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

AUDITED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

The annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008 and were prepared in September 2015.

LOMBARD INSURANCE COMPANY LIMITED
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AUDITED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

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

CORPORATE GOVERNANCE STATEMENT
for the year ended 30 June 2015

Lombard Insurance Company Limited (the Company) is governed by a board of directors, the members of which are common to certain other LomHold Proprietary Limited group entities (the Group). The corporate governance statement that follows is a combined statement by the members of this common board of directors and as such applies equally to the Company. Hereinafter, any reference to "the Board" refers to the aforementioned common board of directors and as such, the board of directors of Lombard Insurance Company Limited. Any reference to "the Group" applies equally to the operations of the Company.

Principles of corporate governance

The Board is committed to the principles of openness, integrity and accountability and to providing timely, relevant and meaningful reporting to all stakeholders. The Board ensures that the Group's business is conducted to high standards of corporate governance, and in line with best practice. These standards are entrenched in the Group's established systems of internal control, by its procedures and policies governing corporate conduct, with particular emphasis on the importance of qualitative aspects of corporate governance.

The Group is committed to an open governance process such that all stakeholders may derive assurance that its directors and managers are managing the Group responsibly. The Board, where practicable, subscribes to the principles set-out in the King III report on corporate governance. The principles contained in King III, where practicable, are reflected in the Group's corporate governance structures, which are reviewed from time to time to accommodate organisational changes and international developments in the field of corporate governance. It is the policy of the Board and management to actively review and enhance the Group's systems of control and governance to ensure the Group's business is managed ethically and within prudently determined risk parameters that conform to best practice.

Board composition, appointment and responsibilities

Directors are appointed based on personal character, skill, experience and their level of contribution to, and their impact on, the activities of the Group. The Board decides on the appointment of new directors collectively, based on recommendations from its individual members. In compliance with the Financial Services Board (FSB) Directive 101.A.i and BN158 of 2014, the Board currently consists of five non-executive directors and two executive directors. Two of the non-executive directors are independent. No block of directors can dominate the Board. All non-executive directors have attended at least two meetings in the year under review. All board members are kept abreast of current developments and required governance structures. The Board is responsible for setting the direction of the Group through the establishment of strategic objectives and key policies. Board meetings are held at least three times a year with additional meetings called when necessary. As also required by FSB Directive 101.A.i, the quorum for meetings is half the number of appointed directors plus one, to the greater integer of directors. Other senior executives are invited to attend meetings as required to ensure comprehensive reporting to the Board.

The responsibilities of the Board are clearly defined in its terms of reference. The responsibilities of the Board include issues of strategic direction, business plans and annual budgets, major acquisitions and disposals, changes to the Board and other matters having a material effect on the Group or required by statute.

Board members and prescribed officers are required to regularly declare any interest they might have in transactions with the Group. All directors are given access to the information needed to carry out their duties and responsibilities fully and effectively. Furthermore, all directors are entitled to seek independent professional advice about the affairs of the Group, at the expense of the company concerned.

Board composition, appointment and responsibilities (continued)

The current members of the board are:

- ML Japhet (Non-executive chairman)
- GJM Carlin (Independent non-executive director)
- RJ Symmonds (Executive Director)
- PJ Soko (Independent non-executive director) (resigned as of 24 November 2014)
- DD Hyde (Financial director) (resigned as of 23 July 2015)
- PJ Orford (Managing director)
- ADH Enthoven (Non-executive director) (resigned as of 23 July 2015)
- CE Backeberg (Independent Non-executive director)
- A Pienaar (Independent non-executive director) (appointed as of 23 July 2015)
- AC Magwentshu (Independent non-executive director) (appointed as of 23 July 2015)

Board committees and governance structures

The Board has established a number of sub-committees, which operate within defined terms of reference laid down by the Board in writing. Members of these committees are suitably qualified and experienced so as to meaningfully contribute to the workings of the committees on which they serve. All committees report to the Board and operate in accordance with written terms of reference. The most relevant of these committees, which shall be further discussed below, are the Audit, Risk and Compliance Committee and the Capital Management and the Investment Committee.

Further, certain statutory governance appointments have at all times through the year been maintained. These are the appointment of the Statutory Actuary and Company Secretary; whose role and function shall be further discussed below.

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee comprises of three independent non-executive members, namely:

- GJM Carlin
- P Soko (resigned 24 November 2014)
- PJ Orford (resigned 18 March 2015)
- CE Backeberg (appointed 18 March 2015)
- AC Magwentshu (appointed 23 July 2015)

Chaired initially by Ms P Soko and subsequently by Mr GJM Carlin, this committee is constituted as a statutory committee in respect of its statutory duties in terms of the Companies Act, 2008 (the Companies Act) (and also in terms of the Short Term Insurance Act No. 53 of 1998). It is also a committee of the Board in respect of all duties assigned to it by the Board. The committee operates in accordance with terms of reference that have been approved by the Board.

Audit, Risk and Compliance Committee (continued)

The following members may be in attendance at committee meetings, but by invitation only and cannot vote:

- managing director for the Group;
- chief risk officer for the Group;
- chief financial officer for the Group;
- chief compliance officer for the Group;
- representatives from the external auditors for the Group;
- representatives from the internal auditors for the Group;
- head of the internal auditors for the Group;
- other assurance providers for the Group; and
- invited attendees.

The statutory and Board delegated duties of the committee include the following:

- Preparing a report to be included in the annual financial statements in terms of Section 94(7) of the Companies Act, which report appears on pages 12 to 14 and provides further information on the activities of this committee;
- Monitoring and reviewing the effectiveness of the internal audit function;
- Recommending to the Board the appointment of the external auditors, approving their remuneration and terms of engagement and monitoring their independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements;
- Determination of the nature and extent of any non-audit services which the external auditor may provide to the Group and pre-approval of any proposed contract with the external auditor for the provision of those non-audit services; and
- Receiving and dealing appropriately with any complaints (whether from within or outside the Group) relating either to the accounting practices and internal audit or to the content or auditing of its financial statements, or any other related matter.

The external and internal auditors have unrestricted access to the chairperson of the committee and have attended all meetings during the period to report on their findings and to discuss accounting, auditing, internal control and financial reporting matters.

The Audit, Risk and Compliance Committee has, in the past financial year, satisfied its responsibilities in compliance with the Companies Act of 2008, the Short Term Insurance Act of 1998, as well as its responsibilities in accordance with its terms of reference.

Capital Management and Investment Committee

The objective of the Capital Management and Investment Committee is to ensure that appropriate decisions are taken with regard to the investments of the Group. The committee recommends guidelines and principles to the Board and takes advice, where appropriate, from external investment professionals. The Capital Management and Investment Committee, chaired by Mr GJM Carlin, meets six times a year.

Statutory Actuary

The independent statutory actuary, who is not in the employment of the Group, assists the Board in all actuarial matters and reviews the actuarial valuations required in the Group.

The statutory actuary is a permanent invitee to all Board meetings at which matters actuarial are to be discussed and decided on.

Accountability and transparency

The requirements of Chapter 3 of the Companies Act relating to enhanced accountability and transparency are applicable to, and adopted by, the Group. Furthermore the Group, of its own accord, maintains the highest standard of accountability. Certain of the mechanisms through which this is done, are now more fully discussed below.

Going concern

The Group Audit, Risk and Compliance Committee considers the facts and assumptions used in the assessment of the Group as a going concern at the financial year-end date. This provides assurance to the directors in confirming their assessment that the annual financial statements are properly prepared on the going concern basis.

Internal financial controls

The Board acknowledges that it is responsible for instituting internal control systems that provide reasonable assurance on safeguarding assets and prevention of their unauthorised use or disposal, as well as maintenance of proper accounting records that give reasonable assurance on the reliability of financial information produced.

Despite room for improvement in the automation of processes and controls, compensating controls are in place and the Board is satisfied that these compensating controls provide reasonable assurance that significant associated risks are appropriately managed and that adequate internal controls are in place. The improvement of processes and controls continues to receive the on-going attention of the Audit, Risk and Compliance Committee and of the Board and will continue to improve in accordance with established plans. The Board is satisfied that there has been no material breakdown of the internal controls.

Internal audit

Internal audit operates under a charter recommended by the Audit, Risk and Compliance Committee and approved by the Board. Currently the Group's internal audit function is outsourced to an external service provider, which is staffed by qualified and experienced individuals. The responsible partner has direct access to the the Group Audit, Risk and Compliance committee. The internal auditors attend Committee meetings by request and reports their findings to the Committee.

Internal audit is an independent, objective assurance activity established to add value and improve operations of the Group. It helps the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the adequacy and effectiveness of risk management, control and governance processes.

Internal audit (continued)

The internal audit function did not report any material breakdowns in internal control during the financial year under review.

Risk management

The Group continues to strengthen its risk management competencies. The Board has reaffirmed its stance that risk management is an imperative for efficient capital and business management in both the life and short-term insurance industries. The Group is progressing with changes to its risk management framework to address requirements in the proposed Solvency Assessment and Management (SAM) regulatory regime.

The allocation of roles and responsibilities for risk management within the Group is consistent with the guidelines provided in the King III report on corporate governance as well as those required by SAM. A dedicated Chief Risk Officer (the CRO) has, for some time, been appointed to oversee the group's risk management activities at executive committee level and risk & compliance champions are appointed in each division to ensure the cascading of risk processes into the business.

