LOMBARD

Lombard Insurance Company Limited
(Registration number 1990/001253/06)
Audited Annual Financial Statements
for the year ended 30 June 2016

These audited financial statements were internally compiled under the supervision of:
DM Donaldson (CA) SA

The annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008

Issued 26 October 2016

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Underwriting of non-life insurance risks, such as those associated with guarantee, liability, marine, motor, property and engineering.
Directors	ML Japhet PJ Orford RJ Symmonds A Pienaar GJM Carlin CE Backeberg AC Magwentshu
Registered office and business address	Building C, The Sunnyside Office Park 2 Carse O'Gowrie Road Parktown 2193
Postal address	PO Box 2740 Parklands 2121
Holding company	LomHold Proprietary Limited (incorporated in South Africa)
Auditors	Deloitte & Touche
Company secretary	SJ Vivian
Company registration number	1990/001253/06

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The reports and statements set out below comprise the audited annual financial statements presented to the shareholders:

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Corporate Governance Statement

Lombard Insurance Company Limited (the Company or LIC) is governed by a Board of Directors, the members of which are common to both LomHold Proprietary Limited and 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 and is further governed in terms of the requirements contained in Board Notice (BN) 158 of 2014, issued by the Financial Service Board (FSB). The principles contained in King III where practicable, and BN 158 requirements, 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 recommends to the shareholders on the appointment of new Directors collectively, based on recommendations from its individual members. In compliance with the FSB Directive 101.A.i and BN158 of 2014, the Board currently consists of five non-executive Directors (including the non-executive chairman) and two executive Directors. Three 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 required by FSB Directive 101.A.i, the quorum for meetings is half the number of appointed Directors plus one, to the greater integer of Directors. Other senior executives are invited to attend meetings as required to ensure comprehensive reporting to the Board.

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

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

The current members of the Board are:

- ML Japhet (Non-executive Chairman)
- PJ Orford (Managing Director)
- RJ Symmonds (Executive Director)
- A Pienaar (Non-executive Director)
- GJM Carlin (Independent Non-executive Director)
- CE Backeberg (Independent Non-executive Director)
- AC Magwentshu (Independent Non-executive Director)

Corporate Governance Statement

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 Committee, Risk and Compliance Committee, and the Capital Management and Investment Committee.

Due to the nature of the Group's financial services operations, the Board operates in a highly regulated environment with the aim of long-term sustainability and meeting solvency requirements. Further, certain statutory governance appointments have at all times through the year been maintained. These are the appointment of the Statutory Actuary, Company Secretary and Chief Risk Officer for LIC; whose role and function shall be further discussed below.

Audit Committee and Risk and Compliance Committee

The Audit Committee and the Risk and Compliance Committees operate separately and comprise of three independent non-executive members, namely:

- GJM Carlin (Chairperson)
- CE Backeberg
- AC Magwentshu

Chaired by Mr Carlin, these committees are constituted as standalone statutory committees in respect of their statutory duties in terms of the Companies Act 71 of 2008 (the Companies Act) and also in terms of BN 158 of 2014. They are also committees of the Board in respect of all duties assigned to them by the Board. The committees operate in accordance with terms of reference that have been approved by the Board.

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

- Managing Director for the Group;
- Chief Risk Officer for the Group;
- Chief Financial Officer for the Group;
- Chief Compliance Officer for the Group;
- representatives from the external auditors for the Group;
- representatives from the internal auditors for the Group;
- head of the internal auditors for the Group;
- other assurance providers for the Group; and
- other invited attendees.

The statutory and Board delegated duties of the Audit Committees 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 Committee and the Risk and Compliance Committee respectively have, in the past financial year, satisfied their responsibilities in respect of the Company, in compliance with the Companies Act, the Short Term Insurance Act of 1998, as well as their responsibilities in accordance with their respective terms of reference.

Corporate Governance Statement

Capital Management and Investment Committee

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

Accountability and transparency

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

Going concern

The Group Audit Committee and the Risk and Compliance Committee consider the facts and assumptions used in the assessment of the Group as a going concern at the financial year-end date and the forthcoming financial year. 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 ensuring the adequacy of 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 Committee and the Risk and Compliance Committee of the Board and will continue to improve in accordance with established plans. The Board is satisfied that there has been no material breakdown of the internal controls.

Internal audit

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

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

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

Corporate Governance Statement

Risk management

The Company 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. The Group is progressing with changes to its risk management framework to address requirements in the proposed Solvency Assessment and Management (SAM) regulatory regime.

The allocation of roles and responsibilities for risk management within the Company and the Group is consistent with the guidelines provided in the King III report on corporate governance as well as those required by BN 158 of 2014. The Chief Risk Officer (the CRO) oversees the risk management activities of the Company at executive committee level and risk champions are appointed in each division to ensure the cascading of risk processes into the business.

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

The CRO of the Company oversees the Enterprise Risk Management (ERM) framework, facilitating and coordinating the process and reporting the status to the executive management, the Risk and Compliance Committee and the Board. The CRO has direct access to the chairperson of the 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 reputation 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 champions are appointed in each division to ensure operational compliance initiatives are attended to and these individuals then act as first line of defence from a compliance perspective.

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.

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.

Corporate Governance Statement

Information technology

The Group's IT strategy over the next 2 years (2017 to 2018), 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).

IT Infrastructure management and maintenance has been outsourced to an independent third party, where this arrangement is governed and monitored in terms of a formal outsourcing agreement.

To ensure value delivery to the business the plan focuses on:
- best practice architecture design (align, re-organise and simplify);
- efficiency (create and realise value through efficient development, implementation, support and maintenance);
- effectiveness (through monitoring, evaluating and continuously improving and optimising the IT architectures); and
- transformation (innovating using technology and leadership).

Principles of conduct

Business integrity and ethics

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

The Group is committed to the principles of sustainable development, striking a balance between economic, environmental and social development. We strive to innovate and adopt best practice wherever we operate, working in consultation with stakeholders.

Management and employees operate within a framework that requires compliance with all applicable laws and maintenance of the highest integrity in the conduct of the business of the Group.

Employment and labour rights

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

Board of directors

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

RJ Symmonds
BComm(Hons), UCT
CA (SA), South African Institute of Chartered Accountants
Executive Director
Joined in 2004

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

Corporate Governance Statement

PJ Orford
B.Bus.Sci, UCT
MPhil, Oxford
Chartered Financial Analyst, CFA Institute
Managing Director
Joined in 2010

CE Backeberg
B.Sc. (Hons), UCT
Fellow of Actuarial Society of South Africa (FASSA)
Non-executive Director
Joined in 2011

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

A Pienaar
B.Com (Hons), UJ
CA (SA), South African Institute of Chartered Accountants
Chartered Financial Analyst, CFA Institute
Non-executive Director
Joined in 2015

Directors' Responsibilities and Approval

The Directors are required in terms of the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the audited annual financial statements and related financial information included in this report. It is their responsibility to ensure that the audited annual financial statements fairly present the state of affairs of the Company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the audited annual financial statements.

The audited annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Company and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the Board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Company and all employees are required to maintain the highest ethical standards in ensuring the Company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Company is on identifying, assessing, managing and monitoring all known forms of risk across the Company. While operating risk cannot be fully eliminated, the Company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the audited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Directors have reviewed the Company's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, they are satisfied that the Company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors were given unrestricted access to all financial records and related data, including minutes of meetings of shareholders and the Board of Directors. The Directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

The external auditors are responsible for independently auditing and reporting on the Company's annual financial statements. The audited annual financial statements have been examined by the Company's external auditors and their report is presented on pages 14 to 15.

The audited annual financial statements set out on pages 16 to 67, which have been prepared on the going concern basis, were approved by the Board on 26 October 2016 and were signed on their behalf by:

ML Japhet **Chairman** **26 October 2016**	**PJ Orford** **Managing Director** **26 October 2016**

Company Secretary's Certification

Declaration by the Company Secretary in respect of Section 88(2)(e) of the Companies Act

In terms of Section 88(2)(e) of the Companies Act of South Africa, as amended, I certify that the Company has lodged with the Commissioner all such returns as are required of a company in terms of the Companies Act and that all such returns are true, correct and up to date.

SJ Vivian

SJ Vivian
Company Secretary
26 October 2016

Audit Committee Report

The Audit Committee (the Committee) has the pleasure in submitting its report for the financial year ended 30 June 2016.

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

Roles and responsibilities

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

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

Composition of meetings

Members: GJM Carlin, CE Backeberg (appointed 18 March 2015), AC Magwentshu (appointed 23 July 2015).

The Committee comprises of three independent Non-executive Directors and meets at least three times a calendar year. The Chairman of the Board, Managing Director, Financial Director, External Auditors, Internal Auditors and Financial Executives can attend committee meetings by request.

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 standards compliance by the Group. The record of attendance by each committee member was as follows:

Name of committee member	Date appointed to committee	23 July 2015	23 October 2015	16 March 2016
GJM Carlin	16 November 1995	Yes	Yes	Yes
CE Backeberg	18 March 2015	Yes	Yes	Yes
AC Magwentshu	23 July 2015	Yes	Yes	Yes

Audit Committee Report

Expertise and experience

The Committee has considered and is satisfied that the expertise and experience of the Chief Financial Officer 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 Dinesh Munu as the designated auditor in terms of the provisions of the Section 90 of the Companies Act 71 of 2008. The committee is satisfied that Deloitte is independent of the Group, as contemplated in Section 94(8) of the Companies Act 71 of 2008.

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

The Committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2016 year. Deloitte is considered for non-audit services according to a formal procedure, and the nature and extent of non-audit services that Deloitte may provide is agreed in terms of a pre-approval policy.

