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

AUDITED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012

The audited annual financial statements were prepared in August 2012.

The preparation of the audited annual financial statements was supervised by DD Hyde the financial director.

CONTENTS

CORPORATE GOVERNANCE STATEMENT
for the year ended 30 June 2012

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) Board Notice BN101, the Board currently consists of seven non-executive directors and two executive directors. Four 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 Board Notice BN101, 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.

Board composition, appointment and responsibilities (continued)

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.

The current members of the Board are:

ML Japhet	(Non-executive chairman)	
RJ Symmonds	(Managing director)	
DD Hyde	(Financial director)	
CE Backeberg	(Independent non-executive director)	(Appointed 23 November 2011)
GJM Carlin	(Independent non-executive director)	
ADH Enthoven	(Non-executive director)	
PG Nkadimeng	(Independent non-executive director)	
PJ Orford	(Non-executive director)	
P Soko	(Independent non-executive director)	

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 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 three independent non-executive members, namely:

GJM Carlin,
PG Nkadimeng,
P Soko,

Chaired by Ms P Soko, 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 and Long-Term Insurance Act No. 52 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;
- financial director for the Group;
- chief compliance officer for the Group;
- representatives from the external auditors for the Group;
- the head of the internal audit service provider 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 11 to 13 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, as well as its responsibilities in accordance with its terms of reference.

Investment Committee

The objective of the 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 Investment Committee, chaired by Mr GJM Carlin, meets bi-monthly.

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, is 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

The 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 Group Audit, Risk and Compliance Committee. The responsibilities of the internal audit partner are defined in a written charter approved by the Audit, Risk and Compliance Committee and ratified by the Board.

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.

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

Accountability and transparency (continued)

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.

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 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 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.

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.

Accountability and transparency (continued)

Compliance (continued)

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 3 years (2013 to 2015), 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
- transforming (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.

Principles of conduct (continued)

Business integrity and ethics (continued)

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 (Honours) Economics & Politics, Bristol University, 1977
ACII
Non-executive chairman
Joined in 1995

RJ Symmonds
BCom (Honours), UCT, 1980
Chartered Accountant of South Africa, Public Accountant and Auditor's Board, 1983
Managing director
Joined in 2004

DD Hyde
BCom (Law), WITS, 1989
CA (CA), Canadian Institute of Chartered Accountants, 1991
Financial director
Joined in 2009

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

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

Board of directors (continued)

ADH Enthoven
BA (Philosophy, Politics, Economics), Oxford, 1992
MA (Philosophy), Oxford 1996
PHD (Philosophy), Oxford, 2000
Non-executive director
Joined in 2010

PG Nkadimeng
BSc (Stats and Economics), UCT, 1994
Non-executive director
Joined in 2004

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

P Soko
B.Compt (Honours), UNISA
Certified Internal Auditor SA – IIA (SA)
Non-executive director
Joined in 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES
for the year ended 30 June 2012

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 14.

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 consolidated 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 15 to 71 are prepared in accordance with IFRS and are approved by the board of directors on 23 October 2012 and are signed on its behalf by:

ML JAPHET
CHAIRMAN
23 October 2012

RJ SYMMONDS
MANAGING DIRECTOR
23 October 2012

CERTIFICATION OF COMPANY SECRETARY
for the year ended 30 June 2012

In accordance with section 88(2)(e) of the Companies Act, 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 Companies Act and that such returns are true, correct and up to date.

SJ Vivian

SJ VIVIAN
COMPANY SECRETARY
23 October 2012

AUDIT COMMITTEE REPORT
for the year ended 30 June 2012

The Audit, Risk and Compliance Committee (the committee) has the pleasure in submitting its report for the financial year ended 30 June 2012.

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 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 shareholder 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: P Soko (Chairperson), GJM Carlin, PG Nkadimeng

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

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:

Composition of meetings (continued)

Name of committee member	Date appointed to committee	20 September 2011	23 March 2012	13 June 2012
P Soko	6 June 2007	✔	✔	✔
GJM Carlin	16 November 1995	✔	✔	✔
PG Nkadimeng	2 June 2009	✔	✔	✔

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 Yuresh Maharaj as the designated auditor in terms of the provisions of the section 90 of the Companies Act. 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.

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 2012 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 Audit, Risk and Compliance 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 Audit, Risk and Compliance 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 2012, 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 Audit, Risk and Compliance 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 a charter recommended by the Audit, Risk and Compliance Committee and approved by the Board. Currently the Group 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 committee. Internal audit attends Committee meetings by request and reports its findings to the Committee.

The internal audit function reports independently on whether risk management, control and governance processes are adequate and functioning within the Group. Internal audit performs periodic independent evaluations of the adequacy and effectiveness of controls, financial reporting structures and integrity of information systems and records. The Audit, Risk and Compliance Committee approves the annual risk-based internal audit work plan. The head of internal audit has a standing invitation to attend executive committee meetings and attends selected operational management meetings. Internal audit reports to the chairperson of the Audit, Risk and Compliance Committee and has unrestricted access to them. This Committee approves the appointment and dismissal of the head of internal audit and assesses the internal audit team's performance, objectivity and independence. The Board does not perform an independent quality review of the internal audit function as it has delegated this review to the Audit, Risk and Compliance Committee. The members of the Audit, Risk and Compliance Committee engage directly with internal audit and are best placed to perform an effective and independent review.

Annual financial statements

Having considered the annual financial statements for the year ended 30 June 2012, 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.

P SOKO
CHAIRPERSON
23 October 2012

Deloitte.

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

We have audited the annual financial statements of Lombard Insurance Company Limited, set out on pages 17 to 71, which comprise the statement of financial position as at 30 June 2012, and 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.

Directors' Responsibility for the Financial Statements
The Company's directors are responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of annual 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 annual 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 annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual 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 annual 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 annual 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 annual financial statements present fairly, in all material respects, the financial position of Lombard Insurance Company Limited as at 30 June 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act.

Other reports required by the Companies Act
As part of our audit of the annual financial statements for the year ended 30 June 2012, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as well as the Corporate Governance Statement for the purpose of identifying whether there are material inconsistencies between these reports and the audited annual 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 annual financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche

Registered Auditor
Per: Y Maharaj
Partner
23 October 2012

DIRECTORS' REPORT
for the year ended 30 June 2012

The directors have pleasure in submitting their report, which forms part of the audited annual financial statements of Lombard Insurance Company Limited for the year ended 30 June 2012.

GENERAL REVIEW

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

TRADING RESULTS

The state of affairs and results of the Company for the year are fully set out in the statement of comprehensive income on page 18.

DIVIDENDS

A dividend of R20 million (2011: R20 million) was declared on 20 September 2011 to the shareholders of the Company during the year under review.

SHARE CAPITAL

3 Ordinary shares at 1 cent each were issued during the year under review, increasing the issued number of ordinary shares to 4 665 500 (2011: 4 665 497) shares.

INTEREST IN SUBSIDIARY

The following information relates to the Company's financial interest in its subsidiary:

Lombard Guarantee Services (Proprietary) Limited (Incorporated in Botswana) – 100%
The activities and details of the interest in subsidiary are listed in note 8.