A dedicated Chief Risk Officer (the CRO) has, for some time, been appointed to oversee the Group's risk management activities at executive committee level.

The Board is responsible for the governance of risk, which includes the approval of a documented risk policy and plan which is reviewed at least annually, with continuous monitoring.

Oversight of risk and compliance has been delegated to the Audit, Risk and Compliance Committee. The committee considers the risk management policy and plan, the efficiency of management in their risk management responsibilities as well as the assurances provided by the external and internal auditors. The Capital Management and Investment Committee considers capital adequacy and asset/liability matching risks and other applicable investment risks. A member of the Audit, Risk and Compliance Committee is represented on the Capital Management and Investment Committee. The CRO assists all levels in the business in achieving the strategic objectives of the Group by bringing a systematic approach to evaluating and improving the effectiveness of risk management and control.

The CRO of the Group oversees the enterprise risk management (ERM) framework, facilitating and coordinating the process and reporting the status to the executive management, the Audit, Risk and Compliance Committee and the Board. The CRO has direct access to the chairperson of the Audit, Risk and Compliance Committee, but reports administratively to the Group Managing Director.

Compliance

The governance and compliance function is responsible for the monitoring of regulatory and reputational risk and the setting of related policies. The Group's governance strategy, objectives and structures have been designed to ensure that the Group complies with legislation and all relevant industry codes.

Compliance risk is the risk to earnings, capital and reputation arising from violations of, or non-compliance with, laws, rules, regulations, supervisory requirements, prescribed practices or ethical standards.

Compliance (continued)

The Group is committed to the highest standards of integrity, professionalism and ethical behaviour and requires all its employees to comply with all relevant laws, rules, standards and policies when conducting the business of the Group.

The Group's compliance function is an independent function that identifies, evaluates, advises, monitors and reports on the Group's compliance risk.

Compliance risk is managed within the organisation through the following key activities:

· creating awareness through training employees on the impact and responsibilities related to legislative requirements;

· monitoring and reporting on the level of compliance with regulatory requirements, including reporting specific incidents of non-compliance to senior management and the Board;
· provide assurance that the risks relating to regulatory requirements are identified, understood and effectively managed; and
· consulting with the business units and providing compliance opinions with regard to new business ventures and processes.

Information technology

The Group's IT strategy over the next 2 years (2015 to 2016), will follow a phased delivery approach including understanding the IT governance, processes and architecture and the capacity to absorb change over the period.

The IT strategy will be supported by the following elements:

· focused IT strategy;
· single value delivery framework (IT architectures and maturity model);
· focused governance and risk management approach; and a
· single organisational design (resource and performance management).

To ensure value delivery to the business the plan focuses on:

· best practice architecture design (align, re-organise and simplify);
· efficiency (create and realise value through efficient development, implementation, support and maintenance);
· effectiveness (through monitoring, evaluating and continuously improving and optimising the IT architectures); and
· transformation (innovating using technology and leadership).

Principles of conduct

Business integrity and ethics

The Group has a written code of ethics. The Group supports free enterprise as the system best able to contribute to the economic welfare of society, and to promote individual liberty. Without satisfactory profits and a strong financial foundation, it would not be possible to fulfil the responsibilities to shareholders, employees, society, and those with whom we do business. Our corporate actions are governed by economic criteria as well as social, environmental and political considerations.

The Group is committed to the principles of sustainable development, striking a balance between economic, environmental and social development. We strive to innovate and adopt best practice wherever we operate, working in consultation with stakeholders.
Management and employees operate within a framework that requires compliance with all applicable laws and maintenance of the highest integrity in the conduct of the business of the Group.

Employment and labour rights

The Group subscribes to the principle of fair labour practices at our workplaces, and our conditions of service comply with applicable laws and industry standards.

Board of directors

ML Japhet
BSc (Hons) Economics & Politics, Bristol University, 1977
ACII
Non-executive Chairman
Joined in 1995

RJ Symmonds
BComm(Hons), UCT, 1980
Chartered Accountant of South Africa, Public Accountant and Auditor’s Board, 1983
Executive Director
Joined in 2004

GJM Carlin
BCom(Hons)
CA(SA), Chartered Institute of Accountants,
Non-executive director
Joined in 1997

PJ Soko
B.Compt(Hons), UNISA
Certified Internal Auditor SA – IIA (SA)
Non-executive director
Joined in 2007 *(Resigned 24 November 2014)*

Board of directors (continued)

DD Hyde
BCom (Law), UCT, 1989
CA(CA), Canadian Institute of Chartered Accountants, 1991
Financial Director
Joined in 2009 (Resigned 23 July 2015)

PJ Orford
B.Bus.Sci (Economics), UCT, 1992
MPhil (Economics), Oxford, 1997
Chartered Financial Analyst, CFA Institute, 2000
Managing Director
Joined in 2010

ADH Enthoven
Bachelor of the Arts, Oxford University, 1992
Masters of the Arts, Oxford University, 2009
Doctor of Philosophy, Oxford University, 2000
Non-executive director
Joined in 2007 (Resigned on 23 July 2015)

CE Backeberg
B.Sc. (Honours), UCT, 1981
Fellow of Actuarial Society of SA (FASSA), 1988
Non-executive director
Joined in 2011

AC Magwentshu
National Diploma (Building Sciences), University of Johannesburg, 1999
Bachelor of Technology specialising in Quantity Surveying, Tshwane University of Technology, 2000
Post Graduate Diploma in Property Development and Management; University of the Witwatersrand, 2004
Masters in Business Administration, Gordon Institute of Business, 2007
Non-executive director
Joined in 2015

A Pienaar
B.Com (Hons), UJ, 1999
CA(SA), SAICA, 2002
CFA, CFA Institute, 2006
Non-executive director
Joined in 2015

STATEMENT OF DIRECTORS' RESPONSIBILITY
for the year ended 30 June 2015

In accordance with the 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 and related financial information included in this report. It is their responsibility to ensure that the annual financial statements for each financial year fairly present the state of affairs of the Company at the end of the annual 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 fair presentation of the annual financial statements. Their unqualified audit report appears on page 15.

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 annual 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 have no reason to believe that the system of internal controls does not provide reasonable assurances that the financial records may be relied on for the preparation of the annual financial statements of the Group 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 annual financial statements which appear on pages 16 to 68 are prepared in accordance with IFRS and are approved by the board of directors on 21 October 2015 and are signed on its behalf by:

ML JAPHET	PJ ORFORD
CHAIRMAN	MANAGING DIRECTOR
21 October 2015	21 October 2015

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

CERTIFICATION BY COMPANY SECRETARY
for the year ended 30 June 2015

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.

SJ Vivian

SJ VIVIAN
COMPANY SECRETARY
21 October 2015

AUDIT RISK AND COMPLIANCE COMMITTEE REPORT
for the year ended 30 June 2015

The Audit, Risk and Compliance Committee ("the Committee") has the pleasure in submitting its report for the financial year ended 30 June 2015.

The Audit, Risk and Compliance Committee is an independent statutory committee appointed by the directors. During the year under review, the committee conducted its affairs and discharged its responsibilities as required by the Companies Act, the Short Term insurance Act and the King Code of Governance Principles for South Africa, 2009 (King III) as approved by the Board during 2010.

Roles and responsibilities:

According to its terms of reference, the committee assists the Board to discharge its duties relating to:

· Carrying out all the functions as required in terms of legislation;
· Performing all the functions of an audit committee for those operating subsidiaries that do not have their own committee;
· Overseeing the integrity of the annual financial statements and reviewing content thereof to ensure that the information is reliable;
· Nominating to the shareholders a registered external auditor who, in the opinion of the Committee, is independent of the Company, for appointment as external auditor of the Company, as well as nominating for appointment the designated individual auditor;
· Consideration and recommendation to the Board of the appointment, removal or replacement of the internal auditors of the Group;
· Consideration of the accounting treatment of significant or unusual transactions and areas of judgement that have a significant impact on the annual financial statements;
· Determination of the nature and extent of any non-audit services which the external auditor may provide to the Company and pre-approval of any proposed contract with the external auditor for the provision of those non-audit services;
· Review and approval of the annual internal audit plan;
· Monitoring the compliance of the Group with legal requirements, statutes, regulations and the Group’s code of ethics;
· Consideration of the reports by the internal and external auditors on their findings and recommendations;
· Review of the effectiveness of the Group’s systems of internal control;
· Review of the relationship between management, the internal auditors and the external auditors; and
· Oversight of risk management.

Composition of meetings:

Members: GJM Carlin, P Soko (resigned 24 November 2014); CE Backeberg (appointed 18 March 2015), PJ Orford (resigned 18 March 2015); AC Magwentshu (appointed 23 July 2015)

The Committee comprises of three independent non-executive directors and meets at least three times a calendar year. The chairman of the Board, managing director, financial director, external auditors, internal auditors and financial executives can attend committee meetings by request.

Composition of meetings (continued):

The Committee discharged its statutory and Board responsibilities by meeting on three separate occasions during the period under review to consider, inter alia, the year-end results of the Group, as well as to consider regulatory and accounting standard compliance by the Group. The record of attendance by each committee member was as follows:

Name of committee member	Date appointed to committee	23 October 2014	18 March 2015	23 July 2015
PJ Soko	06 June 1997	✔	✕	✕
GJM Carlin	16 November 1995	✔	✔	✔
PJ Orford	02 April 2014	✔	✕	✕
CE Backeberg	18 March 2015	✕	✔	✔
AC Magwentshu	23 July 2015	✕	✕	✔

Expertise and experience:

The Committee has considered and is satisfied that the expertise and experience of the financial director is suitable, and the adequacy of resources of the finance function and experience of the senior members of management responsible for the financial function is appropriate.

