LOMBARD INSURANCE COMPANY LIMITED

LOMBARD INSURANCE COMPANY LIMITED
Registration number: 1990/001253/06

AUDITED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2011

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for the year ended 30 June 2011

The Audited Annual Financial Statements have been prepared in August 2011.

The preparation of the Audited Annual Financial Statements was supervised by Dean Hyde the Group Chief Financial Director.

DEAN HYDE
GROUP FINANCIAL DIRECTOR
DATE 13 October 2011

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STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS
for the year ended 30 June 2011

In accordance with South African Companies Act requirements, the directors are required to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements of Lombard Insurance Company Limited ("the Company") and related financial information included in this report. It is their responsibility to ensure that the financial statements for each financial year fairly present the state of affairs of the Company at the end of the financial year and the results of their operations and cash flows, in conformity with International Financial Reporting Standards ("IFRS").

The accounting policies supported by judgements, estimates and assumptions which comply with IFRS have been applied on a consistent and going concern basis.

It is the responsibility of the independent auditors to report on the fair presentation of the financial statements. Their unqualified audit report appears on page 6.

The directors are ultimately responsible for the internal controls of the Company. To enable the directors to meet these responsibilities, management design and implement standards and systems of internal controls to provide reasonable, but not absolute assurance as to the integrity and reliability of the financial statements in accordance with IFRS and to adequately safeguard, verify and maintain accountability for Company assets. Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

Based on the information and explanations given by management and the internal and external auditors, the directors are of the opinion that the system of internal controls provides reasonable assurances that the financial records may be relied on for the preparation of the annual financial statements of the Company in accordance with IFRS. Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of the internal controls, resulting in a material loss to the Company, has occurred during the year and up to the date of this report.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the annual financial statements of the Company.

DIRECTORS' APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The financial statements which appear on pages 11 to 75 are prepared in accordance with IFRS and are approved by the board of directors and are signed on its behalf by:

ML JAPHET	RJ SYMMONDS
CHAIRMAN	MANAGING DIRECTOR
DATE: 13 October 2011	DATE: 13 October 2011

LOMBARD INSURANCE COMPANY LIMITED

CERTIFICATE BY COMPANY SECRETARY
for the year ended 30 June 2011

In accordance with section 88(2)(e) of the Companies Act, 71 of 2008, it is hereby certified that the company has lodged with the Registrar of Companies all such returns as are required of a company in terms of the Act and that such returns are true, correct and up to date.

PR HILLBROOK
SECRETARY
DATE 13 October 2011

LOMBARD INSURANCE COMPANY LIMITED

AUDIT COMMITTEE REPORT
for the year ended 30 June 2011

The statutory responsibilities of Lombard Insurance Company's Audit Committee are set out in section 94(7) of the Companies Act 71 of 2008 ("The Companies Act"). These responsibilities, together with compliance with the relevant requirements of the King Code on Corporate Governance for South Africa, as amended from time to time, are incorporated in the committee's terms of reference which was approved by the Board during 2010.

The committee has conducted its affairs in compliance with its terms of reference, and has discharged all of the responsibilities set out therein as follows:-

Met on four separate occasions during the financial year under review to consider, inter alia, the year-end results of the Company, as well as to consider regulatory and accounting standard compliance by the Company;

Reviewed the effectiveness of the Company's system of internal financial controls, including receiving assurance from management and the external and internal auditors;

Reviewed policies and procedures for detecting and preventing fraud;

Met with the designated auditor to consider matters of importance and relevant to the finalisation of the Company's financial statements and to the affairs of the Company generally;

Recommended the re-appointment of PricewaterhouseCoopers ("PwC") as the registered independent auditor after satisfying itself through enquiry that PwC is independent as defined in terms of section 94(8) of the Companies Act and approved Corlia Volschenk as the designated auditor in terms of the provisions of the section 90 of the Companies Act;

Determined the fees to be paid to PwC, and their terms of engagement;

Ensured that the appointment of PwC complies with the provisions of the Companies Act and any other legislation relating to the appointment of auditors;

Considered, and satisfied itself of the appropriateness of the expertise and experience of the Company's Financial Director.

The functions of the audit committee for Lombard Insurance Company Limited were conducted on a group level.

LOMBARD INSURANCE COMPANY LIMITED

AUDIT COMMITTEE REPORT
for the year ended 30 June 2011

To the best of its knowledge and based on the information and explanations provided by management, as well as discussions with the independent external and internal auditors on the results of their audit, the Audit Committee is satisfied that there was no material breakdown in internal controls during the financial year under review. The Audit Committee has evaluated the financial statements of the Company for the year ended 30 June 2011 and, to the best of its knowledge and belief, considers that the Company complies, in all material respects, with the requirements of the Companies Act 71 of 2008 and the International Financial Reporting Standards. The Audit Committee accordingly recommended the financial statements to the Board for approval.

The Audit Committee consist of:
P Soko (Chairperson)
GJM Carlin
PG Nkadimeng.

P Soko
Chairperson
DATE 13 October 2011

INDEPENDENT AUDITOR'S REPORT
REPORT TO THE MEMBER OF LOMBARD INSURANCE COMPANY LIMITED

We have audited the annual financial statements of Lombard Insurance Company Limited, which comprise the statement of financial position as at 30 June 2011, and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 8 to 75.

Directors' Responsibility for the Financial Statements
The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Lombard Insurance Company Limited as at 30 June 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: C Volschenk
Registered Auditor
Sunninghill
13 October 2011

DIRECTORS' REPORT
for the year ended 30 June 2011

The directors have pleasure in submitting their report, which forms part of the audited annual financial statements of Lombard Insurance Company Limited ("the Company") for the year ended 30 June 2011.

GENERAL REVIEW

The Company underwrites non-life insurance risks, such as those associated with guarantee, liability, motor, and engineering. Most of its business is administered through the use of underwriting managers.

TRADING RESULTS

The state of affairs and results of the Company for the year are fully set out in the statement of comprehensive income on page12.

PROPERTY, PLANT AND EQUIPMENT

The nature of the property, plant and equipment, and use thereof by the Company did not change during the year.

DIVIDENDS

A dividend of R20 000 000 was declared on 27 September 2010 to the shareholders of the Company during the period (2010: R12 115 117).

SHARE CAPITAL

Share capital did not change during the year.

INTEREST IN SUBSIDIARIES AND ASSOCIATES

The following information relates to the Company’s financial interests in its subsidiaries:

Lombard Guarantee Services (Proprietary) Limited (Incorporated in Botswana) – 100%

The following information relates to the Company’s financial interests in its associates:

Umlimi Underwriting (Proprietary) Limited - 25%

INTEREST IN SUBSIDIARIES AND ASSOCIATES (continued)

The activities and details of the interests in subsidiaries and associates are listed in Notes 23 and 24 respectively.

During the year under review, the Company sold the following financial interests in is subsidiaries and associates to Lomvest (Proprietary) Limited at cost:

Financial Management International Limited – 75%
Lombard Trade Finance (Proprietary) Limited – 100%
Leppard and Associates (Proprietary) Limited – 30%
Consort Technical Underwriting Managers (Proprietary) Limited – 20%
HCV Underwriting Managers (Proprietary) Limited – 30%
Deposit Advantage (Proprietary) Limited (formally Cardif Pinnacle Insurance Holdings) – 100%

In terms of IFRS, the Company has elected not to present consolidated financial statements as it is a wholly owned subsidiary of Lomhold (Proprietary) Limited, a company presenting consolidated financial statements.

EVENTS SUBSEQUENT TO STATEMENT OF FINANCIAL POSITION DATE

The directors are not aware of any other matter or circumstance arising since the end of the financial year that would affect the operations of the Company or the results of those operations significantly.

HOLDING COMPANY

The Company is a wholly owned subsidiary of Lomhold (Propriety) Limited. The ultimate holding company is The Hollard Insurance Company Limited.

DIRECTORS AND SECRETARY

Directors of the Company, for the year under review were:

ML Japhet	(Chairman)	
RJ Symmonds	(Managing Director)	
DD Hyde	(Financial Director)	
GJM Carlin		
AH Goldberg		Resigned 23 November 2010
PG Nkadimeng		
P Soko		
TBT Mparutsa		Resigned 23 November 2010
NG Kohler		Resigned 23 November 2010
ADH Enthoven		Appointed 24 November 2010
PJ Orford		Appointed 24 November 2010

The secretary of the Company is PR Hillbrook.

Business address:
Building C, Sunnyside Office Park
2 Carse O'Gowrie Road
Parktown
2193

Postal address:
PO Box 2740
Parklands
2121

LOMBARD INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION
as at 30 June 2011

	Notes	**2011 R'000**	2010 R'000
ASSETS			
Plant and equipment	5	**4 915**	4 874
Intangible assets	6	**19 504**	16 799
Deferred tax asset	7	**5 271**	11 225
Investment in subsidiaries	23	**127**	55 295
Investment in associates	24	**-**	26 254
Financial assets	13		
- available for sale		**204 135**	229 050
- held to maturity		**25 230**	13 736
Reinsurance contracts	8	**148 793**	143 778
Receivables including reinsurance receivables	9	**323 425**	271 505
Cash and cash equivalents	15	**474 286**	113 885
Current income tax assets		**-**	12 202
Total assets		**1 205 686**	898 603
EQUITY			
Capital and reserves			
Share capital and share premium	10	**82 449**	82 449
Non-distributable reserves	11	**119 104**	81 277
Retained income		**140 924**	101 011
Total equity		**342 477**	264 737
Liabilities			
Insurance liabilities	8	**402 616**	380 803
Employee benefits	14	**59 662**	48 334
Trade and other payables	12	**392 564**	204 729
Current income tax liability		**8 367**	-
Total liabilities		**863 209**	633 866
Total equity and liabilities		**1 205 686**	898 603