CONSOLIDATION

The annual financial statements have not been prepared on a consolidation basis as per IAS 27: *Consolidated and separate financial statements*. The Company is a wholly owned subsidiary of LomHold (Proprietary) Limited and the directors have selected to only prepare annual financial statements for the Company.

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.

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, a company incorporated in the Republic of South Africa.

DIRECTORS AND SECRETARY

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

ML Japhet	(Chairman)
RJ Symmonds	(Managing director)
DD Hyde	(Financial director)
CE Backeberg	(Appointed 23 November 2011)
GJM Carlin	
ADH Enthoven	
PG Nkadimeng	
PJ Orford	
P Soko	

The secretary of the Company is SJ Vivian.

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

Postal address:
PO Box 2740
Parklands
2121

AUDITORS

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

COMPARATIVE FIGURES

In some instances, reclassifications were made that affect prior year disclosures. This has been carried out to provide more useful information to the user of the annual financial statements. Where such reclassifications were made, a note was provided to inform users.

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

STATEMENT OF FINANCIAL POSITION
as at 30 June 2012

	Notes	**2012 R'000**	2011 R'000
ASSETS			
Non-current assets			
Property and equipment	5	**5 684**	4 915
Intangible assets	6	**19 251**	19 504
Deferred tax asset	7	**-**	5 271
Investment in subsidiary	8	**127**	127
Investment in associate	9	**-**	-
Financial assets	10		
- available-for-sale		**208 555**	204 135
- held-to-maturity		**21 903**	25 230
Total non-current assets		**255 520**	259 182
Current assets			
Reinsurance contracts	11	**329 361**	148 793
Receivables including insurance receivables	12	**428 382**	323 425
Cash and cash equivalents	13	**266 285**	222 946
Total current assets		**1 024 028**	695 164
Total assets		**1 279 548**	954 346
EQUITY			
Capital and reserves			
Share capital and share premium	14	**134 450**	82 449
Non-distributable reserves	15	**57 697**	119 104
Retained earnings		**251 788**	140 924
Total equity		**443 935**	342 477
LIABILITIES			
Deferred tax liability	7	**3 720**	-
Insurance liabilities	11	**659 093**	402 616
Employee benefits	16	**29 146**	59 662
Trade and other payables	17	**138 630**	141 224
Current income tax liability		**5 024**	8 367
Total liabilities		**835 613**	611 869
Total equity and liabilities		**1 279 548**	954 346

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

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2012

	Notes	**2012 R'000**	2011 R'000
Insurance premium revenue		**1 146 843**	939 235
Insurance premium revenue ceded to reinsurers		**(408 414)**	(293 044)
Net insurance premium revenue	18	**738 429**	646 191
Investment income	19	**28 958**	22 949
Reinsurance commission		**127 972**	85 684
Net realised gains on available-for-sale financial assets		**6 712**	1 771
Other operating income	20	**24 736**	13 313
Other income		**188 378**	123 717
Insurance claims and loss adjustment expenses		**(667 544)**	(363 503)
Insurance claims and loss adjustment expenses recovered from reinsurers		**248 990**	55 684
Net insurance claims and loss adjustment expenses	21	**(418 554)**	(307 819)
Expenses for the acquisition of insurance contracts		**(224 407)**	(154 432)
Expenses for marketing and administration		**(8 167)**	(6 676)
Other operating expenses	22	**(190 692)**	(187 006)
Expenses		**(423 266)**	(348 114)
Results of operating activities		**84 987**	113 975
Taxation expense	23	**(23 908)**	(32 489)
Profit after tax		**61 079**	81 486
Other comprehensive income			
- realised gains on disposal of available-for-sale financial assets		**(6 712)**	(1 771)
- fair value adjustment of available-for-sale financial assets		**20 857**	20 674
- tax effect of fair value adjustments of available-for-sale financial assets		**(5 767)**	(2 649)
Total comprehensive income		**69 457**	97 740

LOMBARD INSURANCE COMPANY LIMITED
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STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2012

	Number of ordinary shares	Share capital R'000	Share premium R'000	Share capital and share premium R'000	Available-for-sale reserve R'000	Contingency reserve R'000	Capital contribution reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 30 June 2010	**4 665 497**	**46**	**82 403**	**82 449**	**31 065**	**48 212**	**2 000**	**101 011**	**264 737**
Total comprehensive income	-	-	-	-	16 254	-	-	81 486	97 740
Transfer to contingency reserve	-	-	-	-	-	21 573	-	(21 573)	-
Dividends paid	-	-	-	-	-	-	-	(20 000)	(20 000)
Balance at 30 June 2011	**4 665 497**	**46**	**82 403**	**82 449**	**47 319**	**69 785**	**2 000**	**140 924**	**342 477**
Share issue	3	1	52 000	52 001	-	-	-	-	**52 001**
Total comprehensive income	-	-	-	-	8 378	-	-	61 079	**69 457**
Transfer from contingency reserve	-	-	-	-	-	(69 785)	-	69 785	**-**
Dividends paid	-	-	-	-	-	-	-	(20 000)	**(20 000)**
Balance at 30 June 2012	**4 665 500**	**47**	**134 403**	**134 450**	**55 697**	**-**	**2 000**	**251 788**	**443 935**

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

STATEMENT OF CASH FLOWS
for the year ended 30 June 2012

	Notes	**2012 R'000**	2011 R'000
Cash flow from operating activities			
Cash generated/(utilised) by operations	24.1	**17 125**	(11 040)
Interest received		**18 707**	16 414
Dividends received		**10 251**	6 535
Taxation paid	24.2	**(24 027)**	(8 615)
Net cash generated by operating activities		**22 056**	3 294
Cash flow from investing activities			
Acquisition of financial assets		**(52 427)**	(44 637)
Acquisition of intangible assets		**(6 918)**	(7 652)
Acquisition of property and equipment		**(3 596)**	(2 098)
Proceeds on disposal of financial assets		**52 191**	33 758
Proceeds on disposal of investment in associate		**-**	26 254
Proceeds on disposal of investment in subsidiary		**-**	55 168
Proceeds on disposal of property and equipment		**32**	-
Reclassification of financial asset to cash		**-**	64 974
Net cash (utilised)/generated by investing activities		**(10 718)**	125 767
Cash flow from financing activities			
Dividends paid to the shareholders of the Ccompany		**(20 000)**	(20 000)
Share issue		**52 001**	-
Net cash generated/(utilised) by financing activities		**32 001**	(20 000)
Net increase in cash and cash equivalents		**43 339**	109 061
Cash and cash equivalents at the beginning of the year		**222 946**	113 885
Cash and cash equivalents at the end of the year	13	**266 285**	222 946

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;
Consort Technical Underwriting Managers (Proprietary) Limited;
Deposit Advantage (Proprietary) Limited;
First Marine Acceptance (Proprietary) Limited;
Freight Club Group of entities;
HCV Underwriting Managers (Proprietary) Limited;
Helm Underwriting Management Services (Proprietary) Limited;
Leppard and Associates (Proprietary) Limited;
PinnAfrica Underwriting Managers (Proprietary) Limited; and
S.M.A.R.T (Proprietary) Limited.