External auditor appointment and independence:

The Committee has recommended Deloitte & Touche (Deloitte) to perform an independent and objective audit of the Group and approved Paul Stedall as the designated auditor in terms of the provisions of the section 90 of the Companies Act 71 of 2008. The annual financial statements are prepared in terms of International Financial Reporting Standards (IFRS). The committee is satisfied that Deloitte is independent of the Group, as contemplated in section 94(8) of the Companies Act 71 of 2008.

In making this determination the committee has considered Deloitte's compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by Deloitte that internal governance processes in the audit firm support its claim of independence.

The Committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2015 year. Deloitte is considered for non-audit services according to a formal procedure, and the nature and extent of non-audit services that Deloitte may provide is agreed in terms of a pre-approval policy.

The Committee has met with the designated auditor to consider matters of importance and relevant to the finalisation of the Group's annual financial statements and to the affairs of the Group generally.

Internal financial and accounting controls

Financial and internal controls focus on critical risk areas. The controls are designed to provide reasonable assurance that assets are safeguarded from loss and unauthorised use, and financial records may be relied on for preparing the annual financial statements and maintaining accountability for assets and liabilities. The identification of risks and implementation and monitoring of adequate systems of internal financial and operating controls to manage such risks is delegated to senior executive management.

Internal financial and accounting controls (continued)

Financial risk management policies are communicated directly to executive management and the appropriate levels of management in the various operations. The Board acknowledges its responsibility for ensuring that management implements and monitors the effectiveness of systems of internal financial and operating controls. The Board, via the Committee, monitors the effectiveness of established controls and procedures to ensure the accuracy and integrity of accounting records, and monitors the Group's businesses, financial risks and performance. Based on internal audit's review of the design, implementation and effectiveness of the Group's system of internal financial controls in 2014/2015, and considering information and explanations given by management and discussions with Deloitte on the results of its audit, nothing has come to the attention of the Committee to indicate that the Group's system of internal financial controls is not effective or the preparation of the annual financial statements is unreliable.

Internal audit

Internal audit operates under terms of reference recommended by the Committee and approved by the Board. The Company's internal audit function was outsourced to an external service provider in April 2014, which was staffed by qualified and experienced individuals. The responsible partner has direct access to the Committee. Internal audit attends Audit, Risk and Compliance Committee meetings by request and reports its findings to the Committee. Internal audit is an independent, objective assurance activity established to add value and improve operations of the Company. It helps the Company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the adequacy and effectiveness of risk management, control and governance processes.

Internal Audit Responsibilities

Internal audit is responsible to the Company for contributing to the achievement of the Company's goals and objectives by providing assurance to the Company's stakeholders in a responsible manner by performing the following functions:

- Assisting Management in evaluating their processes for identifying, assessing and managing the key operational, financial and compliance risks of the Company;
- Systematically analysing and evaluating business processes and the effectiveness of associated internal control systems, including compliance with internal policies;
- Recommending improvements in efficiency to the internal control systems established by management;
- Keeping abreast of new developments affecting the Company's activities and in matters affecting internal audit work;
- Being responsive to the Company's changing needs, striving for continuous improvement and monitoring integrity in the performance of its activities; and
- Providing clear feedback on the internal control environment to the Committee.

Annual Financial Statements

Having considered the annual financial statements for the year ended 30 June 2015, the Committee recommends the annual financial statements for approval to the board of directors.

Complaints

No complaints relating either to the accounting practices and internal audit of the Company or to the contents or auditing of its annual financial statements, or to any related matter were received by the Committee.

GJM Carlin
CHAIRPERSON
21 October 2015

Deloitte.

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Gallo Manor 2052
South Africa

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

We have audited the financial statements of Lombard Insurance Company Limited set out on pages 18 to 68, which comprise the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Director's Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standard 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 2015, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standard and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 30 June 2015, we have read the Directors' report, the Audit Committee's report and the Company Secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports, we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

DELOITTE & TOUCHE

Deloitte & Touche
Registered Auditor
Per: Paul Stedall
Partner
29 October 2015

DIRECTORS' REPORT
for the year ended 30 June 2015

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 2015.

GENERAL REVIEW

The Company underwrites non-life insurance risks, such as those associated with guarantee, liability, marine, motor, property and engineering. Much 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 page 19.

DIVIDENDS

A dividend of R 18,246 million (2014: R 17,188 million) was declared to the shareholders of the Company during the year under review.

SHARE CAPITAL

Share capital did not change during the year.

EVENTS SUBSEQUENT TO STATEMENT OF FINANCIAL POSITION DATE

The directors are not aware of any 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.

GOING CONCERN

The directors confirm that the Company has adequate resources to operate in the foreseeable future and will remain a viable going concern in the year ahead.

HOLDING COMPANY

The Company is a wholly owned subsidiary of Lomhold Proprietary Limited. Lomhold Proprietary Limited is an associate of The Hollard Insurance Company Limited.

DIRECTORS AND SECRETARY

The directors of the Company for the year under review were:

ML Japhet		(Chairman)
RJ Symmonds		(Executive Director)
DD Hyde	(resigned 23 July 2015)	(Financial director)
CE Backeberg		(Independent non-executive director)
GJM Carlin		(Independent non-executive director)
ADH Enthoven	(resigned 23 July 2015)	(Non-executive director)
PJ Orford		(Non-executive director)
P Soko	(resigned 24 November 2014)	(Independent non-executive director)
A Magwentshu	(appointed 23 July 2015)	(Independent non-executive director)
A Pienaar	(appointed 23 July 2015)	(Non-executive director)

The secretary of the Company is SJ Vivian.

Registered address:	*Postal address:*
Building C, Sunnyside Office Park	PO Box 2740
2 Carse O'Gowrie Road	Parklands
Parktown	2121
2193	

AUDITORS

Deloitte & Touche was appointed as auditors during the year under review.

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

STATEMENT OF FINANCIAL POSITION
for the year ended 30 June 2015

	Notes	2015 R'000	2014 R'000
ASSETS			
Non-current assets			
Property and equipment	5	**5,482**	5,208
Intangible assets	6	**16,375**	14,684
Financial assets	8		
- fair value through profit or loss		**306,724**	228,692
- held-to-maturity		**90,338**	38,097
Tax asset		**-**	5,908
Total non-current assets		**418,919**	292,589
Current assets			
Reinsurance contracts	9	**332,490**	390,170
Receivables including reinsurance receivables	10	**754,721**	610,060
Cash and cash equivalents	11	**483,279**	363,641
Total current assets		**1,570,490**	1,363,871
Total assets		**1,989,409**	1,656,460
EQUITY			
Capital and reserves			
Share capital and share premium	12	**189,050**	189,050
Non-distributable reserves	13	**-**	2,000
Retained earnings		**419,361**	379,251
Total equity		**608,411**	570,301
LIABILITIES			
Non-current liabilities			
Tier II funding	14	**200,000**	-
Total non-current liabilities		**200,000**	-
Current liabilities			
Tier II funding	14	**2,204**	-
Deferred tax liability	7	**12,010**	19,441
Insurance liabilities	9	**835,698**	805,397
Employee benefits	15	**46,230**	8,323
Trade and other payables	16	**265,141**	252,998
Current income tax liability		**19,715**	-
Total current liabilities		**1,180,998**	1,086,159
Total liabilities		**1,380,998**	1,086,159
Total equity and liabilities		**1,989,409**	1,656,460

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

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2015

	Notes	2015 R'000	2014 R'000
Insurance premium revenue		**1,076,493**	1,023,188
Insurance premium revenue ceded to reinsurers		**(576,503)**	(562,376)
Net insurance premium revenue	17	**499,990**	460,812
Investment income	18	**63,760**	61,524
Reinsurance commission		**193,749**	157,956
Net realised gains on fair value through profit or loss financial assets		**4,831**	23,675
Other operating income	19	**3,630**	1,794
Other income		**265,970**	244,949
Insurance claims and loss adjustment expenses		**(391,908)**	(483,508)
Insurance claims and loss adjustment expenses recovered		**248,894**	265,471
Net insurance claims and loss adjustment expenses	20	**(143,014)**	(218,037)
Expenses for the acquisition of insurance contracts		**(229,050)**	(235,997)
Expenses for marketing and administration		**(4,835)**	(4,798)
Other operating expenses	21	**(299,855)**	(198,439)
Impairment of financial asset	8	**(5,000)**	-
Expenses		**(538,740)**	(439,234)
Results of operating activities		**84,206**	48,490
Finance cost	14	**(12,961)**	-
Profit before tax		**71,245**	48,490
Taxation expense	22	**(14,889)**	(8,662)
Profit after tax		**56,356**	39,828
Total comprehensive income		**56,356**	39,828

LOMBARD INSURANCE COMPANY LIMITED
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STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2015