LOMBARD INSURANCE COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2011

	Notes	**2011 R'000**	2010 R'000
Insurance premium revenue	18	**939 235**	650 878
Insurance premium revenue ceded to reinsurers	18	**(293 044)**	(243 860)
Net insurance premium revenue		**646 191**	407 018
Investment income	17	**22 949**	22 177
Reinsurance commission		**85 684**	63 170
Net realised gains on available for sale financial assets		**1 771**	7 859
Other operating income	19	**13 313**	1 167
Other income		**123 717**	94 373
Insurance claims and loss adjustment expenses	21	**(363 503)**	(209 521)
Insurance claims and loss adjustment expenses recovered	21	**55 684**	58 965
Net insurance claims and loss adjustment expenses		**(307 819)**	(150 556)
Expenses for the acquisition of insurance contracts		**(154 432)**	(69 647)
Expenses for marketing and administration		**(6 676)**	(6 416)
Other operating expenses	22	**(187 006)**	(206 425)
Expenses		**(348 114)**	(282 488)
Results of operating activities		**113 975**	68 347
Income tax expense	16	**(32 489)**	(15 648)
Profit after tax		**81 486**	52 699
Other comprehensive income			
- realised gains on disposal of available for sale financial assets		**(1 771)**	(7 859)
- fair value adjustment on available for sale financial assets		**20 674**	16 083
- tax effect of fair value adjustments of available for sale financial assets		**(2 649)**	(544)
Total comprehensive income		**97 740**	60 379

LOMBARD INSURANCE COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2011

	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non Distributable Reserve	Contingency reserve	Capital reserve	Retained income	Total equity
Balance at 1 July 2009	4 665 497	46	82 403	82 449	23 385	36 591	2 000	72 048	216 473
Total comprehensive income	-	-	-	-	7 680	-	-	52 699	60 379
Transfer from/to contingency reserve	-	-	-		-	11 621	-	(11 621)	-
Dividends paid	-	-	-	-	-	-	-	(12 115)	(12 115)
Balance at 1 July 2010	4 665 497	46	82 403	82 449	31 065	48 212	2 000	101 011	264 737
Total comprehensive income	-	-	-	-	16 254	-	-	81 486	97 740
Transfer from/to contingency reserve	-	-	-	-	-	21 573	-	(21 573)	-
Dividends paid	-	-	-	-	-	-	-	(20 000)	(20 000)
Balance at 30 June 2011	4 665 497	46	82 403	82 449	47 319	69 785	2 000	140 924	342 477

Lombard Insurance Company Limited has the following capital requirements:

Contingency reserve
A reserve in equity is made for the full amount of the contingency reserve as required by the provisions of the Short Term Insurance Act of 1998. The reserve is calculated at 10% of the net premiums written for short-term insurance policies for the past 12 months. The reserve may be utilised only with the written consent of the Registrar of Short-term Insurance. Transfers to and from this reserve are treated as appropriations of retained earnings.

Solvency margin
In terms of the Short Term Insurance Act of 1998, the company is required to maintain a solvency margin of 15% of net premiums written and this is not distributable.

Capital reserve
Refer to note 11.

LOMBARD INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS
for the year ended 30 June 2011

	Notes	2011 R'000	2010 R'000
Cash flow from operating activities			
Cash generated by operations	28.1	**240 300**	54 215
Interest received		**16 414**	13 569
Dividends received		**6 535**	8 608
Taxation paid	28.2	**(8 615)**	(18 324)
Net cash from operating activities		**254 634**	58 068
Cash flow from investing activities			
Proceeds on disposal of financial assets		**33 758**	50 059
Purchase of property, plant and equipment		**(2 098)**	(982)
Investments in financial assets		**(44 637)**	(103 330)
Purchase of intangible assets		**(7 652)**	(10 986)
Decrease/(increase) in investment in subsidiary		**55 168**	(19 898)
Decrease in investment in associate		**26 254**	3 300
Reclassification of financial asset to cash		**64 974**	-
Net cash from investing activities		**125 767**	(81 837)
Cash flow from financing activities			
Dividends paid to the shareholders of the company		**(20 000)**	(12 115)
Net cash from financing activities		**(20 000)**	(12 115)
Net increase/(decrease) in cash and cash equivalents		**109 061**	(35 884)
Net increase in restricted cash		**251 340**	-
Cash and cash equivalents at beginning of year		**113 885**	149 769
Cash and cash equivalents at end of year		**474 286**	113 885

1 GENERAL INFORMATION

The Company underwrites short-term insurance risks within the guarantee, motor, liability and miscellaneous classes. Much of the Company's business is administered through underwriting managers.

These are listed below:

Leppard and Associates (Proprietary) Limited
Consort Technical Underwriting Managers (Proprietary) Limited
HCV Underwriting Managers (Proprietary) Limited
Pinnafrica Underwriting Managers (Proprietary) Limited
Freight Club (Proprietary) Limited
Helm Underwriting Management Services SA (Proprietary) Limited t/a UMS

The Company does business in Sub-Saharan Africa, Australia, Dubai and the United Kingdom.
The Company is a limited liability company incorporated and domiciled in South Africa.

2 ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

2.1 Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). They have been prepared on the historical cost basis, as modified by the revaluation of financial instruments to fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates and judgements by management in the application of accounting policies. The estimates are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2 ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

All amounts in these financial statements are shown in thousands of Rand, rounded to the nearest thousand, unless otherwise stated.

2.2 Amendments and International Financial Reporting Standards effective for the first time for 30 June 2011 year end

The following amendments and International Financial Reporting Standards are mandatory for the Company's accounting period and have been adopted where applicable:

- Amendments to IFRS 2: *Group cash-settled share-based payment transactions - Revised* (effective for annual periods beginning on or after 1 January 2010) – The amendment clarifies the accounting for group cash-settled share-based payment transactions. The entity receiving the goods or services shall measure the share-based payment transaction as equity-settled only when the awards granted are its own equity instruments, or the entity has no obligation to settle the share-based payment transaction. The entity settling a share-based payment transaction when another entity in the group receives the goods or services recognises the transaction as equity-settled only if it is settled in its own equity instruments. In all other cases, the transaction is accounted for as cash-settled.

International Financial Reporting Standards and amendments issued but not yet effective for 30 June 2011 year end.

- IFRS 1: First time adoption on hyperinflation and fixed dates (effective 1 July 2011)
- IFRS 7: Disclosures: Transfer of Financial Assets (effective 1 July 2011)
- IFRS 9: Financial Instruments (effective 1 January 2013)
- IAS 12 (amended): '*Income taxes' on deferred tax* (effective 1 January 2012)
- IAS 24 (amended): *Related party disclosures* (effective 1 January 2011)

2 **ACCOUNTING POLICIES** (continued)

2.3 **Interpretations of International Financial Reporting Standards issued but not yet effective for 30 June 2011 year end.**

- IFRIC 14: Pre-payments of a Minimum Funding Requirement (effective 1 January 2011)
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2011)

2.4 **Consolidation**

The Company holds a 100% interest in Lombard Guarantee Services (Proprietary) Limited (Incorporated in Botswana) and a 25% holding in Umlimi Underwriting (Proprietary) Limited.

The Company accounts for its investment in subsidiaries at cost less provision for impairment. At the reporting date an assessment is made, based on the net asset value or other suitable valuation method, of the relevant subsidiary, if there is any indication that an investment in a subsidiary may be impaired. If such an indication exists, the Company estimates the recoverable amount of the asset to determine the carrying value. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. In terms of IFRS, the Company has elected not to present consolidated financial statements as it is a wholly owned subsidiary of Lomhold (Proprietary) Limited, a company presenting consolidated financials.

2.5 **Insurance contracts**

Classification of insurance contracts
The contracts under which the policyholder has transferred significant insurance risk to the Company are classified as insurance contracts and accounted for as such. The contracts under which the policyholder has not transferred significant insurance risk to the Company are classified as financial instruments.

2 **ACCOUNTING POLICIES** (continued)

2.5 **Insurance contracts** (continued)

Premiums
Premium revenue comprises the premiums on insurance contracts entered into or renewed during the year and is recognised on invoice date. This is usually the same date as the policy inception. Gross premiums are disclosed gross of commission payable to intermediaries. Premiums are earned from the date of attachment of risk, over the period of the contract, based on the time apportionment basis. Gross premiums exclude Value Added Tax.

Acquisition cost
Expenses for the acquisition of insurance contracts represent commission paid and are expensed as incurred in line with premium earned.

Unearned premium provision
The provision for unearned premium comprises the proportion of gross premiums written which relates to the unexpired period and is estimated to be earned in the following or subsequent financial years. It is calculated separately for each insurance contract and is earned on the time apportionment basis.

Claims arising from insurance contracts
Claims incurred in respect of insurance contracts consist of claims and claims handling expenses paid during the financial year, together with the movement in provisions for outstanding claims. Outstanding claims comprise provisions for the estimate of the ultimate cost of settling the claims reported but unpaid at the statement of financial position date together with claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the Company by that date. Anticipated reinsurance recoveries are disclosed separately as reinsurance assets. The Company has appointed a number of administrators who assess claims on an individual basis, upon notification of a potential claim. Claim provisions are raised based on these assessments. Provision for incurred but not reported (IBNR) claims is determined based on a set percentage of net earned premiums.

2 ACCOUNTING POLICIES (continued)

2.5 Insurance contracts (continued)

Receivables and payables related to insurance contracts
Receivables and payables are recognised when due. These include amounts to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount accordingly and recognises the impairment loss in the statement of comprehensive income. The Company gathers the objective evidence that an insurance receivable is impaired by means of constant analysis of the financial position of the debtor.

Reinsurance contracts
Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet the classification requirements are classified as financial instruments.

The benefits to which the Company is entitled to under its reinsurance contracts held are recognised as assets. These assets consist of short-term balances due from reinsurers on settled claims as well as receivables that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily payable for reinsurance contracts and are recognised as an expense when incurred.

