LOMBARD

Lombard Insurance Company Limited
(Registration number 1990/001253/06)
Annual Financial Statements
for the year ended 30 June 2017

These financial statements were internally compiled under the supervision of:
N Hoosen (Head of Finance)

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

Issued 25 October 2017

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 accident and health, guarantee, liability, marine, motor, property and engineering in both the commercial and personal lines of business.
Directors	ML Japhet PJ Orford RJ Symmonds GJM Carlin CE Backeberg AC Magwentshu A Pienaar
Registered office	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
Secretary	SJ Vivian

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

Corporate Governance Statement

Lombard Insurance Company Limited (hereafter referred to as either "the Company" or "LIC") is governed by a Board of Directors, the members of which are common to both LomHold Proprietary Limited and LomVest Proprietary Limited. These companies collectively constitute the Lombard Insurance group of companies (hereafter collectively referred to as 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, LomHold Proprietary Limited and LomVest Proprietary Limited. Hereafter, any reference to “the Board” refers to the aforementioned common Board of Directors and as such, the Board of Directors of LIC. 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 General Governance Policy, its overall Risk Management Policy and its systems of internal control.

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 IV 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 IV where practicable, and BN 158 requirements, are reflected in the Group’s corporate governance structures, which are reviewed from time to time, and at least annually so as to accommodate organisational changes and regulatory 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 governance to ensure the Group’s business is managed ethically and within determined risk parameters.

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, on a collective basis, makes recommendations to the shareholders regarding the appointments of new directors, based on recommendations from the Board’s 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 regulatory and commercial developments and of the current governance and risk frameworks and policies. 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 rounded up to the nearest integer plus one. 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 the Group Governance Policy and the Group Board’s 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 (Chief Executive Officer)
- 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 written terms of reference; such terms of reference having been proposed and recommended by these sub-committees for approval 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 approved by the Board. The most relevant of these committees, which shall be further discussed below, are the Audit Committee, the Risk and Compliance Committee, the Capital Management and Investment Committee, the Reinsurance and other forms of Risk Transfer Committee, the Remuneration Committee and the Social and Ethics 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 financial soundness requirements set by regulation. Further, certain statutory governance appointments have at all times through the year been maintained. These appointments are that of the Company Secretary, the Public Officer, the Head of Risk Management, the Head of Compliance and the Head of Internal Audit for LIC; whose role and function shall be further discussed below.

Audit Committee

The Audit Committee comprises three independent non-executive members, namely:
- GJM Carlin (Chairperson)
- CE Backeberg
- AC Magwentshu

Chaired by GJM Carlin, this committee is constituted as a standalone statutory committee in respect of its statutory duties in terms of the Companies Act 71 of 2008 (the Companies Act); Short Term Insurance Act 51 of 1998 and also in terms of BN 158 of 2014. This is also a committee of the Board in respect of all duties assigned to it by the Board. The committee operates in accordance with terms of reference that have been approved by the Board and accepted by the committee as its mandate from the Board.

The following persons may be in attendance at committee meetings, but by invitation only and cannot vote:
- Chief Executive Officer;
- Chief Financial Officer;
- Head of Risk Management;
- Head of Compliance;
- Head of Internal Audit;
- representatives from the Group's external auditors;
- representatives from the Group's corporate actuarial function;
- any other assurance providers for the Group; and
- other invited attendees.

The statutory and Board delegated duties of the Audit Committee include the following:
- the nomination and appointment of an auditor, who in the opinion of the audit committee is independent;
- to determine the fees to be paid to the auditor and the auditor's terms of engagement;
- to ensure that the appointment of the auditor complies with the provisions of the Companies Act and any other legislation relating to the appointment of the Company's auditor;
- to determine the nature and extent of any non-audit services that the auditor may provide to the Company, or that the auditor must not provide to the Company, or any of its related companies;
- to pre-approve any proposed agreement with the auditor for the provision of non-audit services to the Company;
- to prepare a report, which is included on pages 13 to 15 hereof, to be included in the annual financial statements:
    - describing how the audit committee carried out its functions;
    - stating whether the audit committee is satisfied that the auditor was independent; and
    - commenting, in any way the committee considers appropriate, on the annual financial statements, the accounting practices and the internal financial control environment of the company.
- to receive and deal appropriately with any concerns or complaints, whether from within or outside the Company, or on its own initiative, relating to:
    - the accounting practices and internal audit of the company;
    - the content or auditing of the Company's financial statements;
    - the internal financial controls of the Company; and
    - any other related matter.
- to make submissions to the Board on any matter concerning the Company's accounting policies, financial controls and reporting; and
- to perform other oversight functions as may be determined by the Board.

Corporate Governance Statement

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 has, in the past financial year, satisfied its responsibilities in respect of the Company, in compliance with the Companies Act, the Short Term Insurance Act of 1998, as well as its responsibilities in accordance with its respective terms of reference.

Risk and Compliance Committee

The Risk and Compliance Committee operates separately and comprise of three independent non-executive members, namely:

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

Chaired by Mr Carlin, this committee is constituted as a standalone statutory committee in respect of its regulatory duties in terms of the terms of BN 158 of 2014. It is also a committee of the Board in respect of all duties assigned to it by the Board. The committee operate in accordance with terms of reference that have been approved by the Board and accepted by the Committee as its mandate.

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

- Chief Executive Officer;
- Chief Financial Officer;
- Head of Risk Management;
- Head of Compliance;
- Head of Internal Audit;
- representatives from the Group's external auditors;
- representatives from the Group's corporate actuarial function;
- any other assurance providers for the Group; and
- other invited attendees.

The statutory and Board delegated duties of the Risk and Compliance Committee include the following

- to establish, monitor and review the Group’s risk management function; and
- establish, monitor and review the Group's compliance function.