The Company does business in sub-Saharan Africa, Australia, Dubai and the United Kingdom.

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

The preparation of 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.

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

All amounts in these annual financial statements are shown in Rands, 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 2012

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

- Amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards* (effective for annual periods beginning on or after 1 January 2011) - The first amendment clarifies that changes in accounting policies in the year of adoption fall outside of the scope of IAS 8.

- Amendment to IFRS 7 *Financial instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2011) - The amendment clarifies the intended interaction between qualitative and quantitative disclosures of the nature and extent of risks arising from financial disclosure items which were seen to be superfluous or misleading.

- Amendments to IFRS 7 *Financial instruments: Disclosures* (effective for annual periods beginning on or after 1 July 2011) - The amendments require additional disclosure on transfer transactions of financial assets, including the possible effects of any residual risks that the transferring entity retains. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of the reporting period.

- Amendment to IAS 1 *Presentation of financial statements* (effective for annual periods beginning on or after 1 January 2011) - The amendment clarifies the statement of changes in equity.

- Amendment to IAS 24 *Related party disclosures* (effective for annual periods beginning on or after 1 January 2011) - The amendment clarifies the definition of a related party.

2.3 International Financial Reporting Standards and amendments issued but not yet effective for the financial year ended 30 June 2012

- IFRS 7 *Financial instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2013): Amendments related to the offsetting of assets and liabilities.

- IFRS 7 *Financial instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2015): Deferral of the mandatory effective date of IFRS 9 and amendments to transition disclosures.

- IFRS 9 *Financial instruments* (effective for annual periods beginning on or after 1 January 2015): New standard amended to defer the mandatory effective date of IFRS 9 and amendments to transition disclosures.

- IFRS 11 *Joint arrangements* (effective for annual periods beginning on or after 1 January 2013): New standard.

- IFRS 12 *Disclosure of interest in other entities* (effective for annual periods beginning on or after 1 January 2013): New standard.

2. ACCOUNTING POLICIES (continued)

2.3 International Financial Reporting Standards and amendments issued but not yet effective for the financial year ended 30 June 2012 (continued)

- IFRS 13 *Fair value measurement* (effective for annual periods beginning on or after 1 January 2013): New standard.

- IAS 1 *Presentation of financial statements* (effective for annual periods beginning on or after 1 July 2012): Amendments to revise the way other comprehensive income is presented.

- IAS 1 *Presentation of financial statements* (effective for annual periods beginning on or after 1 January 2013): Amendments resulting from Annual Improvements 2009-2011 Cycle relating to comparative information requirements.

- IAS 27 *Consolidated and separate financial statements* (effective for annual periods beginning on or after 1 January 2013): Consequential amendments relating from the issue of IFRS 10, 11 and 12.

- IAS 28 *Investments in associates* (effective for annual periods beginning on or after 1 January 2013): Consequential amendments relating from the issue of IFRS 10, 11 and 12.

- IAS 32 *Financial instruments*: *Presentation* (effective for annual periods beginning on or after 1 January 2013): Amendments relating to the offsetting of assets and liabilities.

- IAS 32 *Financial instruments*: *Presentation* (effective for annual periods beginning on or after 1 January 2013): Amendments resulting from Annual Improvements 2009-2011 Cycle relating to tax effect of equity distributions.

2.4 Interpretations of International Financial Reporting Standards issued but not yet effective for the financial year ended 30 June 2012

There are no interpretations of International Financial Reporting Standards issued but not yet effective for the year ended 30 June 2012.

2.5 Basis of consolidation

i) Subsidiaries

The Company accounts for its investment in subsidiaries at cost less provision for impairment. At the statement of financial position date an assessment is made, based on the net asset value or other suitable valuation method, of the relevant subsidiary, if there is any indication that an investment in a subsidiary may be impaired. If such an indication exists, the Company estimates the recoverable amount of the asset to determine the carrying value.

2. ACCOUNTING POLICIES (continued)

2.5 Basis of consolidation (continued)

ii) Associates

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

2.6 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 on invoice date. This is usually the same date as the policy inception. Gross premiums are disclosed gross of commission payable to intermediaries. Premiums are earned from the date of attachment of risk, over the period of the 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

Premiums are earned from the date the risk attaches over the indemnity period, based on the pattern of the risk underwritten. 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.

2. ACCOUNTING POLICIES (continued)

2.6 Insurance contracts (continued)

Claims arising from insurance contracts

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

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.

2. ACCOUNTING POLICIES (continued)

2.6 Insurance contracts (continued)

Reinsurance contracts (continued)

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.

2.7 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 period 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.

2. ACCOUNTING POLICIES (continued)

2.7 Property and equipment (continued)

The carrying amount of the Company's property and 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.

2.8 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)

2.9 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.

2.10 Financial assets

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

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.

2. ACCOUNTING POLICIES (continued)

2.10 Financial assets (continued)

i) Financial assets available-for-sale

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

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

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

ii) Financial assets held-to-maturity

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

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

iii) Loans and receivables

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

iv) Cash and cash equivalents

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

2. ACCOUNTING POLICIES (continued)

2.11 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.

2.12 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.

2.13 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), being the South African Rand.

ii) Transactions and balances

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

2.14 Employee benefits

i) Provident fund

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

ii) Profit-sharing and bonus plans

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

iii) Short-term employee benefits

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

2. ACCOUNTING POLICIES (continued)

2.15 Income taxes

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

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

Secondary tax on companies (STC) is charged to the statement of comprehensive income when the related dividend is declared.

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 STC. Lombard Insurance Company Limited is exempt from paying withholding tax on ordinary share dividends as the Company is a company resident in the Republic of South Africa. Accordingly, no withholding tax should be deducted from dividends payable by the issuer to the Company.

2.16 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.

2.17 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.

2.18 Deferred tax

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

2. ACCOUNTING POLICIES (continued)

2.19 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.

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

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

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

The managing director, managers of the divisions and the risk officer are responsible for the evaluation of emerging risks and for providing appropriate recommendation and implementation of required action, and where required, amendment of the RMS.

The managing director 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 identified the need to establish a comprehensive enterprise risk management framework that will be 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. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.2 Terms and conditions of contracts

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

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

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

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

4.3 Insurance risk

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

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

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

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.3 Insurance risk (continued)

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 retrocession 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 UMA's. The business generated by the UMA's includes professional indemnity cover, motor vehicle and related cover and contractor's all risks within the engineering sector. 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.

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.

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.3 Insurance risk (continued)

Credit, surety and other insurance risks (continued)

(a) Frequency and severity of claims (continued)

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.

