

LAW UNION AND ROCK INSURANCE PLC
Lagos, Nigeria

REPORT OF THE DIRECTORS

AND

AUDITED ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

LAW UNION AND ROCK INSURANCE PLC
REPORT OF THE DIRECTORS AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

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LAW UNION AND ROCK INSURANCE PLC

DIRECTORS AND ADVISERS

FOR THE YEAR ENDED 31 DECEMBER 2013

DIRECTOR

Princess Adenike Adeniran
Mr. Remi Babalola
Mrs. Toyin Ogunseye
Mr. Victor Faleye
Ms. Toyin Olusanya
Mr. Seni Kusamotu
Mr. Isaac Ajana
Mr. Obinna Onunkwo
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
Independent Director

COMPANY SECRETARY & HEAD LEGAL

Stanley Chikwendu

REGISTERED OFFICE

14 Hughes Avenue,
Alagomeji Yaba, Lagos

WEBSITE

www.lawunioninsurance.com

PHONE

01-4540082

AUDITORS

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

REGISTRAR

City Securities (Registrars) Limited
358 Herbert Macaulay Way
Yaba, Lagos

LAW UNION AND ROCK INSURANCE PLC

FINANCIAL HIGHLIGHTS

*For the year ended 31 December 2013
in thousands of Nigerian Naira*

**31 December
2013**

**31 December
2012**

Major Statement of Financial Positions items:

Total assets	6,908,473	6,511,476
Total equity	4,172,200	3,522,500
Insurance contract liabilities	1,795,192	1,836,299

Major Income Statement items:

Gross premium written	3,443,575	4,163,370
Net premium income	2,952,807	3,110,568
Net benefits and claims	743,863	982,231
Profit/(loss) before taxation	459,938	(1,190,800)
Profit/(loss) after taxation	485,432	(1,337,180)

Per 50 kobo Share Data

Earnings/(loss) per share (kobo)	14	(39)
Net assets per share (kobo)	121	102
Stock exchange quotation (kobo) as at	50	50

LAW UNION AND ROCK INSURANCE PLC

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2013

In compliance with the 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, the Directors have pleasure in submitting to members their report together with the audited financial statements of Law Union and Rock Insurance Plc for the year ended 31 December 2013.

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

	2013 N'000	2012 N'000
Gross Premium Written	3,443,575	4,163,370
Net Premium Income	2,952,807	3,110,568
Net Benefits and Claims	743,863	982,231
Profit/(Loss) after taxation	485,432	(1,337,180)

3. DIVIDEND

No dividend was proposed in respect of the current year (2012: 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 in the Annual 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	
Mr. Remi Babalola	Vice Chairman	Re-appointed on 17 December 2013
Mrs. Toyin Ogunseye	Managing Director/CEO	
Mr. Victor Faleye	Non-Executive Director	Re-appointed on 17 December 2013
Mr. Seni Kusamotu	Non-Executive Director	
Mr. Isaac Ajana	Non-Executive Director	
Ms. Toyin Olusanya	Non-Executive Director	Re-appointed on 17 December 2013
Mrs. Funmi Ekundayo	Independent Director	
Mr. Obinna Onunkwo	Non-Executive Director	Appointed on 26 April 2013

a. Change in Composition of the Board

Since the last Annual General Meeting, there has been no change in the composition of the Board.

LAW UNION AND ROCK INSURANCE PLC

REPORT OF THE DIRECTORS - Continued

FOR THE YEAR ENDED 31 DECEMBER 2013

5. DIRECTORS - Continued

b. Director's Resignation

Since the last Annual General Meeting, no notice of resignation of any member of the Board was received.

c. Directors Retiring by Rotation

In accordance with the Company's Articles of Association and S259(1) and (2) of the Companies and Allied Matters Act 1990, the following Directors, Princess Adenike Adeniran, Mrs. Funmi Ekundayo and Mr. Seni Kusamotu will retire by rotation, and being eligible, offer themselves for re-election. Pursuant to the provision of S259 (3) of Companies and Allied Matters Act 1990, a resolution will be proposed at the Annual General Meeting for re-election.

d. 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 2013 are as follows:

DIRECTORS NAME	Number of Ordinary Shares held (2013)	Number of Ordinary Shares held (2012)
Princess Adenike Adeniran	Indirect (1) - 1,031,133,728 (Swanlux Solutions and Services Limited) Indirect (2) - 10,147,700 (Nikal Nigeria Limited)	Indirect (1) - 1,031,133,728 (Swanlux Solutions and Services Limited) Indirect (2) - 10,147,700 (Nikal Nigeria Limited)
Mr. Remi Babalola	Indirect - 1,031,133,727 (Alternative Capital Partners)	Indirect - 1,031,133,727 (Alternative Capital Partners)
Mr. Victor Faleye	Indirect - 1,031,133,728 (Swanlux Solutions and Services Limited)	Indirect - 1,031,133,728 (Swanlux Solutions and Services Limited)
Ms. Toyin Olusanya	Indirect - 1,031,133,727 (Alternative Capital Partners)	Indirect - 1,031,133,727 (Alternative Capital Partners)
Mr. Seni Kusamotu	Indirect - 1,031,133,727 (Alternative Capital Partners)	Indirect - 1,031,133,727 (Alternative Capital Partners)
Mr. Isaac Olaiya Ajana	Direct - 887,634 Indirect - 1,031,133,728 (Swanlux Solutions and Services Limited)	Direct - 887,634 Indirect - 1,031,133,728 (Swanlux Solutions and Services Limited)
Mr. Obinna Onunkwo	Indirect - 1,031,133,727 (Alternative Capital Partners)	NA

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 2013.

LAW UNION AND ROCK INSURANCE PLC

REPORT OF THE DIRECTORS - Continued

FOR THE YEAR ENDED 31 DECEMBER 2013

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. EVENTS AFTER THE REPORTING DATE

There were no events after the reporting date which could have a material effect on the state of affairs of the Company as at 31 December 2013 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 2013 is as follows:

Range	No. of Holders	Percent	Unit	Percent
1 - 500	629	5.1155	168,150	0.0049
501 - 1000	1212	9.8569	1,159,629	0.0337
1001 - 5000	4613	37.5163	13,262,139	0.3858
5001 - 10000	1890	15.3709	15,945,786	0.4639
10001 - 50000	2603	21.1695	67,253,701	1.9566
50001 - 100000	610	4.961	49,754,686	1.4475
100001 - 500000	510	4.1477	112,582,599	3.2753
500001 - 1000000	93	0.7563	74,216,566	2.1591
1000001 - 5000000	91	0.7401	206,320,970	6.0024
5000001 - 10000000	24	0.1952	173,426,050	5.0406
10000001 - 50000000	16	0.1301	325,753,448	9.4769
50000001 - 3437330500	5	0.0407	2,397,649,054	69.7532
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Grand Total	12,296	100	3,437,330,500	100
	=====	===	=====	===

LAW UNION AND ROCK INSURANCE PLC

REPORT OF THE DIRECTORS - Continued

FOR THE YEAR ENDED 31 DECEMBER 2013

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 1 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 9 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	CONSIDERATI ON
	"000"	N	N(000)	N(000)	"000"	N	N(000)	N(000)	
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
2013	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

The donations and sponsorship made during the year was ₦40,000 (2012: ₦730,000).

The beneficiaries are as follows:

	₦
Chartered Insurance Institute of Nigeria (CIIN)	20,000
Rebisi Kingdom Homage	20,000

LAW UNION AND ROCK INSURANCE PLC

REPORT OF THE DIRECTORS - Continued

FOR THE YEAR ENDED 31 DECEMBER 2013

12. PROPERTY, PLANT AND EQUIPMENT

Information relating to the Company's property, plant and equipment is detailed in the Note 24 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 three Directors as follows:

Mr. Tajudeen Adeshina	Shareholder Representative
Mr. Ibiyemi Kolawole	Shareholder Representative
Mr. Waheed Adegbite	Shareholder representative
Ms. Toyin Olusanya	Non-Executive Director
Mr. Isaac Ajana	Non-Executive Director
Mr. Obinna Onunkwo	Non-Executive Director

Mr. Waheed Adegbite was elected as a member of the Audit Committee at the 44th Annual General Meeting of the Company held on 17 December 2013.

The functions of the Audit Committee are as laid down in Section 359 (6) of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 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 & HEAD, LEGAL

14, HUGHES AVENUE

ALAGOMEJI YABA LAGOS

5 June 2014

LAW UNION AND ROCK INSURANCE PLC

REPORT OF THE STATUTORY AUDIT COMMITTEE

FOR THE YEAR ENDED 31 DECEMBER 2013

To the members of Law Union and Rock Insurance Plc:

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, 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 2013 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.

.....
Chairman, Audit Committee

5 June 2014

Members of the Audit Committee are:

1. Mr. Tajudeen Adesina
2. Mr. Ibiyemi Kolawole
3. Mr. Waheed Adegbite
4. Mr. Isaac Ajana
5. Ms. Toyin Olusanya
6. Mr. Obinna Onunkwo

Secretary to the Committee

Mr. Stanley Chikwendu

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2013

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 present fairly, in all material respects, 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 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;
- 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.
- d) 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 the 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.

The Directors are of the opinion that the financial statements present fairly, in all material respects, 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.

.....