Specifically to note in respect of the Group's compliance function, the Risk and Compliance Committee must perform the following duties:

- review the effectiveness of the system for monitoring compliance with laws and regulations and the results of investigations, management’s actions and follow up (including disciplinary action) in any instance of non-compliance;
- ensure procedures are in place for the following:
    - the receipt and treatment of complaints regarding accounting, internal accounting controls, or auditing matters; and
    - the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.
- review the findings of any examinations by regulatory agencies and any auditor observations
- review the process for communicating the Group's code of conduct to all personnel and for monitoring compliance therewith;
- obtain regular updates from management and the Compliance Officer regarding compliance matters; and
- approve and annually review the compliance framework.

Corporate Governance Statement

Specifically to note in respect of the risk management function, the Risk and Compliance Committee must perform the following duties:

- approve an overall risk management policy, and ensure that it incorporates and complies with the requirements of Board Notice 158 of 2014;
- ensure that the board has approved and communicated the appropriate risk tolerance levels to management;
- determine that the risks to which the Group could be exposed are continually monitored to evaluate new and emerging risks;
- review the processes and procedures for enterprise risk identification, analysis and quantification;
- review the processes implemented to monitor the ongoing management of enterprise risks;
- review reports from internal audit on the effectiveness of the process and procedures of enterprise risk management;
- the Risk and Compliance Committee will review any legal matters that could have a significant impact on the group's business or of the business of any singular company within the Group;
- other than where business risks are not covered either by other sub-committees of the Board or by the Board itself, ensure compliance with the risk profile of the Group. The Board will determine from time to time what areas of risk should be addressed directly by the Board of directors; and
- risks, such as fraud risk, disaster recovery risks, compliance and control risks, and asset valuation risk will be dealt with by the Risk and Compliance Committee.

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

Capital Management and Investment Committee

In respect of the Group, 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.

Reinsurance and Other Forms of Risk Transfer Committee

In respect of the Group, the objective of the Reinsurance and Other Forms of Risk Transfer Committee, is to ensure that the Group has in place adequate reinsurance treaties to ensure the limitation of risk to the insurance business of the Group to prudentially reasonable limitations.

Remuneration Committee

In respect of the Group the objective of the Remuneration Committee is to ensure the appropriate alignment of the interests of the Group and the interests of those persons remunerated by the Group so as to ensure the long term sustainability of the Group through its remuneration structures.

Social and Ethics Committee

In respect of the Group the objective of the Social and Ethics Committee, is to ensure that the Group has in place adequate processes to ensure that the Group acts reasonably as a corporate citizen in respect of its employment practices and transformation initiatives.

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 further discussed below.

Going concern

The Group Audit Committee considers 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.

Corporate Governance Statement

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 an internal audit charter recommended by the Audit Committee and approved by the Board. Currently, the Company's internal audit function is outsourced to the audit firm KPMG, staffed by qualified and experienced individuals. The responsible partner at KPMG 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.

Risk management

The Group continues to progress 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 IV report on corporate governance as well as those required by BN 158 of 2014. The Head of Risk Management oversees the risk management activities of the Company at executive committee level and divisional risk management managers are appointed in each division to ensure the cascading of risk processes into each business division.

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 and which is continuously monitored.

Oversight of the risk management function 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 Head of Risk Management 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 Head of Risk Management of the Company oversees the risk management framework, facilitating and coordinating the process and reporting the status to the executive management, the Risk and Compliance Committee and the Board. The Head of Risk Management has direct access to the chairperson of the Risk and Compliance Committee, but reports administratively to the Group’s Chief Executive Officer.

Corporate Governance Statement

Compliance

The compliance function is responsible for the monitoring of regulatory and reputation risk and the setting of related policies. The Group's compliance framework, objectives and structures have been designed to ensure that the Group complies with legislation and all relevant industry codes. The Head of Compliance is to assist management in discharging their responsibilities to comply with statutory and regulatory requirements, but the Board remains ultimately accountable. 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.

The specific functions established, implemented and maintained by the compliance function, and determined in terms of FSB Board Notice 158 of 2014, relates to the following:

- assist the Board and Managing Executives in carrying out their respective responsibilities;
- establish, implement and maintain a risk-based compliance plan;
- promote a compliance culture that values responsible conduct and compliance with internal and external obligations;
- identify, assess and report on key legal and regulatory obligations and the risks associated therewith;
- assess the appropriateness of policies, processes and controls in respect of legal, regulatory and ethical obligations and the effective monitoring thereof;
- ensure that regular training is conducted on key legal and regulatory obligations;
- confidential reporting by employees of concerns, shortcomings or potential non-compliance is facilitated and addressed; and
- regular assessment of the compliance function, policies and systems to implement and monitor needed improvements.

Information technology

The Group's IT strategy over the next 2 years (2018 to 2019), 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 architect); and
- transformation (innovating using technology and leadership).

Corporate Governance Statement

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

PJ Orford
B.Bus.Sci, UCT
MPhil, Oxford
Chartered Financial Analyst, CFA Institute
Chief Executive Officer
Joined in 2010

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

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), UJ
Bachelor of Technology specialising in Quantity Surveying, TUT
Post Graduate Diploma in Property Development and Management, WITS
Masters in Business Administration, Gordon Institute of Business
Non-executive Director
Joined in 2015

Corporate Governance Statement

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 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the 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 annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards, the Companies Act and the requirements of the Johannesburg Stock Exchange Limited Debt listing requirements, 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 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 2018 and, in light of this review and the current financial position, they are satisfied that the Company has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the Company's financial statements. The financial statements have been examined by the Company's external auditors and their unmodified report is presented on pages 16 to 18.

The annual financial statements set out on pages 19 to 66, which have been prepared on the going concern basis, were approved by the Board on 25 October 2017 and were signed on their behalf by:

Approval of financial statements

ML Japhet
Chairman
25 October 2017

PJ Orford
Chief Executive Officer
25 October 2017

Company Secretary's Certification

In terms of Section 88(2)(e) of the Companies Act 71 of 2008, 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
25 October 2017

Audit Committee Report

The Audit Committee (the Committee) has the pleasure in submitting its report for the financial year ended 30 June 2017.

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, 2016 (King IV) as approved by the Board during 2017.

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, AC Magwentshu.