	Number of ordinary shares	Share capital	Share premium	Share capital and share premium	Capital contribution reserve	Retained earnings	Total equity
		R'000	R'000	R'000	R'000	R'000	R'000
Balance at 30 June 2013	4,665,500	47	134,403	134,450	2,000	356,611	493,061
Share Issue	1	*	54,600	54,600	-	-	54,600
Total comprehensive income				-		39,828	39,828
Dividends paid	-	-	-	-	-	(17,188)	(17,188)
Balance at 30 June 2014	**4,665,501**	**47**	**189,003**	**189,050**	**2,000**	**379,251**	**570,301**
Share Issue	**1**	*****	*****	**-**	**-**	**-**	**-**
Transfer (from)/to capital contribution reserve	**-**	**-**	**-**	**-**	**(2,000)**	**2,000**	**-**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**56,356**	**56,356**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(18,246)**	**(18,246)**
Balance at 30 June 2015	**4,665,502**	**47**	**189,003**	**189,050**	**-**	**419,361**	**608,411**

* denotes items of less than R 1 000

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

STATEMENT OF CASH FLOWS
for the year ended 30 June 2015

	Notes	2015 R'000	2014 R'000
Cash flow from operating activities			
Cash generated/(utilised) by operations	23.1	**7,162**	(141,914)
Interest received		**54,210**	43,107
Dividends received		**2,999**	3,413
Taxation paid	23.2	**3,301**	(8,576)
Net cash generated/(utilised) by operating activities		**67,672**	(103,970)
Cash flow from investing activities			
Acquisition of financial assets		**(120,877)**	(49,848)
Acquisition of intangible assets		**(6,675)**	(1,418)
Acquisition of property and equipment		**(3,718)**	(1,232)
Proceeds on disposal of financial assets		**13,555**	96,268
Proceeds on disposal of plant and equipment		**1,369**	60
Net cash (utilised)/generated by investing activities		**(116,346)**	43,830
Cash flow from financing activities			
Dividends paid to the shareholders of the company		**(18,246)**	(17,188)
Share issue		**-**	54,600
Increase in borrowings		**202,204**	-
Net cash generated by financing activities		**183,958**	37,412
Net increase/(decrease) in cash and cash equivalents		**135,284**	(22,728)
Reclassified from cash and cash equivalents to financial assets	8	**(15,646)**	-
Cash and cash equivalents at the beginning of the year		**363,641**	386,369
Cash and cash equivalents at the end of the year	11	**483,279**	363,641

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:

Commercial Crime Concepts Proprietary Limited;
Commercial Properties Division
Consort Technical Underwriting Managers Proprietary Limited;
HCV Underwriting Managers Proprietary Limited;
Horizon Underwriting Managers Proprietary Limited
Leppard and Associates Proprietary Limited ;
PinnAfrica Underwriting Managers Proprietary Limited;
S.M.A.R.T Proprietary Limited;
Praesidio Risk Managers Proprietary Limited; and
Motor Funding Underwriters Managers Proprietary Limited

The Company does business in sub-Saharan Africa and Australia.

The Company is a limited liability company incorporated and domiciled in the Republic of South Africa.

2. ACCOUNTING POLICIES

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

2.1 Basis of presentation

The annual financial statements are prepared in accordance with IFRS as defined by IAS 1 Presentation of Financial Statements. They have been prepared on the going concern principle using the historical costs basis, except for certain financial instruments which are carried at fair value.

The preparation of the annual 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 annual financial statements are disclosed in note 3.

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

2. ACCOUNTING POLICIES (continued)

2.2 Amendments and International Financial Reporting Standards effective for the first time for the financial year ended 30 June 2015

The following amendments and International Financial Reporting Standards are mandatory for Company's accounting period and has been adopted where applicable. These amendments have been adopted in the current financial year and did not have a significant impact on the Company.

· IFRS 13: Fair Value Measurement— Amendments resulting from Annual Improvements 2011-2013 Cycle (scope of the portfolio exception in paragraph 52) (Effective for accounting periods on or after 1 July 2014)
Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only)
· IAS 24: Related Party Disclosures— Amendments resulting from Annual Improvements 2010-2012 Cycle (management entities) (Effective for accounting period on or after 1 July 2014)
Clarify how payments to entities providing management services are to be disclosed

2.3 International Financial Reporting Standards and amendments issued but not relevant for 30 June 2015 year end

The following amendments and International Financial Reporting Standards are mandatory for Company's accounting period but is not relevant to the Company's operations.

· IFRS 2: Share-based Payment - Amendments resulting from Annual Improvements 2010-2012 Cycle (definition of 'vesting condition'). (Effective for accounting periods on or after 1 July 2014)
Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'
· IFRS 3: Business Combinations - Amendments resulting from Annual Improvements 2010-2012 Cycle (accounting for contingent consideration) (Effective for accounting periods on or after 1 July 2014)
Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date
· IFRS 3: Business Combinations - Amendments resulting from Annual Improvements 2011-2013 Cycle (scope exception for joint ventures). (Effective for accounting periods on or after 1 July 2014)
Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself
· IFRS 8: Operating Segments - Amendments resulting from Annual Improvements 2010-2012 Cycle (aggregation of segments, reconciliation of segment assets). (Effective for accounting periods on or after 1 July 2014)
Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly
· IAS 16 and IAS 38: Property, Plant and Equipment and Intangible Assets - Amendments resulting from Annual Improvements 2010-2012 Cycle (proportionate restatement of accumulated depreciation on revaluation) (Effective for accounting periods on or after 1 July 2014)
Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount
· IAS 19: Employee Benefits - The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. (Effective for accounting periods on or after 1 July 2014)
Amends IAS 19 Employee Benefits to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered.

2. ACCOUNTING POLICIES (continued)

2.3 International Financial Reporting Standards and amendments issued but not relevant for 30 June 2015 year end (continued)

· IAS 40: Investment Property - Amendments resulting from Annual Improvements 2011-2013 Cycle (interrelationship between IFRS 3 and IAS 40) (Effective for accounting periods on or after 1 July 2014)
Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

2.4 International Financial Reporting Standards and amendments issued but not yet effective for 30 June 2015 year end

At the date of authorisation of these financial statements, the following standards, amendments and interpretations, were in issued, and have not been adopted early in the annual financial statements. The adoption of these standards in future financial reporting periods may have a significant impact on the Company's reported results, financial position or cash flow.

· IFRS 5: Non-current Assets Held for Sale and Discontinued Operations - Amendments resulting from 2012-2014 Annual Improvements Cycle (Effective for accounting periods on or after 1 January 2015)
· IFRS 7: Financial Instruments: Disclosures - Amendments resulting from September 2014 Annual Improvements to IFRSs (Effective for accounting periods on or after 1 January 2015)
· IFRS 10: Consolidated Financial Statements - Amendments on Sale or Contribution of Assets between an investor and its associate or joint venture (Effective for accounting periods on or after 1 January 2016)
· IFRS 12: Disclosure of Interests in Other Entities -Amendments related to the application of the investment entities exceptions (Effective for accounting periods on or after 1 January 2016)
· IFRS 14: Regulatory Deferral Accounts - Original issue (Effective for accounting periods on or after 1 January 2016)
· IAS 1: Presentation of Financial Statements -Amendments arising under the Disclosure Initiative (Effective for accounting periods on or after 1 January 2016)
· IAS 19: Employee Benefits - Amendments resulting from 2012-2014 Annual Improvements Cycle (Effective for accounting periods on or after 1 January 2016)
· IAS 27: Separate Financial Statements - Amendments relating to equity method in separate financial statements (Effective for accounting periods on or after 1 January 2016)
· IAS 28: Investments in Associates and Joint Ventures - Amendments on Sale or Contribution of Assets between an investor and its associate or joint venture (Effective for accounting periods on or after 1 January 2016)
· IAS 28: Investments in Associates and Joint Ventures - Amendments related to the application of the investment entities exceptions (Effective for accounting periods on or after 1 January 2016)
· IAS 34: Interim Financial Reporting - Amendments resulting from 2012-2014 Annual Improvements Cycle (Effective for accounting periods on or after 1 January 2016)
· IAS 38: Intangible Assets - Amendments resulting from clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38) (Effective for accounting periods on or after 1 January 2016)
· IFRS 15: Revenue from contracts with customers - Original issue (Effective for accounting periods on or after 1 January 2018)
· IFRS 9: Financial Instruments - Reissue of a complete standard with all the chapters incorporated (Effective for accounting periods on or after 1 January 2018)

2. ACCOUNTING POLICIES (continued)

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.

Premiums

Premium revenue comprises the premiums on insurance contracts entered into or renewed during the year and is recognised the earlier of policy inception and 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 indemnity period, based on the pattern of risks underwritten. Gross premiums exclude Value Added Tax.

Acquisition costs

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 the gross premiums written in the current year which relates to the risks that have not expired by the end of the financial year and 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 the incurred but not reported (“IBNR”) claims is determined based on a set percentage of net written premium for all business expect Bonding and Trade Credit. For the Bonding and Trade Credit business an ultimate loss ratio approach is utilised in determining the IBNR. The ultimate loss ratio method utilises ultimate losses calculated as earned premium multiplied by the ultimate expected loss ratio. The IBNR is then calculated as these ultimate losses less the claims incurred to date (claims paid including claims recoveries and claims expenses and outstanding claims).

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.

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 the statement of comprehensive income.

2. ACCOUNTING POLICIES (continued)

2.6 Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and impairment losses.

Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item, and the cost of the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

Depreciation is calculated on the difference between the cost and residual value of the asset and is charged to the statement of comprehensive income over the estimated useful lives of each significant part of an item of equipment, using the straight-line basis. The estimated useful lives are as follows:

Aircraft	4 years
Computer equipment	3 years
Office furniture	10 years
Vehicles	5 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 assets carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

The carrying amount of the company's equipment is assessed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated. The recoverable amount is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the expected future cash flows from the asset are discounted to their present value using pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

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)

2.8 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 at fair value through profit or loss, 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.