Princess Adenike Adeniran

Chairman

FRC/2013/ICAN/2632

.....

Toyin Ogunseye

Managing Director/CEO

FRC/2012/NIGSURERS/583

5 June 2014

**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 2013, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then 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, 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 and for such internal control as the Directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 2013 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, in so far as appears from our examination of those books;
- iii) the Company's statement of financial position, income statement 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 41 to the financial statements.

Kayode Famutimi, FCA, FRC/2012/ICAN/0155

For: Ernst & Young
Lagos, Nigeria

5 June 2014

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

1. Corporate information

Law Union and Rock Insurance Plc (the "Company") 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 life and 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 since 9 July 1990.

With effect from 1 January 2007, the Company ceased transacting life insurance business. The net assets of the Life business were transferred and sold to Equity Life Assurance Company Limited (now Crystalife Assurance Company Limited).

Going concern

The financial statements have been prepared on the going concern basis and there is no intention to curtail business operations. Capital adequacy and liquidity ratios are continuously reviewed and appropriate action taken to ensure that there are no going concern threats to the operation of the Company.

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 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). The entity is an individual Company and not part of the group of entities.

The financial statements have been prepared on an historical cost basis, except for investment properties, land and building 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 (₦) rounded to the nearest thousand (₦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 39.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a current 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.

Reinsurance commission income

Reinsurance commission income represents commission received on direct business and transactions ceded to re-insurance during the year. It is recognized over the cover provided by contracts entered into the period and are recognized on the date on which the policy incepts.

2.3.3 Investment income

Interest income is recognized in the profit or loss as it accrues and is calculated by using the effective interest rate method. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognized as an adjustment to the effective interest rate of the instrument.

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. They are recognized in the income statement over the tenor of the insurance cover.

2.4.4 General administrative 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 expense 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 and book 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, as appropriate.

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.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2.6 Financial assets - continued

Available-for-sale financial assets - continued

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.

Loans and 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.

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

If a future write-off is later recovered, the recovery is credited to the 'finance cost' in the profit or loss.

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 measurement

The Company measures financial instruments, such as, non financial assets - investment property at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 16.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
 - In the absence of a principal market, in the most advantageous market for the asset or liability
- The principal or the most advantageous market must be accessible to by the company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair value measurement - continued

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each year.

The Company's management determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

External valuers are involved for valuation of significant assets, such as properties and AFS financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by the management after discussion with and approval by the audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the valuation committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies.

For this analysis, the valuation committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the Company's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the valuation committee and the Company's external valuers present the valuation results to the audit committee and the company's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair value measurement continued

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.

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:

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2.10 Impairment of non-financial assets - continued

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 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 not collected within 30 days in line with "NO PREMIUM NO COVER".

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.

The regulator has laid great emphasis on No Premium, No Cover and this has changed the phase of impairment model within the industry. The Company defines credit risk as the risk of counterparty's failure to meet its contractual obligations. The introduction of NO PREMIUM NO COVER policy with effect from 1 January 2013, is to enforce the Section 50(1) of the Insurance Act 2003; which stipulates that "the receipt of an insurance premium shall be a condition precedent to a valid contract of insurance and there shall be no cover in respect of an insurance risk, unless the premium is paid in advance or receivable within 30 days.

Consequently, only insurance covers for which full premiums are receivable within 30 days either directly by the insured or through a duly licensed insurance broker, are recognized as trade receivable.

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 income statement.

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

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2.12 Reinsurance - Continued

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.

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 held for rental income and capital appreciation 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.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2.14 Investment properties - Continued

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.

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

2.16 Property and equipment

Property and equipment (excluding Land and building) is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are 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.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2.16 Property and equipment - Continued

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
Furniture and fittings	5 years
Plant and machinery	5 years
Motor vehicles	4 years
Computer and equipment	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.

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 due to its short term nature. 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.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2.18 Insurance contract liabilities - Continued

Non-life insurance contract liabilities - Continued

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.

2.21 Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

Interest bearing loans and borrowings

After initial recognition, interest bearing loans and bank overdrafts 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.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2.21 Financial liabilities - Continued

Interest bearing loans and borrowings - Continued

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 (employee defined contribution)

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.

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.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2.25 Taxes - Continued

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.

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.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2.26 Leasing - Continued

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 Nigerian 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.

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.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

2.31 Contingency reserve

Contingency reserve is done in accordance with the provisions of the Insurance Act, CAP 117 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.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

The company revenue account is presented as follow:

LAW UNION ROCK INSURANCE PLC
REVENUE ACCOUNT
Segment information

<i>in thousands of Nigerian Naira</i>	Fire	Motor	General accident	Engi- neering	Marine & aviation	Bond & credit	Oil and gas	Total
Gross premium written	556,260	1,166,116	383,745	218,955	383,130	158,986	576,384	3,443,575
Changes in unexpired premium	1,541	84,241	143,485	(14,766)	74,240	32,421	3,867	325,028
Gross premium earned	557,801	1,250,357	527,230	204,189	457,370	191,406	580,251	3,768,603
Outward re-insurance premium	(235,121)	(71,125)	(87,668)	(84,559)	(111,111)	(31,961)	(283,256)	(904,801)
Changes in unexpired outward premiur	61,254	12,178	(5,991)	3,810	(4,960)	(5,847)	28,562	89,005
Net premium earned	383,933	1,191,409	433,570	123,440	341,299	153,598	325,557	2,952,807
Commission received	45,474	29,987	22,564	19,360	27,407	8,905	2,320	156,017
Total income	429,407	1,221,396	456,134	142,800	368,706	162,503	327,877	3,108,824
Gross claims paid	200,488	417,356	118,509	107,405	154,540	23,872	26,916	1,049,087
Gross liabilities at 31 December	98,153	199,975	120,022	78,829	137,800	25,282	115,096	775,158
	298,642	617,331	238,531	186,234	292,340	49,154	142,013	1,824,245
Gross liabilities at 1 January	(73,269)	(120,895)	(88,494)	(36,522)	(74,334)	(25,637)	(72,084)	(491,236)
Gross claim incurred	225,373	496,436	150,036	149,712	218,006	23,517	69,929	1,333,009
Reinsurance recoveries	109,128	72,787	60,826	45,569	131,835	14,376	1,712	436,233
Due from re-insurers at 31 December	75,737	16,319	66,883	54,315	79,199	7,404	64,719	364,577
	184,866	89,106	127,710	99,884	211,034	21,779	66,432	800,810
Due from re-insurers at 1 January	(61,759)	(15,637)	(17,125)	(34,532)	(57,633)	(10,255)	(14,723)	(211,664)
Gross recoveries	123,107	73,468	110,584	65,352	153,401	11,525	51,709	589,146
Net benefits and claims	102,266	422,968	39,452	84,360	64,605	11,993	18,220	743,863
Net income	327,141	798,428	416,682	58,440	304,101	150,510	309,657	2,364,961

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 recognise 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.

Non-life insurance contract liabilities

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder method.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Judgments - Continued

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

The carrying value at the reporting date of non-life insurance contract liabilities is N775,158,000 (2012: N491,236,000).

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 investment property

The valuation of the properties is based on the price for which comparable land and properties are being exchanged hands or are being marketed for sale. Therefore, the market-approach Method of Valuation. By nature, detailed information on concluded transactions is difficult to come by. The past transactions and recent adverts are being relied upon in deriving the value of the subject properties. At least, eight properties will analysed and compared with the subject property.

iii. Fair value of available for sale

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

iv. 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.

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3.2 New Standards and Amendments adopted by the Company

Below are the IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations that are effective for the first time for the financial year beginning on or after 1 January 2013 that would be expected to have an impact on the Company.

i. IFRS 13 Fair Value Measurement

IFRS 13 provides a single source of guidance on how fair value is measured and disclosed, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs, this is applicable to both financial and non financial instruments. The exceptions include leasing transactions within the scope of IAS 17 - Leases, IFRS 2 - Share based payments and some measurements with similarities to fair value but are not fair value e.g value in use for impairment assessment purpose or net realisable value for measuring inventories. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Company to provide additional disclosures.

These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3.

ii. IAS 1 Presentation of Financial Statements

IAS 1 addresses changes in the presentation of other comprehensive income. The amended standard retains the option to present either a single statement or as two separate statements. The amendments also include new terminologies whose use is not mandatory. Under IAS 1 amended, the statement of comprehensive income is renamed as the statement of profit or loss account and other comprehensive income and the income statement is renamed as the statement of profit and loss. The Company continues to adopt the two statements approach.

The amendments to IAS 1 also require items of other comprehensive income be grouped into two categories (a) Items that may be subsequently reclassified in the profit and loss account when specific conditions are met (b) Items that will not be subsequently reclassified to profit and loss account. Income tax on items in other comprehensive income should also be allocated in the same manner. The amendment did not remove the option to report the items in other comprehensive income before or net of tax. This standard is applicable for annual periods beginning on or after 1 July 2012.

The application of IAS 1 (amended) has resulted in split of other comprehensive income into items that may be subsequently reclassified and items that will not (please see statement of comprehensive income for details).

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3.3 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.

- **IFRS 9 Financial Instruments**

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in IAS 39. The standard should have been effective for annual periods beginning on or after 1 January 2015, but the IASB at its July 2013 meeting tentatively decided to defer the mandatory effective date of IFRS 9 until the issue date of the completed version of IFRS 9 is known. The impact of this IFRS will be in the area of classification and measurement of financial assets, reporting for entities that have designated liabilities using FVO. The other phases including impairment and hedge accounting are also expected to have significant accounting implications.

