profit and loss account, neither did it impact equity.

	31 December 2011	1 January 2011
G. Other receivables and prepayments	<u>N'000</u>	<u>N'000</u>
Reclassification from debtors and prepayments	74,686	157,708
	-----	-----
	74,686	157,708
	=====	=====

H. Intangible asset

Reclassification from fixed assets	98,096	67,490
	-----	-----
Per IFRS	98,096	67,490
	=====	=====

I. Other payables and accruals

Creditors and accruals per Nigerian GAAP	766,630	649,000
Reclassification to trade payables	(449,888)	(418,452)
Reclassification to other financial liabilities	(10,456)	(24,862)
Reclassification to deferred revenue	(89,228)	(12,142)
IFRS adjustment as a result of allocation of investment in Vandt Developers Ltd	340	-
	-----	-----
Per IFRS	217,399	193,544
	=====	=====

Under local GAAP, the company accounted for investment in Vandat Developer Ltd under Investment. In 2011, the company acquires 100% of the investment in Vandt Developer Ltd. As a result of the acquisition, the initial allocation of purchase price relating to accrued audit fee has been recognised in trade and other payables

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENT – Continued

46. First-time adoption of IFRS - continued

Notes to the reconciliation of equity as at 1 January 2011 and 31 December 2011

	31 December 2011 ₦'000	1 January 2011 ₦'000
J. Trade payables		
Reclassification from creditors and accruals	449,888	418,452
	-----	-----
Per IFRS	449,888	418,452
	=====	=====
K. Borrowings		
Bank overdraft per Nigerian GAAP	76,496	88,476
Reclassification of book credit balance to cash and cash equivalents	(40,415)	(69,856)
	-----	-----
Per IFRS	36,081	18,620
	=====	=====
K. Book overdraft		
Transfer from bank overdraft	40,415	69,856
	=====	=====
L. Current tax payable		
Taxation per Nigerian GAAP	90,808	111,263
	-----	-----
Per IFRS	90,808	111,263
	=====	=====
M. Insurance contract liabilities		
Insurance contract liabilities reclassified from insurance funds	1,420,332	1,665,632
Reinsurance share of outstanding claims reclassified to reinsurance assets	47,946	16,326
Deficiency in outstanding claims at date of transition	30,981	-
Reclassification of prepaid reinsurance cost	200,511	118,664
	-----	-----
Per IFRS	1,699,770	1,800,622
	=====	=====

The impact of changes in Insurance liabilities from the Nigerian GAAP to IFRS balance were mainly attributable to the additional provision of ₦30.9 million (2010: Nil) and the reclassification of reinsurance assets of ₦200.5million (2010: ₦118.7 million) in order to conform with the IFRSs presentation requirements of disclosing insurance liabilities gross re-insurance. The additional provisions were recognised by Company in line with the result of the liability adequacy test carried out by the Company. As a result additional provisions were made for claims incurred but not reported which impacted on equity.

NOTES TO THE FINANCIAL STATEMENT – Continued

46. First-time adoption of IFRS - continued

Notes to the reconciliation of equity as at 1 January 2011 and 31 December 2011

	31 December 2011	1 January 2011
N. Deferred Tax Liabilities		
	<u>₦'000</u>	<u>₦'000</u>
Per Nigerian GAAP	-	-
IFRS adjustment as a result of deferred tax effects of fair value gains on investment property at the date of transition	47,781	42,564
	-----	-----
Per IFRS	<u>47,781</u>	<u>42,564</u>
	=====	=====

The transition adjustment relating to Investment properties leads to different temporary differences. According to the accounting policies, the Company has to account for such differences. These deferred tax adjustments are recognised in correlation to the underlying transaction in retained earnings. The effect of the adjustments in 2011 has been recognised in the profit for 2011. Also, the adjustment relating to investment of the company in Vandt Developers Ltd as a result of 100% holding in 2011 leads to different temporary differences and these has been adjusted accordingly.