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 liabilities.

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 at fair value through profit or loss

Financial assets, other than those held for trading, are classified in this category if they meet one or more of the following criteria set out below at initial recognition, and are so designated by management. The Company may only designate financial instruments at fair value through profit or loss when the designation results in more relevant information, as follows:

· it eliminates or significantly reduces valuation or recognition inconsistencies that would arise from measuring financial assets or financial liabilities, or are recognising gains or losses on them. On different bases. Under this criterion, the main classes of financial instruments designated by the Company are:

· financial assets backing insurance and investment contracts, because the related liabilities (i.e.. The insurance and investment contracts) have cash flows that are contractually based on the performance of the assets or the related liabilities. Fair valuing the assets through profit or loss significantly reduces the recognition of inconsistencies that would arise if the financial assets were classified as available-for-sale ; and

· financial assets, financial liabilities and structured investments, where doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost.

2. ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

i) Financial assets at fair value through profit or loss (continued)

· when groups of financial assets, financial liabilities or combinations thereof are managed, and their performance evaluated, on fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis. Under this criterion, certain private equity and other reinvestments are the main class of financial instruments so designated. The Company has documented risk management and investment strategies designed to manage such assets at fair value, taking into consideration the relationship of assets to liabilities in a way that mitigates market risks.
· The Company can also designate a financial instrument at fair value through profit or loss if it relates to a contract containing one or more embedded derivatives that significantly modify the cash flows resulting from that contract.

Measurement is initially at fair value, with transaction costs taken directly to the profit and loss component of the statement of comprehensive income. Subsequent to initial recognition, the fair value is remeasured, and gains and losses from changes therein are recognised in 'Net income from financial assets held at fair value through profit or loss'.

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.

Financial assets are designated as at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value. These assets 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. Attributable transaction costs are recognised on profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value. Unrealised losses and gains arising from changes in the fair value of these securities are recognised through profit or loss. Financial assets designated as at fair value through profit or loss comprise equity securities that otherwise would have been classified as available-for-sale.

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.

2. ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

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 twelve months or less, and bank overdrafts.

v) Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

2.10 Investment income

i) Interest income

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

ii) Dividend income

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

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. ACCOUNTING POLICIES (continued)

2.12 Foreign currency translation

i) Functional and presentation currency

Items included in the annual financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency).

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.

2.14 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.

2. ACCOUNTING POLICIES (continued)

2.14 Income taxes (continued)

Government notice number 1073, issued by National Treasury on 20 December 2011 introduced a withholding tax on dividends into South Africa with effect from 1 April 2012 in lieu of Secondary Tax on Companies (STC). Lombard Insurance Company Limited is exempt from paying withholding tax on ordinary share dividends as Lombard Insurance Company Limited is a company resident in the Republic of South Africa. Accordingly, no withholding tax should be deducted from dividends payable by the issuer to Lomhold Proprietary Limited.

2.15 Trade and other 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.

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 annual 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.

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 has a Risk Officer who assists the Managing Director and the Board to identify and monitor risk. Three times a year the Company holds Audit, Risk and Compliance meetings, chaired by a non-executive Director, at which the Risk Officer presents a detailed Risk Management Report including a Risk Register which highlights the Company's top twenty Residual Risks.

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 will advise 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.

The Company has established a comprehensive Enterprise Risk Management framework that has been designed to identify, assess, measure and manage exposure to risk. Its primary objective will be 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; and
- The approach followed to build an enterprise view of the risks faced by the Company.

4.2 Terms and conditions of contracts

The Company itself 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 and related bonds; and financial or payment bonds.

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.2 Terms and conditions of contracts (continued)

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. Failure should be seen in the context of the guarantee wording as well as the required performance as stipulated in the underlying contract. 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.

The Company also underwrites several other classes of insurance, through partnership agreements with Underwriting Management Agencies ("UMAs"). These include Professional Indemnity and Liability, Motor vehicle, Motor Vehicle Fleet, Engineering and Contractor's All Risks, Marine, Personal Accident, Commercial Crime and General Commercial Insurance usually underwritten in terms of a Multi-Peril policy. In terms of the partnership agreements the UMA's are entitled to an administration fee and a profit share in return for underwriting, claims-handling and policy administration services.

4.3 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and that the full amount of the Sum Insured or the Limit of Indemnity is claimed. 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.

The Company's main business can be broadly split into the following categories; guarantees and bonds, credit insurance business, underwriting management agencies, and reinsurance inwards. The first three categories are dealt with under Credit, surety and other insurance risk below and the reinsurance inwards under Reinsurance insurance risks below.

The Company provides policies of guarantee in the construction sector, deferred payment bonds to the Department of Customs & Excise, trade credit insurance for both local and export debtor default as well as a variety of products underwritten through strategic partnerships with Underwriting Management Agencies as mentioned above. It is the Company's policy to enter into partnership agreements with UMA's that share the Company's values, and has similar approaches to managing risks.

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.

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 annual 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.

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

Credit, surety and other insurance risks (continued)

(a) Frequency and severity of claims (continued)

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 the 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. Only reinsurers with a rating of A- or higher (local rating or international rating of parent company) are participants in the treaties. By spreading the ceded risk across several reinsurers, the risk of failure to recover from reinsurance agreements is reduced.

	2015		2014	
Reinsurer	**Reinsurer surety risk ceded %**	**Credit rating**	**Reinsurer surety risk ceded %**	**Credit rating**
Arch Re (previously Ariel)	**10.0**	**A+**	10.5	A+
Atra dius Re	**5.5**	**A** [(2)]	8.5	A
Axis Re	**5.0**	**A+**	6.0	A+
Clavis Re	**2.5**	**A+**		
Endurance Re	**-**	**A**		
Everest Re	**4.0**	**A+**	2.0	A+
Hannover Re Africa / Hannover Re	**17.5**	**BBB+ / AA-**	17.5	AA-
Munich Re Africa	**5.0**	**AA-**	5.0	AA-
Novae	**-**	**A+**		
Partner Re	**5.0**	**A+**	5.0	A+
R & V Re	**10.5**	**AA-**	10.5	AA-
SCOR Africa	**17.5**	**A+**	17.5	A+ (+)
Swiss Re	**17.5**	**AA-**	17.5	AA-
XL Catlin Re	**-**	**A+**		
Total	**100**		100	

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.

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

Credit, surety and other insurance risks (continued)

(a) Frequency and severity of claims (continued)

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.

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 engineering, construction and manufactuing 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:

	2015	2014
Industry sector	**% Exposure**	**% Exposure**
Engineering	**35**	38
Property	**1**	1
Manufacturing and retail	**20**	21
Liability	**17**	15
Construction	**13**	15
Motor	**3**	3
Freight	**2**	2
Marine	**2**	2
Mining	**3**	3
Accident & Health	**4**	-
Total	**100**	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 effect 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. IBNR is provided for based on the claims experience of the Company, which exceeds the minimum prescribed rate per regulations.

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 annual financial statements in terms of SAM.

(c) Reinsurance 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. The Company has concluded agreements to accept reinsurance inwards in certain construction guarantees underwritten in Australia, Sweden as well as South Africa.

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

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.

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

	2015	2014
	R'000	R'000
Financial & insurance assets		
Equity securities		
fair value through profit or loss		
- listed securities	**92,539**	86,978
- unlisted securities	**177,870**	97,893
Debt instruments		
fair value through profit or loss		
- unlisted debt instruments	**36,315**	43,821
held-to-maturity		
- unlisted preference shares	**90,338**	38,097
Receivables due from contract holders	**243,060**	151,193
Other loans and receivables	**511,661**	458,867
Reinsurance assets	**332,490**	390,170
Cash and cash equivalents	**483,279**	363,641
Total financial and insurance assets	**1,967,552**	1,630,660
Financial insurance liabilities		
Short term insurance contracts	**835,698**	805,397
Trade and other payables	**265,141**	252,998
Unsecured borrowings	**202,204**	-
Total financial and insurance liabilities	**1,303,043**	1,058,395

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
2015	**R'000**	**R'000**	**R'000**	**R'000**
Listed - ordinary shares	**92,539**	**-**	**-**	**92,539**
Listed - preference shares	**-**	**-**	**-**	**-**
Unlisted - ordinary shares	**-**	**177,870**	**-**	**177,870**
Unlisted - preference shares	**-**	**10,000**	**26,315**	**36,315**
Unlisted - debt instruments		**90,338**		**90,338**
	92,539	**278,208**	**26,315**	**397,062**
2014	**R'000**	**R'000**	**R'000**	**R'000**
Listed - ordinary shares	86,978	-	-	86,978
Listed - preference shares	-	-	-	-
Unlisted - ordinary shares	-	97,893	-	97,893
Unlisted - preference shares	-	10,000	33,821	43,821
Unlisted - debt instruments	-	38,097	-	38,097
	86,978	145,990	33,821	266,789

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 R 1 437 472 000 (2014: R 1 254 326 000). Only reinsurers with at least an BBB+ rating are used to participate on treaties, thereby reducing the credit risk exposure.