- **Improvement to IFRSs**

Amendments resulting from improvements to IFRSs to the following standards did not have a material impact on the accounting policies, financial position or performance of Law Union & Rock Insurance Plc during the year.

- i. IFRS 10, IFRS 12 and IAS 27 Investment Entities
- ii. IAS 27 Separate Financial Statements
- iii. IAS 32 Offsetting Financial Assets and Financial Liabilities
- iv. IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
- v. IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
- vi. IFRIC 21 Levies
- vii. IFRS 3 Accounting for contingent consideration in a business combination (effective on or after 1 July 2014)
- viii. IFRS 1 Meaning of effective IFRSs (effective on or after 1 July 2014)
- ix. IFRS 3 Scope exceptions for Joint ventures (effective on or after 1 July 2014)
- x. IFRS 13 Scope of portfolio exception (effective on or after 1 July 2014)
- xi. IAS 40 Clarifying inter-relationship between IFRS 3 and IAS 40 (effective on or after 1 July 2014)
- xii. IFRS 14 Regulatory Deferral Accounts (effective on or after 1 January 2016)

LAW UNION AND ROCK INSURANCE PLC

INCOME STATEMENT

*For the year ended 31 December 2013
in thousands of Nigerian Naira*

	Notes	2013	2012
Gross premium written		3,443,575	4,163,370
Gross premiums income	1.1	3,768,603	4,033,952
Premiums ceded to reinsurers	1.2	(815,796)	(923,384)
Net premiums income		2,952,807	3,110,568
Commission income	2	156,017	224,484
Net underwriting income		3,108,824	3,335,052
Net benefits and claims	3	(743,863)	(982,231)
Underwriting expenses	4	(709,160)	(938,094)
Underwriting profit		1,655,801	1,414,727
Investment income	5	251,710	200,578
Fair value gains/(losses)	6	638	(179,135)
Net realised losses	7	(20,758)	(9,402)
Other operating income	8	69,179	44,505
General administrative expenses	9	(1,492,361)	(2,658,141)
Result of operating activities		464,209	(1,186,868)
Finance costs	11	(4,271)	(3,932)
Profit/(loss) before taxation		459,938	(1,190,800)
Income tax benefit/(expenses)	12.1	25,494	(146,380)
Profit/(loss) after taxation		485,432	(1,337,180)
Earnings/(loss) per share:			
Basic (kobo)	13	14	(39)
Diluted (kobo)	13	14	(39)

Accompany notes to the financial statements are an integral part of these financial statements

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2013
in thousands of Nigerian Naira*

	Notes	2013	2012
Profit/(loss) after taxation		485,432	(1,337,180)
Other comprehensive income:			
Other comprehensive income that will be reclassified subsequently to profit or loss			
Net gain on available-for-sale assets	14	164,268	94,362
Other comprehensive income for the year, net of tax		164,268	94,362
Total comprehensive income/(loss) for the year, net of tax		649,700	(1,242,818)

Accompany notes to the financial statements are an integral part of these financial statements

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF FINANCIAL POSITION

<i>As at 31 December 2013 in thousands of Nigerian Naira</i>	<i>Notes</i>	31 December 2013	31 December 2012
Assets			
Cash and cash equivalents	15	1,698,920	729,168
Financial assets:			
Available-for-sale financial assets	16.1	1,115,221	1,140,043
Loans and receivables	16.2	117,456	135,460
Trade receivables	17	71,828	597,825
Reinsurance assets	18	1,088,339	874,056
Deferred acquisition costs	20	148,722	148,049
Other receivables and prepayments	21	402,504	67,977
Investment properties	22	1,229,521	1,706,382
Intangible assets	23	61,763	81,273
Property, plant and equipment	24	659,199	716,243
Statutory deposit	25	315,000	315,000
Total Assets		6,908,473	6,511,476
Liabilities and Equity			
Liabilities			
Insurance contract liabilities	26	1,795,192	1,836,299
Trade payables	27	477,955	541,364
Other payables and accruals	28	233,210	300,513
Borrowings	29.1	-	1,452
Bank overdrafts	29.2	1,684	21,896
Employee defined contribution payable	30	37,347	37,778
Current income tax payable	19.1	89,660	79,852
Deferred tax liability	19.2	101,225	169,822
Total liabilities		2,736,273	2,988,976
Equity			
Issued share capital	31	1,718,665	1,718,665
Share premium	32	1,363,034	1,363,034
Contingency reserve	33	878,499	775,192
Revaluation reserve	34.1	551,025	551,025
Available-for-sale reserve	34.2	294,920	130,652
Accumulated losses	34.3	(633,943)	(1,016,068)
Total equity		4,172,200	3,522,500
Total liabilities and equity		6,908,473	6,511,476

The financial statements were authorised for issue by the directors on 2014.

Princess Adenike Adeniran (Chairman) _____ FRC/2013/ICAN/2632

Toyin Ogunseye (Managing Director) _____ FRC/2012/NIGSURERS/583

Fadeyi Ajibola (Chief Financial Officer) _____ FRC/2012/ICAN/586

Accompany notes to the financial statements are an integral part of these financial statements

LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

<i>in thousands of Nigerian Naira</i>	Notes	Issued Share Capital	Share premium	Contingency reserve	Revaluation reserve	Available-for- sale-reserve	Retained earnings	Total equity
As at 1 January 2012		1,718,665	1,363,034	654,173	551,025	36,290	442,131	4,765,318
Loss for the year after taxation		-	-	-	-	-	(1,337,180)	(1,337,180)
Other comprehensive income	14	-	-	-	-	94,362	-	94,362
Total comprehensive income for the year		1,718,665	1,363,034	654,173	551,025	130,652	(895,049)	3,522,500
Transfer to contingency reserve		-	-	121,019	-	-	(121,019)	-
As at 31 December 2012		1,718,665	1,363,034	775,192	551,025	130,652	(1,016,068)	3,522,500
As at 1 January 2013		1,718,665	1,363,034	775,192	551,025	130,652	(1,016,068)	3,522,500
Profit for the year after taxation		-	-	-	-	-	485,432	485,432
Other comprehensive income	14	-	-	-	-	164,268	-	164,268
Total comprehensive income for the year		1,718,665	1,363,034	775,192	551,025	294,920	(530,636)	4,172,200
Transfer to contingency reserve		-	-	103,307	-	-	(103,307)	-
As at 31 December 2013		1,718,665	1,363,034	878,499	551,025	294,920	(633,943)	4,172,200

Accompany notes to the financial statements are an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2013
in thousands of Nigerian Naira

	Notes	2013	2012
Operating activities:			
Premium received		3,613,288	3,794,997
Commission received		156,017	224,484
Commission paid		(708,487)	(700,498)
Reinsurance premium paid		(904,801)	(1,124,146)
Gross claims paid net of recoveries		(528,862)	(947,935)
Payments to employees		(612,721)	(959,248)
Other operating cash payments		(792,892)	(312,706)
Other income received		69,179	44,505
Interest paid		(4,271)	(3,932)
Income tax paid		(33,295)	(35,295)
Net cash flows from/(used in) operating activities	36	253,155	(19,774)
Investing activities:			
Investment income received		270,283	164,501
Purchase of property, plant and equipment	24	(55,620)	(68,962)
Proceeds from sale of property, plant and equipment		11,431	14,223
Purchase of intangible assets	23	9,069	(14,515)
Purchase of available-for-sale investments		(39,442)	(41,680)
Proceeds from sale of available-for-sale investments		140,540	21,251
Proceeds from sale of investment properties		402,000	-
Additions to investment properties	22	-	(799)
Net cash flows from investing activities		738,261	74,019
Net increase in cash and cash equivalents		984,997	50,294
Net foreign exchange difference		6,419	3,951
Cash and cash equivalents at 1 January	35	705,820	651,575
Cash and cash equivalents at 31 Decemeber	35	1,697,236	705,820

Accompany notes to the financial statements are an integral part of these financial statements

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

1 Net premiums income

1.1 Gross premiums on insurance contracts

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
Premiums written in the year	3,443,575	4,163,370
Change in unearned premium provision	325,028	(129,418)
	3,768,603	4,033,952

1.2 Premiums ceded to reinsurers on insurance contracts

Premiums ceded to reinsurers	(904,801)	(1,040,562)
Change in unearned premiums provisions - reinsurers	89,005	117,178
	(815,796)	(923,384)
Total net premiums income	2,952,807	3,110,568

2 Commission income

Reinsurance commission income	156,017	224,484
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Reinsurance commission income represents commission received on direct business and transactions ceded to re-insurance during the year. It is recognised over the life of the contract.