The Company assesses its reinsurance assets for impairment on a quarterly basis. If there is any objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the statement of comprehensive income. Reinsurance contracts are renewed annually and an analysis of the Company’s reinsurance requirements are done together with evaluations of each individual reinsurer with whom the Company intends entering a reinsurance contract.

Reinsurance commission received on premiums ceded to reinsurers is recognised on the time apportionment basis, in line with the premiums to which it relates. For this purpose a deferred revenue liability is created.

2 **ACCOUNTING POLICIES** (continued)

2.5 **Insurance contracts** (continued)

Liability adequacy test
At statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to profit and loss.

2.6 **Plant and equipment**

Furniture, equipment, aircrafts and motor vehicles are stated at cost less accumulated depreciation. Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Vehicles	5 years
Office furniture	10 years
Computer equipment	3 years
Aircraft	4 years

The assets' residual values and useful lives are reviewed at each statement of financial position date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Refer to accounting policy 2.8 detailing the impairment of assets.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of comprehensive income in other operating income. When revalued assets are sold, the amounts included in the revaluation surplus are transferred to other comprehensive income.

2 ACCOUNTING POLICIES (continued)

2.7 Intangible assets

i) **Computer software**

Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will probably generate future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Direct costs include the external software development team's costs. Computer software acquired as part of the software development project is capitalised on the basis of the acquisition costs and related costs to bring it to use. All development costs not meeting the recognition criteria and costs for maintaining computer software programs are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised, from the date the asset is brought into use, using the straight-line method over their useful lives, not exceeding a period of 5 years. The useful lives of the assets are reviewed at each statement of financial position date and adjusted if appropriate.

Computer software is tested for impairment annually by comparing its carrying amount with its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use (which is defined as the present value of the future cash flows expected to be derived from an asset). An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

2 **ACCOUNTING POLICIES** (continued)

2.7 **Intangible assets** (continued)

ii) **Deferred acquisition cost (DAC)**

Commission and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible DAC asset. All other costs are recognised as expenses when incurred. The DAC asset is subsequently amortised over the life of the contract in relation to the earning of premium.

2.8 **Impairment of assets**

Assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the statement of comprehensive income for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.9 **Financial assets**

The Company classifies its financial assets in the following categories: financial assets available for sale, financial assets held-to-maturity, loans and receivables and cash and cash equivalents. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets in which there is evidence of short term profit-taking, or if so designated by management in terms of the Company's long-term investment strategy.

2 **ACCOUNTING POLICIES** (continued)

2.9 **Financial assets** (continued)

For financial assets carried at fair value the allocation of fair value measurements into the fair value hierarchy is reflective of the significant inputs used in making the measurements. The fair value hierarchy is based on the following levels:

Level 1 - Where inputs are determined directly by reference to published price quotations (unadjusted) in an active market for identical assets.
Level 2 - Where inputs other than published price quotations included in level 1 that are observable for assets, either directly (i.e. as prices) or indirectly (i.e. derived from prices) are used.
Level 3 - Where the fair values are determined using a valuation technique based on assumptions that are not supported by observable market data.

i**)** **Financial assets available for sale**
Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale, and are included in non-current assets unless management has the express intention of holding the investment for less than twelve months from the statement of financial position date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair value. Unrealised losses and gains arising from changes in the fair value of securities classified as available-for-sale are recognised in equity.

The fair values of listed investments are calculated by reference to Stock Exchange bid prices at the close of business on the statement of financial position date and unlisted investments at director's valuation based on amounts derived from cash flow models. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statement of comprehensive income as gains or losses from investment securities. Decreases that offset previous increases of the same investment are charged against the available for sale reserve in equity. Decreases in excess of previous increases on available-for-sale investments are recognised in the statement of comprehensive income.

2 ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

ii) **Financial assets held-to-maturity**

Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within twelve months from the statement of financial position date, which are classified as current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset. Cost of purchase includes transaction costs. Held-to-maturity investments are carried at amortised cost using the effective yield method.

iii) **Loans and receivables**

Loans and receivables, including insurance receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at cost, which is the fair value of the consideration given. Subsequently receivables are measured at amortised cost. Impairment is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off in the statement of comprehensive income during the year as they are identified.

iv) **Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Cash and cash equivalents includes restricted cash which is cash held on behalf of third parties.

2.10 Investment income

i) **Interest income**

Interest income from financial assets is recognised using the effective interest rate method.

ii) **Dividend income**

Dividend income from financial assets is recognised on the last day to register.

2 ACCOUNTING POLICIES (continued)

2.11 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of income tax.

2.12 Foreign currency translation

i) **Functional and presentation currency**
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency) being the South African Rand.

ii) **Transactions and balances**
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.13 Employee benefits

i) **Provident fund**
The Company operates a defined contribution provident fund. Once the contributions have been paid, the Company has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

ii) **Profit-sharing and bonus plans**
The Company recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders.

iii) **Short-term employee benefits**
The provision for employee entitlement to annual leave represents the amount which the Company has a present obligation to pay, as a result of employee's services provided up to the statement of financial position date. The provision has been calculated at undiscounted amounts based on current salary rates.

2 ACCOUNTING POLICIES (continued)

2.14 Income taxes

Income tax for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except where it relates to items recognised directly in equity, in which case the related income tax is also recognised in equity.

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using tax rates enacted at the statement of financial position date.

Secondary Tax on Companies (STC) is charged to the statement of comprehensive income when the related dividend is declared. Unused STC credits are recognised as a deferred tax asset, when it is probable that they will be realised.

2.15 Trade payables

Trade payables are initially recognised at cost, which is the fair value of the consideration received after taking into account transaction costs and subsequently measured at amortised cost.

2.16 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

2.17 Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the annual financial statements. Deferred tax assets and liabilities are not discounted. If the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 ACCOUNTING POLICIES (continued)

2.17 Deferred tax (continued)

Deferred tax is provided on temporary differences arising on investment in subsidiary, except where the Company controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Offsetting Financial Instruments

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

2.19 Other Operating Income

Other operating income comprises those items of income that are derived other than from the concluding of insurance contracts but excludes investment income.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparing financial statements in accordance with IFRS requires that management make use of estimates, assumptions and judgements that affect the application of the accounting principles and reported amounts of assets, liabilities and contingent liabilities at the statement of financial position date as well as the reported income and expenses for the year. 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. Although estimates are based on management’s best knowledge, experience, insight and judgement of current facts at the statement of financial position date, the actual outcome may deviate from these estimates, possibly significantly.

3.1 Insurance liabilities under short term insurance contracts

The estimation of provision for outstanding claims is the most critical accounting estimate. The estimates for reported and unreported losses are continually reviewed and updated and adjustments are reflected in income. The estimates are based on maximum probable losses payable on claims which are likely to be paid.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK

4.1 Risk Management Framework

Risk management is an on-going exercise involving both senior management and is the ultimate responsibility of the Board of Directors. The Risk Management Strategy (RMS) provides stakeholders in the Company with a framework to understand, evaluate, analyse and manage the on-going risk applicable to the Company's operation.

The Company's RMS reflects its position as an underwriter of low frequency, high severity commercial credit and surety insurance lines and that of high frequency, low severity on the more general insurance lines. As the business grows so the RMS will evolve and continue to be revised to reflect the changing nature of the portfolio.

Senior management is responsible for identifying material risks before or as they emerge. The Company employs the services of an independent Risk Officer to assist the Managing Director and the Board to identify and monitor risk. The Group holds quarterly risk management meetings, chaired by a non-executive Director, coordinated by the Managing Director involving the senior management team to review our risk profile.

The Managing Director, Managers of the Divisions and the Risk Officer are responsible for the evaluation of emerging risks and for providing appropriate recommendation and implementation of required action, and where required, amendment of the RMS.

The Managing Director advises the Board of any changes to the RMS. The Board is responsible for approving RMS changes and reviews the RMS on at least an annual basis. Management has identified what it considers to be some of the more significant exposures to risk and regular reports on these risks are presented to the Board.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.1 Risk Management Framework (continued)

The Company has identified the need to establish a comprehensive enterprise risk management framework that is designed to identify, assess, measure and manage exposure to risk. Its primary objective is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities.

The following elements of the Company's risk management framework include:

- The Board's responsibility for risk management and their opinion on the effectiveness of the process
- The risk strategy, key principles and policy for the overall management and governance of enterprise risk management including roles, responsibilities and reporting structures.
- The approach followed to build an enterprise view of the risks faced by the Company.

4.2 Terms and conditions of contracts

The Company issues two distinct types of insurance contracts. The first type of contract is a guarantee policy, wherein the Company undertakes to guarantee to a beneficiary the performance of a specific contract in terms of an agreement. This is in the form of monetary compensation in the event of failure to deliver in terms of the contract, but the contract may have the option to make specific delivery. Two types of cover are offered in this regard, construction performance, mining rehabilitation and related bonds, and financial or payment bonds.

The other type of policy issued is in the form of trade credit insurance for policyholders who provide goods or services on credit to commercial undertakings. Under this policy the Company undertakes to indemnify the policyholder for loss of collection on debtors that default on payment.

In both of these types of contract, the event trigger for a claim is the financial failure of the business undertaking to which the contract relates. For as long as the business is financially solvent, it is in a position to make specific performance, and the policyholder is not entitled to claim under the terms of the contract.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.2 Terms and conditions of contracts (continued)

The Company underwrites several other classes of insurance, through partnership agreements with Underwriting Management Agencies ("UMA"). These include professional indemnity cover motor vehicle and related cover and contractor's all risk cover in the engineering sector. In terms of the partnership agreements the UMA's are entitled to an administration fee and a percentage profit share in return for underwriting and policy administration services.

4.3 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.3 Insurance risk (continued)

Events giving rise to a claim usually occurs with the insolvency and liquidation of the contractor, freight forwarder/importer or buyer, which results in the inability to perform in terms of the contract or obligation. The claim or default will be notified to the Company in terms of the specific policy conditions.