In accordance with the terms of the credit insurance policy, when catastrophe cover is bought, deductibles are imposed in the form of an excess. The Company has the right to reject certain risks and relies on the interpretation of the law when assessing the legitimacy of a claim. Insurance contracts also entitle the Company to pursue third parties for recovery of some or all costs incurred in settling a claim. Furthermore, the Company's strategy limits the total exposure to any one client according to limits and sub-limits in accordance with financial substance of the client. The Company also has reinsurance quota share and excess of loss agreements in place to manage the net exposure in relation to its own equity capital reinsurance arrangements are reviewed annually and put in place after extensive analysis of the Company's capital requirements through the use of dynamic financial analysis, and internal models calculating the most probable loss situation. The excess of loss treaties limit the Company's net exposure in the case of large losses in order to protect shareholders' equity. Only reinsurers with a rating of A- or higher are participants in the treaties. Currently 36% of the credit and surety risk goes to treaty participants with an A+ or higher rating. By spreading the ceded risk across several reinsurers, the risk of failure to recover from reinsurance agreements is reduced.

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.3 Insurance risk (continued)

Credit, surety and other insurance risks (continued)

(a) Frequency and severity of claims (continued)

	2012		2011	
Reinsurer	**Reinsurer surety risk ceded %**	**Credit rating**	**Reinsurer surety risk ceded %**	**Credit rating**
Hannover Re Africa	**17.5**	**A-**	6.0	A
SCOR Africa	**17.5**	**A+**	10.0	A
Swiss Re	**17.5**	**AA-**	14.0	A+
Arch re (previously Ariel)	**10.5**	**A+**	-	Not rated
R & V Re	**10.5**	**AA-**	9.0	A+
Atra dius Re	**8.5**	**A-**	9.0	A-
Axis Re	**6.0**	**A+**	5.0	A
National Borg	**5.0**	**A-**	5.0	A-
Everest Re	**2.0**	**A+**	-	Not rated
Munich Re	**5.0**	**A-**	25.0	AA
Flagstone	**-**	**Not rated**	3.0	A-
Ariel	**-**	**Not rated**	8.0	A
Hannover Re Germany	**-**	**Not rated**	6.0	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.

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 construction and retail sectors. This risk is mitigated through careful selection of clients and the business they are in.

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

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.3 Insurance risk (continued)

Credit, surety and other insurance risks (continued)

(a) Frequency and severity of claims (continued)

Exposures are currently in the following industry sectors:

Industry sector	2012 % Exposure	2011 % Exposure
Engineering	**28**	39
Property	**22**	-
Manufacturing and retail	**18**	21
Liability	**11**	4
Construction	**10**	17
Motor	**6**	15
Freight	**2**	2
Marine	**2**	1
Mining	**1**	1
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)

4.3 Insurance 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 Solvency Assessment and Management (SAM) Regulation. At this stage no adjustments have been made in the annual financial statements in terms of the interim measures per the SAM regulations.

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.3 Insurance risk (continued)

Credit, surety and other insurance risks (continued)

(c) Retrocession insurance risks

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

4.4 Financial risk

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

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

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

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

	2012 R'000	2011 R'000
Financial & insurance assets		
Equity securities		
Available-for-sale		
- listed securities	**88 926**	78 565
- unlisted securities	**83 178**	93 137
Debt instruments		
Available-for-sale		
- unlisted debt instruments	**36 451**	32 433
Held-to-maturity		
- unlisted debt instruments	**21 903**	25 230
Receivables due from contract holders	**122 786**	144 526
Other loans and receivables	**305 596**	178 899
Reinsurance contracts	**329 361**	148 793
Cash and cash equivalents	**266 285**	222 946
Total financial and insurance assets	**1 254 486**	954 529
Financial insurance liabilities		
Short term insurance contracts	**659 093**	402 616
Trade and other payables	**138 630**	141 224
Total financial and insurance liabilities	**797 723**	543 840

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
2012	**R'000**	**R'000**	**R'000**	**R'000**
Listed - ordinary shares	**72 484**	**-**	**-**	**72 484**
Listed - preference shares	**16 442**	**-**	**-**	**16 442**
Unlisted - ordinary shares	**-**	**83 178**	**-**	**83 178**
Unlisted - preference shares	**-**	**10 000**	**26 451**	**36 451**
	88 926	**93 178**	**26 451**	**208 555**
2011				
Listed - ordinary shares	63 707	-	-	63 707
Listed - preference shares	14 858	-	-	14 858
Unlisted - ordinary shares	-	93 137	-	93 137
Unlisted - preference shares	-	10 000	22 433	32 433
	78 565	103 137	22 433	204 135

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 R619 529 000 (2011: R596 837 000). Only reinsurers with at least an A- 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; and
- 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 2012:

	A-	AA-	A	AA	AA+	AAA	Not rated	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
2012								
Debt instruments								
Available-for-sale								
- unlisted debt instruments	-	-	-	10 000	-	-	26 451	36 451
Held-to-maturity								
- unlisted debt instruments	-	-	-	-	-	-	21 903	21 903
Receivables due from contract holders	-	-	-	-	-	-	122 786	122 786
Other loans and receivables	-	-	-	-	-	-	305 596	305 596
Reinsurance contracts	-	-	-	-	-	-	329 361	329 361
Cash and cash equivalents	-	15 276	235	69 900	167 405	-	13 469	266 285

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.1 Credit risk (continued)

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

	A- R'000	AA- R'000	A R'000	AA R'000	AA+ R'000	AAA R'000	Not rated R'000	Total R'000
2011								
Debt instruments								
Available-for-sale								
- unlisted debt instruments	-	-	10 000	-	-	-	22 433	32 433
Held-to-maturity								
- unlisted debt instruments	-	-	-	-	-	-	25 230	25 230
Receivables due from contract holders	-	-	-	-	-	-	144 526	144 526
Other loans and receivables	-	-	-	-	-	-	178 899	178 899
Reinsurance contracts	-	-	-	-	-	-	148 793	148 793
Cash and cash equivalents	-	124 950	-	28 408	49 324	20 167	97	222 946

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 2012:	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Receivables due from contract holders	**28 461**	**53 869**	**19 667**	**11 496**	**9 293**	**11 649**	**(11 649)**	**122 786**
Other loans and receivables	**228 894**	**63 936**	**12 766**	**-**	**-**	**3 110**	**(3 110)**	**305 596**
Total assets	**257 355**	**117 805**	**32 433**	**11 496**	**9 293**	**14 759**	**(14 759)**	**428 382**
As at 30 June 2011								
Receivables due from contract holders	35 105	39 693	14 841	22 223	32 664	3 036	(3 036)	144 526
Other loans and receivables	178 899	-	-	-	-	-	-	178 899
Total assets	214 004	39 693	14 841	22 223	32 664	3 036	(3 036)	323 425

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.2 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 2012:

	USD	EURO	GBP	BWP	NAD	Other	Total ZAR
As at 30 June 2012	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Receivables due from contract holders	**3 694**	**1 772**	**-**	**7 145**	**4 656**	**4 752**	**22 019**
Cash and cash equivalents	**(81)**	**971**	**450**	**-**	**-**	**-**	**1 340**
Total	**3 613**	**2 743**	**450**	**7 145**	**4 656**	**4 752**	**23 359**
Exchange rates	**8.27**	**10.45**	**12.91**	**1.06**	**1.00**		
As at 30 June 2011							
Receivables due from contract holders	471	1 520	-	1 576	1 203	868	5 638
Cash and cash equivalents	224	3	761	-	-	-	988
Total	695	1 523	761	1 576	1 203	868	6 626
Exchange rates	6.83	9.81	10.94	1.04	1.00		

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.2 Foreign exchange risk (continued)

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:

	2012	2011
	R'000	R'000
10% Increase	**134**	99
10% Decrease	**(134)**	(99)

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 is expressed as a ratio of shareholder's funds as determined by the Board from time to time, taking into consideration solvency issues and shareholder expectations.