3 Net benefits and claims

<i>in thousands of Nigerian Naira</i>	Notes	31 December 2013	31 December 2012
Claims paid		1,049,087	1,637,433
Claims recoveries		(436,233)	(689,498)
Change in outstanding claims provision - Reinsurers		(152,913)	70,860
Change in outstanding claims provision - Insurer		283,922	(36,564)
		743,863	982,231

4 Underwriting expenses

Amortisation of deferred acquisition costs	20	528,777	621,378
Maintenance costs		180,383	316,716
		709,160	938,094

Maintenance costs comprise of new business acquisition cost, underwriting survey and other related expenses other than commission payable on premium income.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

5 Investment income

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
Rental income from investment properties	38,140	42,941
Interest income	30,821	14,975
Dividend income	46,997	33,387
Interest income on statutory deposit	38,963	35,634
Loans and receivables interest income	96,702	57,872
Cash and cash equivalents interest income	87	15,769
	251,710	200,578

6 Fair value gains/(losses)

Fair value gains/(losses) on investment properties	638	(179,135)
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7 Net realised losses

Property, plant and equipment

Realised gains	2,879	45
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Investment properties

Realised loss	(76,185)	-
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Available-for-sale financial assets

Realised gains on equity securities	52,548	2,530
Realised losses on equity securities	-	(11,977)

Total net realised losses for available-for-sale financial assets	52,548	(9,447)
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Total net realised losses	(20,758)	(9,402)
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8 Other operating income

Sundry income	58,865	39,661
Exchange gains	10,314	4,844
	69,179	44,505

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

9 General administrative expenses

<i>in thousands of Nigerian Naira</i>	Notes	31 December 2013	31 December 2012
Amortisation of intangible assets	23	28,579	31,338
Impairment loss on trade receivables	17.2	356,284	1,255,243
Impairment on available-for-sale-financial assets		-	(59,100)
Directors fee and allowance		34,525	19,900
Impairment loss on loans and receivables	16.3	8,302	59,173
Impairment loss on other receivables	21	850	55,875
Depreciation on property, plant and equipment	24	106,992	134,977
Investment property related expenses		6,385	8,316
Auditors' remunerations		13,500	11,500
Employee benefits expenses	10	612,290	948,542
Other expenses	9.1	324,654	192,377
		1,492,361	2,658,141

9.1 Other expenses

This is made up of other administrative expenses like Office maintenance, Motor vehicle maintenance, Travellings, Stationeries, Subscriptions, Insurance and other administrative expenses.

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
Wages and salaries	587,275	904,566
Defined contribution pension costs	25,015	43,976
	612,290	948,542

11 Finance costs

Current borrowing:

Interest expense on bank overdraft	4,271	3,932
	4,271	3,932

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

12 Income income tax expense

The major components of income tax expense for the year ended 31 December 2013 and 2012 are:

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
Current income tax:		
Company income tax	24,208	24,339
Education tax	18,895	-
	43,103	24,339
Deferred tax:		
Origination of temporary differences	19.2 (68,597)	122,041
	(68,597)	122,041
Total income tax (benefit)/expense	(25,494)	146,380

12.2 Reconciliation of tax (benefit)/charge

Profit/(loss) before taxation	459,938	(1,190,800)
Tax at Nigerian's statutory income tax rate of 30%	-	-
Tax effect of temporary differences	(68,597)	122,041
Education tax @2% of assessable profit	18,895	-
Minimum tax	24,208	24,339
Total tax (credit)/charge for the year	(25,494)	146,380

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.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

13 Earnings/(loss) per share

Basic/diluted earnings/(loss) per share amounts is calculated by dividing the net profit/(loss) for the year attributable to ordinary shareholders by the weighted average number of ordinary share outstanding at the reporting date.

The following reflects the profit or loss and share data used in the basic/diluted earnings per share computations:

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
Profit/(loss) after taxation	485,432	(1,337,180)
Weighted average number of ordinary shares for basic/diluted earnings per share	3,437,330	3,437,330
Basic/diluted earnings/(loss) per ordinary share (kobo)	14	(39)

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.

14 Components of other comprehensive income

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
<i>Available-for-sale financial assets:</i>		
Gains arising during the year	164,268	94,362
Income tax relating to components of other comprehensive income	-	-
Other comprehensive income, net of tax	164,268	94,362

15 Cash and cash equivalents

Cash at hand	97	93
Short-term deposits (including demand and time deposits)	1,698,823	729,075
	1,698,920	729,168

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 short-term deposits are subject to an average variable interest rate of 10% per annum (2012: 10%).

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

16 Financial assets

<i>in thousands of Nigerian Naira</i>	Notes	31 December 2013	31 December 2012
Available-for-sale financial assets	16.1	1,115,221	1,140,043
Loan and receivables	16.2	117,456	135,460
		1,232,677	1,275,503

16.1 Available-for-sale financial assets

Equity securities		987,621	957,621
Debt securities		68,000	123,102
Total available-for-sale financial assets at fair value		1,055,621	1,080,723
Equity securities at cost		59,600	59,320
		1,115,221	1,140,043

16.2 Loans and receivables at amortised cost

Receivables under finance lease		64,170	84,917
Fixed term deposits		73,695	52,778
Accrued income		16,985	28,441
Other loans		100	45
Allowance for impairment losses	16.3	(37,494)	(30,721)
		117,456	135,460

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

16.3 Allowances for impairment losses

<i>in thousands of Nigerian Naira</i>	Notes	31 December 2013	31 December 2012
At the beginning of the year		30,721	4,219
Impairment charge for the year	9	8,302	59,173
Recoveries		(1,529)	(32,671)
		37,494	30,721

Analysis of impairment

Receivable under finance lease		37,494	30,721
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LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

16 Financial assets continued

16.4 Carrying values of financial instruments

<i>in thousands of Nigerian Naira</i>	Available-for Sale	Loans and Receivables	Total
At 1 January 2012	968,256	318,949	1,287,205
Purchases	41,680	-	41,680
Maturities	(5,000)	(152,757)	(157,757)
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	135,460	1,275,503
Purchases	39,442	-	39,442
Maturities	(140,540)	(26,686)	(167,226)
Disposals	(87,992)	-	(87,992)
Fair value gains recorded in other comprehensive income	164,268	-	164,268
Movement in impairment allowance	-	(8,302)	(8,302)
Interest receivable	-	16,985	16,985
At 31 December 2013	1,115,221	117,456	1,232,678

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

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

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 specified 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.

Unquoted investment carried at cost

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

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

16 Financial assets continued

16.5 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.

<i>in thousands of Nigerian Naira</i>	Level 1	Level 2	Level 3	Total
31 December 2013				
Available-for-sale financial assets:				
Equity securities	987,621	-	-	987,621
Debt securities	68,000	-	-	68,000
	1,055,621	-	-	1,055,621
Equity securities at cost				59,600

During the reporting period ending 31 December 2013, there were no transfers between level 1 and level 2 and in and out of level 3.

31 December 2012				
Available-for-sale financial assets:				
Equity securities	957,621	-	-	957,621
Debt securities	123,102	-	-	123,102
	1,080,723	-	-	1,080,723
Equity securities at cost				59,320

17 Trade receivables

<i>in thousands of Nigerian Naira</i>	Notes	31 December 2013	31 December 2012
Insurance receivables	17.1	4,153,659	4,323,372
Less: provision for impairment	17.1	(4,081,831)	(3,725,547)
		71,828	597,825

The carrying amounts disclosed above approximate fair value at the reporting date and are net of impairment charges of ₦356,284,000 (2012: ₦1,255,243,000) charged during the year.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

17 Trade receivables - continued

17.1 Analysis of insurance receivables by counter party

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
Gross		
Due from insurance brokers	3,689,346	3,229,581
Due from insurance companies	320,715	627,902
Due from agents	143,598	465,889
	4,153,659	4,323,372
Impairments		
Due from insurance brokers	3,625,547	2,847,697
Due from insurance companies	315,169	449,447
Due from agents	141,115	428,403
	4,081,831	3,725,547
	71,828	597,825

17.2 Movement in impairment of insurance receivables

Balance, beginning of the year	3,725,547	2,470,304
Additions during the year	356,284	1,255,243
	4,081,831	3,725,547

18 Reinsurance assets

Reinsurance share of outstanding claims	364,577	211,664
Reinsurance receivables	317,068	344,701
Prepaid reinsurance	406,694	317,691
	1,088,339	874,056

At 31 December 2013, 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.

Reinsurance receivables are to be settled on demand and the carrying amount is not significantly different from the fair value.