The Company's business can be classified as short to medium-term business, due to the fact that the Company may only be notified of a claim from six months or longer after the Company has accepted the risk. The average period of a guarantee is generally eighteen months. Trade credit limits are issued for outstanding debtors of up to three months.

Credit, surety and other insurance risks

(a) **Frequency and severity of claims**
The frequency and severity of claims can be affected by several factors. The most significant are the size of the market in which the Company does business and the size of the contracts or debtors. By increasing penetration of the market, newer and smaller clients are covered, which could result in more frequency of claims, and by covering larger risks for established clients, the severity could increase. Other factors influencing frequency and severity of claims include: economy (high interest rates lead to higher insolvencies, high inflation leads to increased costs, a slowing of the economy generally results in lower sales and poor financial results), competition (resulting in price cutting without the relevant decrease in costs) and resources (both in the form of skilled labour and materials to complete contracts). The nature of claims and the longer tail of business make the calculation of liabilities a critical element in the credit and surety insurer's accounting records.

The Company manages these risks through its underwriting strategy, reinsurance arrangements and proactive claims handling. Limits are set according to mandates approved by the Board, as recommended by management. The mandate sets out how many underwriters must authorise the cover limit. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and that alternative loss mitigation processes are employed.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

Credit, surety and other insurance risks (continued)

(a) **Frequency and severity of claims** (continued)

Underwriting limits are in place to enforce proper segregation of authority by delegating authority in accordance with seniority and experience of staff and following risk selection criteria. These limits are set after analysis of the financial statements of a prospective client and assessing the financial strength and operational capacity relative to the level of cover sought according to predefined criteria. The prospective client must be solvent and there must be sufficient motivation that they will be able to be profitable in the future. Reviews are performed at least annually. Where a deterioration of the client's financial position is discovered, more regular reviews are performed, and if necessary the facility is suspended.
In accordance with the terms of the credit insurance policy, when "catastrophe" cover is bought, deductibles are imposed in the form of an excess. The Company has the right to reject certain risks and relies on the interpretation of the law when assessing the legitimacy of a claim. Insurance contracts also entitle the Company to pursue third parties for recovery of some or all costs incurred in settling a claim. Furthermore, the Company's strategy limits the total exposure to any one client according to limits and sub-limits in accordance with financial substance of the client. The Company also has reinsurance quota share and excess of loss agreements in place to manage the net exposure in relation to its own equity capital reinsurance arrangements are reviewed annually and put in place after extensive analysis of the Company's capital requirements through the use of dynamic financial analysis, and internal models calculating the most probable loss situation. The excess of loss treaties limit the Company's net exposure in the case of large losses in order to protect shareholders' equity. In addition to this, the Company, during the year under review, had a parental guarantee in place of R 50 million to further protect its net account. Only reinsurers with a rating of A- or higher are participants in the treaties. Currently 65% of the credit and surety risk goes to treaty participants with an A+ rating. By spreading the ceded risk across several reinsurers, the risk of failure to recover from reinsurance agreements is reduced.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

Credit, surety and other insurance risks (continued)

(a) **Frequency and severity of claims** (continued)

	Reinsurer surety risk ceded %	**Credit Rating**
Reinsurer		
Munich Re	25	AA
Swiss Re	15	A+
SCOR	10	A
Hannover Re Africa	6	A+
Hannover Re Germany	6	A+
Atradius	9	A-
National Borg	5	A-
R & V Re	9	A+
Ariel	8	A
Axis	5	A
Flagstone	3	A-

The Company has developed expertise in claims handling. Engineers, quantity surveyors and lawyers are employed to ensure that contracts are professionally assessed and monitored during potential claim stages, and that any claims are made in strict accordance with the legal intent of the contract. This results in proactively mitigating loss by ensuring adequate resources are deployed to minimise claim settlements and in post-loss recovery maximisation.

The majority of insurance risk is concentrated in Southern Africa, with only pre-approved countries outside of South Africa being underwritten. Only clients with a South African base/head office are covered in outside territories, and the client's South African holding company stands surety for foreign subsidiaries.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

Credit, surety and other insurance risks (continued)

(a) Frequency and severity of claims (continued)

By being a niche player, the Company is exposed to higher concentrations of risk. However, this risk is managed by following underwriting guidelines to limit the extent of exposure to any one debtor / company or industry. Past experience indicates that the larger risk exposures are generally more robust businesses and should have a lower probability of failure. The highest concentrations of exposure are in the construction and retail sectors. This risk is mitigated through careful selection of clients and the business they are in.

Risk to any one company is limited across all products, and is set according to internal limits and reinsurance agreements. Where limits in excess of these arrangements are required, the Company enters into facultative agreements with its panel of reinsurers.

Exposures are currently in the following industry sectors:

Industry Sector	% Exposure
Construction	17
Freight	2
Manufacturing and retail	21
Engineering	38
Mining	1
Motor	15
Marine	1
Liability	4
Total	100

The Company would consider that its most significant exposure would arise in the event of substantial bank rate increases. Highly geared companies are therefore identified, managed and monitored throughout financial periods.

There is limited scope to change premium rates on most of the guarantee business. Exposure to unexpected changes in trends can only be addressed at renewal, although credit insurance policies have a 30 day notice period. Policies issued for the term of a contract have a fixed premium rate.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

Credit, surety and other insurance risks (continued)

(b) Sources of uncertainty in the estimation of future claim payments

Claims on credit and surety contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract. However, termination of surety contracts is usually on the completion of the project. Due to surety contracts usually being issued for extended periods of time and for the liabilities of a third party, the claims are generally settled over a long period of time and consequently a larger element of the claims provision relates to incurred but not reported claims (IBNR).

There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of surety bonds, such as the prolonged duration of contracts, their complexity, the salvage prospects, and the loss mitigation measures adopted by the Company in delivering in terms of the guarantee.

The estimated costs of the claims include direct expenses (mainly legal and professional) to be incurred in settling claims. Recoveries are only accounted for when received, and are not provided for in the estimation. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures, by attending meetings with the relevant parties and employing the services of experts in quantifying the expected losses. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for all contracts comprises a provision for IBNR, a provision for reported claims not yet paid, and a provision for unexpired risks at the statement of financial position date.

In calculating the estimated cost of unpaid claims that have been reported, the Company provides for the most likely cost of settling the claim against the default reported after considering all the facts and circumstances on hand, and provides for them on a case-by-case basis. Although the Company does utilise the services of attorneys in some of its claim settlement negotiation, there are no significant litigation or legislative risks. The IBNR estimation is subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until sometime after the event that gave rise to the claim has occurred. Provision for incurred but not reported (IBNR) claims is determined based on a set percentage of net earned premiums.

4 **MANAGEMENT OF INSURANCE AND FINANCIAL RISK** (continued)

Credit, surety and other insurance risks (continued)

(b) **Sources of uncertainty in the estimation of future claim payments** (continued)

The provision has been compared with the recommendations included in the future Solvency Assessment and Management ("SAM") Regulation. At this stage no adjustments have been made in the financial statements in terms of SAM.

(c) **Retrocession insurance risks**

From time to time the Company accepts reinsurance inwards from other insurance companies. Usually this applies to types of risks that we would cover ourselves on a direct basis, namely credit and surety business, or business relating to this type of insurance. In addition, the company has concluded agreements to accept the reinsurance inwards of certain auto-protect warranty policies underwritten in the United Kingdom and Europe.

4.4 **Financial risk**

The Company's activities expose it to a variety of financial risks, including the effects of changes in debt and equity markets, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

The Company does not engage in any derivative dealings, but manages foreign currency accounts in terms of approval from the South African Reserve Bank to support foreign insurance liabilities and invests excess liquidity in fixed interest rate instruments.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

The following tables reconcile the statement of financial position to the classes and portfolio's used in the Company's risk management framework:

	2011 R'000	2010 R'000
Financial and insurance assets		
Equity securities		
Available for sale		
- Listed securities	**78 565**	140 260
- Unlisted securities	**93 137**	62 790
Debt instruments		
Available for sale		
- Unlisted debt instruments	**32 433**	26 000
Held to maturity		
- Unlisted debt instruments	**25 230**	13 736
Receivables due from contract holders	**144 526**	89 339
Reinsurance receivables	**-**	90 797
Other loans and receivables	**178 899**	91 369
Reinsurance assets	**148 793**	143 778
Cash and cash equivalents	**474 286**	113 885
Total financial and insurance assets	**1 175 869**	771 954
Short term insurance contracts	**402 616**	380 803
Trade and other payables	**392 564**	204 729
Total financial and insurance liabilities	**795 180**	585 532

In the current year, R112 658 000 Reinsurance receivable has been reclassified and netted off against the payable under reinsurance contracts as disclosed in note 12. This is to ensure that the reinsurance payable is disclosed on a net basis.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

	Level 1	Level 2	Level 3	Total
2011				
Listed - ordinary shares	**63 706**	**-**	**-**	**63 706**
Listed - preference shares	**14 859**	**-**	**-**	**14 859**
Unlisted - ordinary shares	**-**	**93 136**	**-**	**93 136**
Unlisted - preference shares	**-**	**10 000**	**22 433**	**32 433**
	78 565	**103 136**	**22 433**	**204 134**
2010				
Listed - ordinary shares	140 260	-	-	140 260
Listed - preference shares	-	-	-	-
Unlisted - ordinary shares	-	59 534	3 256	62 790
Unlisted - preference shares	-	10 000	16 000	26 000
	140 260	69 534	19 256	229 050

Level 3 Fair value reconciliation

Opening balance	19 256
Purchases	3 177
Closing balance	22 433

4.4.1 Credit risk

Concentrations of credit risk with respect to amounts due from agents are limited due to the Company's large number of customers, who are dispersed throughout Southern Africa and have a variety of principals and end markets in which they operate. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Company's trade receivables. The aggregate exposure to credit risk is R472 218 million (2010: R418 283 million). Only reinsurers with at least an A- rating are used to participate on treaties, thereby reducing the credit risk exposure.