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

Internal financial and accounting controls

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

Financial risk management policies are communicated directly to executive management and the appropriate levels of management in the various operations. The Board acknowledges its responsibility for ensuring that management implements and monitors the effectiveness of systems of internal financial and operating controls. The Board, via the Committee, monitors the effectiveness of established controls and procedures to ensure the accuracy and integrity of accounting records, and monitors the Group's businesses, financial risks and performance. Based on internal audit's review of the design, implementation and effectiveness of the Group's system of internal financial controls in 2015/2016, and considering information and explanations given by management and discussions with Deloitte on the results of its audit, nothing has come to the attention of the Committee to indicate that the Group's system of internal financial controls is not effective or the preparation of the annual financial statements is unreliable.

Internal audit

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

Audit Committee Report

Internal audit responsibilities

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

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

Annual financial statements

Having considered the annual financial statements for the year ended 30 June 2016, the Committee recommends the annual financial statements for approval to the Board of Directors.

Complaints

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

GJM Carlin
Chairperson
26 October 2016

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF LOMBARD INSURANCE COMPANY LIMITED

Report on the Financial Statements

We have audited the financial statements of Lombard Insurance Company Limited set out on pages 18 to 67, which comprise the statement of financial position as at 30 June 2016, 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 financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lombard Insurance Company Limited as at 30 June 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 30 June 2016, we have read the Corporate Governance Statement, Directors' Report, the Audit Committee's Report and the Company Secretary's Certification for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.
These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on Other Legal and Regulatory Requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that Deloitte & Touche has been the auditor of Lombard Insurance Company Limited for 5 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditors
Per: Dinesh Munu
Partner
31 October 2016

Directors' Report

The Directors have pleasure in submitting their report on the audited annual financial statements of Lombard Insurance Company Limited for the year ended 30 June 2016.

1. Nature of business

The Company was incorporated in South Africa and is engaged in the underwriting of non-life insurance risks, such as those associated with guarantee, liability, marine, motor, property and engineering. The Company operates principally in sub-Saharan Africa.

There have been no material changes to the nature of the Company's business from the prior year.

2. Review of financial results and activities

The audited annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. The accounting policies have been applied consistently compared to the prior year.

The operating results and state of affairs of the Company are fully set out in the attached financial statements and do not in our opinion require any further comment.

3. Address

Registered office and business address	Building C, The Sunnyside Office Park 2 Carse O'Gowrie Road Parktown 2193
Postal address	PO Box 2740 Parklands 2121

4. Authorised and issued share capital

There have been no changes to the authorised or issued share capital during the year under review.

5. Dividends

A dividend of R 18,246 million (2015: R 18,246 million) was declared to the shareholders of the Company during the year under review.

6. Directors

The Directors of the Company during the year and to the date of the report are as follows:

Directors	Designation	Changes
ML Japhet	Chairman	
PJ Orford	Executive Director	
RJ Symmonds	Executive Director	
A Pienaar	Non-executive Director	Appointed 23 July 2015
GJM Carlin	Independent Non-executive Director	
CE Backeberg	Independent Non-executive Director	
AC Magwentshu	Independent Non-executive Director	Appointed 23 July 2015
DD Hyde	Financial Director	Resigned 23 July 2015
ADH Enthoven	Non-executive Director	Resigned 23 July 2015

7. Directors' interests in contracts

During the financial year, no contracts were entered into in which the Directors or Officers of the Company had an interest and which significantly affected the business of the Company.

Directors' Report

8. Holding company

The Company's holding Company is LomHold Proprietary Limited which is incorporated in South Africa.

For the year ended 30 June 2015, LomHold Proprietary Limited was an associate of The Hollard Insurance Company Limited. Hollard Insurance Company Limited sold their shares in LomHold Proprietary Limited in the 2016 financial year.

9. Events after the reporting period

The Directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

10. Going concern

The Directors believe that the Company has adequate financial resources to continue in operation for the foreseeable future and accordingly the audited annual financial statements have been prepared on a going concern basis.

11. Auditors

Deloitte & Touche will continue in office as auditors in accordance with section 90 of the Companies Act of South Africa.

12. Secretary

The Company secretary is SJ Vivian of:

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

Statement of Financial Position as at 30 June 2016

	Notes	2016 R '000	2015 R '000
Assets			
Non-current Assets			
Plant and equipment	4	4 180	5 482
Intangible assets	5	17 313	16 375
Financial assets	6	517 940	397 062
		539 433	**418 919**
Current Assets			
Receivables including reinsurance receivables	7	928 039	754 721
Reinsurance assets	8	416 416	332 490
Cash and cash equivalents	9	409 471	483 279
		1 753 926	**1 570 490**
Total Assets		**2 293 359**	**1 989 409**
Equity and Liabilities			
Equity			
Share capital and share premium	10	189 050	189 050
Retained earnings		445 943	419 361
		634 993	**608 411**
Liabilities			
Non-current Liabilities			
Tier II funding	12	200 000	200 000
Deferred tax	13	20 331	12 010
		220 331	**212 010**
Current Liabilities			
Tier II funding	12	2 445	2 204
Current tax payable		267	19 715
Trade and other payables	14	433 542	265 141
Employee benefit provisions	15	62 004	46 230
Insurance liabilities	8	939 777	835 698
		1 438 035	**1 168 988**
Total Liabilities		**1 658 366**	**1 380 998**
Total Equity and Liabilities		**2 293 359**	**1 989 409**

Statement of Comprehensive Income

	Notes	2016 R '000	2015 R '000
Insurance premium revenue		1 202 054	1 076 493
Insurance premium revenue ceded to reinsurers		(614 131)	(576 503)
Net insurance premium revenue	16	**587 923**	**499 990**
Investment income	17	86 499	63 760
Reinsurance commission		195 215	193 749
Net realised gains on fair value through profit or loss financial assets		7 098	4 831
Other operating income	18	5 154	3 630
Other income		**293 966**	**265 970**
Insurance claims and loss adjustment expenses		(486 296)	(391 908)
Insurance claims and loss adjustment expenses recovered		240 694	248 894
Net insurance claims and loss adjustment expenses	19	**(245 602)**	**(143 014)**
Expenses for the acquisition of insurance contracts		(245 195)	(229 050)
Expenses for marketing and administration		(7 671)	(4 835)
Other operating expenses	20	(296 634)	(299 855)
Impairment of financial asset	6	-	(5 000)
Expenses		**(549 500)**	**(538 740)**
Result of operating activities		**86 787**	**84 206**
Finance costs	21	(22 753)	(12 961)
Profit before taxation		**64 034**	**71 245**
Taxation	22	(19 206)	(14 889)
Profit for the year		**44 828**	**56 356**
Other comprehensive income		-	-
Total comprehensive income for the year		**44 828**	**56 356**

Statement of Changes in Equity

	Share capital	Share premium	Total share capital and share premium	Capital contribution reserve	Retained earnings	Total equity
	R '000	R '000	R '000	R '000	R '000	R '000
Balance at 1 July 2014	**47**	**189 003**	**189 050**	**2 000**	**379 251**	**570 301**
Total comprehensive income for the year	-	-	-	-	56 356	56 356
Transfer (from)/to capital contribution reserve	-	-	-	(2 000)	2 000	-
Dividends paid	-	-	-	-	(18 246)	(18 246)
Balance at 1 July 2015	**47**	**189 003**	**189 050**	**-**	**419 361**	**608 411**
Total comprehensive income for the year	-	-	-	-	44 828	44 828
Dividends paid	-	-	-	-	(18 246)	(18 246)
Balance at 30 June 2016	**47**	**189 003**	**189 050**	**-**	**445 943**	**634 993**
Notes	10	10	10	11		

Statement of Cash Flows

	Notes	2016 R '000	2015 R '000
Cash flows from operating activities			
Cash generated from operations	23	7 938	7 162
Finance income		73 605	54 210
Dividends received		10 072	2 999
Tax (paid)/refunded	24	(30 333)	3 301
Net cash from operating activities		**61 282**	**67 672**
Cash flows from investing activities			
Purchase of plant and equipment	4	(50)	(3 718)
Proceeds on disposal of plant and equipment	4	-	1 369
Purchase of intangible assets	5	(6 283)	(6 675)
Purchase of financial assets		(203 909)	(120 877)
Proceeds on disposal of financial assets		93 157	13 555
Net cash utilised in investing activities		**(117 085)**	**(116 346)**
Cash flows from financing activities			
Increase in borrowings		241	202 204
Dividends paid to the shareholders of the company		(18 246)	(18 246)
Net cash (utilised)/from financing activities		**(18 005)**	**183 958**
Total cash and cash equivalent movement for the year		**(73 808)**	**135 284**
Cash and cash equivalent at the beginning of the year		483 279	363 641
Reclassified from cash and cash equivalents to financial assets		-	(15 646)
Total cash and cash equivalent at end of the year	9	**409 471**	**483 279**

Accounting Policies

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 as listed below:

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

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

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

2. Accounting policies

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

2.1 Basis of preparation

The annual financial statements are prepared in accordance with the Companies Act of South Africa and IFRS as defined by IAS 1 Presentation of Financial Statements. They have been prepared on the going concern principle using the historical costs basis, except for certain financial instruments that are measured at fair value at the end of each reporting period or explained in note 2.7.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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 2.2.

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

These accounting policies are consistent with the previous period.

2.2 Significant judgements and sources of estimation uncertainty

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.

Employee benefit provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Employee benefits.

Accounting Policies

2.2 Significant judgements and sources of estimation uncertainty (continued)

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.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Company recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Residual values and useful lives of assets

Residual values and useful lives of tangible assets are assessed on an annual basis. Estimates and judgements in this regard are based on the historical experience and expectations of the manner in which the assets are to be used, together with the expected proceeds likely to be realised when the assets are disposed at the end of their useful lives. Such expectations could change over time and, therefore, impact both the depreciation charges and carrying values of tangible assets in the future.

2.3 Insurance contracts

Classification of insurance contracts

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

Premiums

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

Acquisition costs

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

Unearned premium provision

The provision for unearned premium comprises the proportion of the gross premiums written in the current year which relates to the risks that have not expired by the end of the financial year and estimated to be earned in the following or subsequent financial years. It is calculated separately for each insurance contract and is earned on the time apportionment basis.