Reinsurance assets are not impaired as balance are set-off against payables from retrocession at the end of every quarter.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

19 Taxation

19.1 Current income tax payable

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
At the beginning of the year	79,852	90,808
Amounts recorded in the profit or loss	43,103	24,339
Payments made on account during the year	(33,295)	(35,295)
	89,660	79,852

19.2 Deferred tax expense

Fair value loss on investment properties	(8,453)	(26,956)
Accelerated capital allowance	(60,144)	148,997
	(68,597)	122,041

Deferred tax liability

Fair value loss on investment properties	(29,278)	(20,825)
Accelerated capital allowance	130,503	190,647
	101,225	169,822

Reconciliation of deferred tax liability is as shown below:

At the beginning of the year	169,822	47,781
Amounts recorded in the profit or loss	(68,597)	122,041
	101,225	169,822

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

20 Deferred acquisition costs

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

<i>in thousands of Nigerian Naira</i>	<i>Notes</i>	Fire	Motor	General accident	Engi- neering	Marine & aviation	Bond & credit	Oil and gas	Total
As at 1 January 2012		40,763	71,934	13,935	12,826	26,983	13,305	6,412	186,158
Expenses deferred		131,612	164,787	103,631	34,975	77,306	31,500	39,459	583,269
Amortisation	4	(139,957)	(179,513)	(106,484)	(37,601)	(82,829)	(34,223)	(40,770)	(621,378)
At 31 December 2012		32,418	57,208	11,082	10,200	21,459	10,582	5,100	148,049
Expenses deferred		56,278	127,041	66,182	93,321	56,136	20,535	109,957	529,449
Amortisation	4	(67,369)	(134,889)	(68,180)	(87,811)	(59,948)	(23,433)	(87,146)	(528,777)
At 31 December 2013		21,326	49,361	9,084	15,710	17,647	7,684	27,911	148,722
Current		21,326	49,361	9,084	15,710	17,647	7,684	27,911	148,722
Non-current		-	-	-	-	-	-	-	-

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

21 Other receivables and prepayments

<i>in thousands of Nigerian Naira</i>	Notes	31 December 2013	31 December 2012
Other receivables		389,722	38,133
Due from former management (note 21.2)		56,725	55,875
Prepayments		12,782	29,844
		459,229	123,852
Impairment loss	21.1	(56,725)	(55,875)
		402,504	67,977
Current		402,504	67,977
Non-current		-	-

21.1 Allowances for impairment losses

<i>in thousands of Nigerian Naira</i>	Notes	31 December 2013	31 December 2012
At the beginning of the year		55,875	-
Impairment charge for the year	9	850	55,875
		56,725	55,875

Analysis of impairment

Due from former management	56,725	55,875
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21.2 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 up-front allowance collected while in the services of the Company. However, the balance was fully provided for in the current financial year.

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

22 Investment properties

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
At the beginning of the year	1,706,382	1,884,718
Additions	-	799
Disposal	(477,499)	-
Fair value gain/ (loss)	638	(179,135)
At the end of the year	1,229,521	1,706,382

NOTES TO THE FINANCIAL STATEMENTS - Continued

22 Investment properties - Continued

During the year, twelve units of investment properties was disposed for N402 million. The Company recognised a loss of N76.185 million (2012: Nil) for the sale of the investment property during the period. The loss has been included in realised loss in the income statement.

Investment properties are stated at fair value, which has been determined based on valuations performed by Rogba Orimolade & Co (accredited independent valuers) as at 31 December 2013. The valuer is a specialist in valuing these types of investment properties. The determination of fair value of the investment property was supported by market evidence. The modalities and process of valuation utilized extensive analysis of market data and other sectors specific peculiarities corroborated with available data derived from previous experiences.

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

The Company enters into operating lease arrangements for all of its investment properties. The rental income arising during the year amounted to N38,140,395 (2012: N42,941,000) which is included in investment income. Direct operating expenses arising in respect of such properties during the year are included in within operating and administrative expenses.

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

<i>in thousands of Nigerian Naira</i>	Note	31 December 2013	31 December 2012
Rental income derived from investment properties	5	38,140	42,941
Investment related expenses	9	(6,385)	(8,316)
Profit arising from investment properties carried at fair value		31,755	34,625

The fair value disclosure for investment properties is as follow

<i>in thousands of Nigerian Naira</i>	Fair value measurement using			Total
	Quoted prices in active market Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Date of valuation: 31 December 2013				
Investment property	-	-	1,229,521	1,229,521

Date of valuation:
31 December 2013

Investment property - - 1,229,521 1,229,521

During the reporting year ended 31 December 2013, there were no transfers between level 1 and level 2 and in and out of level 3.

22 Investment properties - Continued

Description of valuation techniques used and key inputs to valuation on investment properties:

The valuation of the properties is based on the price for which comparable land and properties are being exchanged hands or are being marketed for sale. Therefore, the market-approach Method of

By nature, detailed information on concluded transactions is difficult to come by. We have therefore relied on past transactions and recent adverts in deriving the value of the subject properties. At least, eight properties were analysed and compared with the subject property.

Included in investment properties is the land property with wholly owned subsidiary (Vandt Properties Limited Ghana). The interest in Vandt Properties Limited Ghana 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 as 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:

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
Land property	411,521	412,090
Cash and cash equivalents	1,548	1,548
	413,069	413,638
Accrued professional fee	-	340
	413,069	413,298

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

23 Intangible assets

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
Computer software		
Cost:		
At the beginning of the year	163,498	148,983
Additions	9,069	14,515
At the end of the year	172,567	163,498
Accumulated amortization and impairment:		
At the beginning of the year	82,225	50,887
Amortization charge	28,579	31,338
At the end of the year	110,804	82,225
Carrying amount	61,763	81,273

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

24 Property, plant and equipment

<i>in thousands of Nigerian Naira</i>	Leasehold land & building	Furniture & fittings	Plant & machinery	Motor vehicles	Computer & equipment	Total
Cost/Revaluation						
At 1 January 2012	560,000	141,401	289,253	277,467	98,284	1,366,405
Additions	-	7,322	265	52,967	8,408	68,962
Disposal	-	-	-	(94,657)	-	(94,657)
At 31 December 2012	560,000	148,723	289,518	235,777	106,692	1,340,710
Additions	-	3,972	5,069	41,900	4,680	55,620
Disposal	-	-	(4,588)	(35,390)	-	(39,978)
At 31 December 2013	560,000	152,695	289,999	242,287	111,372	1,356,353
Accummulated depreciation						
At 1 January 2012	27,506	106,151	205,823	167,907	62,582	569,969
Charge	11,200	11,566	25,295	63,073	23,843	134,977
Disposal	-	-	-	(80,479)	-	(80,479)
At 31 December 2012	38,706	117,717	231,118	150,501	86,425	624,467
Charge	11,200	11,260	32,342	38,378	13,812	106,992
Disposal	-	-	(4,588)	(29,718)	-	(34,306)
At 31 December 2013	49,906	128,977	258,872	159,161	100,237	697,154
Carrying amount						
At 31 December 2013	510,094	23,718	31,127	83,126	11,134	659,199
At 31 December 2012	521,294	31,006	58,400	85,276	20,267	716,243

NOTES TO THE FINANCIAL STATEMENTS - Continued

24 **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 as of 4 November 1993 for N82,150,000 by Oludemo Jagun Dosumu & Co. Chartered Surveyors, Valuers and Real Estate Consultants. The buildings were also revalued at N130 million on 20 November 1997 by the same valuers on open market basis.

It was further revalued on the basis of an open market valuation for existing use as of 12 November 2009 for N560,000,000 by Leye Adepoju & Co. Estate surveyors & Valuers. The revaluation surplus at the revaluation dates has been included in revaluation reserve.

If land and buildings were measured using the cost model, the carrying amounts would be as follows:

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
Cost	4,009	4,009
Accumulated depreciation	(357)	(197)
	3,652	3,812

The revalued land and buildings consist of office properties in Nigeria. Management determined that these constitute one class of asset under IFRS 13, based on the nature, characteristics and risks of the property.

25 **Statutory deposit**

This represent that amount deposited with the Central Bank of Nigeria as at 31 December 2013 (31 December 2012: N315,000,000) in accordance with section 10 (3) of Insurance Act 2003. The deposit has been tested for adequacy as at 31 December 2013 and found to be adequate.

Interest income earned at an average rate of 5.6% per annum (2012: 5.6%) and this is included within investment income. However, access to the deposit is restricted.

LAW UNION AND INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

26 Insurance contract liabilities

<i>in thousands of Nigerian Naira</i>	Notes	31 December 2013	31 December 2012
Claims reported by policyholders		550,790	306,434
Claims incurred but not reported (IBNR)	26.2	224,368	184,802
Outstanding claims provisions	26.1	775,158	491,236
Provision for unearned premiums	26.3	1,020,034	1,345,063
Total insurance contract liabilities - Gross		1,795,192	1,836,299
Reinsurance receivables			
Reinsurance share of outstanding claims	18	364,577	211,664
Total insurance contract liabilities - Net		1,430,615	1,624,635
Current		1,795,192	1,836,299
Non-current		-	-

26.1 Claims reported by policyholders

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
At 1 January	491,236	484,126
Claims incurred in the current year	1,333,009	1,644,543
Claims paid during the year	(1,049,087)	(1,637,433)
	775,158	491,236
The aging analysis for claims reported and losses adjusted		
Days		
0 - 90	82,908	91,551
91 - 180	82,873	52,252
181 - 270	48,552	61,129
271 - 360	13,207	14,210
361 and above	547,618	272,094
	775,158	491,236

LAW UNION AND INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

26 Insurance contract liabilities - continued

<i>in thousands of Nigerian Naira</i>	Notes	31 December 2013	31 December 2012
Analysis of reported claims per class of insurance			
Fire		98,153	73,269
General accidents		120,022	88,494
Motor		199,975	120,895
Marine		137,801	74,334
Engineering		78,829	36,522
Oil & Gas		115,096	72,084
Bond and credit		25,282	25,638
		775,158	491,236

26.2 Claims incurred but not reported

This represents additional provision as a result of actuarial valuation as at year end.