The Committee comprises of three independent Non-executive Directors and meets at least three times a calendar year. The Chairman of the Board, Chief Executive Officer, Chief Financial Officer, 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	20 July 2016	26 October 2016	23 March 2017
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 2017 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 2016/2017, 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 2017, 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
25 October 2017

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholder of Lombard Insurance Company Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lombard Insurance Company Limited ("the Company") set out on pages 21 to 66, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the entity as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
Technical insurance provisions	
Lombard Insurance Company Limited has various technical insurance provisions, which include: • Incurred but not reported ("IBNR"); • Outstanding claims; and • Unearned premiums.	Our approach has focused on the accuracy and completeness of the methodologies and results of the provisioning policies in place. The approach included a combination of the following audit procedures:

Key Audit Matter Technical insurance provisions	How the matter was addressed in the audit
The determination of these provisions involves estimation and judgement by the directors. Therefore, as a result of the estimation and judgement, the technical insurance provisions disclosed in note 8 of the financial statements were identified as a key audit matter.	• We evaluated the design and implementation of key controls that address the risk regarding the accuracy and completeness of the methodologies; • We engaged our actuarial specialists to perform the following: ▪ An assessment of compliance with the Professional Actuarial Guidance for the methodologies adopted by the directors; and ▪ An assessment of the validity of actuarial assumptions; • We tested the inputs and assumptions in the calculations against relevant market information and industry norms; and • We performed a sensitivity analysis on key assumptions and assessed the appropriateness of the directors' disclosures. We are satisfied that the overall level of technical insurance provisions is reasonable and the disclosure of these provisions is appropriate.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Lombard Insurance Company Limited for 6 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Dinesh Munu
Partner
30 October 2017

Directors' Report

The directors have pleasure in submitting their report on the annual financial statements of Lombard Insurance Company Limited for the year ended 30 June 2017.

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 accident and health, guarantee, liability, marine, motor, property and engineering in both the commercial and personal lines of business. 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 annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act 71 of 2008. 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. Authorised and issued share capital

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

4. Dividends

After considering the liquidity and solvency requirements of Section 4 of the Companies Act 71 of 2008, a dividend of R 27,878 million (2016: R 18,246 million) was declared and paid to the shareholders of the Company during the year under review.

5. Directors

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

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

6. 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.

7. Holding company

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

For the year ended 30 June 2017, LomHold Proprietary Limited shareholding was held by Lombard Consolidated Proprietary Limited (at 49.63%), IVM Intersurer BV (incorporated in the Netherlands) (at 30.00%), Cast Arena Trade and Invest 87 Proprietary Limited (at 19.87%) and Garth Charles Japhet (at 0.5%). The aforementioned shareholding being the shareholding as approved by the Financial Services Board.

8. Events after the reporting period

On 1 September 2017, BrightRock Holdings Proprietary Limited repaid its loan from the Company. An amount of R414 million was received.

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

Directors' Report

9. 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.

10. Auditors

Deloitte & Touche will continue in office as auditors in accordance with Section 90(1) of the Companies Act of South Africa.

11. 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 2017

	Notes	2017 R '000	2016 R '000
Assets			
Non-Current Assets			
Equipment	4	22,477	4,180
Intangible assets	5	19,212	17,313
Financial assets	6	398,610	517,940
Net deferred tax asset	12	7,703	-
		448,002	**539,433**
Current Assets			
Receivables including reinsurance receivables	7	1,068,115	928,039
Current tax receivable		4,034	-
Reinsurance assets	8	650,323	416,416
Cash and cash equivalents	9	494,735	409,471
		2,217,207	**1,753,926**
Total Assets		**2,665,209**	**2,293,359**
Equity and Liabilities			
Equity			
Share capital and share premium	10	189,050	189,050
Retained earnings		467,257	445,943
		656,307	**634,993**
Liabilities			
Non-Current Liabilities			
Tier II funding	11	200,000	200,000
Net deferred tax liability	12	-	20,331
		200,000	**220,331**
Current Liabilities			
Tier II funding	11	2,450	2,445
Current tax liability		-	267
Trade and other payables	13	517,468	433,542
Employee benefit provisions	14	74,660	62,004
Insurance liabilities	8	1,214,324	939,777
		1,808,902	**1,438,035**
Total Liabilities		**2,008,902**	**1,658,366**
Total Equity and Liabilities		**2,665,209**	**2,293,359**

Statement of Profit or Loss and Other Comprehensive Income

	Notes	2017 R '000	2016 R '000
Insurance premium revenue		1,473,393	1,202,054
Insurance premium revenue ceded to reinsurers		(871,183)	(614,131)
Net insurance premium revenue	15	**602,210**	**587,923**
Investment income	16	94,254	86,499
Reinsurance commission		288,367	195,215
Net realised (losses)/gains on fair value through profit or loss financial assets		(2,175)	7,098
Other operating income	17	9,736	5,154
Other income		**390,182**	**293,966**
Insurance claims incurred		(656,738)	(486,296)
Insurance claims recovered from reinsurers		430,743	240,694
Net insurance claims	18	**(225,995)**	**(245,602)**
Expenses for the acquisition of insurance contracts		(318,442)	(245,195)
Expenses for marketing and administration		(6,879)	(7,671)
Other operating expenses	19	(345,446)	(296,634)
Expenses		**(670,767)**	**(549,500)**
Result of operating activities		**95,630**	**86,787**
Finance costs	20	(24,182)	(22,753)
Profit before taxation		**71,448**	**64,034**
Taxation	21	(22,256)	(19,206)
Profit for the year		**49,192**	**44,828**
Other comprehensive income		-	-
Total comprehensive income for the year		**49,192**	**44,828**

Statement of Changes in Equity

	Share capital R '000	Share premium R '000	Total share capital R '000	Retained income R '000	Total equity R '000
Balance at 01 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 01 July 2016	**47**	**189,003**	**189,050**	**445,943**	**634,993**
Total comprehensive income for the year	-	-	-	49,192	49,192
Dividends paid	-	-	-	(27,878)	(27,878)
Balance at 30 June 2017	**47**	**189,003**	**189,050**	**467,257**	**656,307**
Note	10	10	10		