4.4.4 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 Company'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 5.40% (2011: 4.20%) received during the year under review):

	2012	2011
	R'000	R'000
1% Increase	**143**	93
1% Decrease	**(143)**	(93)

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.4 Interest rate risk (continued)

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.

4.4.5 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:

	2012	2011
	R'000	R'000
Fair value of listed equities	**88 926**	78 565
10% Increase	**97 819**	86 422
10% Decrease	**(80 033)**	(70 709)

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. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

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.

4.4.9 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 Company's appetite for the level of exposure.

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.4 Financial risk (continued)

4.4.11 Product and pricing risk (continued)

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.

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, Risk and Compliance 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; and
- To provide an adequate return to shareholders by pricing insurance 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 2012			
Cost	**14 387**	**530**	**14 917**
Accumulated depreciation	**(8 904)**	**(329)**	**(9 233)**
	5 483	**201**	**5 684**
Year ended 30 June 2012			
Opening net book value	**4 795**	**120**	**4 915**
Additions	**3 419**	**177**	**3 596**
Depreciation charge	**(2 731)**	**(96)**	**(2 827)**
Closing net book value	**5 483**	**201**	**5 684**
As at 30 June 2011			
Cost	10 969	366	11 335
Accumulated depreciation	(6 174)	(246)	(6 420)
	4 795	120	4 915
Year ended 30 June 2011			
Opening net book value	4 689	185	4 874
Additions	2 098	-	2 098
Depreciation charge	(1 992)	(65)	(2 057)
Closing net book value	4 795	120	4 915

Depreciation expense has been included in other operating expenses (refer to note 22).

6. INTANGIBLE ASSETS

	Computer software R'000	Total R'000
As at 30 June 2012		
Cost	**31 622**	**31 622**
Accumulated amortisation	**(12 371)**	**(12 371)**
	19 251	**19 251**
Year ended 30 June 2012		
Opening net book value	**19 504**	**19 504**
Additions	**6 918**	**6 918**
Write-off	**(3 700)**	**(3 700)**
Amortisation	**(3 471)**	**(3 471)**
Closing net book value	**19 251**	**19 251**
As at 30 June 2011		
Cost	28 403	28 403
Accumulated amortisation	(8 899)	(8 899)
	19 504	19 504
Year ended 30 June 2011		
Opening net book value	16 799	16 799
Additions	7 652	7 652
Amortisation	(4 947)	(4 947)
Closing net book value	19 504	19 504

Amortisation expense has been included in other operating expenses (refer to note 22).

7. DEFERRED TAXATION

	2012 R'000	2011 R'000
Deferred tax assets		
- provisions	**11 363**	11 617
- STC credits	**-**	654
Deferred tax asset at end of the year	**11 363**	12 271
Deferred tax liabilities		
- intangible assets	**(2 215)**	-
- property and equipment	**(101)**	-
- unrealised gains on investments	**(12 767)**	(7 000)
Deferred tax liability at end of the year	**(15 083)**	(7 000)
Total net deferred tax account	**(3 720)**	5 271
The total movement on the net deferred account is as follows:		
Opening balance	**5 271**	11 225
Charge to statement of comprehensive income	**(3 224)**	(3 305)
Charge to other comprehensive income	**(5 767)**	(2 649)
Closing balance	**(3 720)**	5 271

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**	**STC credits R'000**	**Total R'000**
As at 30 June 2010	15 042	869	15 911
Charged to the statement of comprehensive income	(3 425)	(215)	(3 640)
As at 30 June 2011	11 617	654	12 271
Charged to the statement of comprehensive income	**(254)**	**(654)**	**(908)**
As at 30 June 2012	**11 363**	**-**	**11 363**

(b) Deferred tax liabilities	**Intangible assets R'000**	**Property and equipment R'000**	**Prepaid expenses R'000**	**Unrealised gains on investments R'000**	**Total R'000**
As at 30 June 2010	-	-	(335)	(4 351)	(4 686)
Charged to the statement of comprehensive income	-	-	335	-	335
Charged to other comprehensive income	-	-	-	(2 649)	(2 649)
As at 30 June 2011	-	-	-	(7 000)	(7 000)
Charged to the statement of comprehensive income	**(2 215)**	**(101)**	**-**	**-**	**(2 316)**
Charged to other comprehensive income	**-**	**-**	**-**	**(5 767)**	**(5 767)**
As at 30 June 2012	**(2 215)**	**(101)**	**-**	**(12 767)**	**(15 083)**

8. INVESTMENT IN SUBSIDIARY

	Shareholding %	2012 R'000	2011 R'000
Shares			
- Lombard Guarantee Services (Proprietary) Limited	100	*	*
Loan account			
- Lombard Guarantee Services (Proprietary) Limited		**127**	127
		127	127

* denotes items under R1 000

9. INVESTMENT IN ASSOCIATE

	Shareholding %	2012 R'000	2011 R'000
Balance at beginning of the year		*	26 254
Disposal of associates		(*)	(26 254)
Balance at end of the year		-	*
Shares			
- Umlimi Underwriting (Proprietary) Limited	-	-	*
		-	*

On the 29th of May 2012 the directors of the Company made a decision to waiver its rights in the investment of Umlimi Underwriting (Proprietary) Limited.

* denotes items under R1 000

10. FINANCIAL ASSETS

	2012 R'000	2011 R'000
The Company's financial assets are summarised by measurement category in the table below:		
Available-for-sale	**208 555**	204 135
Held-to-maturity	**21 903**	25 230
Loans and receivables including insurance receivables (note 12)	**428 382**	323 425
Total financial assets	**658 840**	552 790
Available-for-sale financial assets		
Equity securities		
- listed	**88 926**	78 565
- unlisted	**83 178**	93 137
Debt instruments		
- unlisted	**36 451**	32 433
Total available-for-sale financial assets	**208 555**	204 135
Held-to-maturity financial assets		
Debt instruments	**21 903**	25 230
Total held-to-maturity financial assets	**21 903**	25 230

	Available-for-sale financial assets R'000	**Held-to-maturity R'000**	**Total R'000**
As at 30 June 2010	229 050	13 736	242 786
Additions	34 872	9 765	44 637
Disposals	(30 215)	(3 543)	(33 758)
Fair value gains	20 543	131	20 674
Reclassification to cash and cash equivalents	(64 974)	-	(64 974)
Reclassification from loans and receivables to held-to-maturity	-	20 000	20 000
Reclassification from held-to-maturity to available-for-sale	14 859	(14 859)	-
As at 30 June 2011	204 135	25 230	229 365
Additions	**35 754**	**16 673**	**52 427**
Disposals	**(52 191)**	**-**	**(52 191)**
Fair value gains	**20 857**	**-**	**20 857**
Reclassification from held-to-maturity to loans and receivables (note 12)	**-**	**(20 000)**	**(20 000)**
As at 30 June 2012	**208 555**	**21 903**	**230 458**

10. FINANCIAL ASSETS (continued)

During the current financial year management reclassified R20 million of held-to-maturity financial assets to loans and receivables. This is a reversal of the prior financial year reclassification and was done to better reflect the true nature of the investment.