26.3 The movement in unearned premium during the year

<i>in thousands of Nigerian Naira</i>		31 December 2013	31 December 2012
At 1 January		1,345,063	1,215,644
Premiums written in the year		3,443,575	4,163,370
Premiums earned during the year		(3,768,604)	(4,033,951)
		1,020,034	1,345,063

27 Trade payables

<i>in thousands of Nigerian Naira</i>	Notes	31 December 2013	31 December 2012
Due to insurance companies		168,900	333,509
Due to reinsurance companies		309,055	207,855
		477,955	541,364
Current		477,955	541,364
Non-current		-	-

This represents the amount payable to insurance and reinsurance companies as at year end. The carrying amounts of trade payable as disclosed above approximate their fair value at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS - Continued

28 **Other payables and accruals**

<i>in thousands of Nigerian Naira</i>	Notes	31 December 2013	31 December 2012
Accrued expenses		48,703	129,732
Deferred revenue		75,597	71,232
Deposit against finance lease transactions	28.1	-	778
Other creditors		108,910	98,771
		233,210	300,513
Current		233,210	300,513
Non-current		-	-

28.1 This represents amounts deposited by customers as collateral in respect of a finance lease transaction in which Company is a lessor. The carrying amounts disclosed approximate fair value at the reporting date.

29 **Borrowings**

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
29.1 <i>Bank overdrafts</i>	-	1,452

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.

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
29.2 <i>Book overdrafts</i>	1,684	21,896

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.

30 **Employee defined contribution payable**

Employee defined contribution payable 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 basis salary, housing and transport allowance monthly.

LAW UNION AND INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

31 Issued share capital

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
Authorised share capital		
Ordinary share of N0.50k each	1,800,000	1,800,000
Ordinary share issued and fully paid		
Ordinary share of N0.50k each	1,718,665	1,718,665

32 Share premium

As at year end	1,363,034	1,363,034
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33 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.

34.1 Revaluation reserve

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

34.2 Available-for-sale reserve

The available-for-sale reserve represents the net cumulative change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

34.3 Accumulated losses

Retained earnings is the carried forward recognised income net of expenses plus current period profit or loss attributable to shareholders.

35 Cash and cash equivalents for the purpose of statements of cash flows consist of the following:

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
Cash and cash equivalents per statement of financial position	1,698,920	729,168
Bank overdraft	-	(1,452)
Book overdraft	(1,684)	(21,896)
Cash and cash equivalents per statement of cash flows	1,697,236	705,820

LAW UNION AND INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

36 Reconciliation of profit/(loss) before tax to cash flows provided by operating activities:

<i>in thousands of Nigerian Naira</i>	Notes	31 December 2013	31 December 2012
Profit/(loss) before taxation		459,938	(1,190,800)
<i>Adjustments for non-cash items:</i>			
Depreciation of property and equipment	24	106,992	134,977
Amortisation of intangible assets	23	28,579	31,338
Profit from sale of property and equipment	7	(2,879)	(45)
(Gain)/loss on sale of investments	7	(52,548)	9,447
Loss on sale of investment property	7	76,185	-
Investment income	5	(251,710)	(200,578)
Fair value (gain)/loss on investment property	6	(638)	179,135
Impairment loss on trade receivables	9	356,284	1,255,243
Impairment recovery on available-for-sale financial assets	9	-	(59,100)
Impairment loss on other receivables	9	850	55,875
Cash flow from operating profit/(loss) before changes in operating assets and liabilities		721,053	215,492
<i>Changes in operating assets and liabilities</i>			
Increase in loans and receivables		18,004	88,567
(Decrease)/Increase in provision for unearned premium		(325,029)	37,797
(Increase)/decrease in employee defined contribution payable		(431)	9,194
Increase in other receivables and prepayment		(235,114)	(49,167)
(Increase)/decrease in deferred acquisition costs		(673)	38,109
Decrease/(increase) in other payables and accruals		(67,303)	27,271
Decrease/(increase) in trade receivables		169,713	(368,373)
Increase in reinsurance assets		(214,283)	(81,956)
(Decrease)/increase in trade payables		(63,409)	91,476
Increase in provision for outstanding claims		283,922	7,110
Tax paid		(33,295)	(35,295)
Net cash flow from/(used in) operating activities		253,155	(19,774)

NOTES TO THE FINANCIAL STATEMENTS - Continued

37 **Related party disclosures**37.1 **Transactions with related parties**

The Company enters into transactions with related entities during the year in the normal course of business. The sales to and purchases from related parties are made at normal market prices.

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
Sale of insurance contracts to related parties:		
- Alternative Capital Partners - Shareholders	563	1,131
- Swede control - Shareholders	3,257	3,485
Investment (Short-term placement) with related parties:		
- Alternative Capital Partners - Shareholders	50,000	-
- Interest income on investment	6,640	-

Outstanding balances at the reporting date are unsecured. Settlement is expected to take place in cash. There was no allowance for impairment on receivable at the reporting date and no bad debt expense in the year (2012: Nil).

37.2 **Compensation of key management personnel:**

Key management personnel is defined as members of the Board of Directors of the Company, including their close members of family and any entity over which they exercise control. Close members of family are those family members who may be expected to influence, or be influenced by that individual in the dealings with Company.

<i>in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
Salaries	106,399	100,065
Fees	-	1,500
Post employment pension benefits	4,407	3,274
Total compensation of key management personnel	110,806	104,839

38 **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.

38 Risk management framework

a. Governance framework - 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.

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.

38 Risk management framework

b Capital management objectives, policies and approach - continued

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.

<i>in thousands of Nigerian Naira</i>	2013	2012
Available capital resources as at 31 December		
Total shareholders' funds per financial statements	4,172,200	3,522,500
Adjustments to a regulatory basis	<u>(700,152)</u>	<u>(1,279,952)</u>
Available capital resources	3,472,048	2,242,548
Minimum capital based required by regulator	<u>3,000,000</u>	<u>3,000,000</u>
Excess/(shortfall) in solvency margin	<u>472,048</u>	<u>(757,452)</u>

The adjustments to a regulatory basis represent assets inadmissible for regulatory reporting purpose. 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.

d Asset liability management (ALM) framework

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.

39 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.

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.

39 Insurance and financial risk - Continued

a Insurance risk - continued

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.

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.

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

a Insurance risk - continued

Claims Paid Triangulations as at December 2013

		DEVELOPMENT YEARS				
<i>in thousands of Nigerian Naira</i>		1	2	3	4	5
Motor						
Accident Year						
2009		195,804	104,823	7,737	6,250	1,670
2010		196,941	84,793	1,092	6,929	-
2011		201,524	103,000	8,275	-	-
2012		205,422	115,085	-	-	-
2013		289,503	-	-	-	-
Fire						
Accident Year						
2009		59,354	17,932	4,067	3,901	507
2010		20,897	17,426	10,270	477	-
2011		53,653	33,431	24,053	-	-
2012		47,290	34,897	-	-	-
2013		60,319	-	-	-	-
General accident						
Accident Year						
2009		20,951	32,194	4,979	6,920	7,801
2010		11,166	27,176	18,683	11,205	-
2011		21,610	26,233	28,441	-	-
2012		27,139	38,875	-	-	-
2013		14,659	-	-	-	-
Engineering						
Accident Year						
2009		6,782	18,435	3,954	4,283	240
2010		1,286	15,148	6,426	3,245	-
2011		13,462	5,559	5,466	-	-
2012		9,245	44,495	-	-	-
2013		17,638	-	-	-	-

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

a Insurance risk - continued

Claims Paid Triangulations as at December 2013

DEVELOPMENT YEARS					
<i>in thousands of Nigerian Naira</i>	1	2	3	4	5
Marine					
2009	19,988	8,659	8,056	-	-
2010	28,794	28,782	3,636	1,829	-
2011	32,144	27,525	16,475	-	-
2012	41,576	62,105	-	-	-
2013	65,273	-	-	-	-

b Financial risk

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:

- 1 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.
- 2 The Company sets the maximum amounts and limits that may be advances to corporate counterparties by reference to their long-term credit ratings.
- 3 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.
- 4 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.
- 5 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.

b Financial risk - continued

i Credit exposure

The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2013 and 2012 is the carrying amounts as presented in Notes 16,17,18, 21 & 25.

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

39 Insurance and financial risk - continued

Industry analysis

As at 31 December 2013 <i>in thousands of Nigerian Naira</i>	Financial services	Government	Consumer	Oil & Gas	Other	Total
Loans and receivables	-	-	-	-	117,456	117,456
Other receivables	-	-	-	-	402,504	402,504
Statutory deposit	-	315,000	-	-	-	315,000
Available-for-sale financial assets						
- Debt securities	25,000	8,000	35,000	-	-	68,000
	25,000	323,000	35,000	-	519,960	902,960
Reinsurance assets	1,018,668				69,671	1,088,339
Trade receivables	-	-	-	-	71,828	71,828
Cash and cash equivalents	1,698,920	-	-	-	-	1,698,920
Total credit risk exposure	2,742,588	323,000	35,000	-	661,459	3,762,047
As at 31 December 2012						
Loans and receivables	-	-	-	-	135,460	135,460
Other receivables	-	-	-	-	67,977	67,977
Statutory deposit	-	315,000	-	-	-	315,000
Available-for-sale financial assets						
- Debt securities	25,000	53,102	45,000	-	-	123,102
	25,000	368,102	45,000	-	203,437	861,318
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	1,218,913	368,102	45,000	-	1,210,573	3,062,367

LAW UNION AND ROCK INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

39 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:

As at 31 December 2013 <i>in thousands of Nigerian Naira</i>	Investment grade	Neither past-due not impaired Non-investment grade satisfactory	Non-investment grade unsatisfactory	Past-due but not impaired	Total
Loans and receivables	117,456	-	-	-	117,456
Other receivables	350,000	52,504	-	-	402,504
Statutory deposit	315,000	-	-	-	315,000
Available-for-sale financial assets:					
- Debt securities	68,000	-	-	-	68,000
Reinsurance assets	-	-	-	1,088,339	1,088,339
Trade receivables	-	-	-	71,828	71,828
Cash and cash equivalents	1,698,920	-	-	-	1,698,920
Total	2,549,376	52,504	-	1,160,167	3,762,047
As at 31 December 2012					
Loans and receivables	135,460	-	-	-	135,460
Other receivables	-	67,977	-	-	67,977
Statutory deposit	315,000	-	-	-	315,000
Available-for-sale financial assets:					
- Debt securities	123,102	-	-	-	123,102
Reinsurance assets	-	-	-	874,056	874,056
Trade receivables	-	-	-	597,825	597,825
Cash and cash equivalents	648,549	80,619	-	-	729,168
Total	1,222,111	148,596	-	1,471,881	2,842,588

NOTES TO THE FINANCIAL STATEMENTS - Continued

39 Insurance and financial risk - continued

Age analysis of financial assets past due but not impaired

<i>in thousands of Nigerian Naira</i>	< 30 days	31 to 60 days	61 to 90 days	Total past due but not impaired
At 31 December 2013				
Reinsurance assets	-	-	1,088,339	1,088,339
Trade receivables	71,828	-	-	71,828
Total	71,828	-	1,088,339	1,160,167
At 31 December 2012				
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	1,471,881

Impaired financial assets

At 31 December 2013, there are no impaired reinsurance assets by nature of the business, which is expected to be net off from the Quarterly return reinsurance companies, there is impaired loans and receivables of N37,494,000 (2012: N30,721,263) and trade receivables N4,081,831,000 (2012: N3,725,547,000). The impairment trigger factor is considered to include non fulfilment of repayment obligation as at when due as well as the poor financial conditions of the borrowers.

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 16.3 and 17.2 for the reconciliation of allowance for receivable accounts.

39 Insurance and financial risk - continued

i 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:

- 1 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.
- 2 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.
- 3 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 undiscounted interest

LAW UNION AND ROCK INSURANC PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

39 Insurance and financial risk - continued

Maturity analysis (contractual undiscounted cash flows basis)

<i>As at 31 December 2013</i> <i>in thousands of Nigerian Naira</i>	Carrying amount	Up to 1 year	1-3 years	3-5 years	Over 5 years	No maturity date	Total
Financial assets:							
Loans and receivables	117,456	125,678	-	-	-	-	125,678
Other receivables	389,722	389,722	-	-	-	-	402,504
Available-for-sale financial assets	1,115,221	821,813	55,950	243,438	-	59,320	1,180,521
Reinsurance assets	1,088,339	1,018,668	-	-	-	69,671	1,088,339
Trade receivables	71,828	71,828	-	-	-	-	71,828
Cash and cash equivalents	1,698,920	1,698,920	-	-	-	-	1,698,920
Total financial assets	4,481,486	4,126,629	55,950	243,438	-	128,991	4,567,790
Financial liabilities							
Insurance contract liabilities	1,795,192	1,795,192	-	-	-	-	1,795,192
Book overdraft	1,684	1,684	-	-	-	-	1,684
Trade payables	477,955	477,955	-	-	-	-	477,955
Other payables and accruals	233,210	233,210	-	-	-	-	233,210
Total financial liabilities	2,508,041	2,508,041	-	-	-	-	2,508,041
Total liquidity gap	1,973,445	1,618,588	55,950	243,438	-	128,991	2,059,749

LAW UNION AND ROCK INSURANC PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

39 Insurance and financial risk - continued

Maturity analysis (contractual undiscounted cash flows basis)

<i>As at 31 December 2012</i> <i>in thousands of Nigerian Naira</i>	Carrying amount	Up to 1 year	1-3 years	3-5 years	Over 5 years	No maturity date	Total
Financial assets:							
Loans and receivables	135,460	144,265	-	-	-	-	144,265
Other receivables	38,133	-	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	3,514,685	1,936,400	137,127	37,050	-	1,388,964	3,499,541
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	300,513	325,922	-	-	-	-	325,922
Total financial liabilities	2,702,302	2,727,711	-	-	-	-	2,727,711
Total liquidity gap	812,383	(791,311)	137,127	37,050	-	1,388,964	771,830

The shortfall in year 1 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

39 Insurance and financial risk - continued

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

<i>in thousands of Nigerian Naira</i>	Current	Non-current	Total
At 31 December 2013			
Cash and cash equivalents	1,698,920	-	1,698,920
Financial assets:			
Available-for-sale financial assets	821,813	293,408	1,115,221
Loans and receivables	125,678	-	117,456
Trade receivables	71,828	-	71,828
Reinsurance assets	1,088,339	-	1,088,339
Deferred acquisition costs	148,722	-	148,722
Other receivables and prepayments	402,504	-	402,504
Investment properties	-	1,229,521	1,229,521
Intangible assets	-	61,763	61,763
Property, plant and equipment	-	659,199	659,199
Statutory deposit	-	315,000	315,000
Total Assets	4,357,804	2,558,891	6,908,473
Insurance contract liabilities	1,795,192	-	1,795,192
Trade payables	477,955	-	477,955
Other payables and accruals	233,210	-	233,210
Book overdraft	1,684	-	1,684
Employee benefit obligations	37,347	-	37,347
Current income tax payable	89,660	-	89,660
Deferred tax liability	101,225	-	101,225
Total Liabilities	2,736,273	-	2,736,273

NOTES TO THE FINANCIAL STATEMENTS - Continued

39 Insurance and financial risk - continued

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

<i>in thousands of Nigerian Naira</i>	Current	Non-current	Total
At 31 December 2012			
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	135,460	-	135,460
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	-	1,706,382	1,706,382
Intangible assets	-	81,273	81,273
Property, plant and equipment	-	716,243	716,243
Statutory deposit	-	315,000	315,000
Total Assets	2,104,692	4,406,784	6,511,476
Insurance contract liabilities	1,836,299	-	1,836,299
Trade payables	541,364	-	541,364
Other payables and accruals	325,922	-	299,735
Other financial liabilities	778	-	778
Borrowings	1,452	-	1,452
Bank overdraft	21,896	-	21,896
Employee benefit obligations	37,778	-	37,778
Current income tax payable	79,852	-	79,852
Deferred tax liability	-	169,822	169,822
Total Liabilities	2,845,341	169,822	2,988,976

ii 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:

iii 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.

NOTES TO THE FINANCIAL STATEMENTS - Continued

39 Insurance and financial risk - continued

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 balances as at end of the year are as follows:

<i>in thousands of Nigerian Naira</i>	2013 Cash & cash equivalents	2012 Cash & cash equivalents
Dollars	5,831	157
Euros	388	36
Pounds	199	27

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 31 December 2013 from a N155.27/\$ (2012:N155.77/\$) closing rate favorable/unfavorable change in US dollars against the Naira with all other variables held constant.

31 December 2013 <i>in thousands of Nigerian Naira</i>	Increase by 1%	Increase by 4%	Decrease by 1%	Decrease by 4%
Cash and cash equivalents	495	1,981	(495)	(1,981)
Impact on profit before tax	495	1,981	(495)	(1,981)
Impact on equity	347	1,387	(347)	(1,387)

31 December 2012 <i>in thousands of Nigerian Naira</i>	Increase by 1%	Increase by 4%	Decrease by 1%	Decrease by 4%
Cash and cash equivalents	16	63	(16)	(63)
Impact on profit before tax	16	63	(16)	(63)
Impact on equity	11	44	(11)	(44)

NOTES TO THE FINANCIAL STATEMENTS - Continued

39 Insurance and financial risk continued

The following table details the effect on the profit as at 31 December 2013 from a N213.73/€ C167 closing rate favorable/unfavorable change in Euro against the Naira with all other variables held constant.

31 December 2013 in thousands of Nigerian Naira	Increase by 1%	Increase by 4%	Decrease by 1%	Decrease by 4%
Cash and cash equivalents	129	517	(129)	(517)
Impact on profit before tax	129	517	(129)	(517)
Impact on equity	90	362	(90)	(362)

31 December 2012 in thousands of Nigerian Naira	Increase by 1%	Increase by 4%	Decrease by 1%	Decrease by 4%
Cash and cash equivalents	3	11	(3)	(11)
Impact on profit before tax	3	11	(3)	(11)
Impact on equity	2	8	(2)	(8)

The following table details the effect on the profit as at 31 December 2013 from a N256.56/£ (2012:N251.86/£) closing rate favorable/unfavorable change in Sterling Pounds against the Naira with all other variables held constant.

31 December 2013 in thousands of Nigerian Naira	Increase by 1%	Increase by 4%	Decrease by 1%	Decrease by 4%
Cash and cash equivalents	89	358	(89)	(358)
Impact on profit before tax	89	358	(89)	(358)
Impact on equity	62	251	(62)	(251)

31 December 2012 in thousands of Nigerian Naira	Increase by 1%	Increase by 4%	Decrease by 1%	Decrease by 4%
Cash and cash equivalents	4	14	(4)	(14)
Impact on profit before tax	4	14	(4)	(14)
Impact on equity	3	10	(3)	(10)

39 Insurance and financial risk continued

Foreign exchange risk

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.