Accounting Policies

2.3 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 the incurred but not reported (IBNR) claims is determined based on a set percentage of net written premium for all business except Bonding and Trade Credit. For the Bonding and Trade Credit business an ultimate loss ratio approach is utilised in determining the IBNR. The ultimate loss ratio method utilises ultimate losses calculated as earned premium multiplied by the ultimate expected loss ratio. The IBNR is then calculated as these ultimate losses less the claims incurred to date (claims paid including claims recoveries and claims expenses and outstanding claims).

Receivables and payables related to insurance contracts

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

Reinsurance contracts

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

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

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

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

Liability adequacy test

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

Accounting Policies

2.4 Plant and equipment

The cost of an item of plant and equipment is recognised as an asset when:
- it is probable that future economic benefits associated with the item will flow to the Company; and
- the cost of the item can be measured reliably.

Plant and equipment is initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of plant and equipment, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of plant and equipment have been assessed as follows:

Item	Average useful life
Aircraft	4 years
Vehicles	5 years
Office furniture	10 years
Computer equipment	3 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

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

2.5 Intangible assets

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 asset so that it will be available for use;
- there is an intention to complete 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.

Accounting Policies

2.5 Intangible assets (continued)

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.

2.6 Financial instruments

Classification

The Company classifies its financial assets in the following categories:
- Financial assets at fair value through profit or loss
- Financial assets held-to-maturity
- Available-for-sale
- Loans and receivables
- 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 assets or 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.

Accounting Policies

2.6 Financial instruments (continued)

Financial assets at fair value through profit or loss

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

- it eliminates or significantly reduces valuation or recognition inconsistencies that would arise from measuring financial assets or financial liabilities, or are recognising gains or losses on them. On different bases. Under this criterion, the main classes of financial instruments designated by the Company are:
- financial assets backing insurance and investment contracts, because the related liabilities (i.e.. The insurance and investment contracts) have cash flows that are contractually based on the performance of the assets or the related liabilities. Fair valuing the assets through profit or loss significantly reduces the recognition of inconsistencies that would arise if the financial assets were classified as available-for-sale; and
- financial assets, financial liabilities and structured investments, where doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost.
- when groups of financial assets, financial liabilities or combinations thereof are managed, and their performance evaluated, on fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis. Under this criterion, certain private equity and other reinvestments are the main class of financial instruments so designated. The Company has documented risk management and investment strategies designed to manage such assets at fair value, taking into consideration the relationship of assets to liabilities in a way that mitigates market risks.
- the Company can also designate a financial instrument at fair value through profit or loss if it relates to a contract containing one or more embedded derivatives that significantly modify the cash flows resulting from that contract.

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

The fair values of listed investments are calculated by reference to Stock Exchange bid prices at the close of business on the statement of financial position date and unlisted investments at Director’s valuation based on amounts derived from cash flow models.

Financial assets are designated as at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value. These assets are included in non-current assets unless management has the express intention of holding the investment for less than twelve months from the statement of financial position date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value. Unrealised losses and gains arising from changes in the fair value of these securities are recognised through profit or loss. Financial assets designated as at fair value through profit or loss comprise equity securities that otherwise would have been classified as available-for-sale.

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.

Accounting Policies

2.6 Financial instruments (continued)

Available-for-sale financial assets

Available-for-sale financial assets are any non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) held-to-maturity financial assets or (c) financial assets at fair value through profit or loss. Available-for-sale financial assets are measured at fair value. Fair value changes are recognised directly in equity, through the statement of changes in equity. Interest, impairment losses and foreign exchange gains or losses are recognised in income. The cumulative gains or losses recognised in equity is recognised in profit or loss when an available-for-sale financial asset is derecognised.

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.

Cash and cash equivalents

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

Other financial liabilities

Initially, other financial liabilities are measured at fair value including transaction costs.

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

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

2.7 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities for the current and prior periods are measured at the amount expected to be paid to the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Accounting Policies

2.7 Tax (continued)

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

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

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

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

2.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases – lessee

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

2.9 Impairment of non-financial assets

The Company assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

2.9 Impairment of non-financial assets (continued)

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in profit or loss.

2.10 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of income tax.

Ordinary shares are classified as equity.

2.11 Employee benefits

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.

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.

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.

2.12 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.

2.13 Translation of foreign currencies

Foreign currency transactions and balances

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Accounting Policies

2.13 Translation of foreign currencies (continued)

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous audited annual financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

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).

2.14 Investment income

Interest income

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

Dividend income

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

Notes to the Audited Annual Financial Statements

1. Operating segments

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The Company discloses its operating segments according to the entity components regularly reviewed by the chief operating decision-maker. The segmentation includes items presented on the profit and loss and excludes items in assets and liabilities. In addition, geographical segmentation is not reviewed. The chief operating decision-maker has been identified as the chief executive officer, supported by the company's executive committee.

Segment information is prepared in conformity with the measures that is reported to the company's executive committee and has been reconciled to the consolidated annual financial statements. The measures reported by the company is in accordance with the significant accounting policies adopted for preparing and presenting the consolidated annual financial statements.

The Company conducts mainly insurance and investment activities.

Insurance activities are all core general insurance and reinsurance underwriting activities directly undertaken by the company and are analysed by insurance class. Operating segments are aggregated based on quantitative and/or qualitative significance. The performance of insurance activities is based on gross written premium as a measure of growth, with net underwriting result as measure of profitability.

Investment activities are all investment-related activities undertaken by the company. Due to the nature of the activities conducted, and the decision making process of the Company, investment activities are considered to be one operating segment. Investment activities are measured based on net investment income.

Segment analysis

Business activity - June 2016

	Insurance R'000	Investment R'000	Total R'000
Revenue	**1 228 535**	**86 499**	**1 315 034**
Gross written premium	1 228 535	-	1 228 535
Net written premium	591 929	-	591 929
Net earned premium	587 923	-	587 923
Claims incurred	(245 602)	-	(245 602)
Net commission	37 833	-	37 833
Management expenses	(386 773)	-	(386 773)
Underwriting results	(6 619)	-	(6 619)
Investment income net of management fee and finance costs	-	75 998	75 998
Amortisation of intangible assets	(5 345)	-	(5 345)
Income before taxation	**(11 964)**	**75 998**	**64 034**

Notes to the Audited Annual Financial Statements

1. Operating segments (continued)

The Company's insurance activities are further analysed over various classes of general insurance.

	Gross written premium R'000	Underwriting result R'000
Property	31 297	(5 018)
Transport	156 208	(2 557)
Motor	84 385	(5 828)
Accident and health	4 866	739
Guarantee	595 968	13 846
Liability	146 969	(2 772)
Engineering	208 631	(1 777)
Miscellaneous	211	(3 252)
Total	**1 228 535**	**(6 619)**
Comprising:		
Lombard Guarantee Division	471 648	69
Lombard Trade Credit Guarantee Division	124 320	13 778
Lombard Partnership Division	632 567	(20 466)
Income before taxation	**1 228 535**	**(6 619)**

Business activity - June 2015

	Insurance R'000	Investment R'000	Total R'000
Revenue	**1 131 823**	**68 591**	**1 200 414**
Gross written premium	1 131 823	-	1 131 823
Net written premium	552 119	-	552 119
Net earned premium	499 990	-	499 990
Claims incurred	(143 014)	-	(143 014)
Net commission	48 583	-	48 583
Management expenses	(383 590)	-	(383 590)
Underwriting results	21 696	-	21 696
Investment income net of management fee and finance costs	-	54 260	54 260
Amortisation of intangible assets	(4 984)	-	(4 984)
Income before taxation	**16 985**	**54 260**	**71 245**

Insurance activities

The Company's insurance activities are further analysed over various classes of general insurance.

Notes to the Audited Annual Financial Statements

1. Operating segments (continued)

	Gross written premium R'000	Underwriting result R'000
Property	932	(5 538)
Transport	176 906	1 120
Motor	74 428	(5 352)
Accident and health	8 483	(1 348)
Guarantee	562 897	25 798
Liability	128 317	4 632
Engineering	181 583	4 577
Miscellaneous	(1 723)	(1 920)
Total	**1 131 823**	**21 969**
Comprising:		
Lombard Guarantee Division	444 794	21 933
Lombard Trade Credit Guarantee Division	118 103	3 865
Lombard Partnership Division	568 926	(3 829)
	1 131 823	**21 969**

Investment activities

For detailed analysis of investment activities refer to notes 6 and 17 of the annual financial statements.

2. New Standards

2.1 Standards effective and adopted in the current year

In the current year, there are no new standards that are effective for the current year and that are relevant to its operations.