Statement of Cash Flows

	Notes	2017 R '000	2016 R '000
Cash flows from operating activities			
Cash used in operations	22	(16,020)	(12,729)
Finance income		109,934	94,272
Dividend income		3,157	10,072
Tax (paid)/refunded	23	(54,591)	(30,333)
Net cash from operating activities		**42,480**	**61,282**
Cash flows from investing activities			
Purchase of equipment	4	(19,520)	(50)
Proceeds on disposal of equipment	4	2	-
Purchase of intangible assets	5	(8,144)	(6,283)
Purchase of financial assets		(20,261)	(203,909)
Proceeds on disposal of financial assets		128,177	93,157
Net cash utilised in investing activities		**80,254**	**(117,085)**
Cash flows from financing activities			
Proceeds received from borrowings		24,180	22,751
Repayment of borrowings		(24,175)	(22,510)
Dividends paid to the shareholder of the company		(27,878)	(18,246)
Net cash utilised in financing activities		**(27,873)**	**(18,005)**
Total cash and cash equivalent movement for the year		**94,861**	**(73,808)**
Cash and cash equivalent at the beginning of the year		409,471	483,279
Effect of foreign exchange rate changes on the balance of cash held in foreign currencies		(9,597)	-
Total cash and cash equivalent at end of the year	9	**494,735**	**409,471**

Accounting Policies

1. Corporate information

The Company underwrites non-life insurance risks, such as those associated with accident and health, guarantee, liability, marine, motor, property and engineering in both the commercial and personal lines of business. Much of the Company's business is administered through underwriting managers as listed below:

Advantage Motor Protector Proprietary Limited;
Commercial Crime Concepts Proprietary Limited;
Consort Technical Underwriting Managers Proprietary Limited;
HCV Underwriting Managers Proprietary Limited (runoff);
Horizon Underwriting Managers Proprietary Limited;
Leppard and Associates Proprietary Limited;
PinnAfrica Underwriting Managers Proprietary Limited (runoff);
S.M.A.R.T Proprietary Limited (runoff);
Praesidio Risk Managers Proprietary Limited;
Motor Funding Underwriters Managers Proprietary Limited;
Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency
Turnberry Management Risk Solutions Proprietary Limited; and
Turnberry Management Services Proprietary Limited.

The Company does business in Sub-Saharan Africa.

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

2. Accounting policies

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

2.1 Basis of 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 2.6.

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

Accounting Policies

2.2 Significant judgements and sources of estimation uncertainty (continued)

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 14 - Employee benefit provisions.

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 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 and prior years 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 Guarantee and Trade Credit. For the Guarantee and Trade Credit business an ultimate loss ratio method 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 Equipment

Equipment is initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of equipment and costs incurred subsequently to add to or replace part of it. If a replacement cost is recognised in the carrying amount of an item of 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.

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

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

Item	Average useful life
Aircraft	20 years
Aircraft major components	4 years
Motor 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 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 equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of 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.

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

Aircraft is carried at fair value less subsequent accumulated depreciation and any impairment losses.

The fair value of an aircraft is determined annually by external , independent, professional valuers.

The value of an aircraft is adjusted to fair value at each reporting date with the accumulated depreciation eliminated against the carrying value at the date of each revaluation. Such revaluation and adjustment to accumulated depreciation are treated as follows:

- increases in value shall be recognised in other comprehensive income and accumulated in equity as revaluation surplus;
- decreases in value shall be recognised in profit and loss;
- any increases will be recognised in profit and loss to the extent it reverses previous decrease through profit and loss; and
- any decreases will be recognised in other comprehensive income to the extent that it reverses previous increases through other comprehensive income.

Accounting Policies

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.

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 on different bases, or a portfolio of financial assets or financial liabilities is evaluated on fair value basis. 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; and
- 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 investment income.

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 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 which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

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 declared 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.

2.8 Leases

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 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.

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.

Accounting Policies

2.9 Impairment of non-financial assets (continued)

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 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.

Bonus plans

The Company recognises a liability and an expense for bonuses, 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.

2.11 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.

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 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.

2.12 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 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 in the statement of comprehensive income but does not include items in the statement of financial position. 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 annual financial statements. The measures reported by the company is in accordance with the significant accounting policies adopted for preparing and presenting the 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 underlying 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 2017

	Insurance R '000	Investment R '000	Total R '000
Revenue	**1,520,582**	**114,851**	**1,635,433**
Gross written premium	1,520,582	-	1,520,582
Net written premium	594,046	-	594,046
Net earned premium	602,210	-	602,210
Net insurance claims incurred	(225,995)	-	(225,995)
Net commission earned	75,486	-	75,486
Management expenses	(426,215)	-	(426,215)
Underwriting results	25,486	-	25,486
Investment income net of management fee and finance costs	-	52,207	52,207
Amortisation of intangible assets	(6,245)	-	(6,245)
Profit before taxation	**19,241**	**52,207**	**71,448**

Notes to the Annual Financial Statements

1. Operating segments (continued)

Insurance activity

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

	Gross written premium R '000	Under-writing result R '000
Property	164,361	(14,655)
Transport	161,704	2,620
Motor	146,215	(3,288)
Accident and health	55,806	2,362
Guarantee	595,546	22,854
Liability	182,011	3,783
Engineering	214,939	10,379
Miscellaneous	-	1,431
Total	**1,520,582**	**25,486**
Comprising:		
Lombard Guarantee Division	470,029	18,973
Lombard Trade Credit Guarantee Division	120,655	402
Lombard Partnership Division	929,898	6,111
	1,520,582	**25,486**

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
Net insurance claims incurred	(245,602)	-	(245,602)
Net commission earned	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)
Profit before taxation	**(11,964)**	**75,998**	**64,034**

Notes to the Annual Financial Statements

1. Operating segments (continued)

Insurance activity

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

	Gross written premium R '000	Under-writing 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)
	1,228,535	**(6,619)**

Investment activities

For detailed analysis of investment activities refer to notes 6 and 16 of the annual financial statements.