Since these assets have been reclassified to loans and receivables they are consequently held at fair value and thus there is no change in the carrying value to the Company.

11. INSURANCE LIABILITIES AND REINSURANCE CONTRACTS

	2012 R'000	2011 R'000
Gross		
Outstanding claims reported	**322 361**	162 631
Claims incurred but not reported (IBNR)	**97 237**	67 371
Unearned premiums	**239 495**	172 614
Total insurance liabilities	**659 093**	402 616
Recoverable from reinsurers		
Outstanding claims reported	**(178 087)**	(46 965)
Claims incurred but not reported (IBNR)	**(50 737)**	(23 460)
Unearned premiums	**(100 537)**	(78 368)
Total reinsurers' share of insurance liabilities	**(329 361)**	(148 793)
Net		
Outstanding claims reported	**144 274**	115 666
Claims incurred but not reported (IBNR)	**46 500**	43 911
Unearned premiums	**138 958**	94 246
Total net insurance liabilities	**329 732**	253 823

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

Analysis of movement in outstanding claims reported and IBNR	Gross R'000	Reinsured R'000	Net R'000
Year ended 30 June 2012			
Balance at beginning of the year			
- outstanding claims reported	**162 631**	**(46 965)**	**115 666**
- incurred but not reported (IBNR)	**67 371**	**(23 460)**	**43 911**
	230 002	**(70 425)**	**159 577**
Claims paid during the year	**(477 948)**	**90 591**	**(387 357)**
Increase in outstanding claim reserves	**637 678**	**(221 713)**	**415 965**
Increase in incurred but not reported reserve (IBNR)	**29 866**	**(27 277)**	**2 589**
Balance at end of the year	**419 598**	**(228 824)**	**190 774**
Balance at year end is made up as follows:			
- outstanding claims reported	**322 361**	**(178 087)**	**144 274**
- incurred but not reported (IBNR)	**97 237**	**(50 737)**	**46 500**
	419 598	**(228 824)**	**190 774**

11. INSURANCE LIABILITIES AND REINSURANCE CONTRACTS (continued)

Analysis of movement in outstanding claims reported and IBNR (continued)	Gross R'000	Reinsured R'000	Net R'000
Year ended 30 June 2011			
Balance at beginning of the year			
- outstanding claims reported	170 207	(69 306)	100 901
- incurred but not reported (IBNR)	75 836	(31 812)	44 024
	246 043	(101 118)	144 925
Claims paid during the year	(357 709)	64 546	(293 163)
Increase in outstanding claim reserves	339 391	(36 242)	303 149
Increase/(decrease) in incurred but not reported reserve (IBNR)	2 277	2 389	4 666
Balance at end of the year	230 002	(70 425)	159 577
Balance at year end is made up as follows:			
- outstanding claims reported	162 631	(46 965)	115 666
- incurred but not reported (IBNR)	67 371	(23 460)	43 911
	230 002	(70 425)	159 577

12. RECEIVABLES INCLUDING INSURANCE RECEIVABLES

	2012 R'000	2011 R'000
Receivables arising from insurance contracts		
- due from agents, brokers and intermediaries	**134 435**	147 562
- impairment provision	**(11 649)**	(3 036)
Other receivables		
- amounts due from related parties (note 27)	**242 360**	131 484
- impairment provision	**(3 110)**	-
- prepaid expenses	**1 429**	-
- sundry debtors	**64 917**	47 415
Total receivables including insurance receivables	**428 382**	323 425

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

13. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	**100 297**	38 014
Short-term bank deposits	**165 988**	184 932
Total cash and cash equivalents	**266 285**	222 946

The effective interest rate on short-term bank deposits was 5.4% (2011 - 4.2%).

During the current financial year a decision was made to reclassify the cash held on behalf of third parties from cash and cash equivalents to trade and other payables. The 2011 comparatives were amended due to the reclassification and R251 340 000 of cash held on behalf of third parties was reclassified from cash and cash equivalents to trade and other payables.

14. SHARE CAPITAL AND SHARE PREMIUM

	2012 R'000	2011 R'000
Authorised		
10 000 000 ordinary shares at 1 cent each	**100**	100
Issued		
4 665 500 (2011: 4 665 497) ordinary shares at 1 cent each	**47**	46
Share premium	**134 403**	82 403
	134 450	82 449

	Share capital R'000	**Share premium R'000**	**Total R'000**
Year ended 30 June 2012			
Opening balance	**46**	**82 403**	**82 449**
Share issue	**1**	**52 000**	**52 001**
As at 30 June 2012	**47**	**134 403**	**134 450**
Year ended 30 June 2011			
Opening balance	46	82 403	82 449
Share issue	-	-	-
As at 30 June 2011	46	82 403	82 449

3 Ordinary shares at 1 cent each were issued to LomHold (Proprietary) Limited during the year under review, increasing the issued number of ordinary shares to 4 665 500 (2011: 4 665 197) shares.

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

During the prior year the Company had a parental guarantee issued by The Hollard Insurance Company Limited in the amount of R50 million. The parental guarantee was cancelled on 30 June 2011.

	2012	2011
	R'000	R'000

15. NON-DISTRIBUTABLE RESERVES

Available-for-sale reserve	**55 697**	47 319
Capital contribution reserve	**2 000**	2 000
Contingency reserve	**-**	69 785
	57 697	119 104

15.1 Available-for-sale reserve

Balance at beginning of the year	**47 319**	31 065
Realised gains on disposal of available-for-sale financial assets	**(6 712)**	(1 771)
Fair value adjustments of available-for-sale financial assets	**20 857**	20 674
Tax effect of fair value adjustments of available-for-sale financial assets	**(5 767)**	(2 649)
Balance at end of the year	**55 697**	47 319

The available-for-sale reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed or determined to be impaired.

15.2 Capital contribution reserve

Balance at beginning of the year	**2 000**	2 000
Balance at end of the year	**2 000**	2 000

In prior years the Company transferred R2 000 000 to a non-distributable reserve at the request of the Financial Services Board (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.

15.3 Contingency reserve

Balance at beginning of the year	**69 785**	48 212
Transfer (from)/to contingency reserve	**(69 785)**	21 573
Balance at end of the year	**-**	69 785

The contingency reserve represented 10% of net written premiums as required in terms of the FSB. In terms of interim measures the contingency reserve is no longer required from 1 January 2012, and as such, has been released back to retained earnings.