2.2 Standards not yet effective

The Company has chosen not to early adopt the following standards, which have been published and are mandatory for the Company's accounting periods beginning on or after 1 July 2016 or later periods:

Standard:	Effective date: Years beginning on or after	Expected impact:
• IFRS 16: Leases (Original issue)	1 January 2019	Impact is currently being assessed
• IFRS 9: Financial Instruments (Reissue of a complete standard with all the chapters incorporated)	1 January 2018	Impact is currently being assessed by management
• IFRS 15 Revenue from Contracts with Customers (Original issue)	1 January 2018	Impact is currently being assessed
• IAS 7: Cash Flow Statement (Amendments as result of the Disclosure initiative)	1 January 2017	Unlikely there will be a material impact
• IAS 12: Income taxes (Amendments regarding the recognition of deferred tax assets for unrealised losses)	1 January 2017	Unlikely there will be a material impact
• IFRS 5: Non-current Assets Held for Sale and Discontinued Operations (Amendments resulting from 2012-2014 Annual Improvements Cycle)	1 January 2016	Unlikely there will be a material impact
• IFRS 7: Financial Instruments: Disclosures (Amendments resulting from September 2014 Annual Improvements to IFRSs)	1 January 2016	Unlikely there will be a material impact
• IAS 1: Presentation of Financial Statements (Amendments arising under the Disclosure Initiative)	1 January 2016	Unlikely there will be a material impact

2.3 Standards not yet effective or relevant

The following standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 July 2016 or later periods but are not relevant to its operations:

Standard:	Effective date: Years beginning on or after	Expected impact:
• IFRS 10: Consolidated Financial Statements and IAS 28: Investments in Associates and Joint Ventures (Amendments related to the application of the investment entities exceptions)	To be determined	Unlikely there will be a material impact
• IFRS 11: Joint Arrangements (Amendments to introduce investment entities exceptions to consolidation)	1 January 2016	Unlikely there will be a material impact
• IAS 16: Property, Plant and Equipment and IAS 38: Intangible Assets(Amendments resulting from clarification of acceptable methods of depreciation and amortisation)	1 January 2016	Unlikely there will be a material impact
• IAS 27: Separate Financial Statements (Amendments for investment entities)	1 January 2016	Unlikely there will be a material impact
• IFRS 14: Regulatory Deferral Accounts (Original issue)	1 January 2016	Unlikely there will be a material impact
• IFRS 10: Consolidated Financial Statements, IFRS 12: Disclosure of Interests in Other Entities and IAS 28: Investments in Associates and Joint Ventures (Amendments related to the application of the investment entities exceptions)	1 January 2016	Unlikely there will be a material impact
• IAS 16: Property, Plant and Equipment and IAS 41: Agriculture(Amendments to include 'bearer plants' within the scope of IAS 16 rather than IAS 41)	1 January 2016	Unlikely there will be a material impact
• IAS 19: Employee Benefits (Amendments resulting from 2012-2014 Annual Improvements Cycle)	1 January 2016	Unlikely there will be a material impact
• IAS 34: Interim Financial Reporting (Amendments resulting from 2012-2014 Annual Improvements Cycle)	1 January 2016	Unlikely there will be a material impact

3. Risk management

3.1. Risk management framework

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

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

Senior management is responsible for identifying material risks before or as they emerge. The Company has a Risk Officer who assists the Managing Director and the Board to identify and monitor risk. Three times a year the Company holds an Audit Committee and a Risk and Compliance meetings, chaired by a non-executive Director, at which the Risk Officer presents a detailed Risk Management Report including a Risk Register which highlights the Company's top twenty Residual Risks.

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

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

The Company has established a comprehensive Enterprise Risk Management framework that has been designed to identify, assess, measure and manage exposure to risk. Its primary objective will be to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities.

3. Risk management (continued)

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.

3.2. Terms and conditions of contracts

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

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

In both of these types of contract, the event trigger for a claim is the financial failure of the business undertaking to which the contract relates. Failure should be seen in the context of the guarantee wording as well as the required performance as stipulated in the underlying contract. For as long as the business is financially solvent, it is in a position to make specific performance, and the policyholder is not entitled to claim under the terms of the contract.

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

3.3. Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and that the full amount of the Sum Insured or the Limit of Indemnity is claimed. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

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

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

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

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

Events giving rise to a claim on the guarantee, bonds and credit book usually occurs with the insolvency and liquidation of the contractor, freight forwarder/importer, mining house 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.

Notes to the Audited Annual Financial Statements

3. Risk management (continued)

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 insurance event giving rise to the claim has occurred. 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

Frequency and severity of claims

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

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

Underwriting limits are in place to enforce proper segregation of authority by delegating authority in accordance with seniority and experience of staff and following risk selection criteria. These limits are set after analysis of the annual financial statements of a prospective client and assessing the financial strength and operational capacity relative to the level of cover sought according to predefined criteria. The prospective client must be solvent and there must be sufficient motivation that they will be able to be profitable in the future. Reviews are performed at least annually. Where a deterioration of the client's financial position is discovered, more regular reviews are performed, and if necessary the facility is suspended.

In accordance with the terms of the credit insurance policy, when "catastrophe" cover is bought, deductibles are imposed in the form of an excess. The Company has the right to reject certain risks and relies on the interpretation of the law when assessing the legitimacy of a claim. Insurance contracts also entitle the Company to pursue third parties for recovery of some or all costs incurred in settling a claim. Furthermore, the Company's strategy limits the total exposure to any one client according to limits and sub-limits in accordance with the financial substance of the client. The Company also has proportional reinsurance and non-proportional reinsurance 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 internal models calculating the most probable loss situation. Non-proportional reinsurance limits the Company's net exposure in the case of large losses in order to protect shareholders' equity. Only reinsurers with a rating of A- or higher (local rating or international rating of parent Company) are participants in the treaties. By spreading the ceded risk across several reinsurers, the risk of failure to recover from reinsurance agreements is reduced.

Notes to the Audited Annual Financial Statements

3. Risk management (continued)

Reinsurer	2016 Reinsurer surety risk ceded %	2016 * Credit rating	2015 Reinsurer surety risk ceded %	2015 * Credit rating
Arch Reinsurance Europe Underwriting Limited (previously Ariel)	7,5	A+	10,0	A+
Atradius Reinsurance Limited	-	A	5,5	A^2
Axis Re SE Limited	5,0	A+	5,0	A+
Clavis Re Limited	4,0	A+	2,5	A+
Endurance Speciality Insurance Limited	3,0	A+	-	A
Everest Reinsurance Company	-	A+	4,0	A+
Hannover Reinsurance Africa Limited / Hannover Ruckversicherung AG	17,5	BBB+/AA-	17,5	BBB+/AA-
Lloyd's of London, Syndicate 4472	5,0	A+	-	
Munich Reinsurance Company of Africa Limited	5,0	AA-	5,0	AA-
Partner Reinsurance Europe SE	6,0	A+	5,0	A+
R+V Versicherung AG	12,0	AA-	10,5	AA-
SCOR Africa Limited	17,5	AA-	17,5	A+
Swiss Reinsurance Company Limited	17,5	AA-	17,5	AA-
	100		**100**	

* Rating as per Standard & Poor's Financial Services LLC

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.

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

Guarantee, bond or credit exposure to any one insured 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 limits are agreed on a case by case basis with our lead reinsurers.

Exposures are currently in the following industry sectors:

Industry sector	2016 % Exposure	2015 % Exposure
Engineering	46	35
Property	3	1
Manufacturing and retail	13	20
Liability	11	17
Construction	9	13
Motor	2	3
Freight	2	2
Marine	9	2
Mining	2	3
Accident & Health	3	4
Total	**100**	**100**

Notes to the Audited Annual Financial Statements

3. Risk management (continued)

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.

Sources of uncertainty in the estimation of future claim payments

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

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

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

In calculating the estimated cost of unpaid claims that have been reported, the Company provides for the most likely cost of settling the claim against the default reported after considering all the facts and circumstances on hand, and provides for them on a case-by-case basis. Although the Company does utilise the services of attorneys in some of its claim settlement negotiation, there are no significant litigation or legislative risks.

The IBNR estimation is subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until sometime after the event that gave rise to the claim has occurred. IBNR is provided for based on the claims experience of the Company, which exceeds the minimum prescribed rate per regulations.

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

Reinsurance insurance risks

From time to time the Company accepts reinsurance inwards from other insurance companies. Usually this applies to types of risks that we would cover ourselves on a direct basis, namely credit and surety business, or business relating to this type of insurance. The Company has concluded agreements to accept reinsurance inwards in certain construction guarantees underwritten in Australia, Sweden as well as Africa.

Notes to the Audited Annual Financial Statements

Figures in Rand thousand

3. Risk management (continued)

3.4. 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 engage in derivative dealings to manage foreign currency exposures and in addition manages foreign currency accounts to support foreign insurance liabilities.

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

Categories of financial instruments - 2016

	Available for sale R'000	Fair value through profit or loss R'000	Held to maturity R'000	Loans and receivables R'000	Total financial instruments R'000	Insurance contract assets and liabilities R'000	Other assets and liabilities R'000	Total per statement of financial position R'000
Assets								
Financial assets:								
- Preference shares and debt instruments	-	-	82 617	32 000	114 617	-	-	114 617
- Equities	98 542	87 091	-	-	185 633	-	-	185 633
- Unit trusts and pooled funds	-	217 690	-	-	217 690	-	-	217 690
Receivables due from contract holders	-	-	-	279 438	279 438	-	-	279 438
Other loans and receivables	-	-	-	648 601	648 601	-	-	648 601
Reinsurance assets	-	-	-	-	-	416 416	-	416 416
Cash and cash equivalents	-	-	-	-	-	-	409 471	409 471
	98 542	**304 781**	**82 617**	**960 039**	**1 445 979**	**416 416**	**409 471**	**2 271 866**
Liabilities								
Short term insurance contracts	-	-	-	-	-	939 777	-	939 777
Trade and other payables	-	-	-	-	-	-	433 542	433 542
Unsecured borrowings	-	-	-	-	-	-	202 445	202 445
Total liabilities	**-**	**-**	**-**	**-**	**-**	**939 777**	**635 987**	**1 575 764**

Notes to the Audited Annual Financial Statements

Figures in Rand thousand

3. Risk management (continued)

Categories of financial instruments - 2015 (Restated)

	Available for sale R'000	Fair value through profit or loss R'000	Held to maturity R'000	Loans and receivables R'000	Total financial instruments R'000	Insurance contract assets and liabilities R'000	Other assets and liabilities R'000	Total per statement of financial position R'000
Assets								
Financial assets								
- Preference shares and debt instruments	-	-	97 401	32 000	129 401	-	-	129 401
- Equities	-	92 539	-	-	92 539	-	-	92 539
- Unit trusts and pooled funds	-	175 122	-	-	175 122	-	-	175 122
Receivables due from contract holders	-	-	-	243 060	243 060	-	-	243 060
Other loans and receivables	-	-	-	511 661	511 661	-	-	511 661
Reinsurance assets	-	-	-	-	-	332 490	-	332 490
Cash and cash equivalents	-	-	-	-	-	-	483 279	483 279
	-	**267 661**	**97 401**	**786 721**	**1 151 783**	**332 490**	**483 279**	**1 967 552**
Liabilities								
Short term insurance contracts	-	-	-	-	-	835 698	-	835 698
Trade and other payables	-	-	-	-	-	-	265 141	265 141
Unsecured borrowings	-	-	-	-	-	-	202 204	202 204
	-	**-**	**-**	**-**	**-**	**835 698**	**467 345**	**1 303 043**

Notes to the Audited Annual Financial Statements

3. Risk management (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of fair value hierachy.

Financial assets at fair value through profit and loss 2016	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Listed - ordinary shares	87 091	-	-	87 091
Unlisted - ordinary shares	-	98 542	-	98 542
Unit trust funds and pooled funds	47 759	169 931	-	217 690
	134 850	**268 473**	**-**	**403 323**

Financial assets at fair value through profit and loss 2015 (Restated)	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Listed - ordinary shares	92 539	-	-	92 539
Unit trust funds and pooled funds	76 911	98 211	-	175 122
	169 450	**98 211**	**-**	**267 661**

Refer to note 32 for details on Restatement.