Notes to the Annual Financial Statements

2. New Standards and Interpretations

2.13 Standards and interpretations 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

2.14 Standards and interpretations not yet effective

The Company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Company's accounting period ended 30 June 2017:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IFRS 17 Insurance Contracts	To be determined	Impact is currently being assessed
• IFRS 16 Leases	01 January 2019	Unlikely there will be a material impact
• IFRS 9 Financial Instruments	01 January 2018	Impact is currently being assessed
• IFRS 15 Revenue from Contracts with Customers	01 January 2018	Impact is currently being assessed
• Foreign Currency Transactions and Advance Consideration	01 January 2018	Unlikely there will be a material impact
• Amendments to IFRS 4: Insurance Contracts	01 January 2018	Impact is currently being assessed
• Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	01 January 2018	Impact is currently being assessed

2.15 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the Company's accounting period ended 30 June 2017 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined	Unlikely there will be a material impact
• Amendment to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	01 January 2016	Unlikely there will be a material impact
• Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	01 January 2016	Unlikely there will be a material impact
• Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants	01 January 2016	Unlikely there will be a material impact
• Amendment to IAS 19: Employee Benefits: Annual Improvements project	01 January 2016	Unlikely there will be a material impact
• Amendment to IAS 34: Interim Financial Reporting. Annual Improvements project	01 January 2016	Unlikely there will be a material impact

Notes to the Annual Financial Statements

3. Risk management

3.1. Risk management framework

Risk management is an on-going exercise involving both senior management and the Board of Directors, and is the ultimate responsibility of the Board. The risk appetite statement 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 risk appetite statement reflects its position as an underwriter of low frequency, high severity commercial guarantee, credit and surety insurance lines and that of high frequency, low severity on the more general insurance lines. As the business grows the risk appetite statement 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's Head of Risk Management assists the Chief Executive Officer and the Board to identify and monitor risk. Three times a year the Company holds an Audit Committee and a Risk and Compliance meeting, chaired by an independent non-executive director, at which the Head of Risk Management presents a detailed risk management report including a risk register which highlights the Company's top residual risks.

The Chief Executive Officer, divisional managers and the Head of Risk Management are responsible for evaluating emerging risks and for providing appropriate recommendation and implementation of required action, and where required, amendment of the risk appetite statement.

The Chief Executive Officer will advise the Board of any changes to the risk appetite statement. The Board is responsible for approving risk appetite statement changes and reviews the statement 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 an Overall Risk Management Policy (including the 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.

The following elements of the Company's Overall 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 directly issues two distinct types of insurance policies.

The first type of contract is a guarantee policy, wherein the Company undertakes to guarantee to a beneficiary the performance of a specific contract. This is in the form of monetary compensation in the event of the failure by the policyholder to deliver it's contractual performance to the beneficiary. Two types of cover are offered in this regard

- construction performance and related bonds, where there is a specific performance clause and
- financial or payment bonds.

The other type of policy issued is in the form of trade credit insurance, issued in respect of policyholders who provide goods or services on credit to other commercial undertakings. Under this policy, the Company undertakes to indemnify the policyholder for loss due to the default by its debtor on payment of their credit facility with the policyholder.

The Company also underwrites several other classes of insurance policies, which are written onto the Company's insurance licence through binder agreements (as contemplated in Sec 48A of the Short Term Insurance Act) with underwriting managers. These policies include accident and health, liability, marine, motor, property and engineering in both commercial and personal lines. In terms of the binder agreements the underwriting managers are entitled to an administration fee as well as a profit share calculated on the underwriting performance of the insurance policies they underwrite and administer and handle claims on.

Notes to the Annual Financial Statements

3. Risk management (continued)

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 insured sum or the indemnity limit 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 managers, 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 managers as mentioned above. It is the Company's policy to enter into binder agreements with the underwriting mangers that share its corporate values, and that have a similar approach to managing risks.

Events giving rise to a claim on the guarantee and credit book usually occurs with the insolvency and liquidation of the contractor, freight forwarder/importer, mining house or debtor, which results in the inability of a party to perform in terms of a contractual obligation. The Company will then be given notice of a claim or default as per the relevant policy condition.

The Company's business can be classified as short to medium-term business, due to the fact that average period of a guarantee in the construction business is eighteen months. In respect of the trade credit business, limits are issued for outstanding debtors of up to three months.

Notes to the Annual Financial Statements

3. Risk management (continued)

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 policyholder, beneficiaries and debtors are covered, which could result in a higher frequency of claims occurring, and by covering larger risks for established contractors and/or debtors, the severity of the claims could increase. Other factors influencing the frequency and/or severity of claims include the political landscape, a changing economic environment, a change in competitive landscape and changes in the availability of resources. The nature of claims and the longer tail of the business make the calculation of liabilities a critical element in the credit and surety insurer's business practices.

The Company manages these risks through its underwriting policy, reinsurance arrangements and proactive claims handling. Limits are set according to mandates approved by the Board, as recommended by management. The mandate sets out the underwriting limits to enforce appropriate risk selection criteria. The underwriting policy 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. The issued insurance policies 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. 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.

Reinsurer	Reinsurer surety risk ceded %	2017 * Credit rating	Reinsurer surety risk ceded %	2016 * Credit rating
Arch Reinsurance Europe Underwriting Limited (previously Ariel)	8.0	A+	7.5	A+
Axis Re SE Limited	6.0	A+	5.0	A+
Clavis Re Limited	-	A+	4.0	A+
Endurance Speciality Insurance Limited	5.0	A	3.0	A+
Hannover Reinsurance Africa Limited / Hannover Ruckversicherung AG	17.5	AA-	17.5	BBB+/AA-
Lloyd's of London, Syndicate 4472	7.0	A+	5.0	A+
Munich Reinsurance Company of Africa Limited	-	AA-	5.0	AA-
Partner Reinsurance Europe SE	7.0	A+	6.0	A+
R+V Versicherung AG	13.5	AA-	12.0	AA-
SCOR Africa Limited	18.5	AA-	17.5	AA-
Swiss Reinsurance Company Limited	17.5	AA-	17.5	AA-
	100		**100**	

* Rating as per Standard & Poor's Financial Services LLC at 30 June 2017.