4 **MANAGEMENT OF INSURANCE AND FINANCIAL RISK** (continued)

4.4 **Financial risk** (continued)

4.4.1 **Credit risk** (continued)

The Company is exposed to credit risk in the following areas:

- investments and cash
- amounts due from contract holders
- amounts due from intermediaries
- amounts due from reinsurers

4 **MANAGEMENT OF INSURANCE AND FINANCIAL RISK** (continued)

4.4 **Financial risk** (continued)

4.4.1 **Credit risk** (continued)

The following table provides information with regards the Company's aggregated credit risk exposure for financial assets with external credit ratings as at 30 June 2011:

	A-	AA-	A+	AA	AA+	AAA	Not rated	Total
2011								
Debt instruments								
Available for sale								
- Unlisted debt instruments			**10 000**				**22 433**	**32 433**
Held to maturity								
- Unlisted debt instruments							**25 230**	**25 230**
Receivables due from contract holders							**144 526**	**144 526**
Other loans and receivables							**178 899**	**178 899**
Cash and cash equivalents		**124 950**		**174 660**	**49 324**	**125 255**	**97**	**474 286**

4 **MANAGEMENT OF INSURANCE AND FINANCIAL RISK** (continued)

4.4 **Financial risk** (continued)

4.4.1 **Credit risk** (continued)

	A-	AA-	A+	AA	AA+	AAA	Not rated	Total
2010								
Debt instruments								
Available for sale								
- Unlisted debt instruments				10 000			16 000	26 000
Held to maturity								
- Unlisted debt instruments		443	892	7 056	5 034		311	13 736
Receivables due from contract holders							89 339	89 339
Reinsurance receivables							90 797	90 797
Other loans and receivables							91 369	91 369
Cash and cash equivalents		15 130		71 166	27 351		238	113 885

The Company has no other significant concentrations of credit risk, other than policies issued in the normal course of business. These are managed in terms of strict mandates as negotiated with reinsurance programmes.

4 **MANAGEMENT OF INSURANCE AND FINANCIAL RISK** (continued)

4.4 **Financial risk** (continued)

4.4.1 **Credit risk** (continued)

Impairment history

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired.

	Neither past due nor impaired	Past due but not impaired				Impaired assets	Impairment	Carrying value
		30 days	60 days	90 days	120 days			
As at 30 June 2011								
Receivables due from contract holders	**35 105**	**39 693**	**14 841**	**22 223**	**32 664**	**3 036**	**(3 036)**	**144 526**
Reinsurance receivables	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other loans and receivables	**178 899**	**-**	**-**	**-**	**-**	**-**	**-**	**178 899**
Total	**214 004**	**39 693**	**14 841**	**22 223**	**32 664**	**3 036**	**(3 036)**	**323 425**

4 **MANAGEMENT OF INSURANCE AND FINANCIAL RISK** (continued)

4.4 **Financial risk** (continued)

4.4.1 **Credit risk** (continued)

Impairment history (continued)

	Neither past due nor impaired	Past due but not impaired				Impaired assets	Impairment	Carrying value
		30 days	60 days	90 days	120 days			
As at 30 June 2010								
Receivables due from contract holders	29 720	39 643	5 564	6 652	7 760	3 263	(3 263)	89 339
Reinsurance receivables	90 797	-	-	-	-	-	-	90 797
Other loans and receivables	91 369	-	-	-	-	-	-	91 369
Total	211 886	39 643	5 564	6 652	7 760	3 263	(3 263)	271 505

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.2 Foreign exchange risk

Certain foreign insurance exposures are capped at the ruling exchange rate at the time of issuing the policy, and all foreign policies are reinsured in the same currency in which they are underwritten.

The following tables provide information on the Company's financial assets and liabilities denominated in foreign currencies as at 30 June 2011:

	USD	EURO	GBP	BWP	NAD	Other	Total ZAR
As at 30 June 2011							
Receivables due from contract holders	**471**	**1 520**	**-**	**1 576**	**1 203**	**868**	**5 638**
Cash and cash equivalents	**224**	**3**	**761**	**-**	**-**	**-**	**988**
Total	**695**	**1 523**	**761**	**1 576**	**1 203**	**868**	**6 626**
Exchange rates	**6.83**	**9.81**	**10.94**	**1.04**	**1.00**		

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.2 Foreign exchange risk (continued)

	USD	EURO	GBP	BWP	NAD	Other	Total ZAR
As at 30 June 2010							
Receivables due from contract holders	-	-	-	-	-	-	-
Cash and cash equivalents	65	69	-	160	-	-	2 987
Total	65	69	-	160	-	-	2 987
Exchange rates	7.65	9.34	11.49	1.06	1.00		

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.2 Foreign exchange risk (continued)

In order to produce a sensitivity analysis on foreign exchange fluctuations, a 10% movement either way was applied based on the assumption that currency markets would remain relatively stable. A 10% increase or decrease in exchange rates would have the following effect on the Company's financial assets:

	2011 **R'000**	2010 R'000
10% Increase	**99**	298
10% Decrease	**(99)**	(298)

4.4.3 Asset / liability management

A distinction is drawn between insurance and shareholders' funds and the following strategies adopted for each:

The investment philosophy pertaining to policyholder funds is driven by liquidity considerations and an emphasis on capital preservation. Funds are predominantly invested in cash and fixed interest bearing investments. Shareholder funds are invested in a broader spread of investments, including equities, reflecting the more stable nature of the fund pool and the need for strong, long-term returns while maintaining operational capacity at all times. The extent of investment in equities is expressed as a ratio of shareholder's funds as determined by the Board from time to time, taking into consideration solvency issues and shareholder expectations.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.4 Interest rate risk

The Company's income and operating cash flows are dependent on changes in market interest rates due to the significant cash or near cash investments. The Company policy is to maintain 35% of cash or near cash investments in fixed interest rate instruments. The balance of the investment portfolio is held in listed equities and managed by independent investment portfolio managers. The Company does not have any borrowings due to the fact that most of the Group's debt securities are in fixed rate financial instruments, as such; the Group's exposure to interest rate risk is nominal.

A 1% increase or decrease in interest rates would have the following result on the Company's income (based on the average effective interest rate of 8.50% (2010: 10, 00%) received during the year under review):

	2011	2010
	R'000	R'000
1% Increase	**93**	1 318
1% Decrease	**(93)**	(1 318)

Insurance contracts are not directly sensitive to the level of market interest rates, as they are for fixed limits. The Company has matched the insurance liabilities with a portfolio of cash and fixed interest bearing investments.

The Company is exposed to price risk on its equity and debt security portfolios. To minimise this risk these portfolios are managed by investment managers in terms of strict mandates. The terms of these mandates would include the need for significant diversification across companies and industries within the equity portfolios.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.4 Interest rate risk (continued)

Assuming equity markets remain relatively stable, the following table illustrates the effects of price changes on the equity portfolio:

	2011 R'000	2010 R'000
Fair value of listed equities	**78 565**	140 260
10% Increase	**86 422**	154 286
10% Decrease	**(70 709)**	(126 234)

4.4.5 Assumption risk

There is a risk that the assumptions used in deriving premium rates could be incorrect, thereby resulting in either over-priced or under-priced products. The Company does not, however, have much control over the price of its products due to competitive market forces. To minimise this risk, full underwriting is performed for each client before policies are issued. In this way the risk of assuming risk that is higher than the expected loss is reduced, as the most probable loss is calculated on each client. Rather than "price" high-risk cover at higher rates, higher than acceptable risk cover is declined. Where the risk is calculated as being higher than normal, collateral or security is taken in order to increase any potential recovery.

4.4.6 Expense risk

Expense risk is the risk that the actual expenses are greater than expected. Factors impacting this risk could be a stagnation or reduction in new business volumes (making it difficult to cover fixed expenses), or an unexpected sudden increase in expenses. This risk is managed through the budgeting process, by monitoring costs by division and the implementation of efficiency strategies when required.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.7 Legal risk

The contracts written by the Company do involve a significant "legal" content, as each contract is specifically entered into to suit the client's requirements. Each of the types of guarantees issued is based on a set structure for the terms and conditions, which have been drafted by lawyers and tested by the courts over the years. To provide for any possible risk that a dispute may arise resulting in court ruling against the Company, all reported claims are provided for at best estimate.

4.4.8 Reputation risk

Although the Company has maintained a low profile in the market place, any negative publicity could have a serious impact on business. To manage this risk the Company has developed a strong culture for openness, honesty and integrity. In all its dealings with clients the Company strives to resolve disputes according to what is considered fair and correct in law. For this purpose the services of engineering and legal professionals are used in high value claims.

The Company is also a member of relevant industry forums and actively attends meetings and interest groups to ensure that it is kept up to date with current developments in the market it serves. It also plays a part in discussion on future industry regulation and market initiatives.

4.4.9 Liquidity risk

The Company is exposed to daily calls on its available cash resources mainly from claims arising from short-term contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. Due to the unforeseen nature of claim payment requirements, the Company keeps at least 35% of its investments in cash or near cash instruments. Cash flow forecasts are prepared annually and updated monthly to ensure that adequate resources are available to meet all obligations.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.10 Product and pricing risk

The competition in the credit market is very strong with the result that prices quoted are in a narrow range and determined by market forces. The Company has tried to develop alternative products that do not compete directly in this market and thereby reduce competitive pricing. Each policyholder is assessed and depending on its own risk management systems in operation, a price is negotiated. The debtors covered by the policy are underwritten to establish whether they are acceptable risks, and if so, are issued with limits in accordance with the policyholders' requirements and the Group's appetite for the level of exposure.

The surety business individually underwrites each risk and depending on the assessment, a rate is quoted. The major banks in South Africa are the main competitors in this market and so the price is always influenced by what rates the banks charge, which provides some assurance of independent risk assessment and price determination.