	2012	2011
	R'000	R'000

16. EMPLOYEE BENEFITS

	2012 R'000	2011 R'000
Bonus provision	**7 044**	22 300
Leave pay provision	**3 049**	2 580
Profit right provision	**19 053**	34 782
	29 146	59 662

	Bonus provision R'000	**Leave pay provision R'000**	**Profit right provision R'000**	**Total R'000**
As at 30 June 2010	-	2 087	46 247	48 334
Amounts utilised	-	(20)	(11 465)	11 485
Additional provision raised	22 300	513	-	22 813
As at 30 June 2011	22 300	2 580	34 782	59 662
Amounts utilised	**(22 300)**	**(70)**	**(15 729)**	**(38 099)**
Additional provision raised	**7 044**	**539**	**-**	**7 583**
As at 30 June 2012	**7 044**	**3 049**	**19 053**	**29 146**

17. TRADE AND OTHER PAYABLES

	2012 R'000	2011 R'000
Accrued expenses	**1 138**	1 638
Amounts due to related parties (note 27)	**24 779**	34 061
Payables under reinsurance contracts	**90 637**	42 732
Sundry creditors	**17 102**	47 540
Trade creditors	**4 974**	15 253
Total trade and other payables	**138 630**	141 224

The carrying value of trade and other payables approximates the fair value.

During the current year a decision was made to reclassify the cash held on behalf of third parties from cash and cash equivalents to trade and other payables. The 2011 sundry creditor’s comparatives were amended due to the reclassification and R251 340 000 of cash held on behalf of third parties was reclassified from cash and cash equivalents to trade and other payables.

18. NET INSURANCE PREMIUM REVENUE

	2012 R'000	2011 R'000
Insurance contracts		
- gross written premium	**1 213 720**	980 088
- change in unearned premium provision	**(66 877)**	(40 853)
Insurance premium revenue	**1 146 843**	939 235
Reinsurance contracts		
- reinsurance premium	**(430 583)**	(317 340)
- change in unearned premium provision - reinsurers' portion	**22 169**	24 296
Insurance premium revenue ceded to reinsurers	**(408 414)**	(293 044)
Net insurance premium revenue	**738 429**	646 191

19. INVESTMENT INCOME

	2012 R'000	2011 R'000
Available-for-sale		
- dividend income	**8 029**	5 563
- interest income	**393**	6 847
Cash and cash equivalents interest income	**14 196**	9 310
Held-to-maturity		
- dividend income	**2 222**	972
- interest income	**-**	12
Loans and receivables interest income	**4 118**	245
	28 958	22 949

20. OTHER OPERATING INCOME

Other operating income comprises of:

	2012 R'000	2011 R'000
Aviation income	**1 218**	1 146
Other income	**1 219**	2 532
Profit on disposal of property and equipment	**32**	
Profit share from AssetInsure joint venture	**22 267**	9 635
	24 736	13 313

	2012	2011
	R'000	R'000

21. NET INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES

	2012 R'000	2011 R'000
Current year claims paid	**(477 948)**	(357 709)
Movement in incurred but not reported provision (IBNR)	**(29 866)**	(2 277)
Movement in outstanding claims provision	**(159 730)**	(3 517)
Insurance claims and loss adjustment expenses	**(667 544)**	(363 503)
Recoveries from reinsurers	**90 591**	64 546
Reinsurers' portion of incurred but not reported provision (IBNR)	**27 277**	2 389
Reinsurers' portion of outstanding claims provision	**131 122**	(11 251)
Insurance claims and loss adjustment expenses recovered from reinsurers	**248 990**	55 684
Net insurance claims and loss adjustment expenses	**(418 554)**	(307 819)

22. OTHER OPERATING EXPENSES

	2012 R'000	2011 R'000
Amortisation	**3 471**	4 947
Auditor's remuneration		
- audit fees	**1 999**	1 843
Depreciation	**2 827**	2 057
Directors' remuneration		
- as directors	**978**	868
- for other services		
- salaries	**4 224**	3 954
- bonuses	**-**	4 900
- provident fund contributions	**287**	404
Employee benefit expense		
- salaries and bonuses	**59 449**	64 459
- provident fund costs	**6 693**	5 796
Impairment of subsidiary	**-**	4 510
Management fees	**8 615**	5 375
Operating lease rentals		
- premises	**5 107**	4 430
Other expenses	**92 326**	79 306
Other staff costs	**3 248**	2 376
Repairs and maintenance	**1 468**	1 781
	190 692	187 006

During the prior year, prior to selling the investment, the Company impaired an investment in its subsidiary LomShelf01 (Proprietary) Limited to the lower of cost or net realisable value after completing a valuation exercise on the investment. Net realisable value was determined as the fair value less costs to sell, and an impairment loss of R4 510 000 was recognised.

23. TAXATION EXPENSE

	2012	2011
	R'000	R'000
South Africa normal taxation		
- current taxation	**17 943**	28 036
- foreign withholding taxation	**1 394**	-
- STC on dividends paid	**1 347**	1 132
- STT on share transactions	**-**	16
Deferred taxation		
- current year	**3 224**	3 305
	23 908	32 489

Taxation rate reconciliation:	**%**	%
South Africa normal tax rate	**28.0**	28.0
Foreign withholding tax	**1.6**	-
Non-deductible expenses	**0.5**	0.5
Non-taxable income	**(5.6)**	-
STC credit deferred tax released	**0.8**	-
STC on dividends paid	**1.6**	-
Effective tax rate before capital gains inclusion rate change	**26.9**	28.5
Capital gains inclusion rate change	**1.2**	-
Effective tax rate	**28.1**	28.5

	2012 R'000	2011 R'000

24. NOTES TO THE STATEMENT OF CASH FLOWS

24.1 Cash generated/(utilised) by operations

	2012 R'000	2011 R'000
Results of operating activities	**84 987**	113 975
Adjusted for:		
Increase in net technical provisions	**75 909**	16 798
Depreciation	**2 827**	2 057
Amortisation	**3 471**	4 947
Intangible assets written off	**3 700**	-
Profit on disposal of investments	**(6 712)**	(1 771)
Profit on disposal of plant and equipment	**(32)**	-
Investment income	**(28 958)**	(22 949)
Increase in trade and other receivables	**(84 957)**	(71 920)
Decrease in trade and other payables	**(33 110)**	(52 177)
	17 125	(11 040)

24.2 Taxation paid

	2012 R'000	2011 R'000
Balance at beginning of the year	**(8 367)**	12 202
Taxation expense for the year	**(20 684)**	(29 184)
Balance at end of the year	**5 024**	8 367
	(24 027)	(8 615)

25. OPERATING LEASE COMMITMENTS

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

	2012 R'000	2011 R'000
Not later than 1 year	**519**	4 688
Later than 1 year and not later than 5 years	**1 816**	5 788
Later than 5 years	-	-
	2 335	10 476

26. 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 2012, the provident fund had accumulated funds of R27 723 538 (2011: R19 374 303).

27. RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary of LomHold (Proprietary) Limited, a South African registered company. LomHold (Proprietary) Limited is an associate (2011: subsidiary) of The Hollard Insurance Company Limited (Hollard) - incorporated in the Republic of South Africa, which owns 45.65% (2011: 55.84%) of the shares of LomHold (Proprietary) Limited, the remaining shares are held by Cast Arena Trade & Invest 187 (Proprietary) Limited - 21.40% (2011: 23.40%), Lombard Consolidated (Proprietary) Limited 23.71% (2011: 20.01%), CG Japhet 0.69% (2011: 0.75%) and management 8.55% (2011: nil%).