	31 December 2011	1 January 2011
O. Employee benefit obligations	<u>₦'000</u>	<u>₦'000</u>
Per Nigerian GAAP – Staff pension and gratuity fund	108,400	87,237
	-----	-----
Per IFRS	<u>108,400</u>	<u>87,237</u>
	=====	=====

Other financial liabilities

Per Nigerian GAAP	-	-
Reclassification from other payables and accruals	10,456	24,862
	-----	-----
Per IFRS	<u>10,456</u>	<u>24,862</u>
	=====	=====

P. Deferred revenue

Per Nigerian GAAP	-	-
Reclassification from other payables and accruals	89,228	12,142
	-----	-----
Per IFRS	<u>89,228</u>	<u>12,142</u>
	=====	=====

Deferred revenue is made up of unearned income in respect of rent received in advance and unearned commission on outward premium.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENT – Continued

46. First-time adoption of IFRS - continued

Notes to the reconciliation of equity as at 1 January 2011 and 31 December 2011

	31 December 2011 N'000	1 January 2011 N'000
Q. Revaluation reserves		
Per Nigerian GAAP	958,431	958,431
IFRS adjustment to reclassified investment properties revaluation Reserve to retained earnings at the date of transition	(407,407)	(407,407)
	-----	-----
Per IFRS	551,025	551,025
	=====	=====
R. Available-for-sale reserve		
Per Nigerian GAAP	-	-
IFRS adjustment as a result of increase in fair value changes on available-for-sales financial assets	36,290	77,566
	-----	-----
Per IFRS	36,290	77,566
	=====	=====

Under Nigerian GAAP, the company accounted for investments in quoted equity at fair value. Decrease in the fair value of these investments is usually recognised in Profit or loss net of any increase in fair value of other equity Investments during the same period. At the date of transition to IFRS, the Company has elected to designate these Investments including unquoted equity Investments and Investments in bonds as available-for-sale. In accordance with the accounting policies selected for subsequent measure of available-for-sale financial assets, the Company distinguished between those investments that have been impaired as a result of prolonged or significant decline in fair value at the date of transition to IFRS from those that merely have a change in fair value. The fair value changes of those Investments without objective evidence of impairment have been reclassified from retained earnings to available-for-sale reserve. The effect of this in 2011 is a reclassification from other operating and administrative expenses in Profit or loss to other comprehensive Income with subsequent accumulation in available-for-sale reserve in equity.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENT – Continued

46. First-time adoption of IFRS - continued

	31 December 2011 N'000	1 January 2011 N'000
S. Retained earnings		
Per Nigerian GAAP	35,508	197,721
	-----	-----
IFRS adjustment as a result of impairment loss on placements and similar deposit with bank	(10,771)	(10,693)
IFRS adjustment arising on re-measurement of loans and receivables at amortised cost	(7,000)	(1,568)
IFRS adjustments as a result of measurement of AMCON bond at amortised cost	(405)	-
Fair value gains on investment properties	91,086	18,236
IFRS adjustment as a result of deferred tax effects of fair value gains on investment property	(47,781)	(42,564)
IFRS adjustment to reclassified investment properties revaluation Reserve to retained earnings at the date of transition	407,407	407,407
IFRS adjustment as a result of increase in fair value changes on available-for-sales financial assets	5,069	(77,566)
IFRS adjustment on adequacy of insurance liabilities	(30,981)	-
	-----	-----
Cumulative adjustments/reclassification	406,623	293,252
	-----	-----
Per IFRS	442,131	490,973
	=====	=====

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENT - Continued

46. First-time adoption of IFRS continued

Notes to the reconciliation of total comprehensive income for the year ended 31 December 2011

		31 December 2011 N'000
A.	Gross premium income	
	Gross premium written per Nigerian GAAP	4,219,815
	Reclassification from movement in reserve for unexpired risk (38,418)	-----
	Per IFRS	4,181,397 =====
B.	Premium ceded to reinsurers	
	Outward reinsurance premium per Nigerian GAAP	655,472
	Reclassification from movement in reserve for unexpired risk ceded to reinsurers (21,599)	-----
	Per IFRS	633,873 =====
C.	Fees and commission income	
	Reclassification from commission received	134,205
	Per IFRS	----- 134,205 =====
D.	Investment income	
	Per Nigerian GAAP	228,634
	Reclassification from realised gains and losses on disposal of equity investment	5,778
	Reclassification from management expenses	3,919
	Reclassification from other income	3,008
	IFRS adjustment resulting from amortisation of:	
	- loans and receivables and	(5,432)
	- AMCON bonds AFS financial assets	(405)
	Per IFRS	----- 235,502 =====
E. Net realised gains and losses		
	Reclassification to realised gains and losses on disposal of equity investment from investment income	5,778
	Reclassification from general and administrative	(163)
	Per IFRS	----- 5,615 =====
F. Other operating income		
	Other income per Nigerian GAAP	7,738