In all cases, rather than increase the rates to cover higher than normal risks, cover is usually declined for unacceptably high risk exposures.

4.4.11 Operational risk

In line with pending changes to regulation in the insurance industry, the Company is currently reviewing its approach to managing and reporting on operational risk. System based risk registers have been implemented in each of the divisions and partners, in order to record, monitor and report on identified risks and their respective controls. These registers form the basis of managing the operational risk in the company, and a project is currently under way to ensure adequate documentation of all policies and procedures for internal control management are in place.

Ultimately the Board is responsible for ensuring that there is an effective risk management function that addresses all known risks in the company. An enterprise risk management framework has been developed that sets out the manner in which risks are managed and the reporting requirements. A Solvency Assessment and Management ("SAM") Committee has been formed in addition to the Risk Committee, to specifically monitor progress on the SAM project.

4 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.11 Operational risk (continued)

The Risk Committee presents a quarterly report to the Audit Committee and Board, which includes the key risks identified in the company. This process will continue to be developed to meet the changing environment both from a risk perspective as well as regulatory requirements and best practice.

4.4.12 Capital management

The Group's objectives when managing capital are:

- to comply with the insurance capital requirements by the regulators of the insurance markets, the Financial Services Board. The Company does not maintain a minimum threshold above the regulatory requirements, but does ensure that the capital is always adequate to write business in the Republic of South Africa,

- to safeguard the Company's ability to continue as a going concern so that it can provide returns for shareholders and benefits for the other stakeholders, and

- to provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

	Furniture and equipment R'000	Vehicles R'000	Total R'000
5 PLANT AND EQUIPMENT			
As at 30 June 2011			
Cost	**10 969**	**366**	**11 335**
Accumulated depreciation	**(6 174)**	**(246)**	**(6 420)**
	4 795	**120**	**4 915**
Year ended 30 June 2011			
Opening net book value	**4 689**	**185**	**4 874**
Additions	**2 098**	**-**	**2 098**
Depreciation charge	**(1 992)**	**(65)**	**(2 057)**
Closing net book value	**4 795**	**120**	**4 915**
At 30 June 2010			
Cost	8 874	365	9 239
Accumulated depreciation	(4 185)	(180)	(4 365)
	4 689	185	4 874
Year ended 30 June 2010			
Opening net book value	5 407	251	5 658
Additions	982	-	982
Depreciation charge	(1 700)	(66)	(1 766)
Closing net book value	4 689	185	4 874

Depreciation expense has been included in Other Operating Expenses (Refer to note 22).

6 **INTANGIBLE ASSETS**

	Computer software R'000	Total R'000
As at 30 June 2011		
Cost	**28 403**	**28 403**
Accumulated amortisation	**(8 899)**	**(8 899)**
	19 504	**19 504**
Year ended 30 June 2011		
Opening book value	**16 799**	**16 799**
Additions	**7 652**	**7 652**
Amortisation expense	**(4 947)**	**(4 947)**
Closing net book value	**19 504**	**19 504**
As at 30 June 2010		
Cost	20 752	20 752
Accumulated amortisation	(3 953)	(3 953)
	16 799	16 799
Year ended 30 June 2010		
Opening book value	8 813	8 813
Additions	10 986	10 986
Amortisation expense	(3 000)	(3 000)
Closing net book value	16 799	16 799

Amortisation expense has been included in Other Operating Expenses (Refer to Note 22).

	2011 R'000	2010 R'000
7 DEFERRED TAXATION		
Deferred tax assets		
- Provisions	**11 617**	15 042
- STC Credits	**654**	869
Deferred tax asset at year end	**12 271**	15 911
Deferred tax liabilities		
- Unrealised gains on investments	**(7 000)**	(4 351)
- Prepaid expenses	**-**	(335)
Deferred tax liability at year end	**(7 000)**	(4 686)
Total net deferred tax account	**5 271**	11 225

The total movement on the net deferred account is as follows:

Opening balance	**11 225**	8 011
Charged to statement of comprehensive income	**(3 305)**	3 758
Charged to other comprehensive income	**(2 649)**	(544)
Closing balance	**5 271**	11 225

7 DEFERRED TAXATION (continued)

The movement in the deferred tax assets and liabilities during the year is as follows:

Company

(a) *Deferred tax assets*

	Provisions	STC Credits	Total
At 1 July 2010	15 042	869	15 911
Charged to the statement of comprehensive income	(3 425)	(215)	(3 640)
At 30 June 2011	11 617	654	12 271

(b) *Deferred tax liabilities*

	Unrealised gains on investments	Prepaid expenses	Total
At 1 July 2010	(4 351)	(335)	(4 686)
Charged to the statement of comprehensive income	-	335	335
Charged to other comprehensive income	(2 649)	-	(2 649)
At 30 June 2011	(7 000)	-	(7 000)

8 INSURANCE LIABILITIES AND REINSURANCE CONTRACTS

	2011 R'000	2010 R'000
Gross		
Outstanding claims	**162 631**	170 207
Claims incurred but not reported	**67 371**	75 836
Unearned premiums	**172 614**	134 760
Total insurance liabilities	**402 616**	380 803
Recoverable from reinsurers		
Outstanding claims reported	**46 965**	69 306
Claims incurred but not reported	**23 460**	31 812
Unearned premiums	**78 368**	42 660
Total reinsurer's share of insurance liabilities	**148 793**	143 778
Net		
Outstanding claims	**115 666**	100 901
Claims incurred but nor reported	**43 911**	44 024
Unearned premiums	**94 246**	92 100
Total net insurance liabilities	**253 823**	237 025

All of the above insurance liabilities and reinsurance contracts are current.

8 INSURANCE LIABILITIES AND REINSURANCE CONTRACTS (continued)

Analysis of movement in Outstanding Claims and IBNR

	Gross R'000	Reinsured R'000	Net R'000
Company			
2011			
Balance at beginning of period			
- Outstanding claims	**170 207**	**69 306**	**100 901**
- Incurred but not reported	**75 836**	**31 812**	**44 024**
	246 043	**101 118**	**144 925**
Claims paid during the year	**(357 709)**	**(64 546)**	**(293 163)**
Increase in outstanding claim provision	**339 391**	**36 242**	**303 149**
Increase/(decrease) in incurred but not reported provision	**2 277**	**(2 389)**	**4 666**
	230 002	**70 425**	**159 577**
2010			
Balance at beginning of period			
- Outstanding claims	170 014	70 249	99 765
- Incurred but not reported	59 321	26 697	32 624
	229 335	96 946	132 389
Claims paid during the year	(192 813)	54 793	(247 606)
Increase/(decrease) in outstanding claim provision	193 006	(55 736)	248 742
Increase in incurred but not reported provision	16 515	5 115	11 400
	246 043	101 118	144 925

9 RECEIVABLES INCLUDING REINSURANCE RECEIVABLES

	2011 **R'000**	2010 R'000
Receivables arising from insurance contracts		
- due from agents, brokers and intermediaries	**147 562**	92 602
- impairment provision	**(3 036)**	(3 263)
- due from reinsurers	**-**	90 797
Other receivables		
- sundry debtors	**47 415**	91 369
- related party debtors	**131 484**	-
Total receivables including reinsurance receivables	**323 425**	271 505

All the above receivables are current and the carrying value approximates fair value.

In the prior year, sundry debtors included related party debtors of R60 151 000.

In the current year, R112 658 000 receivables due from reinsurers has been reclassified and netted off against the payable under reinsurance contracts as disclosed in note 12. This is to ensure that the reinsurance payable is disclosed on a net basis.

10 SHARE CAPITAL AND SHARE PREMIUM

	2011	2010
Authorised		
10 000 000 ordinary shares at 1 cent each	**100**	100
Issued		
4 665 497 ordinary shares of 1 cent each	**46**	46
Share premium	**82 403**	82 403
	82 449	82 449

The unissued shares are under the control of the directors until the next annual general meeting of the Company. During 2011 the Company has a parental guarantee issued by The Hollard Insurance Company Limited in the amount of R 50 000 000.

11 NON-DISTRIBUTABLE RESERVES

Contingency reserve
The contingency reserve represents 10% of net written premiums as required in terms of Section 32 (c) of the Short –Term Insurance Act. This reserve can only be utilised with prior permission of the Registrar of Insurance.

General reserve
The Company has in prior years transferred R2 000 000 to a non-distributable reserve at the request of the Registrar of Insurance to increase the amount recognised as capital for regulatory purposes. This was a condition for granting a full, unrestricted short-term insurance license in October 1999.

	2011	2010
	R'000	R'000

12 TRADE AND OTHER PAYABLES

	2011 R'000	2010 R'000
Payables under reinsurance contracts	**42 732**	119 250
Trade creditors	**15 253**	133
Accruals	**1 638**	924
Sundry creditors	**298 880**	84 422
Related party creditors	**34 061**	-
Total trade and other payables	**392 564**	204 729

All trade and other payables are current.

In the prior year, the above line item sundry creditors included an amount of R24, 428,000 which related to related party creditors.