Included in the Level 1 category are financial assets that are measured in whole or in part by reference to published quoted prices in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arms length basis.

Financial assets classified as Level 2 are measured using a valuation technique based on assumptions that are supported by prices for observable current market transactions. These are assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market. These are investment in funds with fair values obtained via fund managers.

Level 3 financial assets are assets where the fair value is determined using a valuation technique based on assumptions that are not supported by observable market data. The Company does not have any financial assets that are categorised as Level 3.

3.4.1. Credit risk

Concentrations of credit risk with respect to amounts due from agents are limited due to the Company’s large number of customers, who are dispersed throughout Southern Africa and have a variety of principals and end markets in which they operate. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Company’s trade receivables. The aggregate exposure to credit risk is R 1 753 926 000 (2015: R 1 570 490 000). Only reinsurers with a rating of A- or higher (local rating or international rating of parent Company) are used to participate on treaties, thereby reducing the credit risk exposure.

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

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

3. Risk management (continued)

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

	AA R'000	A+ R'000	BBB- R'000	BB+ R'000	Not rated R'000	Total R'000
Categories of financial instruments - 2016						
Assets						
Preference shares and debt instruments	-	-	66 302	-	48 315	114 617
Receivables due from contract holders	-	-	-	-	279 438	279 438
Other loans and receivables	-	-	-	-	648 601	648 601
Cash and cash equivalents	20 451	908	367 298	20 781	33	409 471

Categories of financial instruments - 2015 - Restated

	A- R'000	AA- R'000	AA+ R'000	BBB R'000	BBB- R'000	Not rated R'000	Total R'000
Assets							
Preference shares and debt instruments	-	-	-	10 000	52 241	67 160	129 401
Receivables due from contract holders	-	-	-	-	-	243 060	243 060
Other loans and receivables	-	-	-	-	-	511 661	511 661
Reinsurance assets	-	-	-	-	-	332 490	332 490
Cash and cash equivalents	21 911	577	12 981	391 132	56 651	27	483 279

Refer to note 32 for details on Restatement.

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.

Notes to the Audited Annual Financial Statements

Figures in Rand thousand

3. Risk management (continued)

	Neither past due nor impaired	Past due but not impaired 30 days	60 days	90 days	120 days	Impaired assets	Impairment	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
As at 30 June 2016								
Receivables due from contract holders	105 058	113 417	26 471	25 469	5 584	14 815	(11 376)	279 438
Other loans and receivables	648 601	-	-	-	-	-	-	648 601
	753 659	**113 417**	**26 471**	**25 469**	**5 584**	**14 815**	**(11 376)**	**928 039**
As at 30 June 2015								
Receivables due from contract holders	112 948	69 090	32 096	22 856	6 070	11 990	(11 990)	243 060
Other loans and receivables	511 661	-	-	-	-	-	-	511 661
	624 609	**69 090**	**32 096**	**22 856**	**6 070**	**11 990**	**(11 990)**	**754 721**

3. Risk management (continued)

3.4.2. 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 converted to ZAR:

	USD R'000	EURO R'000	GBP R'000	BWP R'000	NAD R'000	AUD R'000	Other* R'000	Total ZAR R'000
As at 30 June 2016								
Receivables due from contract holders	-	-	-	926	3 510	-	11 574	16 010
Cash and cash equivalents	53 537	-	34 977	-	-	-	-	88 514
	53 537	**-**	**34 977**	**926**	**3 510**	**-**	**11 574**	**104 524**
Exchange rate	**15.0113**	**16.6360**	**20.1075**	**1.3148**	**1.0000**			
As at 30 June 2015								
Receivables due from contract holders	126	-	-	1 446	959	144	7 241	9 916
Cash and cash equivalents	1 356	10	-	-	-	-	-	1 366
	1 482	**10**	**-**	**1 446**	**959**	**144**	**7 241**	**11 282**
Exchange rate	**12.2773**	**13.6232**	**19.2967**	**1.2137**	**1.0000**	**9.3987**		

* Others relate to other currencies that the Company transacts in that are not significant.

3. Risk management (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:

	2016 R' 000	2015 R' 000
10% Increase	2 279	8 340
10% Decrease	(2 279)	(8 340)

3.4.3. 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.

3.4.4. 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 balance of the investment portfolio is held in listed equities and managed by independent investment portfolio managers. The Company does not have any borrowings due to the fact that most of the Group's debt securities are in fixed rate financial instruments, as such, the Company's exposure to interest rate risk is nominal.

A 1% increase or decrease in interest rates would have the following result on the Company's income (based on the average effective interest rate of 5.6% (2015: 4.20%) received during the year under review):

	2016 R'000	2015 R'000
1% Increase	4 464	2 677
1% Decrease	(4 464)	(2 677)

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.

3.4.5. Price risk

The Company is exposed to equity securities price risk because of investments held by the Company and classified on the statement of financial position either as available-for-sale or at fair value through profit or loss. The Company is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.

The table below summarises the impact of increases/decreases of the indexes on the Company's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity indexes has increased/decreased by 10% with all other variables held constant and all the Company's equity instruments moved according to the historical correlation with the index:

	Impact on post tax profit in Rand	
	2016	2015
Fair value of listed equities	87 091	92 539
10% Increase	95 800	101 793
10% Decrease	(78 382)	(83 285)

Post-tax profit for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified a available-for-sale.

3. Risk management (continued)

3.4.6. 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.

3.4.7. 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.

3.4.8. 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.

3.4.9. 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.

3.4.10. 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.

3.4.11. Product and pricing risk

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

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

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

3. **Risk management (continued)**

3.4.12. 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 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.

3.4.13. 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 FSB. The Company does not maintain a minimum threshold above the regulatory requirements, but does ensure that the capital is always adequate to write business in the Republic of South Africa,
- To safeguard the Company’s ability to continue as a going concern so that it can provide returns for shareholders and benefits for the other stakeholders, and
- To provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

4. **Plant and equipment**

	2016			2015		
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Vehicles	530	(528)	2	530	(493)	37
Furniture and equipment *	12 869	(8 691)	4 178	12 819	(7 374)	5 445
Total	**13 399**	**(9 219)**	**4 180**	**13 349**	**(7 867)**	**5 482**

Reconciliation of plant and equipment - 2016

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Closing balance R'000
Vehicles	37	-	-	(35)	2
Furniture and equipment *	5 445	50	-	(1 317)	4 178
	5 482	**50**	**-**	**(1 352)**	**4 180**

Reconciliation of plant and equipment - 2015

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Closing balance R'000
Vehicles	72	-	-	(35)	37
Furniture and equipment *	5 136	3 718	(1 369)	(2 040)	5 445
	5 208	**3 718**	**(1 369)**	**(2 075)**	**5 482**

Notes to the Audited Annual Financial Statements

4. Plant and equipment (continued)

* Furniture and equipment comprises office furniture, office equipment and other parts and equipment.

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the Company.

Depreciation expense has been included in other operating expenses (refer to note 20).

5. Intangible assets

	2016			2015		
	Cost R'000	Accumulated amortisation R'000	Carrying value R'000	Cost R'000	Accumulated amortisation R'000	Carrying value R'000
Computer software	52 895	(35 582)	17 313	46 612	(30 237)	16 375

Reconciliation of intangible assets - 2016

	Opening balance R'000	Additions R'000	Amortisation R'000	Closing balance R'000
Computer software	16 375	6 283	(5 345)	17 313

Reconciliation of intangible assets - 2015

	Opening balance R'000	Additions R'000	Amortisation R'000	Closing balance R'000
Computer software	14 684	6 675	(4 984)	16 375

Amortisation expense has been included in other operating expenses (refer to note 20).

Notes to the Audited Annual Financial Statements

	2016 R '000	Restated 2015 R '000

6. Financial assets

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

	2016 R '000	Restated 2015 R '000
Fair value through profit or loss		
Listed equity securities	87 091	92 539
Unlisted unit trusts and pooled funds	197 465	175 122
Listed unit trusts and pooled funds	20 225	-
	304 781	**267 661**
Available-for-sale		
Unlisted equity securities	98 542	-
Held to maturity		
Unlisted preference shares	26 315	45 160
Debt instruments	56 302	52 241
	82 617	**97 401**
Loans and receivables		
Unlisted preference shares	32 000	32 000
Receivables due from contract holders (note 7)	279 438	243 060
Other loans and receivables	648 601	511 661
	960 039	**786 721**
Non-current assets		
Fair value through profit or loss	304 781	267 661
Available-for-sale	98 542	-
Held to maturity	82 617	97 401
Loans and receivables including reinsurance receivables	32 000	32 000
	517 940	**397 062**

Notes to the Audited Annual Financial Statements

6. Financial assets (continued)

Reconciliation of financial assets - 2016

	Opening balance R'000	Additions R'000	Disposal R'000	Fair value gains R'000	Foreign exchange losses R'000	Closing balance R'000
Available for sale	-	98 542	-	-	-	98 542
Fair value through profit or loss	267 661	110 574	(74 312)	5 616	(4 758)	304 781
Held to maturity	97 401	4 061	(18 845)	-	-	82 617
Loans and receivables	32 000	-	-	-	-	32 000
	397 062	**213 177**	**(93 157)**	**5 616**	**(4 758)**	**517 940**

Reconciliation of financial assets - 2015 - Restated

	Opening balance R'000	Additions R'000	Disposals R'000	Fair value gains R'000	Impairment R'000	Closing balance R'000
Fair value through profit or loss	196 992	66 251	(7 887)	12 305	-	267 661
Held to maturity	53 443	54 626	(5 668)	-	(5 000)	97 401
Loans and receivables	32 000	-	-	-	-	32 000
	282 435	**120 877**	**(13 555)**	**12 305**	**(5 000)**	**397 062**

Refer to note 32 for details on Restatement.