Reclassified to investment income	(3,008)
Per IFRS	4,730
	=====

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENT – Continued

46. First-time adoption of IFRS continued

Notes to the reconciliation of total comprehensive income for the year ended 31 December 2011

G. Fair value gains and losses	31 December 2011 N'000
Fair value gains on investment property during the year	72,849
Per IFRS	72,849
	=====

Under Nigerian GAAP, the company measured investment properties at revalued amount. Revaluation of Investment properties is not done on an annual basis. Previous increase in fair value of these investments has been recognised in investment property revaluation reserve. Under IFRS, the Company has opted to use fair value model for subsequent measurement of all investment properties. As a result, all Investment properties were fair valued at the date of transition to IFRS and changes in fair value of these Investment properties were recognised in retained earnings. The previous Investment properties revaluation reserves were equally reclassified to retained earnings. The effect of using fair value model on 2011 has been recognised both in Profit or loss for the year ended 31 December 2011 and in the Investment property.

H. Management expenses	31 December 2011 N'000
Reclassification from general administration	619,040
Reclassification from maintenance cost	731,609
Reclassification of finance costs from general administration	(5,621)
Reclassification to net realised gains and losses	163
Reclassification from provision for doubtful accounts	799,300
Reclassification of investment income	3,919
IFRS adjustment to recognise additional impairment loss on deposit with liquidated bank arising the year	78
IFRS adjustment to recognise fair value change of AFS investment	(82,635)
Per IFRS	2,065,853
	=====

I. Finance costs	
Reclassification from general and administrative expenses	5,621
Per IFRS	5,621
	=====

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENT – Continued

46. First-time adoption of IFRS continued

Notes to the reconciliation of total comprehensive income for the year ended 31 December 2011

J. Income tax expense	31 December 2011 N'000
Reclassification from taxation	34,375
IFRS adjustment resulting to deferred tax implication of fair value gains on investment property recognised for 2011	5,217

Per IFRS	39,592 =====

The transition adjustment relating to Investment properties leads to different temporary differences. According to the accounting policies, the Company has to account for such differences. These deferred tax adjustments are recognised in correlation to the underlying transaction in retained earnings. The effect of the adjustments in 2011 has been recognised in the profit for 2011.

K. Net gain/(loss) on available-for-sale assets	31 December 2011 N'000
Reclassification adjustment to recognise fair value changes on AFS assets	41,276

Per IFRS	41,276 =====

Under Nigerian GAAP, the company accounted for investments in quoted equity at fair value. Decrease in the fair value of these investments is usually recognised in Profit or loss net of any increase in fair value of other equity Investments during the same period. At the date of transition to IFRS, the Company has elected to designate these Investments including unquoted equity Investments and Investments in bonds as available-for-sale. In accordance with the accounting policies selected for subsequent measure of available-for-sale financial assets, the Company distinguished between those investments that have been impaired as a result of prolonged or significant decline in fair value at the date of transition to IFRS from those that merely have a change in fair value. The fair value changes of those Investments without objective evidence of impairment have been reclassified from retained earnings to available-for-sale reserve. The effect of this in 2011 is a reclassification from other operating and administrative expenses in Profit or loss to other comprehensive Income with subsequent accumulation in available-for-sale reserve in equity.

Appendix to the financial statements

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF VALUE ADDED

FOR THE YEAR ENDE 31 DECEMBER 2012

	2012 N'000	%	2011 N'000	%
Gross premium written	4,163,370		4,219,815	
Claims	(982,231)		(684,699)	
Reinsurances	(923,384)		(633,873)	
Other charges and expenses	(2,567,983)		(1,696,482)	
Fees and commission	224,484		134,205	
Investment and other income	245,083		240,232	
	-----	----	-----	-----
Value added	159,339	100	1,579,198	100
	=====	===	=====	===
Applied as follows:				
Salaries, wages and other benefits	968,442	607	911,549	58
In payment to Government:				
Taxation	146,380	92	39,592	2
In payment to Shareholders:				
Payment of dividends	-	-	171,868	11
Retained in the business:				
Depreciation	134,978	85	97,826	6
Amortization	31,338	20	23,425	2
Contingency reserve	121,019	76	126,594	8
Available for sale reserve	94,362	59	(41,276)	(3)
Transfer to general reserve	(1,337,180)	(839)	249,620	16
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	159,339	100	1,579,198	100
	=====	=====	=====	=====

Value added is the wealth created by the efforts of the company and its employees. This statement shows the allocation of that wealth among the employees, shareholders, government and amount re-invested for future creation of further wealth.