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.

NOTES TO THE FINANCIAL STATEMENTS - Continued

39 Insurance and financial risk - continued

Interest rate risk - continued

The table below details the interest rate sensitivity analysis of Law Union & Rock Plc as at 31 December 2013, 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.

31 December 2013		Increase (bp)		Decrease (bp)	
<i>in thousands of Nigerian Naira</i>	Amount	100	500	100	500
Bond	68,815	67	338	(67)	(338)
Fixed-term deposit	73,695	72	362	(72)	(362)
Impact on equity		139	700	(139)	(700)

31 December 2012		Increase (bp)		Decrease (bp)	
<i>in thousands of Nigerian Naira</i>	Amount	100	500	100	500
Bond	123,102	120	605	(120)	(605)
Fixed-term deposit	139,486	136	685	(136)	(685)
Impact on equity		256	1,290	(256)	(1,290)

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

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 the 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 the Chief Finance Officer (CFO) and, or provides the CFO with the authority to assign limits to

NOTES TO THE FINANCIAL STATEMENTS - Continued

39 Insurance and financial risk - continued

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.

Insurance risk - continued

The table below sets out the concentration of non-life insurance contract liabilities by type of contract:

31 December 2013	Gross liabilities	Re-insurance of liabilities	Net liabilities
<i>in thousands of Nigerian Naira</i>			
Fire	98,153	(75,737)	22,416
General accidents	120,022	(66,883)	53,139
Motor	199,975	(16,319)	183,656
Marine	137,801	(79,199)	58,602
Engineering	78,829	(54,315)	24,514
Oil & Gas	115,096	(64,719)	50,377
Bond and credit	25,282	(7,404)	17,878
Total	775,158	(364,577)	410,581

31 December 2012	Gross liabilities	Re-insurance of liabilities	Net liabilities
<i>in thousands of Nigerian Naira</i>			
Fire	73,269	(61,759)	11,510
General accidents	88,494	(17,125)	71,369
Motor	120,895	(15,637)	105,258
Marine	74,334	(57,633)	16,701
Engineering	36,522	(34,532)	1,990
Oil & Gas	72,084	(14,723)	57,361
Bond and credit	25,638	(10,255)	15,383
Total	491,236	(211,664)	279,572

NOTES TO THE FINANCIAL STATEMENTS - Continued

39 Insurance and financial risk - continued

Insurance risk - continued

Sensitivity analysis

The non-life insurance claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

It should be noted that movements in these assumptions are non-linear.

31 December 2013	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on equity
<i>in thousands of Nigerian Naira</i>					
Average claims cost	+10%	22,437	19,327	3,110	2,177
Average number of claims	+10%	77,177	36,298	40,878	28,615

31 December 2012	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on equity
<i>in thousands of Nigerian Naira</i>					
Average claims cost	+10%	39,299	16,933	22,366	15,656
Average number of claims	+10%	49,124	21,166	27,957	19,570

Impact on equity reflects adjustments for tax, when applicable

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

NOTES TO THE FINANCIAL STATEMENTS - Continued

40 **Contingencies and commitments****a. Contingencies 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:

<i>As at in thousands of Nigerian Naira</i>	31 December 2013	31 December 2012
Within one year	23,395	42,941
After one year but not more than five years	-	128,823
Total operating lease rental receivables	23,395	171,764

41 **Contraventions of the NAICOM and other guideline:**

<i>in thousands of Nigerian Naira</i>	Number of infractions	Penalty
<i>Nature of contraventions</i>		
Late filling of the Company's returns with the Nigerian Stock Exchange	1	2,700
Doing businesses with un-registered brokers	1	2,250

NOTES TO THE FINANCIAL STATEMENTS - Continued

42 **Events after the reporting date**

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

43 **Admissible assets**

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

Total assets representing insurance funds
in thousands of Nigerian Naira

Cash and cash equivalents:

- Cash	97
- Short term deposits	<u>1,698,823</u>

Total cash and cash equivalents	1,698,920
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Total leases falling due within one year	23,395
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Available-for-sale financial assets:

Quoted equities	871,255
Mutual Funds	-
Statement Government bonds	8,000
Corporate bonds	<u>60,000</u>

Total available-for-sale financial assets	939,255	<u>939,255</u>
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Total assets representing insurance funds	2,661,570
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Total Insurance funds	<u>1,795,192</u>
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Balance due to shareholders' funds	<u><u>866,378</u></u>
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LAW UNION AND ROCK INSURANCE PLC

STATEMENT OF VALUE ADDED

<i>For the year ended in thousands of Nigerian Naira</i>	31 December 2013	%	31 December 2012	%
Gross premium written	3,443,575		4,163,370	
Claims expenses	(743,863)		(982,231)	
Reinsurances	(815,796)		(923,384)	
Other charges and expenses	(816,269)		(2,543,379)	
Fees and commission	156,017		224,484	
Investment and other income	251,710		200,578	
Value added	1,475,374	100	139,438	100

Applied as follow:

In payment to employees

Employee benefits expense	612,290	42	948,542	680
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In payment to Government

As taxes	(25,494)	(2)	146,380	105
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Retained in the business

Depreciation	106,992	7	134,977	97
Amortization	28,579	2	31,338	22
Contingency reserve	103,307	7	121,019	87
Available for sale reserve	164,268	11	94,362	68
Transfer to accumulated losses	485,432	33	(1,337,180)	(959)

Value added	1,475,374	100	139,438	100
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Value added statement represents the wealth created by the efforts of the company and its employees' efforts based on ordinary activities and the allocation of that wealth being created between employees, shareholders, government and that retained for the future creation of more wealth.

LAW UNION AND ROCK INSURANCE PLC

FIVE-YEAR FINANCIAL SUMMARY

	IFRS				NGAAP
As at in thousands of Nigerian Naira	31 December 2013	31 December 2012	31 December 2011	31 December 2010	31 December 2009
Assets					
Cash and bank balances	-	-	-	-	89,755
Cash and cash equivalents	1,698,920	729,168	728,071	1,064,267	-
Treasury bills	-	-	-	-	100,000
Short-term investments	-	-	-	-	1,334,226
Advances under finance lease	-	-	-	-	104,565
Debtors and prepayments	-	-	-	-	1,732,849
Long-term investments	-	-	-	-	1,379,029
Trade receivables	71,828	597,825	1,484,694	1,184,479	-
Reinsurance assets	1,088,339	874,056	700,479	448,090	-
Available-for-sale financial assets	1,115,221	1,140,043	968,256	1,590,925	-
Loans and receivables	117,456	135,460	318,949	614,223	-
Investment properties	1,229,521	1,706,382	1,884,718	1,111,188	732,835
Fixed assets	-	-	-	-	858,183
Property, plant and equipment	659,199	716,243	796,436	792,507	-
Other receivables and prepayments	402,504	67,977	74,686	157,708	-
Deferred acquisition costs	148,722	148,049	186,158	162,127	220,261
Statutory deposit	315,000	315,000	315,000	315,000	315,000
Intangible assets	61,763	81,273	98,096	67,490	-
Total assets	6,908,473	6,511,476	7,555,543	7,508,004	6,866,703
Liabilities and Equity					
Bank overdraft	-	-	-	-	59,887
Creditors and accruals	-	-	-	-	641,026
Other payables and accruals	233,210	300,513	306,626	205,686	-
Trade payables	477,955	541,364	449,888	418,452	-
Income tax payable	89,660	79,852	90,808	111,263	104,598
Other financial liabilities	-	-	10,456	24,862	-
Deferred tax liability	101,225	169,822	47,781	42,564	21,978
Borrowings	-	1,452	36,081	18,620	-
Book overdraft	1,684	21,896	40,415	69,856	-
Employee benefit obligations	37,347	37,778	108,400	87,237	82,131
Insurance funds	-	-	-	-	1,419,261
Insurance contract liabilities	1,795,192	1,836,299	1,699,770	1,800,622	-
Total liabilities	2,736,273	2,988,976	2,790,225	2,779,162	2,328,881
Equity					
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	551,025	551,025	988,624
Available for sale reserve	294,920	130,652	36,290	77,566	-
Contingency reserve	878,499	775,192	654,173	527,579	406,199
Retained earnings	(633,943)	(1,016,068)	442,131	490,973	61,300
Total equity	4,172,200	3,522,500	4,765,318	4,728,842	4,537,822
Total Equity and Liabilities	6,908,473	6,511,476	7,555,543	7,508,004	6,866,703

LAW UNION AND ROCK INSURANCE PLC

FIVE-YEAR FINANCIAL SUMMARY

Profit and loss:	IFRS			NGAAP	
For the year ended in thousands of Nigerian Naira	→ 31 December ←				
	2013	2012	2011	2010	2009
Gross premium	3,443,575	4,163,370	4,219,815	4,046,012	3,528,581
Premium earned	2,952,807	3,110,568	3,547,524	3,285,797	3,606,770
Profit/(loss) before tax	459,938	(1,190,800)	289,212	384,273	351,619
Profit/(loss) after tax	485,432	(1,337,180)	249,620	360,922	294,549
Per 50k share data (kobo)					
Earnings per share - Basic	14	(39)	7	11	9
Net assets per share	121	102	138	139	132