Notes to the Annual Financial Statements

3. Risk management (continued)

The Company has developed expertise in claims handling. Engineers, quantity surveyors and attorneys 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 issued guarantee policy. 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 contractor, 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, notwithstanding the potential of any claim being more sever. The highest concentrations of exposure are in the engineering, construction, 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	**2017** **% Exposure**	**2016** **% Exposure**
Engineering	42	46
Property	9	3
Manufacturing and retail	12	13
Liability	12	11
Construction	9	9
Motor	10	2
Freight	2	2
Marine	1	9
Mining	2	2
Accident & Health	1	3
Total	**100**	**100**

Notes to the Annual Financial Statements

3. Risk management (continued)

The Company would consider that its most significant exposure would arise in the event of substantial bank interest 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 insurance policies 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 LIC 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 Africa, Australia and Sweden.

Notes to the Annual Financial Statements

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 framework 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.

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 - 2017

	Available for sale	Fair value through profit or loss	Held to maturity	Loans and receivables	Total financial instruments	Insurance contract assets and liabilities	Other assets and liabilities	Total per statement of financial position
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Assets								
Financial assets:								
- Preference shares and debt instruments	-	-	26,315	22,000	48,315	-	-	48,315
- Equities	98,542	86,453	-	-	184,995	-	-	184,995
- Unit trusts and pooled funds	-	165,300	-	-	165,300	-	-	165,300
Receivables due from insurance contract	-	-	-	293,647	293,647	-	-	293,647
Other loans and receivables	-	-	-	774,468	774,468	-	-	774,468
Reinsurance assets	-	-	-	-	-	650,323	-	650,323
Cash and cash equivalents	-	-	-	-	-	-	494,735	494,735
	98,542	**251,753**	**26,315**	**1,090,115**	**1,466,725**	**650,323**	**494,735**	**2,611,783**
Liabilities								
Short term insurance contracts	-	-	-	-	-	1,214,324	-	1,214,324
Trade and other payables	-	-	-	-	-	-	517,468	517,468
Unsecured borrowings	-	-	-	-	-	-	202,450	202,450
Total liabilities	**-**	**-**	**-**	**-**	**-**	**1,214,324**	**719,918**	**1,934,242**

Notes to the Annual Financial Statements

3. Risk management (continued)

Categories of financial instruments - 2016

	Available for sale	Fair value through profit or loss	Held to maturity	Loans and receivables	Total financial instruments	Insurance contract assets and liabilities	Other assets and liabilities	Total per statement of financial position
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	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 insurance contract	-	-	-	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
	-	**-**	**-**	**-**	**-**	**939,777**	**635,987**	**1,575,764**

Notes to the 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 hierarchy.

Financial assets at fair value through profit and loss 2017	**Level 1 R'000**	**Level 2 R'000**	**Level 3 R'000**	**Total R'000**
Listed - ordinary shares	86,453	-	-	86,453
Unlisted - ordinary shares	-	98,542	-	98,542
Unit trust funds and pooled funds	27,974	137,326	-	165,300
	114,427	**235,868**	**-**	**350,295**

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**

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 arm's 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 is 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 2 261 488 000 (2016: R 1 868 543 000). 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 equivalents;
- other financial assets (loans and receivables);
- amounts due from insurance contracts; and
- amounts due from reinsurers.

Notes to the Annual Financial Statements

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 - 2017						
Assets						
Preference shares and debt instruments	-	-	-	-	48,315	48,315
Receivables due from insurance contracts	-	-	-	-	293,647	293,647
Other loans and receivables	-	-	-	-	774,468	774,468
Reinsurance assets	-	-	-	-	650,323	650,323
Cash and cash equivalents	-	373	271,650	222,672	40	494,735
Categories of financial instruments - 2016						
Assets						
Preference shares and debt instruments	-	-	66,302	-	48,315	114,617
Receivables due from insurance contracts	-	-	-	-	279,438	279,438
Other loans and receivables	-	-	-	-	648,601	648,601
Reinsurance assets	-	-	-	-	416,416	416,416
Cash and cash equivalents	20,451	908	367,298	20,781	33	409,471

The Company has no other significant concentrations of credit risk, other than policies issued in the normal course of business.

Notes to the Annual Financial Statements

3. Risk management (continued)

Impairment history

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

		Past due but not impaired						
	Neither past due nor 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 2017								
Receivables due from insurance contracts	200,801	33,518	35,694	11,571	12,063	11,542	(11,542)	293,647
Other loans and receivables	774,468	-	-	-	-	-	-	774,468
	975,269	**33,518**	**35,694**	**11,571**	**12,063**	**11,542**	**(11,542)**	**1,068,115**
As at 30 June 2016								
Receivables due from insurance contracts	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**

Notes to the Annual Financial Statements

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 Company has entered into a zero cost collar contract to hedge its exposure to foreign currency risk in cash and cash equivalents. Management may also hedge the net position in the major foreign currencies by using forward exchange contracts.

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 2017								
Receivables due from insurance contracts	-	-	-	767	767	41,280	16,308	59,122
Cash and cash equivalents	84,990	-	30,412	-	-	-	-	115,402
	84,990	**-**	**30,412**	**767**	**767**	**41,280**	**16,308**	**174,524**
Exchange rate at 30 June 2017	**13.0447**	**14.9004**	**16.9603**	**1.2641**	**1.0000**	**10.0254**		
As at 30 June 2016								
Receivables due from insurance contracts	-	-	-	926	3,510	33,398	11,574	49,408
	53,537	-	34,977	-	-	-	-	88,514
	53,537	**-**	**34,977**	**926**	**3,510**	**33,398**	**11,574**	**137,922**
Exchange rate at 30 June 2016	**15.0113**	**16.6360**	**20.1075**	**1.3148**	**1.0000**	**11.1343**		

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

Notes to the Annual Financial Statements

3. Risk management (continued)

In order to produce a sensitivity analysis on foreign exchange fluctuations with unhedged balances, 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:

	2017 R'000	2016 R'000
10% Increase	157	2,279
10% Decrease	(157)	(2,279)

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.