Notes to the Audited Annual Financial Statements

	2016 R '000	2015 R '000
7. Receivables including reinsurance receivables		
Receivables due from insurance contracts		
Due from agents, brokers and intermediaries	247 427	171 990
Impairment provision	(11 376)	(11 990)
Due from reinsurance contracts	43 387	83 060
	279 438	243 060
Other loans and receivables		
Prepaid expenses	693	1 017
VAT	-	2 828
Fair value hedge instrument	7 905	-
Sundry debtors	36 516	80 483
Amount due from related parties (note 27)	407 458	314 541
Private equity loans	196 029	112 792
	928 039	**754 721**

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

Reconciliation of provision for impairment of trade receivables

	2016 R '000	2015 R '000
Opening balance	(11 990)	(10 196)
Provision utilised/(raised) in the period	614	(1 794)
	(11 376)	**(11 990)**

8. Insurance liabilities and reinsurance assets

	2016 R '000	2015 R '000
Gross		
Outstanding claims	372 152	347 063
Claims incurred but not reported	205 926	148 738
Unearned premiums	406 177	379 696
Deferred acquisition costs	(44 478)	(39 799)
Total insurance liabilities	939 777	835 698
Recoverable from reinsurers		
Outstanding claims reported	(177 285)	(158 287)
Claims incurred but not reported	(136 673)	(86 036)
Unearned premiums	(149 960)	(127 483)
Deferred reinsurance commission	47 502	39 316
Total reinsurers' share of insurance liabilities	(416 416)	(332 490)
Net		
Outstanding claims	194 867	188 776
Claims incurred but not reported	69 253	62 702
Unearned premiums	256 217	252 213
Deferred acquisition costs and reinsurance commission	3 024	(483)
Total net insurance liabilities	523 361	503 208
Current asset	416 416	332 490
Current liability	(939 777)	(835 698)
Total net current liability	**(523 361)**	**(503 208)**

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

Notes to the Audited Annual Financial Statements

8. Insurance liabilities and reinsurance assets (continued)

Analysis of movement in outstanding claims and IBNR	Gross R'000	Reinsured R'000	Net R'000
As at 30 June 2015			
- outstanding claims	347 063	(158 287)	188 776
- incurred but not reported	148 738	(86 036)	62 702
	495 801	(244 323)	251 478
Claims paid during the year (note 19)	(404 023)	171 056	(232 967)
Increase in outstanding claim reserves	429 114	(190 057)	239 057
Increase in incurred but not reported reserve	57 188	(50 634)	6 554
As at 30 June 2016	**578 080**	**(313 958)**	**264 122**
Balance at 30 June 2016 is made up as follows:			
- outstanding claims	372 154	(177 285)	194 869
- incurred but not reported	205 926	(136 673)	69 253
	578 080	**(313 958)**	**264 122**

	Gross R'000	Reinsured R'000	Net R'000
As at 30 June 2014			
- outstanding claims	410 383	(238 837)	171 546
- incurred but not reported	103 444	(63 201)	40 243
	513 827	(302 038)	211 789
Claims paid during the year (note 19)	(410 186)	306 838	(103 348)
Increase in outstanding claim reserves	347 095	(226 517)	120 578
Increase in incurred but not reported reserve	45 065	(22 606)	22 459
As at 30 June 2015	**495 801**	**(244 323)**	**251 478**
Balance at 30 June 2015 is made up as follows:			
- outstanding claims	347 063	(158 287)	188 776
- incurred but not reported	148 738	(86 036)	62 702
	495 801	**(244 323)**	**251 478**

Notes to the Audited Annual Financial Statements

	2016 R '000	2015 R '000

9. Cash and cash equivalents

Cash and cash equivalents consist of:

	2016 R '000	2015 R '000
Cash at bank	257 632	352 876
Short-term bank deposits	151 839	130 403
Total cash and cash equivalents	**409 471**	**483 279**

The effective interest rate on short-term bank deposits was 6.3% (2015: 4.2%).

Currencies

The carrying amount of cash and cash equivalents are denominated in the following currencies:

	2016 R '000	2015 R '000
ZAR	320 957	481 913
USD	53 537	1 356
EUR	-	10
GBP	34 977	-
	409 471	**483 279**

10. Share capital and share premium

	2016 R '000	2015 R '000
Authorised		
10 000 000 ordinary shares at 1 cent each	100	100
Issued		
4 665 501 ordinary shares at 1 cent each	47	47
Share premium	189 003	189 003
	189 050	**189 050**

Unissued ordinary shares are under the control of the Directors in terms of a resolution of shareholders passed at the last annual general meeting. This authority remains in force until the next annual general meeting.

	2016 R '000	2015 R '000
Reconciliation of share issued:		
Opening balance	47	47
Issued shares	-	-
Closing balance	**47**	**47**
Reconciliation of share premium:		
Opening balance	189 003	189 003
Issued shares	-	-
Closing balance	**189 003**	**189 003**

Notes to the Audited Annual Financial Statements

	2016 R '000	2015 R '000

11. Non-distributable reserves

Capital contribution reserve

	2016 R '000	2015 R '000
Balance at beginning of the year	-	2 000
Transfer from capital contribution reserve	-	(2 000)
Balance at end of the year	**-**	**-**

In prior years the Company transferred R 2 000 000 to a non-distributable reserve, at the request of the FSB, to increase the amount recognised as capital for regulatory purposes. This was a condition for granting a full, unrestricted short-term insurance license in October 1999. This is no longer a requirement of the FSB and was released to retained earnings in 2015.

12. Tier II funding

	2016 R '000	2015 R '000
Unsecured subordinated notes	200 000	200 000
Interest accrued	2 445	2 204
	202 445	**202 204**

During the 2015 financial year, the Company issued R 200 000 000 unsecured subordinated notes under a R 1 000 000 000 notes programme listed on the JSE. Interest is based on 4.75% above 3 months JIBAR which was 7.308% at 30 June 2016 (2015: 6.125%). The redemption date for the R 200 000 000 notes issued is 25 November 2019.

Refer to note 21 for Tier II finance cost.

	2016 R '000	2015 R '000
Non-current liabilities	200 000	200 000
Current liabilities	2 445	2 204
	202 445	**202 204**

13. Deferred tax liability

Deferred tax liability

	2016 R '000	2015 R '000
Intangible assets	(2 553)	(3 714)
Property and equipment	(497)	(1 067)
Provision for future income	(13 977)	(5 233)
Statutory reserves	(8 405)	(6 903)
Unrealised gains on investments	(17 093)	(15 335)
Total deferred tax liability	**(42 525)**	**(32 252)**

Deferred tax asset

	2016 R '000	2015 R '000
Provisions	22 194	20 242
Total deferred tax asset	**22 194**	**20 242**

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

	2016 R '000	2015 R '000
Deferred tax liability	(42 525)	(32 252)
Deferred tax asset	22 194	20 242
Total net deferred tax liability	**(20 331)**	**(12 010)**

Notes to the Audited Annual Financial Statements

	2016 R '000	2015 R '000

13. Deferred tax liability (continued)

Reconciliation of deferred tax liability

	2016 R '000	2015 R '000
At the beginning of the year	(12 010)	(19 441)
Charge to statement of comprehensive income	(8 321)	7 431
At end of year	**(20 331)**	**(12 010)**

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

(a) Deferred tax assets	**Provision R'000**	**Tax loss R'000**	**Total R'000**
As at 30 June 2014	7 696	18 343	26 039
Charged to the statement of comprehensive income	12 546	(18 343)	(5 797)
As at 30 June 2015	**20 242**	**-**	**20 242**
As at 30 June 2015	20 242	-	20 242
Charged to the statement of comprehensive income	1 952	-	1 952
As at 30 June 2016	**22 194**	**-**	**22 194**

(b) Deferred tax liabilities	**Intangible assets R'000**	**Plant and equipment R'000**	**Provision for future income R'000**	**Statutory reserves R'000**	**Unrealised gains on investments R'000**	**Total R'000**
As at 30 June 2014	(3 325)	(378)	(11 055)	(11 437)	(19 285)	(45 480)
Charged to the statement of comprehensive income	(389)	(689)	5 822	4 534	3 950	13 228
As at 30 June 2015	**(3 714)**	**(1 067)**	**(5 233)**	**(6 903)**	**(15 335)**	**(32 252)**
As at 30 June 2015	(3 714)	(1 067)	(5 233)	(6 903)	(15 335)	(32 252)
Charged to the statement of comprehensive income	1 161	570	(8 744)	(1 502)	(1 758)	(10 273)
As at 30 June 2016	**(2 553)**	**(497)**	**(13 977)**	**(8 405)**	**(17 093)**	**(42 525)**

14. Trade and other payables

	2016 R '000	2015 R '000
Accrued expenses	6 165	6 976
Amounts due to related parties (note 27)	21 466	7 839
Payables under reinsurance contracts	335 187	166 542
Sundry creditors	37 678	69 520
Trade creditors	24 568	14 264
VAT	8 478	-
	433 542	**265 141**

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

Notes to the Audited Annual Financial Statements

	2016 R '000	2015 R '000

15. Employee benefit provisions

	2016 R '000	2015 R '000
Bonus provision	58 043	41 794
Leave pay provision	3 961	4 436
	62 004	**46 230**

Reconciliation of employee benefit provisions - 2016

	Opening balance R'000	Additions R'000	Utilised during the year R'000	Closing balance R'000
Bonus provision	41 794	50 670	(34 421)	58 043
Leave pay provision	4 436	466	(941)	3 961
	46 230	**51 136**	**(35 362)**	**62 004**

Reconciliation of employee benefit provisions - 2015

	Opening balance R'000	Additions R'000	Utilised during the year R'000	Closing balance R'000
Profit right provision	4 125	-	(4 125)	-
Bonus provision	-	41 794	-	41 794
Leave pay provision	4 198	718	(480)	4 436
	8 323	**42 512**	**(4 605)**	**46 230**

The bonus will be paid as part of the October 2016 payroll. Leave is only paid out on termination of employment contracts.