LAW UNION AND ROCK INSURANCE PLC

FIVE YEAR FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION/BALANCE SHEET 31 DECEMBER

	← IFRS	→	← NGAAP	→	
	2012	2011	2010	2009	2008
	₤'000	₤'000	₤'000	₤'000	₤'000
Assets					
Cash and bank balances	-	-	111,762	89,755	181,044
Cash and cash equivalents	729,168	728,071	-	-	-
Treasury bills	-	-	122,866	100,000	100,000
Short-term investments	-	-	1,225,184	1,334,226	1,470,124
Advances under finance lease	-	-	147,865	104,565	50,704
Debtors and prepayments	-	-	1,738,360	1,732,849	1,514,818
Long term investments	-	-	1,590,926	1,379,029	1,349,428
Trade receivables	597,825	1,484,694	-	-	-
Reinsurance assets	874,056	700,479	-	-	-
Financial instruments:					
AFS financial assets	1,140,043	968,256	-	-	-
Loans and receivables	241,463	318,949	-	-	-
Investment properties	1,706,382	1,884,718	1,092,952	732,835	236,000
Fixed assets	-	-	859,995	858,183	459,766
Property and equipment	716,243	796,436	-	-	-
Receivables and prepayments	67,977	74,686	-	-	-
Deferred acquisition costs	148,049	186,158	162,128	220,261	139,230
Statutory deposit	315,000	315,000	315,000	315,000	315,000
Intangible assets	81,273	98,096	-	-	-
Total assets	6,617,479	7,555,543	7,367,038	6,866,703	5,816,114
	=====	=====	=====	=====	=====
Liabilities and Equity					
Bank overdraft	-	-	88,476	59,887	-
Creditors and accruals	-	-	648,999	641,026	374,464
Other payables and accruals	325,922	306,626	-	-	-
Trade payables	541,364	449,888	-	-	-
Taxation/Current tax payable	79,852	90,808	111,263	104,598	94,780
Other financial liabilities	778	10,456	-	-	-
Deferred tax liability	169,822	47,781	-	21,978	-
Borrowings	1,452	36,081	-	-	-
Book overdraft	21,896	40,415	-	-	-
Employee benefit obligations	117,594	108,400	87,237	82,131	79,391
Outstanding claims	-	-	-	-	-
Insurance fund	-	-	1,665,633	1,419,261	1,620,515
Insurance contract liabilities	1,836,299	1,699,770	-	-	-
Total liabilities	3,094,979	2,790,225	2,601,608	2,328,881	2,169,150
	=====	=====	=====	=====	=====

Issued share capital	1,718,665	1,718,665	1,718,665	1,718,665	1,718,665
Share premium	1,363,034	1,363,034	1,363,034	1,363,034	1,363,034
Revaluation reserves	551,025	551,025	958,431	988,624	392,315
Available-for-sale-reserve	130,652	(5,069)	-	-	-
Contingency reserve	775,192	654,173	527,579	406,199	300,342
Retained earnings	(1,016,068)	442,131	197,721	61,300	(127,392)
Total equity	3,522,500	4,765,318	4,765,430	4,537,822	3,656,964
Total liabilities and equity	6,617,479	7,515,128	7,367,038	6,866,703	5,816,114
	=====	=====	=====	=====	=====

LAW UNION AND ROCK INSURANCE PLC

FIVE YEAR FINANCIAL SUMMARY

INCOME STATEMENT/PROFIT AND LOSS

	31 DECEMBER				
	← IFRS	→	← NGAAP	→	
	2012	2011	2010	2009	2008
	₦'000	₦'000	₦'000	₦'000	₦'000
TURNOVER AND PROFIT					
Gross premium written	4,163,370	4,219,815	4,046,012	3,528,581	3,708,481
Premium earned	3,110,568	3,547,524	3,285,797	3,606,770	2,412,027
(Loss)/Profit before taxation	(1,190,800)	289,213	384,273	351,619	(86,884)
(Loss)/Profit after taxation	(1,337,180)	249,620	360,922	294,549	(93,040)
Per 50k share data (kobo):					
Basic (loss)/ earnings	(39)	7	11	9	(3)
Net assets	102	138	139	132	106
	===	===	===	===	===