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, preference shares and unit trust funds managed by independent investment portfolio managers.

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 5.0% (2016: 6.3%) received during the year under review):

	2017 R'000	2016 R'000
1% Increase	4,521	4,464
1% Decrease	(4,521)	(4,464)

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 as 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 profit or loss for the year. The analysis is based on the assumption that the equity price at reporting date has increased/decreased by 10% with all other variables held constant:

	Impact on profit or loss	
	2017 R'000	2016 R'000
Fair value of listed equities	86,409	87,091
10% Increase	8,641	8,709
10% Decrease	(8,641)	(8,709)

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.

Notes to the Annual Financial Statements

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 a risk exposure that exceeds the expected income 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 insurance policies written by the Company do involve a significant “legal” content, as each contract is specifically entered into to suit each policyholder's individual requirements. Further, each type of guarantee issued is based on a set structure for the terms and conditions, which have been drafted by attorneys 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 of the Company. To manage this risk the Company has developed a strong culture for openness, honesty and integrity. In all its dealings with both policyholder and beneficiaries, the Company strives to resolve disputes according to what is considered both fair and correct in law. For this purpose the services of engineering and legal professionals are used in high value claims.

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

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.

Notes to the Annual Financial Statements

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. Further it is continuously being ensured that adequate documentation of all policies and procedures are in place so as to maintain an adequate level of internal control throughout the company.

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.

The Risk and Compliance Committee presents a periodic report to the Board, which includes the key risks identified in the Company.

3.4.13. Capital management

The Company's objectives when managing capital are:

- to comply with the capital requirements set by legislation and regulation imposed by the Financial Services Board. The Company currently maintains, on the interim measure basis, at least a twenty five percent margin above the minimum threshold set by the current regulatory measures, and
- to safeguard the Company’s ability to continue as a going concern, so that it can provide a minimum return for shareholders and its committed benefits to other stakeholders.

Notes to the Annual Financial Statements

4. Equipment

	2017			2016		
	Cost or revaluation R'000	Accumulated depreciation R'000	Carrying value R'000	Cost or revaluation R'000	Accumulated depreciation R'000	Carrying value R'000
Aircraft	18,229	-	18,229	-	-	-
Motor vehicles	530	(530)	-	530	(528)	2
Furniture and equipment *	14,157	(9,909)	4,248	12,869	(8,691)	4,178
Total	**32,916**	**(10,439)**	**22,477**	**13,399**	**(9,219)**	**4,180**

Reconciliation of equipment - 2017

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Aircraft	-	18,229	-	-	18,229
Motor vehicles	2	-	-	(2)	-
Furniture and equipment *	4,178	1,291	(2)	(1,219)	4,248
	4,180	**19,520**	**(2)**	**(1,221)**	**22,477**

Reconciliation of equipment - 2016

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

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

Notes to the Annual Financial Statements

5. Intangible assets

	2017			2016		
	Cost / Valuation R'000	Accumulated amortisation R'000	Carrying value R'000	Cost / Valuation R'000	Accumulated amortisation R'000	Carrying value R'000
Computer software	61,037	(41,825)	19,212	52,895	(35,582)	17,313

Reconciliation of intangible assets - 2017

	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
Computer software	17,313	8,144	(6,245)	19,212

Reconciliation of intangible assets - 2016

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

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000
6. Financial assets		
At fair value through profit or loss		
Listed equity securities	86,453	87,091
Unlisted unit trusts and pooled funds	147,272	197,465
Listed unit trusts and pooled funds	18,028	20,225
	251,753	**304,781**
Available-for-sale		
Unlisted equity instruments	98,542	98,542
Held to maturity		
Unlisted preference shares	26,315	26,315
Debt instruments	-	56,302
	26,315	**82,617**
Loans and receivables		
Unlisted preference shares	22,000	32,000
Receivables due from insurance contracts (note 7)	293,647	279,438
Other loans and receivables	774,468	648,601
	1,090,115	**960,039**
Non-current assets		
Fair value through profit or loss	251,753	304,781
Available-for-sale	98,542	98,542
Held to maturity	26,315	82,617
Loans and receivables	22,000	32,000
	398,610	**517,940**

Notes to the Annual Financial Statements

6. Financial assets (continued)

Reconciliation of financial assets - 2017

	Opening balance	Additions	Disposals	Fair value gains	Foreign exchange losses	Closing balance
	R'000	R'000	R'000	R'000	R'000	R'000
Available for sale	98,542	-	-	-	-	98,542
Fair value through profit or loss	304,781	18,430	(60,043)	(1,886)	(9,529)	251,753
Held to maturity	82,617	1,831	(58,133)	-	-	26,315
Loans and receivables	32,000	-	(10,000)	-	-	22,000
	517,940	**20,261**	**(128,176)**	**(1,886)**	**(9,529)**	**398,610**

Reconciliation of financial assets - 2016

	Opening balance	Additions	Disposals	Fair value gains	Foreign exchange losses	Closing balance
	R'000	R'000	R'000	R'000	R'000	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**

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000
7. Receivables including reinsurance receivables		
Receivables due from insurance contracts		
Due from agents, brokers and intermediaries	267,507	247,427
Impairment provision	(11,542)	(11,376)
Due from reinsurance contracts	37,682	43,387
	293,647	279,438
Other loans and receivables		
Prepaid expenses	264	693
Fair value hedge instrument	(3,127)	7,905
Sundry debtors	55,238	36,516
Amount due from related parties (note 26)	551,962	407,458
Private equity loans	170,131	196,029
	1,068,115	**928,039**

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

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(11,376)	(11,990)
Provision (raised)/utilised in the period	(166)	614
Closing balance	**(11,542)**	**(11,376)**