13 FINANCIAL ASSETS

The company's financial assets are summarised by measurement category in the table below:

	2011 R'000	2010 R'000
Available-for-sale	**204 135**	229 050
Held-to-maturity	**25 230**	13 736
Loans and receivables including insurance receivables) (note 9)	**323 423**	271 505
Total financial assets	**552 788**	514 291
Available-for-sale financial assets		
Equity securities		
- listed	**78 565**	140 260
- unlisted	**93 137**	62 790
Debt instruments		
- unlisted	**32 433**	26 000
Total available-for-sale financial assets	**204 135**	229 050
Held-to-maturity financial assets		
Debt instruments	**25 230**	13 736
Total held-to-maturity financial assets	**25 230**	13 736

13 **FINANCIAL ASSETS** (continued)

	Available-for-sale	Held-to-maturity	Total
At the beginning of 2010	158 886	14 546	173 432
Additions	103 330	-	103 330
Disposals	(48 057)	(2 002)	(50 059)
Fair value gains	14 891	1 192	16 083
At the end of 2010	229 050	13 736	242 786
At the beginning of 2011	**229 050**	**13 736**	**242 786**
Additions	**34 872**	**9 765**	**44 637**
Disposals	**(30 214)**	**(3 543)**	**(33 757)**
Fair value gains	**20 543**	**131**	**20 647**
Reclassification to cash and cash equivalents	**(64 974)**	**-**	**(64 974)**
Reclassification to held to maturity	**-**	**20 000**	**20 000**
Reclassification from Held-to-maturity to Available-for-sale	**14 859**	**(14 589)**	**-**
At the end of 2011	**204 135**	**25 230**	**229 365**

During the current financial year management reclassified R 20 million of Loans and Receivables to Held to Maturity financial assets. In addition further investments were reclassified from Available for Sale to Cash and Cash Equivalents as it is management's opinion that this better reflects the true nature of these investments.

Since these assets have been reclassified as Cash and Cash Equivalents they are held consequently at fair value and thus there is no change in the carrying value to the company.

		2011 R'000	2010 R'000
14	**EMPLOYEE BENEFITS**		
	Profit right provision	**34 782**	46 247
	Bonus provision	**22 300**	-
	Leave pay provision	**2 580**	2 087
		59 662	48 334

In the previous financial year the Bonus provision was disclosed as part of Sundry Creditors (see Note 12). The amount included as part of sundry creditors in the prior year was R19 100 000.

		2011 R'000	2010 R'000
15	**CASH AND CASH EQUIVALENTS**		
	Cash at bank and in hand	**38 014**	109 726
	Short-term deposits	**184 932**	4 159
	Total cash and cash equivalents	**222 946**	113 885
	Cash deposits held on behalf of third parties	**251 340**	-
	Total cash and cash equivalents	**474 286**	113 885

The effective interest rate on short-term bank deposits was 6.50% (2010: 8.80%)

Cash and Cash equivalents includes restricted cash balances of R 251,340,000 (2010: Rnil) held by Lombard Insurance Company Limited on behalf of third parties.

		2011 R'000	2010 R'000
16	**INCOME TAX EXPENSE**		
	SA Normal taxation		
	- current taxation	**28 036**	18 741
	- STC on dividends paid	**1 132**	660
	- STT on share transactions	**16**	5
	Deferred taxation		
	- Current year	**3 305**	(3 758)
	Total tax charge	**32 489**	15 648
	Tax rate reconciliation:	**%**	%
	Standard tax rate	**28.0**	28.0
	Adjustment for non-taxable income	**0.5**	(2.0)
	Effective tax rate	**28.5**	26.0
17	**INVESTMENT INCOME**		
	Available for sale		
	- dividend income	**5 563**	2 428
	- interest income	**6 847**	128
	Held to maturity		
	- dividend income	**972**	778
	- interest income	**12**	-
	Dividend received from associates	**-**	5 402
	Loans and receivables interest income	**245**	268
	Cash and cash equivalents interest income	**9 310**	13 173
		22 949	22 177

		2011	2010
		R'000	R'000
18	**NET INSURANCE PREMIUM REVENUE**		
	Insurance contracts		
	- gross written premium	**980 088**	671 112
	- change in unearned premium provision	**(40 853)**	(20 234)
	Premium revenue from insurance contracts	**939 235**	650 878
	Reinsurance contracts		
	- reinsurance premium	**(317 340)**	(239 095)
	- change in unearned premium – reinsurer's share	**24 296**	(4 765)
	Premium revenue ceded to reinsurers	**(293 044)**	(243 860)
	Net Insurance Premium Revenue	**646 191**	407 018

19 **OTHER OPERATING INCOME**

Other operating income comprises of:

Profit share from AssetInsure	**9 635**	-
Aviation income	**1 146**	1 074
Other income	**2 532**	94
	13 313	1 168

	2011	2010
	R'000	R'000

20 OPERATING LEASE COMMITMENTS

The future minimum lease payments under an operating lease for office premises are:

	2011 R'000	2010 R'000
Not later than 1 year	**4 688**	3 300
Later than 1 year and not later than 5 years	**5 788**	4 783
	10 476	8 083

21 NET INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES

	2011 R'000	2010 R'000
Current year claims paid	**(357 709)**	(192 813)
Movement in incurred but not reported provision	**(2 277)**	(16 515)
Movement in outstanding claims provision	**(3 517)**	(193)
Insurance claims and loss adjustment expenses	**(363 503)**	(209 521)
Recoveries from reinsurers	**64 546**	54 793
Reinsurers' portion of incurred but not reported provision	**2 389**	5 115
Reinsurer's portion of outstanding claims provision	**(11 251)**	(943)
Insurance claims and loss adjustment expenses recovered from reinsurers	**55 684**	58 965
Net insurance claims	**(307 819)**	(150 556)

	2011 R'000	2010 R'000
22 OTHER OPERATING EXPENSES		
Employee benefit expenses		
- salaries and bonuses	**64 459**	79 187
- provident fund costs	**5 796**	4 849
Depreciation	**2 057**	1 766
Amortisation costs	**4 947**	3 000
Auditors remuneration		
- audit fees	**1 843**	1 117
Directors' emoluments		
- as directors	**868**	755
- For other services		
- salaries	**3 954**	3 661
- bonuses	**4 900**	11 745
- provident fund contributions	**404**	215
Operating lease rentals		
- premises	**4 430**	3 395
Management fees	**5 375**	4 730
Other staff costs	**2 376**	1 629
Repairs and maintenance	**1 781**	3 341
Impairment of subsidiary	**4 510**	1 200
Other expenses	**79 306**	85 835
Other operating expenses	**187 006**	206 425

In the prior year, other expenses included director's fees of R679 750.

During the year under review, prior to selling the investment, the company impaired an investment in subsidiary Deposit Advantage (Proprietary) Limited to the lower of cost or net realisable value after completing a valuation exercise on the investment. Net realisable value was determined as the fair value less costs to sell, and in impairing the investment a loss of R4 510 000 was recognised.

	Shareholding %	2011 R'000	2010 R'000
23 INVESTMENT IN SUBSIDIARIES			
Shares			
- Deposit Advantage (Proprietary) Limited	**100**	**-**	29 209
- Lombard Trade Finance (Proprietary) Limited	**100**	**-**	2 054
- Financial Management International Limited	**75**	**-**	6 823
- Lombard Guarantee Services (Proprietary) Limited	**100**	*****	*

The above Investment in Subsidiaries were disposed of during the period ended 30 June 2011 and were acquired by Lomvest (Proprietary) Limited.

	2011 R'000	2010 R'000
Loan account		
- Lombard Guarantee Services (Proprietary) Limited	**127**	127
- Deposit Advantage (Proprietary) Limited	**-**	5 000
- Financial Management International Limited	**-**	12 082
	127	55 295

* denotes items under R1'000

	2011	2010
	R'000	R'000

24 **INVESTMENT IN ASSOCIATES**

	2011 R'000	2010 R'000
At beginning of year	**26 254**	29 554
Impairment	**-**	(600)
Sale of associates	**(26 254)**	-
Reclassification from associate to subsidiary	**-**	(2 700)
At end of year	**-**	26 254

	Shareholding %	**2011 R'000**	2010 R'000
Shares			
- Leppard & Associates (Pty) Ltd	**30**	**-**	6 700
- Umlimi Underwriting (Pty) Ltd	**25**	**-**	-
- Consort Technical Underwriting Managers (Pty) Ltd	**20**	**-**	9 500
- HCV Underwriting Managers (Pty) Ltd	**30**	**-**	10 054
		-	26 254

The above Investment in Associates were disposed of during the period ended 30 June 2011 and were acquired by Lomvest (Proprietary) Limited with the exception of Umlimi Underwriting (Proprietary) Limited.

25 **RETIREMENT BENEFIT INFORMATION**

All employees of the Company are members of the Lombard Insurance Company Limited Provident Fund. The fund is a defined contribution fund and is governed by the Pension Funds Act, 1956. As at 30 June 2011, the provident fund had accumulated funds of R19,374,303 (2010: R12,890,232).

26 RELATED PARTY TRANSACTIONS

The Company is controlled by Lomhold (Proprietary) Limited, a South African registered company, which owns 100% of the Company's shares. Lomhold (Proprietary) Limited is controlled by The Hollard Insurance Company Limited ("Hollard") - incorporated in the Republic of South Africa, which owns 55.84% of the shares of Lomhold (Proprietary) Limited, the remaining shares are held by Cast Arena Trade & Invest 187 (Proprietary) Limited - 23.4%, Lombard Consolidated (Proprietary) Limited - 20.01% and CG Japhet - 0.75%.

The Company has a 100% share in Lombard Guarantee Services (Proprietary) Limited ("L.G.S.") - incorporated in Botswana. The Company also holds a 25% share in Umlimi Underwriting (Proprietary) Limited which is listed as an associate.

The company in addition has an interest in Assetinsure, a company registered in Australia, of which the Company owns 50%.

There is a co-insurance arrangement in place with Hollard, whereby they participate in 30% of the risk on certain clients that they refer to Lombard..