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 2015:

	A- R'000	AA- R'000	A R'000	AA R'000	AA+ R'000	BBB R'000	BBB- R'000	Not rated R'000	Total R'000
2015									
Debt instruments									
Fair value through profit or loss									
- unlisted debt instruments	-	-	-	-	-	10,000	-	26,315	36,315
Held-to-maturity									
- unlisted preference shares	-	-	-	-	-	-	-	90,338	90,338
Receivables due from contract holders	-	-	-	-	-	-	-	243,060	243,060
Other loans and receivables	-	-	-	-	-	-	-	511,661	511,661
Reinsurance assets	-	-	-	-	-	-	-	332,490	332,490
Cash and cash equivalents	21,911	577	-	-	12,981	391,107	56,651	27	483,254

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 2014:

	A-	AA-	A	AA	A+	AA+	AAA	Not rated	Total
	R'000	R'000	R'000	R'000		R'000	R'000	R'000	R'000
2014									
Debt instruments									
Fair value through profit or loss									
- unlisted debt instruments	-	-	-	10,000	-	-	-	33,821	43,821
Held-to-maturity									
- unlisted debt instruments	-	-	-	-	-	-	-	38,097	38,097
Receivables due from contract holders	-	-	-	-	-	-	-	151,193	151,193
Other loans and receivables	-	-	-	-	-	-	-	458,867	458,867
Reinsurance assets	-	-	-	-	-	-	-	390,170	390,170
Cash and cash equivalents	-	13,041	72,564	263,527	-	-	14,477	32	363,641

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.1 Credit risk (continued)

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.

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 2015:	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Receivables due from contract holders	112,948	69,090	32,096	22,856	6,070	11,990	(11,990)	243,060
Other loans and receivables	511,661	-	-	-	-	-	-	511,661
Total assets	**624,609**	**69,090**	**32,096**	**22,856**	**6,070**	**11,990**	**(11,990)**	**754,721**
As at 30 June 2014:								
Receivables due from contract holders	95,917	24,191	9,738	10,464	11,137	10,196	(10,196)	151,447
Other loans and receivables	458,867	-	-	-	-	-	-	458,867
Total assets	554,784	24,191	9,738	10,464	11,137	10,196	(10,196)	610,314

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 2015:

	USD	EURO	GBP	BWP	NAD	AUD	Other	Total ZAR
As at 30 June 2015:	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Receivables due from contract holders	126	-	-	1,446	959	144	7,241	9,916
Cash and cash equivalents	1,356	10	-	-	-	-	-	1,366
Total	**1,482**	**10**	**-**	**1,446**	**959**	**144**	**7,241**	**11,282**
Exchange rates	12.2773	13.6232	19.2967	1.2137	1.0000	9.3987		
As at 30 June 2014:								
Receivables due from contract holders	9,045	-	-	573	527	12,039	10,408	32,592
Cash and cash equivalents	207	11	7	-	-	-	-	225
Total	**9,252**	**11**	**7**	**573**	**527**	**12,039**	**10,408**	**32,817**
Exchange rates	9.8925	13.1275	15.0525	1.1604	1.0000	9.0476		

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:

	2015	2014
	R’000	R’000
10% Increase	**8,340**	8,415
10% Decrease	**(8,340)**	(8,415)

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 as 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 as 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.

4.4.4 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 these 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 Company'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 4.20% (2014: 3.80%) received during the year under review):

	2015	2014
	R’000	R’000
1% Increase	**2,677**	4,053
1% Decrease	**(2,677)**	(4,053)

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.

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.5 Price risk

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.

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

	2015	2014
	R'000	R'000
Fair value of listed equities	**92,539**	86,978
10% Increase	**101,793**	95,676
10% Decrease	**(83,285)**	(78,280)

4.4.6 Assumption risk

There is a risk that the assumptions used in deriving 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.

4.4.7 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.

4.4.8 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 are 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. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.9 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.

4.4.10 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.

4.4.11 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.

4.4.12 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.

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.12 Operational risk(continued)

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.

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.

4.4.13 Capital management

The Company'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.

5. PROPERTY AND EQUIPMENT

	Furniture and equipment R'000	Vehicles R'000	Total R'000
As at 30 June 2015			
Cost	**12,819**	**530**	**13,349**
Accumulated depreciation	**(7,374)**	**(493)**	**(7,867)**
	5,445	**37**	**5,482**
Year ended 30 June 2015			
Opening net book value	**5,136**	**72**	**5,208**
Additions	**3,718**	**-**	**3,718**
Disposals	**(1,369)**	**-**	**(1,369)**
Depreciation charge	**(2,040)**	**(35)**	**(2,075)**
Closing net book value	**5,445**	**37**	**5,482**
As at 30 June 2014			
Cost	18,534	530	19,064
Accumulated depreciation	(13,398)	(458)	(13,856)
	5,136	72	5,208
Year ended 30 June 2014			
Opening net book value	6,232	107	6,339
Additions	1,232	-	1,232
Disposals	(60)	-	(60)
Depreciation charge	(2,268)	(35)	(2,303)
Closing net book value	5,136	72	5,208

Depreciation expense has been included in other operating expenses (refer to note 21).

6. INTANGIBLE ASSETS

	Computer software R'000	Total R'000
As at 30 June 2015		
Cost	**46,612**	**46,612**
Accumulated amortisation	**(30,237)**	**(30,237)**
	16,375	**16,375**
Year ended 30 June 2015		
Opening net book value	**14,684**	**14,684**
Additions	**6,675**	**6,675**
Disposals and write offs	**-**	**-**
Amortisation	**(4,984)**	**(4,984)**
Closing net book value	**16,375**	**16,375**
As at 30 June 2014		
Cost	39,936	39,936
Accumulated amortisation	(25,252)	(25,252)
	14,684	14,684
Year ended 30 June 2014		
Opening net book value	21,677	21,677
Additions	1,418	1,418
Disposals and write offs	(1,985)	(1,985)
Amortisation	(6,426)	(6,426)
Closing net book value	14,684	14,684

Amortisation expense has been included in other operating expenses (refer to note 21).

7. DEFERRED TAXATION

	2015 R'000	2014 R'000
Deferred tax assets		
- provisions	**20,242**	7,696
- tax loss	**-**	18,343
Deferred tax asset at end of the year	**20,242**	26,039
Deferred tax liabilities		
- intangible assets	**(3,714)**	(3,325)
- property and equipment	**(1,067)**	(378)
- provision for future income	**(5,233)**	(11,055)
- unrealised gains on investments	**(15,335)**	(19,285)
- statutory reserves	**(6,903)**	(11,437)
Deferred tax liability at end of the year	**(32,252)**	(45,480)
Total net deferred tax account	**(12,010)**	(19,441)
The total movement on the net deferred account is as follows:		
Opening balance	**(19,441)**	(11,861)
Charge to statement of comprehensive income	**7,431**	(7,580)
Charge to other comprehensive income	**-**	-
Closing balance	**(12,010)**	(19,441)

7. DEFERRED TAXATION (continued)

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

(a) Deferred tax assets	**Provisions R'000**	**Tax loss R'000**	**Total R'000**
As at 30 June 2013	10,982	-	10,982
Charged to the statement of comprehensive income	(3,286)	18,343	15,057
As at 30 June 2014	7,696	18,343	26,039
As at 30 June 2014	**7,696**	**18,343**	**26,039**
Charged to the statement of comprehensive income	**12,546**	**(18,343)**	**(5,797)**
As at 30 June 2015	**20,242**	**-**	**20,242**

(b) Deferred tax liabilities	**Intangible Assets R'000**	**Plant and Equipment R'000**	**Prepaid expenses R'000**	**Statutory reserves R'000**	**Unrealised gains on investments R'000**	**Total R'000**
As at 30 June 2013	(3,774)	(425)	(2,798)	-	(15,846)	(22,843)
Charged to the statement of comprehensive income	449	47	(8,257)	(11,437)	(3,439)	(22,637)
As at 30 June 2014	(3,325)	(378)	(11,055)	(11,437)	(19,285)	(45,480)
As at 30 June 2014	**(3,325)**	**(378)**	**(11,055)**	**(11,437)**	**(19,285)**	**(45,480)**
Charged to the statement of comprehensive income	**(389)**	**(689)**	**5,822**	**4,534**	**3,950**	**13,228**
As at 30 June 2015	**(3,714)**	**(1,067)**	**(5,233)**	**(6,903)**	**(15,335)**	**(32,252)**

8. FINANCIAL ASSETS

	2015	2014
	R'000	R'000
The Company's financial assets are summarised by measurement category in the table below:		
Fair value through profit or loss	**306,724**	228,692
Held-to-maturity	**90,338**	38,097
Loans and receivables including reinsurance receivables (note 10)	**754,721**	610,060
Total financial assets	**1,151,783**	876,849
Fair value through profit or loss financial assets		
Equity Securities		
- listed	**92,539**	86,978
- unlisted	**177,870**	97,893
Debt instruments		
- unlisted preference shares	**36,315**	43,821
Total fair value through profit or loss financial assets	**306,724**	228,692
Held-to-maturity financial assets		
Debt instruments	**90,338**	38,097
Total held-to-maturity financial assets	**90,338**	38,097

	Fair value through profit or loss financial assets	**Held-to-maturity**	**Total**
	R'000	**R'000**	R'000
As at 30 June 2013	231,263	43,337	274,600
Additions	49,646	202	49,848
Disposals	(90,826)	(5,442)	(96,268)
Fair value gains	38,609	-	38,609
As at 30 June 2014	228,692	38,097	266,789
As at 30 June 2014	**228,692**	**38,097**	**266,789**
Additions	**68,636**	**52,241**	**120,877**
Disposals	**(13,555)**	**-**	**(13,555)**
Fair value gains	**12,305**	**-**	**12,305**
Impairment of financial assets	**(5,000)**	**-**	**(5,000)**
Reclassified from cash and cash equivalents to financial assets	**15,646**	**-**	**15,646**
As at 30 June 2015	**306,724**	**90,338**	**397,062**