16. Net insurance premium revenue

	2016 R '000	2015 R '000
Insurance contracts		
- gross written premium	1 228 535	1 131 823
- change in unearned premium provision	(26 481)	(55 330)
Insurance premium revenue	**1 202 054**	**1 076 493**
Reinsurance contracts		
- reinsurance premium	(636 606)	(579 704)
- change in unearned premium - reinsurers' portion	22 475	3 201
Insurance premium revenue ceded to reinsurers	**(614 131)**	**(576 503)**
Net insurance premium revenue	**587 923**	**499 990**

Notes to the Audited Annual Financial Statements

17. Investment income

	2016 R '000	2015 R '000
Fair value through profit or loss		
- dividend income	10 072	2 999
- fair value movement	(1 849)	6 551
- interest income	192	4 016
Fair value movement on hedge instrument	4 672	-
Cash and cash equivalents interest income	28 313	17 956
Held-to-maturity interest income	7 738	10 271
Loans and receivables interest income	37 361	21 967
	86 499	**63 760**

18. Other operating income

	2016 R '000	2015 R '000
Aviation income	1 832	1 627
Other income	3 322	2 003
	5 154	**3 630**

19. Net insurance claims and loss adjustment expenses

	2016 R '000	2015 R '000
Current year claims paid	(404 023)	(410 186)
Movement in incurred but not reported provision	(57 187)	(45 065)
Movement in outstanding claims provision	(25 086)	63 343
Insurance claims and loss adjustment expenses	**(486 296)**	**(391 908)**
Recoveries from reinsurers	171 056	306 838
Reinsurers' portion of incurred but not reported provision	50 634	22 606
Reinsurers' portion of outstanding claims provision	19 004	(80 550)
Insurance claims and loss adjustment expenses recovered from reinsurers	**240 694**	**248 894**
Net insurance claims and loss adjustment expenses	**(245 602)**	**(143 014)**

20. Other operating expenses

	2016 R '000	2015 R '000
Amortisation	5 345	4 984
Auditors remuneration	4 902	4 280
Depreciation	1 352	2 075
Directors' remuneration	12 316	13 457
Employee costs	153 175	144 378
Interest expense	3 641	8 397
Lease rentals on operating leases	14 496	12 265
Other expenses	78 000	85 132
Other staff costs	8 685	8 419
Professional fees	14 262	14 999
Repairs and maintenance	460	1 469
	296 634	**299 855**

Refer to note 28 for details on Directors' remuneration.

21. Finance costs

	2016 R '000	2015 R '000
Interest paid	22 753	12 961

Notes to the Audited Annual Financial Statements

	2016 R '000	2015 R '000

22. Taxation

Major components of the tax expense

	2016 R '000	2015 R '000
Current		
Local income tax - current period	9 682	21 006
Local income tax - recognised in current tax for prior periods	256	(107)
Foreign income tax or withholding tax - current period	947	1 423
	10 885	**22 322**
Deferred		
Originating and reversing temporary differences	8 321	(7 433)
	19 206	**14 889**

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

	%	%
Applicable tax rate	28,00	28,00
Accounting profit on disposal of fixed and other assets	(3,10)	(2,37)
Accounting losses on disposal of fixed or other assets	-	2,43
Local dividends	(4,49)	(2,76)
Provision for doubtful debts	(0,07)	0,18
Prepayments	(0,30)	-
Doubtful debt allowance	0,07	(0,18)
Wear and tear allowance	(2,71)	-
Accounting depreciation	2,93	-
Donations	0,54	0,32
Expenses attributable to dividend and exempt income	0,24	2,31
Foreign exchange loss not deductible	2,08	-
Interest and penalties paid in respect of taxes	0,55	-
Accounting / fair value adjustments to comply with IFRS	(0,92)	(8,12)
Capital gains tax	2,31	1,23
Foreign withholding taxation	(1,48)	2,00
Change in capital gains inclusion rate	4,82	-
Other non-taxable	1,48	(2,00)
Prior year over/(under) provision	0,40	(0,15)
Effective tax rate	**30,35**	**20,89**

23. Cash generated from operations

	2016 R '000	2015 R '000
Results of operating activities	107 454	84 206
Adjustments for:		
Depreciation	1 352	2 075
Profit on disposal of investments	(7 099)	(4 831)
Amortisation	5 345	4 984
Investment income	(86 706)	(64 682)
Finance costs	(22 753)	(12 961)
Impairment of financial asset	-	5 000
Increase in net technical provisions	20 155	87 981
Changes in working capital:		
Receivables including reinsurance receivables	(173 314)	(144 661)
Trade and other payables	163 504	50 051
	7 938	**7 162**

Notes to the Audited Annual Financial Statements

	2016 R '000	2015 R '000

24. Tax paid/refunded

	2016 R '000	2015 R '000
Balance at beginning of the year	(19 715)	5 908
Current tax for the year recognised in profit or loss	(10 885)	(22 322)
Balance at end of the year	267	19 715
	(30 333)	**3 301**

25. Commitments

Operating leases – as lessee (expense)

	2016 R '000	2015 R '000
Minimum lease payments due		
- within one year	13 761	9 101
- in second to fifth year inclusive	2 016	6 816
	15 777	**15 917**

Lombard Insurance Company Limited entered into a 3-year lease agreement with Growthpoint Properties Limited to lease the Sunnyside Office Park with effect from 1 November 2014. The lease in subject to a 10% annual escalation rate.

Operating lease payments represent rentals payable by the Company for certain of its office properties. No contingent rent is payable.

26. Retirement benefits

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 2016, the provident fund had accumulated funds of R 58 231 792 (2015: R 50 088 889).

27. Related parties

Relationships

Holding company	LomHold Proprietary Limited
Other related parties	Consort Technical Underwriters Proprietary Limited
	Horizon Underwriting Management Services Proprietary Limited
	Leppard & Associates Proprietary Limited
	Motor Funding Underwriting Managers Proprietary Limited
	PinnAfrica Insurance Limited
	Praesidio Risk Managers Proprietary Limited
	BrightRock Holdings Proprietary Limited
	BrightRock Proprietary Limited
	Commercial Crimes Proprietary Limited
	LomShelf01 Proprietary Limited
	Lombard Life Limited
	Lomvest Proprietary Limited
	Firefly Investments 301 Proprietary Limited
	Deposit Advantage Proprietary Limited
	Stone Land Case 11 Proprietary Limited
	Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency
	Cast Arena Trade & Invest 187 Proprietary Limited
	Lombard Consolidated Proprietary Limited
	IVM Intersurer BV
	CG Japhet

The Company is controlled by LomHold Proprietary Limited, a South African registered Company, which owns 100% of the Company's shares. LomHold Proprietary Limited shares are held by Cast Arena Trade & Invest 187 Proprietary Limited – 19.87% (2015: 19.87%), Lombard Consolidated Proprietary Limited – 49.63% (2015: 49.13%), IVM Intersurer BV – 30% (2015: 8.12%), The Hollard Insurance Company Limited - 0% (2015: 21.88%) and CG Japhet – 0.5% (2015: 1.00%).

	2016 R '000	2015 R '000

27. Related parties (continued)

On 29 June 2015, LomVest Proprietary Limited (a wholly owned subsidiary of LomHold Proprietary Limited) disposed of its investment in Fulcrum Group Proprietary Limited (2014: 60% shareholding), Lombard Trade Finance Proprietary Limited (2014: 100% shareholding) and Cape Finance Corporation Limited (2014: 30% shareholding).

In the June 2016 financial period, LomHold Proprietary Limited had a rights offer where the only shareholder that participated was IVM Intersurer BV (2015: 8.12% shareholding). LomHold applied the proceeds from the rights issue subscription in repurchasing the shares in its capital held by The Hollard Insurance Company Limited (2015: 21.88% shareholding).