26 RELATED PARTY TRANSACTIONS

	Provision of service R'000	Purchases of service R'000	Amounts owed by related parties R'000	Amounts owed to related parties R'000
2011				
Parent and ultimate holding companies				
The Hollard Insurance Company Limited	-	613	-	-
Lomhold (Pty) Ltd	-	-	24 688	-
	-	613	24 688	-
Entities with significant influence over the company				
Cast Arena Trade & Invest 87 (Pty) Ltd	-	-	116	-
	-	-	116	-
Other				
Assetinsure (Pty) Ltd	-	9 635	-	-
Lomvest (Pty) Ltd	-	-	97 664	195
Premium Finance Solutions (Pty) Ltd	130	-	-	437
Lombard Life Limited	-	-	-	11 290
PinnAfrica Insurance UW Managers (Pty) Ltd	-	17 938	510	-
PinnAfrica Insurance Limited	-	2 302	1 055	-
Lombard Trade Finance (Pty) Ltd	-	-	2 794	-
Financial Management International Ltd	-	-	4 505	-
Leppard & Associates (Pty) Ltd	-	4 827	-	6 303
Consort Technical Underwriters (Pty) Ltd	-	11 801	-	3 274
HCV Underwriting Managers (Pty) Ltd	-	19 503	150	12 562
Deposit Advantage (Pty) Ltd	-	-	2	-
	130	66 006	106 680	34 061

26 **RELATED PARTY TRANSACTIONS** (continued)

	Provision of service R'000	Purchases of service R'000	Amounts owed by related parties R'000	Amounts owed to related parties R'000
2010				
Parent and ultimate holding companies				
The Hollard Insurance Company Limited	-	175	-	(2 265)
Lomhold (Proprietary) Limited	-	-	12 000	-
	-	175	12 000	(2 265)
Entities with significant influence over the company				
Cast Arena Trade & Invest 87 (Pty) Ltd	-	-	116	-
Lombard Consolidated (Pty) Ltd	-	-	300	-
	-	-	416	-
Subsidiaries				
Lombard Trade Finance (Pty) Ltd	500	-	13 078	-
Deposit Advantage (Pty) Ltd	-	-	5 000	-
Lombard Guarantee Services (Pty) Ltd	-	-	127	-
Financial Management International Ltd	-	-	12 082	-
	500	-	30 287	-
Associates				
Leppard & Associates (Pty) Ltd	-	1 732	-	(5 441)
Consort Technical Underwriters (Pty) Ltd	-	9 420	-	(529)
HCV Underwriting Managers (Pty) Ltd	-	17 711	3 000	(18 286)
	-	28 863	3 000	(24 256)
Other				
Assetinsure (Pty) Ltd			4 333	
Lomvest (Pty) Ltd	-	-	3	-
Premium Finance Solutions (Pty) Ltd	-	-	446	-
Lombard Life Limited	-	-	5 251	-
PinnAfrica Insurance UW Managers (Pty) Ltd	-	2 754	4 415	-
PinnAfrica Insurance Limited	-	3 091	-	2 093
	-	5 845	14 447	2 093

26 RELATED PARTY TRANSACTIONS (continued)

The amounts outstanding at statement of financial position date are unsecured and will be settled in cash. No expense has been recognised in the period for bad or doubtful debts in respect of amounts owed by related parties.

As at year end, Lombard Insurance Company Limited has given, in the normal course of business, a guarantee in favour of Standard Bank Limited for R 25 million in respect of debts owed by Lombard Trade Finance (Proprietary) Limited to Standard Bank. Hollard Insurance Company Limited had during the year under review, issued an insurance guarantee to the value of R 50 million for the Company, in the normal course of business.

27 DIRECTOR'S REMUNERATION

Remuneration in respect of the directors is as follows:

Directors' remuneration and other benefits for services as a director:

	For services as a director	Salary	Bonuses and performance related payments	Pension contributions, under any pension scheme, not otherwise disclosed	Total
	2011	**2011**	**2011**	**2011**	**2011**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**
ML Japhet	-	584	-	-	**584**
GJM Carlin	378	-	-	-	**378**
AH Goldberg	-	-	-	-	**-**
PG Nkadimeng	240	-	-	-	**240**
P Soko	250	-	-	-	**250**
TBT Mparutsa	-	-	-	-	**-**
NG Kohler	-	-	-	-	**-**

27 DIRECTOR'S REMUNERATION

Remuneration in respect of the directors is as follows (continued):

Directors' remuneration and other benefits for services as a director (continued):

	For services as a director	**Salary**	**Bonuses and performance related payments**	**Pension contributions, under any pension scheme, not otherwise disclosed**	**Total**
	2011	**2011**	**2011**	**2011**	**2011**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**
ADH Enthoven	-	-	-	-	**-**
PJ Orford	-	-	-	-	**-**
RJ Symmonds		1 862	2 940	89	**4 891**
DD Hyde	-	1 508	1 960	315	**3 783**
	868	**3 954**	**4 900**	**404**	**10 126**

*Per the assessment performed by the directors of the company, no prescribed officers were identified for the company.

28 CASH FLOW INFORMATION

28.1 Cash flow from operations

	2011 R'000	2010 R'000
Net income before taxation	**113 975**	68 347
Adjusted for:		
Increase in net technical provisions	**16 798**	44 321
Depreciation	**2 057**	1 766
Amortisation	**4 947**	3 000
Profit on disposal of investments	**(1 771)**	(7 859)
Investment income	**(22 949)**	(22 177)
Increase in current receivables	**(71 920)**	(112 783)
Increase in current payables	**199 163**	79 600
	240 300	54 215

28.2 Taxation paid

	2011 R'000	2010 R'000
Balance at beginning of year	**(12 202)**	(13 284)
Normal tax for the year	**29 184**	19 406
Balance at end of year	**(8 367)**	12 202
	8 615	18 324

CORPORATE GOVERNANCE STATEMENT
for the year ended 30 June 2011

The Company confirms its commitment to the principles of openness, integrity and accountability as advocated in the King III Report on Corporate Governance (Code of Corporate Practices and Conduct). Through this process, the shareholders and other stakeholders may derive assurance that the Company is being ethically managed according to prudently determined risk parameters in compliance with generally accepted corporate practices. The Company also subscribes to the SAIA Code of Conduct where this Code is used as a mechanism by all SAIA members for self-regulation.

Board of Directors
The Board of Directors meet at least four times a year. The Board of Directors monitors management ensuring that material matters are subject to Board approval. Senior management attend meetings of the Board of Directors by invitation.

The roles of the Chairman and Managing Director do not vest in the same person and the Chairman is a non-executive Director of the Company. The Board of the Company comprises seven non-executive and two executive directors. Non-executive Directors bring with them diversity of experience, insight and independent judgement on issues of strategy, performance, resources and standards of conduct, two being Directors of the majority shareholder company.

All Directors have unlimited access to the advice and services of the Company Secretary, who fulfils such role for the Company and is responsible to the Board for ensuring that Board procedures are followed. All Directors are entitled to seek independent professional advice at the Company’s expense concerning the affairs of the Company, after obtaining the approval of the Chairman.

Investment Committee
The Investment Committee is mandated through a Charter by the Board of Directors and chaired by an independent non-executive Director. The Committee meets at least ten times per year, being responsible for “Asset and Liability” matching in terms of Insurance Regulation, Capital Management, Investment of Assets and Taxation.

Remuneration Committee
The Company has a Remuneration Committee, which is chaired by a Non-executive Director. Its specific terms of reference include authority for, or consideration and recommendation to the Board of, matters relating to, inter alia, general staff policy, remuneration, profit bonuses, executive remuneration, Directors’ remuneration and fees and service contracts.

Audit, Compliance and Business Risk Management Committee

Audit

A sub-committee of the Board of Directors has been appointed to fulfil the responsibilities of the Audit, Compliance and Business Risk Management Committee. The Chairman of this committee is appointed from the Board and is not also the Chairman of the Board of Directors. All the members are independent non-executive Directors who are financially literate and no relationships exist that could interfere with the Audit, Compliance and Business Risk Management Committee members' independence from management. Both the internal and external auditors have unrestricted access to the Audit, Compliance and Business Risk Management Committee. The Committee meets at least four times a year.

The Audit, Compliance and Business Risk Management Committee consider the reports from the internal and external auditors as well as the Business Risk Manager. In addition to these reports, the Committee considers the annual financial statements to be a fair presentation of the financial position, including the results of operations and changes in equity and cash flows of the Company, in terms of International Financial Reporting Standards and the Companies Act.

Compliance and Business Risk Management

Effective risk management is integral to the Company's objective of consistently adding value to the business. Management is continuously developing and enhancing the risk and control procedures to improve the mechanisms for identifying and monitoring risks. Operating risk is the potential for loss to occur through a breakdown in internal control, business processes and compliance systems. Key policies and procedures in place to manage operating risk and involves segregation of duties, transaction authorisation, supervision, monitoring and financial and managerial reporting.

Internal Control Systems

To meet its responsibility with respect to providing reliable financial information, the Company maintains financial and operational systems of internal control. These controls are designed to provide reasonable assurance that transactions are concluded in accordance with management's authority, that the assets are adequately protected against material loss or unauthorised acquisition, use or disposition, and the transactions are properly authorised and recorded.

The systems include documented organisational structures and division of responsibility, established policies and procedures that are communicated throughout the Company, and careful selection, training and development of people.

The Company's internal auditors monitor the operation of the internal control systems and report their findings and recommendations to management and the Audit, Compliance and Business Risk Management Committee who then report to the Board of Directors. Corrective actions are taken to address control deficiencies and other opportunities for improving the systems as they are identified.

Ethical Standards

The Company has a code of values. This incorporates the Company's operating, financial and behavioural policies in a set of integrated values, including the ethical standards required of employees of the Company in their interaction with one another and all stakeholders.

Employment Equity

The Company has adopted and submitted Employment Equity Plans and Policies, where applicable, to the Department of Labour. The Plans promote equal opportunities for, and fair treatment of, all its employees. The Company has made substantial progress with various employment equity activities and initiatives, which will help it, reach its goal of becoming fully representative of the community in which it conducts its business, and also of creating an environment conducive to the attainment of personal career goals by all its employees. It is the intention of this Company to follow these guidelines in implementing a policy appropriate to the size and nature of the business.

The Environment, Health and Safety

The Company strives to conform to environmental, health and safety laws in its operations. Although the Company's activities do not pose a significant threat to the environment, its risk management activities continue to focus on compliance with key features of existing environmental, health and safety legislation.