9. INSURANCE LIABILITIES AND REINSURANCE CONTRACTS

	2015	2014
	R'000	R'000
Gross		
Outstanding claims	**347,063**	410,383
Claims incurred but not reported	**148,738**	103,444
Unearned premiums	**379,696**	324,365
Deferred acquisition costs	**(39,799)**	(32,795)
Total insurance liabilities	**835,698**	805,397
Recoverable from reinsurers		
Outstanding claims reported	**(158,287)**	(238,837)
Claims incurred but not reported	**(86,036)**	(63,201)
Unearned premiums	**(127,483)**	(124,283)
Deferred reinsurance commission	**39,316**	36,151
Total reinsurers' share of insurance liabilities	**(332,490)**	(390,170)
Net		
Outstanding claims	**188,776**	171,546
Claims incurred but not reported	**62,702**	40,243
Unearned premiums	**252,213**	200,082
Deferred acquisition costs and reinsurance commission	**(483)**	3,356
Total net insurance liabilities	**503,208**	415,227

The carrying value of all the above insurance liabilities and reinsurance contracts approximates fair value.

9. INSURANCE LIABILITIES AND REINSURANCE CONTRACTS (continued)

Analysis of movement in outstanding claims and IBNR	Gross R'000	Reinsured R'000	Net R'000
Year ended 30 June 2015			
Balance at beginning of the year			
- outstanding claims	**410,383**	**(238,837)**	**171,546**
- incurred but not reported	**103,444**	**(63,201)**	**40,243**
	513,827	**(302,038)**	**211,789**
Claims paid during the year (note 20)	**(410,186)**	**306,838**	**(103,348)**
Increase in outstanding claim reserves	**347,095**	**(226,517)**	**120,578**
Increase in incurred but not reported reserve	**45,065**	**(22,606)**	**22,459**
Balance at end of the year	**495,801**	**(244,323)**	**251,478**
Balance at year end is made up as follows:			
- outstanding claims	**347,063**	**(158,287)**	**188,776**
- incurred but not reported	**148,738**	**(86,036)**	**62,702**
	495,801	**(244,323)**	**251,478**
Year ended 30 June 2014			
Balance at beginning of the year			
- outstanding claims reported	424,015	(273,414)	150,601
- incurred but not reported	97,465	(57,308)	40,157
	521,480	(330,722)	190,758
Claims paid during the year	(491,110)	294,158	(196,952)
Increase in outstanding claim reserves	477,476	(259,582)	217,894
Increase in incurred but not reported reserve	5,981	(5,892)	89
Balance at end of the year	513,827	(302,038)	211,789
Balance at year end is made up as follows:			
- outstanding claims	410,383	(238,837)	171,546
- incurred but not reported	103,444	(63,201)	40,243
	513,827	(302,038)	211,789

10. RECEIVABLES INCLUDING REINSURANCE RECEIVABLES

	2015 R'000	2014 R'000
Receivables arising from insurance contracts		
- due from agents, brokers and intermediaries	**171,990**	130,449
- impairment provision	**(11,990)**	(10,196)
- due from reinsurance contracts	**83,060**	30,940
Other receivables		
- amounts due from related parties (note 26)	**314,541**	206,131
- prepaid expenses	**1,017**	3,772
- sundry debtors	**196,103**	248,964
Total receivables including reinsurance receivables	**754,721**	610,060

The carrying value of receivables including reinsurance receivables approximates the fair value.

11. CASH AND CASH EQUIVALENTS

	2015 R'000	2014 R'000
Cash at bank and in hand	**352,876**	190,750
Short-term bank deposits	**130,403**	172,891
Total cash and cash equivalents	**483,279**	363,641

The effective interest rate on short-term bank deposits was 4.2% (2014 - 3.8%).

12. SHARE CAPITAL AND SHARE PREMIUM

	2015 R'000	2014 R'000
Authorised		
10 000 000 ordinary shares at 1 cent each	**100**	100
Issued		
4 665 501 (2014: 4 665 501) ordinary shares of 1 cent each	**47**	47
Share premium	**189,003**	189,003
	189,050	189,050

12. SHARE CAPITAL AND SHARE PREMIUM (continued)

	Share Capital	Share Premium
Year ended 30 June 2015		
Opening Balance	**47**	189,003
Issued shares	**-**	-
Closing Balance as at 30 June 2015	**47**	189,003
Year ended 30 June 2014		
Opening Balance	**47**	134,403
Issued shares	*****	54,600
Closing Balance as at 30 June 2014	**47**	189,003

* denotes items under R1 000

The unissued shares are under the control of the directors until the next annual general meeting of the Company.

13. NON-DISTRIBUTABLE RESERVES

	2015 R'000	2014 R'000
Capital contribution reserve	**-**	2,000
	-	2,000

Capital contribution reserve

Balance at beginning of the year	**2,000**	2,000
Transfer (from)/to capital contribution reserve	**(2,000)**	-
Balance at end of the year	**-**	2,000

In prior years the Company transferred R 2 000 000 to a non-distributable reserve at the request of the FSB 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. This is no longer a requirement of the FSB and was released to retained earnings in 2015.

14. TIER II FUNDING

	2015	2014
	R'000	R'000
Unsecured subordinated notes		
Non-current liabilities	**200,000**	-
Current liabilities	**2,204**	-
	202,204	-
Finance cost	**12,961**	-

During the 2015 financial year, the Company issued R 200,000,000 unsecured subordinated notes under a R1,000,000,000 notes programme listed on the JSE. Interest is based on floating rate 3 months JIBAR. The redemption date for the R200 000 000 notes issued is 25 November 2019.

15. EMPLOYEE BENEFITS

	2015	2014
	R'000	R'000
Bonus provision	**41,794**	-
Leave pay provision	**4,436**	4,198
Profit right provision	**-**	4,125
	46,230	8,323

	Bonus provision	**Leave pay provision**	**Profit right provision**	**Total**
As at 1 July 2013	11,643	3,802	10,417	25,862
Amounts utilised	(11,643)	-	(6,292)	(17,935)
Additional provision raised	-	396	-	396
As at 1 July 2014	-	4,198	4,125	8,323
Amounts utilised	**-**	**(480)**	**(4,125)**	**(4,605)**
Additional provision raised	**41,794**	**718**	**-**	**42,512**
As at 30 June 2015	**41,794**	**4,436**	**-**	**46,230**

16. TRADE AND OTHER PAYABLES

	2015	2014
	R'000	R'000
Accrued expenses	**6,976**	2,310
Amounts due to related parties (note 26)	**7,839**	322
Payables under reinsurance contracts	**166,542**	222,563
Sundry creditors	**69,520**	15,119
Trade creditors	**14,264**	12,684
Total trade and other payables	**265,141**	252,998

The carrying value approximates the fair value.

17. NET INSURANCE PREMIUM REVENUE

	2015	2014
	R'000	R'000
Insurance contracts		
- gross written premium	**1,131,823**	1,048,392
- change in unearned premium provision	**(55,330)**	(25,204)
Insurance premium revenue	**1,076,493**	1,023,188
Reinsurance contracts		
- reinsurance premium	**(579,704)**	(559,110)
- change in unearned premium - reinsurers' portion	**3,201**	(3,266)
Insurance premium revenue ceded to reinsurers	**(576,503)**	(562,376)
Net insurance premium revenue	**499,990**	460,812

18. INVESTMENT INCOME

	2015	2014
	R'000	R'000
Fair value through profit or loss		
- dividend income	**2,999**	3,413
- fair value movement	**6,551**	15,004
- interest income	**4,016**	5,927
Cash and cash equivalents interest income	**17,956**	14,219
Held-to-maturity		
- interest income	**10,271**	5,388
Loans and receivables interest income	**21,967**	17,573
	63,760	61,524

19. OTHER OPERATING INCOME

	2015	2014
	R'000	R'000
Other operating income comprises of:		
Aviation income	**1,627**	579
Other income	**2,003**	1,215
	3,630	1,794

20. NET INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES

	2015 R'000	2014 R'000
Current year claims paid	**(410,186)**	(491,110)
Movement in incurred but not reported provision	**(45,065)**	(5,981)
Movement in outstanding claims provision	**63,343**	13,583
Insurance claims and loss adjustment expenses	**(391,908)**	(483,508)
Recoveries from reinsurers	**306,838**	294,158
Reinsurers' portion of incurred but not reported provision	**22,606**	5,892
Reinsurers' portion of outstanding claims provision	**(80,550)**	(34,579)
Insurance claims and loss adjustment expenses recovered from reinsurers	**248,894**	265,471
Net insurance claims and loss adjustment expenses	**(143,014)**	(218,037)

21. OTHER OPERATING EXPENSES

	2015 R'000	2014 R'000
Amortisation	**4,984**	6,426
Auditors remuneration		
- audit fees	**4,280**	3,919
Depreciation	**2,075**	2,303
Directors' remuneration		
- as directors	**6,840**	7,168
- for other services		
- salaries	**1,216**	12
- bonuses	**5,004**	2,866
- provident fund contributions	**397**	339
Employee benefit expense		
- salaries and bonuses	**144,378**	86,754
Professional fees	**14,999**	9,930
Operating lease rental		
- premises	**12,265**	11,046
Other expenses	**85,132**	52,055
Other staff costs	**8,419**	6,580
Repairs and maintenance	**1,469**	1,298
Interest expense	**8,397**	7,743
	299,855	198,439