Related party balances

	2016 R '000	2015 R '000
Amounts included in trade and other payables regarding related parties		
Commercial Crimes Proprietary Limited	781	-
Consort Technical Underwriters Proprietary Limited	3 895	2 601
Horizon Underwriting Management Services Proprietary Limited	3 645	1 263
Leppard & Associates Proprietary Limited	11 804	1 734
Motor Funding Underwriting Managers Proprietary Limited	1 238	1 669
Praesidio Risk Managers Proprietary Limited	103	87
The Hollard Insurance Company Limited	-	485
	21 466	**7 839**

	2016 R '000	2015 R '000
Amounts included in receivables including reinsurance receivables regarding related parties		
BrightRock Holdings Proprietary Limited	276 470	200 225
BrightRock Proprietary Limited	911	458
Commercial Crimes Proprietary Limited	-	2 676
LomShelf01Proprietary Limited	2 433	2 433
Lombard Consolidated Proprietary Limited	59 557	57 686
Lombard Life Limited	-	25
LomHold Proprietary Limited	35 868	50 999
PinnAfrica Insurance Limited	-	39
Stoneland Case 11 Proprietary Limited	26 001	-
Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency	6 218	-
	407 458	**314 541**

Related party transactions

	2016 R '000	2015 R '000
Amounts received from related parties		
BrightRock Holdings Proprietary Limited	14 410	-
BrightRock Proprietary Limited	4 157	-
Cape Finance Corporation Limited	-	829
Commercial Crimes Proprietary Limited	2 562	3 992
Fulcrum Group Proprietary Limited	-	6 900
Lombard Consolidated Proprietary Limited	3 786	2 586
Lombard Life Limited	-	627
Lombard Trade Finance Proprietary Limited	-	832
	24 915	**15 766**

Notes to the Audited Annual Financial Statements

27. Related parties (continued)

	2016 R '000	2015 R '000
Amounts paid to related parties		
Commercial Crimes Proprietary Limited	2 533	2 306
Consort Technical Underwriters Proprietary Limited	29 815	24 455
Fulcrum Group Proprietary Limited	-	697
Horizon Underwriting Management Services Proprietary Limited	18 105	18 372
Leppard & Associates Proprietary Limited	24 966	23 684
Lombard Consolidated Proprietary Limited	3 086	-
Motor Funding Underwriting Managers Proprietary Limited	8 423	6 552
Praesidio Risk Managers Proprietary Limited	958	1 216
	87 886	**77 282**

28. Directors' emoluments

2016

	For services as director/ prescribed officer R'000	Salary R'000	Bonuses and performance related payments R'000	Pension contributions under any pension scheme, not otherwise disclosed R'000	Total R'000
Director/prescribed officer 1	984	-	-	-	984
Director/prescribed officer 2	250	-	-	-	250
Director/prescribed officer 3	-	-	-	-	-
Director/prescribed officer 4	-	-	-	-	-
Director/prescribed officer 5	-	-	-	-	-
Director/prescribed officer 6	-	2 557	1 519	416	4 492
Director/prescribed officer 7	3 037	12	3 039	2	6 090
Director/prescribed officer 8	-	-	-	-	-
Director/prescribed officer 9	250	-	-	-	250
Director/prescribed officer 10	250	-	-	-	250
Director/prescribed officer 11	-	1 612	543	262	2 417
	4 771	**4 181**	**5 101**	**680**	**14 733**

2015

Director/prescribed officer 1	928	-	-	6	934
Director/prescribed officer 2	250	-	-	-	250
Director/prescribed officer 3	-	-	-	-	-
Director/prescribed officer 4	154	-	-	-	154
Director/prescribed officer 5	-	-	-	-	-
Director/prescribed officer 6	-	1 204	-	-	1 204
Director/prescribed officer 7	2 863	12	3 021	2	5 898
Director/prescribed officer 8	2 395	-	1 983	389	4 767
Director/prescribed officer 9	250	-	-	-	250
Director/prescribed officer 10	-	-	-	-	-
Director/prescribed officer 11	-	-	-	-	-
	6 840	**1 216**	**5 004**	**397**	**13 457**

Notes to the Audited Annual Financial Statements

29. Going concern

The directors believe that the Company has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis.

30. Events after the reporting period

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. Contingencies and commitments

The Company paid a claim in respect of Moncada Energy Group S.r.l and Construczioni Moncada South Africa Proprietary Limited on 2 November 2015 in the amount of R212 million (including VAT). The claim arose from Moncada not delivering the required capacity on a solar farm as a result of damage being incurred on the panels it delivered and installed. A settlement offer was made for the recovery of the claim paid, which was duly accepted by Moncada. Moncada acknowledged its liability to repay the R212 million in addition to the following:

- a payment of R10 million to be paid upon signing the agreement;
- a payment of R30 million to be paid by 30 July 2016;
- a payment of R30 million to be paid by 31 January 2017; and
- the transfer of a 10% share that Moncada has in a company known as Solar Capital De Aar 3 (RF) Proprietary Limited, which owns a solar power farm called SCDA3.

The 10% share in Solar Capital De Aar 3 (RF) Proprietary Limited has been valued at R98 million (refer note 6) based on the market value of SCDA3.

To date, the R10 million was received upon signing the agreement and a further R30 million was received on 19 August 2016.

The directors are of the opinion that Moncada have showed a positive disposition towards settling the outstanding amount, and have given strong indications that the final cash tranche is probable to be met in full in the near future.

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

32. Restatement

The disclosures used in the preparation of the annual financial statements are compliant with IFRS and are consistent with the previous financial year, except for the correction made to financial assets as a result of prior period error in said disclosure.

The incorrect disclosure gave rise to an error in the financial statements because there was a failure to use reliable information that was available for use when the financial statements were being prepared. This oversight has caused misstatements in certain line items in the financial statements disclosure.

After the 30 June 2015 financial statements were signed and issued, it was discovered that certain financial assets were incorrectly classified based on the financial asset categories per the requirements of IAS 39 - Financial instrument: Recognition and measurement and the financial instruments were classified into inappropriate fair value hierarchies as defined in Appendix A to IFRS 13 - Fair value measurements.

The error in the financial statement disclosure was detected through the Johannesburg Stock Exchange Limited's (JSE’s) pro-active monitoring process.

The error has the following effect on the financial asset disclosure:

Notes to the Audited Annual Financial Statements

Figures in Rand thousand

32. Restatement (continued)

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

Categories of financial instruments - 2015 - Restated

	Available for sale R'000	Fair value through profit or loss R'000	Held to maturity R'000	Loans and receivables R'000	Total financial instruments R'000	Insurance contract assets and liabilities R'000	Other assets and liabilities R'000	Total per statement of financial position R'000
Assets								
Financial assets:								
- Preference shares and debt instruments	-	-	97 401	32 000	129 401	-	-	129 401
- Equities	-	92 539	-	-	92 539	-	-	92 539
- Unit trusts and pooled funds	-	175 122	-	-	175 122	-	-	175 122
Receivables due from contract holders	-	-	-	243 060	243 060	-	-	243 060
Other loans and receivables	-	-	-	511 661	511 661	-	-	511 661
Reinsurance assets	-	-	-	-	-	332 490	-	332 490
Cash and cash equivalents	-	-	-	-	-	-	483 279	483 279
	-	**267 661**	**97 401**	**786 721**	**1 151 783**	**332 490**	**483 279**	**1 967 552**
Liabilities								
Short term insurance contracts	-	-	-	-	-	835 698	-	835 698
Trade and other payables	-	-	-	-	-	-	265 141	265 141
Unsecured borrowings	-	-	-	-	-	-	202 204	202 204
Total liabilities	**-**	**-**	**-**	**-**	**-**	**835 698**	**467 345**	**1 303 043**

Notes to the Audited Annual Financial Statements

Figures in Rand thousand

32. Restatement (continued)

Categories of financial instruments - 2015 - As per issued financial statements

	Available for sale R'000	Fair value through profit or loss R'000	Held to maturity R'000	Loans and receivables R'000	Total financial instruments R'000	Insurance contract assets and liabilities R'000	Other assets and liabilities R'000	Total per statement of financial position R'000
Assets								
Financial assets								
- Listed securities	-	92 539	-	-	92 539	-	-	92 539
- Unlisted securities	-	177 870	-	-	177 870	-	-	177 870
- Unlisted debt instruments	-	36 315	-	-	36 315	-	-	36 315
- Unlisted preference shares	-	-	90 338	-	90 338	-	-	90 338
Receivables due from contract holders	-	-	-	-	-	-	243 060	243 060
Other loans and receivables	-	-	-	-	-	-	511 661	511 661
Reinsurance assets	-	-	-	-	-	-	332 490	332 490
Cash and cash equivalents	-	-	-	-	-	-	483 279	483 279
	-	**306 724**	**90 338**	**-**	**397 062**	**-**	**1 570 490**	**1 967 552**
Liabilities								
Short term insurance contracts	-	-	-	-	-	-	835 698	835 698
Trade and other payables	-	-	-	-	-	-	265 141	265 141
Unsecured borrowings	-	-	-	-	-	-	202 204	202 204
	-	**-**	**-**	**-**	**-**	**-**	**1 303 043**	**1 303 043**

Notes to the Audited Annual Financial Statements

32. Restatement (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

Financial assets at fair value through profit and loss 2015 - Restated	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Listed - ordinary shares	92 539	-	-	92 539
Unit trust funds and pooled funds	76 911	98 211	-	175 122
	169 450	**98 211**	**-**	**267 661**

Financial assets at fair value through profit and loss 2015 - As per issued financial statements	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Listed - ordinary shares	92 539	-	-	92 539
Unlisted - ordinary shares	-	177 870	-	177 870
Unlisted - preference shares	-	10 000	26 315	36 315
Unlisted - debt instruments	-	90 338	-	90 338
	92 539	**278 208**	**26 315**	**397 062**

Notes to the Audited Annual Financial Statements

32. Restatement (continued)

Categories of financial instruments - 2015 - Restated

	A- R'000	AA- R'000	AA+ R'000	BBB R'000	BBB- R'000	Not rated R'000	Total R'000
Assets							
Preference shares and debt instruments	-	-	-	10 000	52 241	67 160	129 401
Receivables due from contract holders	-	-	-	-	-	243 060	243 060
Other loans and receivables	-	-	-	-	-	511 661	511 661
Reinsurance assets	-	-	-	-	-	332 490	332 490
Cash and cash equivalents	21 911	577	12 981	391 132	56 651	27	483 279

Categories of financial instruments - 2015 - As per issued financial statements

	A- R'000	AA- R'000	AA+ R'000	BBB R'000	BBB- R'000	Not rated R'000	Total R'000
Assets							
Fair value through profit or loss							
- unlisted debt instruments	-	-	-	10 000	-	26 315	36 315
Held-to-maturity							
- unlisted preference shares	-	-	-	-	-	90 338	90 338
Receivables due from contract holders	-	-	-	-	-	243 060	243 060
Other loans and receivables	-	-	-	-	-	511 661	511 661
Reinsurance assets	-	-	-	-	-	332 490	332 490
Cash and cash equivalents	21 911	577	12 981	391 132	56 651	27	483 279