The Company has a 100% share in Lombard Guarantee Services (Proprietary) Limited - incorporated in Botswana.

The Company in addition has an interest in AssetInsure, a joint venture registered in Australia, of which the Company owns 50%.

There is a co-insurance arrangement in place with Hollard, whereby they participate in 30% of the risk on certain clients that they refer to the Company. The year-end balance relates to premiums due to Hollard on this particular line of business.

	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
2012				
Parent				
LomHold (Proprietary) Limited	**218**	**-**	**120 584**	**-**
	218	**-**	**120 584**	**-**
Entities with significant influence over the Company				
Cast Arena Trade & Invest 87 (Proprietary) Limited	**-**	**-**	**100**	**-**
The Hollard Insurance Company Limited	**-**	**-**	**-**	**(270)**
	-	**-**	**100**	**(270)**
Subsidiary				
Lombard Guarantee Services (Proprietary) Limited	**-**	**-**	**127**	**-**
	-	**-**	**127**	**-**
Joint venture				
AssetInsure joint venture	**-**		**12 766**	**-**
	-	**-**	**12 766**	**-**
Total carried forward	**218**	**-**	**133 577**	**(270)**

27. RELATED PARTY TRANSACTIONS (continued)

2012 (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**
Total brought forward	**218**	**-**	**133 577**	**(270)**
Other				
BrightRock (Proprietary) Limited	**717**	**-**	**145**	**-**
Cape Finance Corporation Limited	**-**	**-**	**17 646**	**-**
Commercial Crime Concepts (Proprietary) Limited	**-**	**(53)**	**133**	**-**
Consort Technical Underwriting Managers (Proprietary) Limited	**-**	**(34 475)**	**-**	**(1 866)**
Deposit Advantage (Proprietary) Limited	**-**	**(3 039)**	**3**	**-**
S Emms	**-**	**-**	**1 827**	**-**
Factory and Industrial (Proprietary) Limited	**-**	**(14 930)**	**2**	**-**
Financial Management International Limited	**283**	**-**	**4 944**	**-**
First Marine Acceptances (Proprietary) Limited	**-**	**(2 208)**	**-**	**(558)**
Fulcrum Group (Proprietary) Limited	**1 872**	**-**	**305**	**-**
HCV Underwriting Managers (Proprietary) Limited	**-**	**(23 793)**	**-**	**(11 333)**
Helm Underwriting Management Services (Proprietary) Limited	**-**	**(6 416)**	**-**	**(1 296)**
Leppard and Associates (Proprietary) Limited	**-**	**(11 068)**	**-**	**(4 503)**
Lombard Life Limited	**1 921**	**-**	**-**	**(4 921)**
Lombard Trade Finance (Proprietary) Limited	**973**	**-**	**112**	**-**
LomShelf01(Proprietary) Limited	**-**	**-**	**2 435**	**-**
LomVest (Proprietary) Limited	**-**	**-**	**75 428**	**-**
B Muller	**-**	**-**	**1 827**	**-**
PinnAfrica Insurance Limited	**-**	**(623)**	**-**	**(32)**
PinnAfrica Insurance Underwriting Managers (Proprietary) Limited	**-**	**(17 446)**	**4 103**	**-**
	5 766	**(114 051)**	**108 910**	**(24 509)**
Total	**5 984**	**(114 051)**	**242 487**	**(24 779)**

Amounts due from/(to) related parties disclosed as follows:		
Investment in subsidiary (note 8)	127	-
Receivables including reinsurance receivables – amounts due from related parties (note 12)	242 360	-
Trade and other payables - amounts due to related parties (note 17)	-	(24 779)
Total	242 487	(24 779)

27. 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
2011				
Parent				
LomHold (Proprietary) Limited	-	-	24 688	-
	-	-	24 688	-
Entities with significant influence over the Company				
Cast Arena Trade & Invest 87 (Proprietary) Limited	-	-	116	-
The Hollard Insurance Company Limited	-	(613)	-	-
	-	(613)	116	-
Joint venture				
AssetInsure joint venture	-	(9 635)	-	-
	-	(9 635)	-	-
Other				
Consort Technical Underwriting Managers (Proprietary) Limited	-	(11 801)	-	(3 274)
Financial Management International Limited	-	-	4 505	-
Fulcrum Group (Proprietary) Limited	130	-	-	(437)
HCV Underwriting Managers (Proprietary) Limited	-	(19 503)	150	(12 562)
Leppard and Associates (Proprietary) Limited	-	(4 827)	-	(6 303)
Lombard Life Limited	-	-	-	(11 290)
Lombard Trade Finance (Proprietary) Limited	-	-	2 794	-
LomShelf01 (Proprietary) Limited	-	-	2	-
LomVest (Proprietary) Limited	-	-	97 664	(195)
PinnAfrica Insurance Limited	-	(2 302)	1 055	-
PinnAfrica Insurance Underwriting Managers (Proprietary) Limited	-	(17 938)	510	-
	130	(56 371)	106 680	(34 061)
Total	130	(66 619)	131 484	(34 061)

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

Receivables including reinsurance receivables – amounts due from related parties (note 12)	131 484	-
Trade and other payables - amounts due to related parties (note 17)	-	(34 061)
Total	131 484	(34 061)

27. RELATED PARTY TRANSACTIONS (continued)

At year end, Lombard Insurance Company Limited has given, in the normal course of business, a guarantee in favour of Standard Bank Limited for R25 million in respect of amounts owed by Lombard Trade Finance (Proprietary) Limited.

28. DIRECTORS' REMUNERATION

Directors' remuneration and other benefits for services as director:

	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
2012					
Director 1	**-**	**621**	**-**	**23**	**644**
Director 2	**385**	**-**	**-**	**-**	**385**
Director 3	**-**	**-**	**-**	**-**	**-**
Director 4	**205**	**-**	**-**	**-**	**205**
Director 5	**228**	**-**	**-**	**-**	**228**
Director 6	**-**	**-**	**-**	**-**	**-**
Director 7	**-**	**-**	**-**	**-**	**-**
Director 8	**-**	**-**	**-**	**-**	**-**
Director 9	**-**	**-**	**-**	**-**	**-**
Director 10	**-**	**1 991**	**-**	**2**	**1 993**
Director 11	**-**	**1 612**	**-**	**262**	**1 874**
Director 12	**160**	**-**	**-**	**-**	**160**
	978	**4 224**	**-**	**287**	**5 489**
2011					
Director 1	-	584	-	-	584
Director 2	378	-	-	-	378
Director 3	-	-	-	-	-
Director 4	240	-	-	-	240
Director 5	250	-	-	-	250
Director 6	-	-	-	-	-
Director 7	-	-	-	-	-
Director 8	-	-	-	-	-
Director 9	-	-	-	-	-
Director 10	-	1 862	2 940	89	4 891
Director 11	-	1 508	1 960	315	3 783
Director 12	-	-	-	-	-
	868	3 954	4 900	404	10 126

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

29. CONTINGENCIES AND COMMITMENTS

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

30. 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.

31. 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.