22. TAXATION EXPENSE

	2015	2014
	R'000	R'000
South Africa normal taxation		
- current taxation	**21,006**	-
- prior year (over)/under provision	**(107)**	81
Foreign withholding taxation	**1,423**	1,001
Deferred taxation		
- current year	**(7,433)**	6,939
- prior year	**-**	641
	14,889	8,662

Taxation rate reconciliation:	**%**	%
South Africa normal tax rate	**28.00**	28.00
Foreign withholding tax	**2.00**	2.07
Deductible expenses	**(10.12)**	(2.04)
Non-deductible expenses	**5.07**	1.46
Non taxable income	**(5.12)**	(5.39)
Prior year (over)/under provision	**(0.15)**	0.17
Effective tax rate before capital gains inclusion rate change	**19.68**	24.27
Capital gains tax	**1.23**	(6.41)
Effective tax rate	**20.91**	17.86

23. NOTES TO THE STATEMENT OF CASH FLOWS

23.1 Cash generated by operations

	2015	2014
	R'000	R'000
Results of operating activities	**84,206**	48,490
Adjusted for:		
Increase in net technical provisions	**87,981**	54,221
Depreciation	**2,075**	2,303
Amortisation	**4,984**	6,426
Intangible assets written off	**-**	1,985
Profit on disposal of investments	**(4,831)**	(23,675)
Impairment of financial asset	**5,000**	-
Investment income	**(64,682)**	(61,454)
Finance costs	**(12,961)**	-
Increase in trade and other receivables	**(144,661)**	(58,962)
Increase/(decrease) in trade and other payables	**50,051**	(111,248)
	7,162	(141,914)

23. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

23.2 Taxation paid

	2015 R'000	2014 R'000
Balance at beginning of the year	**5,908**	(1,586)
Taxation expense for the year	**(22,322)**	(1,082)
Balance at end of the year	**19,715**	(5,908)
	3,301	(8,576)

24. OPERATING LEASE COMMITMENTS

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

	2015 R'000	2014 R'000
Not later than 1 year	**9,101**	8,880
Later than 1 year and not later than 5 years	**6,816**	15,512
Later than 5 years	**-**	-
	15,917	24,392

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 2015, the provident fund had accumulated funds of R50 088 889 (2014: R46 459 882).

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 an associate of The Hollard Insurance Company Limited ('Hollard") - incorporated in the Republic of South Africa, which owns 21.88% (2014: 21.88%) of the shares of Lomhold Proprietary Limited, the remaining shares are held by Cast Arena Trade & Invest 187 Proprietary Limited – 19.87% (2014: 19.87%), Lombard Consolidated Proprietary Limited – 49.13% (2014: 49.13%), IVM Intersurer BV – 8.12% (2014: 8.12%) and CG Japhet – 1.00% (2014: 1.00%).

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 Insurance Company Limited. The year-end balance relates to premiums due to Hollard on this particular line of business.

As at year end, Lombard Insurance Company Limited has given, in the normal course of business, guarantees to the following entities:
Fulcrum Group Proprietary Limited R493 million (2014: R345 million)
Lombard Trade Finance Proprietary Limited R75 million (2014: R75 million)
Cape Finance Corporation Limited R75 million (2014: R75 million)

26. RELATED PARTY TRANSACTIONS (continued)

	Amounts received from related parties R'000	Amounts paid to related parties R'000	Amounts due from related parties R'000	Amounts due to related parties R'000
2015				
Parent				
Lomhold Proprietary Limited	-	-	50,999	-
	-	-	50,999	-
Other				
BrightRock Holdings Proprietary Limited	-	-	200,225	-
BrightRock Proprietary Limited	-	-	458	-
Cape Finance Corporation Limited	829	-	-	-
Commercial Crimes Proprietary Limited	3,992	(2,306)	2,676	-
Consort Technical Underwriters Proprietary Limited	-	(24,455)	-	(2,601)
Financial Management International Limited	-	-	-	-
Fulcrum Group Proprietary Limited	6,900	(697)	-	-
Horizon Underwriting Management Services (Pty) Ltd	-	(18,372)	-	(1,263)
Leppard & Associates Proprietary Limited	-	(23,684)	-	(1,734)
Lombard Consolidated Proprietary Limited	2,586	-	57,686	-
Lombard Life Limited	627	-	25	-
Lombard Trade Finance Proprietary Limited	832	-	-	-
LomShelf01Proprietary Limited	-	-	2,433	-
Motor Funding Underwriting Managers Proprietary Limited	-	(6,552)	-	(1,669)
PinnAfrica Insurance Limited	-	-	39	-
Praesidio Risk Managers Proprietary Limited		(1,216)		(87)
The Hollard Insurance Company Limited	-	-	-	(485)
	15,766	(77,282)	263,542	(7,839)
Total	15,766	(77,282)	314,541	(7,839)

Amounts due from/(to) related parties disclosed as follows:

Receivables including reinsurance receivables - amounts due from related parties (note 10)	314,541	-
Trade and other payables - amounts due to related parties (note 16)		(7,839)
Total	314,541	(7,839)

26. RELATED PARTY TRANSACTIONS (continued)

	Amounts received from related parties	Amounts paid to related parties	Amounts due from related parties	Amounts due to related parties
	R'000	R'000	R'000	R'000
2014				
Parent				
Lomhold Proprietary Limited	-	-	121,745	-
	-	-	121,745	-
Other				
The Hollard Insurance Company Limited	-	-	-	(224)
BrightRock Proprietary Limited	-	-	-	-
Cape Finance Corporation Limited	426	-	7,600	-
Commercial Crimes Proprietary Limited	2,525	(1,699)	1,907	-
Consort Technical Underwriters Proprietary Limited	-	(30,560)	1,902	-
Deposit Advantage Proprietary Limited	-	-	-	-
S Emms	87	-	-	-
Factory and Industrial Proprietary Limited	-	(8,410)	-	-
Financial Management International Limited	-	-	5,079	-
First Marine Acceptances Proprietary Limited	-	-	-	-
Fulcrum Group Proprietary Limited	714	(801)	-	(98)
Helm Underwriting Management Services S.A (Pty) Ltd t/a Underwriting Management Services	-	-	-	-
Horizon Underwriting Mangement Services (Pty) Ltd	-	(17,544)	531	-
Leppard & Associates Proprietary Limited	-	(19,861)	9,453	-
Lombard Consolidated Proprietary Limited	-	-	55,100	-
Lombard Life Limited	2,744	-	218	-
Lombard Trade Finance Proprietary Limited	804	-	111	-
LomShelf01Proprietary Limited	-	-	2,433	-
Lomvest Proprietary Limited	-	-	-	-
B Muller	87	-	-	-
PinnAfrica Insurance Limited	-	-	52	-
PinnAfrica Insurance UW Managers Proprietary Limited	-	-	-	-
	7,387	(78,875)	84,386	(322)
Total	7,387	(78,875)	206,131	(322)

26. RELATED PARTY TRANSACTIONS (continued)

Amounts due from/(to) related parties disclosed as follows:		
Receivables including reinsurance receivables - amounts due from related parties (note 10)	206,131	-
Trade and other payables - amounts due to related parties (note 15)	-	(322)
Total	206,131	(322)

27. DIRECTORS' REMUNERATION

Remuneration in respect of directors is as follows:

Directors' remuneration and other benefits for services as director:

2015	For services as director R'000	Salary R'000	Bonuses and performance related payments R'000	Pension contributions under any pension scheme, not otherwise disclosed R'000	Total R'000
Director 1	**928**	**-**	**-**	**6**	**934**
Director 2	**250**	**-**	**-**	**-**	**250**
Director 3	**-**	**-**	**-**	**-**	**-**
Director 4	**154**	**-**	**-**	**-**	**154**
Director 5	**-**	**-**	**-**	**-**	**-**
Director 6	**-**	**1,204**	**-**	**-**	**1,204**
Director 7	**2,863**	**12**	**3,021**	**2**	**5,898**
Director 8	**2,395**	**-**	**1,983**	**389**	**4,767**
Director 9	**250**	**-**	**-**	**-**	**250**
Director 10	**-**	**-**	**-**	**-**	**-**
Director 11	**-**	**-**	**-**	**-**	**-**
	6,840	**1,216**	**5,004**	**397**	**13,457**

27. DIRECTORS' REMUNERATION (continued)

	For services as director	Salary	Bonuses and performance related payments	Pension contributions under any pension scheme, not otherwise disclosed	Total
2014					
Director 1	786	-	-	6	792
Director 2	250	-	-	-	250
Director 3	187	-	-	-	187
Director 4	250	-	-	-	250
Director 5	500	-	-	-	500
Director 6	500	-	-	-	500
Director 7	2,669	12	1,571	2	4,254
Director 8	1,776	-	1,295	331	3,402
Director 9	250	-	-	-	250
	7,168	12	2,866	339	10,385

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

28. CONTINGENCIES AND COMMITMENTS

Management is not aware of any contingent liabilities or commitments for the year between the statement of financial position date and the signing date of the audited annual financial statements.

29. 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.