8. Insurance liabilities and reinsurance assets		
Gross		
Outstanding claims	425,942	372,152
Claims incurred but not reported	386,394	205,926
Unearned premium	453,367	406,177
Deferred acquisition costs	(51,379)	(44,478)
Total insurance liabilities	1,214,324	939,777
Recoverable from reinsurers		
Outstanding claims reported	(238,086)	(177,285)
Claims incurred but not reported	(261,764)	(136,673)
Unearned premiums	(205,314)	(149,960)
Deferred reinsurance commission	54,841	47,502
Total reinsurers' share of insurance liabilities	(650,323)	(416,416)
Net		
Outstanding claims	187,856	194,867
Claims incurred but not reported	124,630	69,253
Unearned premiums	248,053	256,217
Deferred acquisition costs and reinsurance commission	3,462	3,024
Total net insurance liabilities	564,001	523,361
Current asset	650,323	416,416
Current liability	(1,214,324)	(939,777)
Total net current liability	**(564,001)**	**(523,361)**

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

Notes to the 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 2016			
- outstanding claims	372,154	(177,285)	194,869
- incurred but not reported	205,926	(136,673)	69,253
	578,080	(313,958)	264,122
Claims paid during the year (note 18)	(422,477)	244,851	(177,626)
Increase in outstanding claim reserves	476,265	(305,650)	170,615
Increase in incurred but not reported reserve	180,468	(125,093)	55,375
As at 30 June 2017	**812,336**	**(499,850)**	**312,486**
Balance at 30 June 2017 is made up as follows:			
- outstanding claims	425,942	(238,086)	187,856
- incurred but not reported	386,394	(261,764)	124,630
	812,336	**(499,850)**	**312,486**

	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 18)	(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**

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	288,624	257,634
Short-term deposits	206,111	151,837
	494,735	**409,471**

10. Share capital and share premium

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.

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000

11. Tier II funding

Unsecured subordinated notes	200,000	200,000
Interest accrued	2,450	2,445
	202,450	**202,445**

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 7.333% at 30 June 2017 (2016: 7.308%). The redemption date for the R 200 000 000 notes issued is 25 November 2019.

Refer to note 20 for Tier II finance cost.

Non-current liabilities	200,000	200,000
Current liabilities	2,450	2,445
	202,450	**202,445**

12. Deferred tax

Deferred tax liability

Intangible assets	(2,519)	(2,553)
Equipment	(448)	(497)
Provision for future income	(4,467)	(13,977)
Statutory reserves	-	(8,405)
Unrealised gains on investments	(15,113)	(17,093)
Total deferred tax liability	**(22,547)**	**(42,525)**

Deferred tax asset

Provisions	24,964	22,194
Statutory reserves	5,286	-
Total deferred tax asset	**30,250**	**22,194**

The deferred tax asset 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:

Deferred tax liability	(22,547)	(42,525)
Deferred tax asset	30,250	22,194
Net deferred tax asset / (liability)	**7,703**	**(20,331)**

Reconciliation of deferred tax asset / (liability)

At the beginning of the year	(20,331)	(12,010)
Charge to statement of comprehensive income	28,034	(8,321)
At the end of the year	**7,703**	**(20,331)**

Notes to the Annual Financial Statements

12. Deferred tax (continued)

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

(a) Deferred tax assets	Statutory Reserves R'000	Provisions R'000	Total R'000
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**
As at 30 June 2016	-	22,194	22,194
Charged to the statement of comprehensive income	5,286	2,770	8,056
As at 30 June 2017	**5,286**	**24,964**	**30,250**

(b) Deferred tax liabilities	Intangible assets R'000	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 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)**
As at 30 June 2016	(2,553)	(497)	(13,977)	(8,405)	(17,093)	(42,525)
Charged to the statement of comprehensive income	34	49	9,510	8,405	1,980	19,978
As at 30 June 2017	**(2,519)**	**(448)**	**(4,467)**	**-**	**(15,113)**	**(22,547)**

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000

13. Trade and other payables

Trade payables	20,474	24,568
Amounts due to related parties (refer note 26)	22,771	21,466
VAT	764	8,478
Sundry creditors	14,783	37,678
Payables under reinsurance contracts	453,715	335,187
Accrued expenses	4,961	6,165
	517,468	**433,542**

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

14. Employee benefit provisions

Bonus provision	68,992	58,043
Leave pay provision	5,668	3,961
	74,660	**62,004**

Reconciliation of employee benefit provisions - 2017

	Opening balance R'000	Raised R'000	Utilised during the year R'000	Closing balance R'000
Bonus provision	58,043	50,891	(39,942)	68,992
Leave pay provision	3,961	2,090	(383)	5,668
	62,004	**52,981**	**(40,325)**	**74,660**

Reconciliation of employee benefit provisions - 2016

	Opening balance R'000	Raised 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**

A performance related bonus is raised at financial year end for the benefit of employees. The bonus will be paid in cash with the October 2017 payroll.
The leave pay liability is calculated based on leave days accumulated by employees. This liablity is only paid out upon termination of employment contracts.

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000
15. Net insurance premium revenue		
Insurance contracts		
- gross written premium	1,520,582	1,228,535
- change in unearned premium provision	(47,189)	(26,481)
Insurance premium revenue	**1,473,393**	**1,202,054**
Reinsurance contracts		
- reinsurance premium	(926,536)	(636,606)
- change in unearned premium provision - reinsurers' portion	55,353	22,475
Insurance premium revenue ceded to reinsurers	**(871,183)**	**(614,131)**
Net insurance premium revenue	**602,210**	**587,923**
16. Investment income		
Fair value through profit or loss		
- dividend income	3,157	10,072
- fair value movement	607	(1,849)
- interest income	-	192
Fair value movement on foreign exchange hedge instrument	25,311	4,672
Foreign exchange difference on financial assets	(19,020)	-
Cash and cash equivalents interest income	22,827	28,313
Held-to-maturity interest income	7,990	7,738
Loans and receivables interest income	53,382	37,361
	94,254	**86,499**
17. Other operating income		
Aviation income	1,680	1,832
Other income	8,056	3,322
	9,736	**5,154**
18. Net insurance claims		
Current year claims paid	(422,477)	(404,023)
Movement in incurred but not reported provision	(180,468)	(57,187)
Movement in outstanding claims provision	(53,793)	(25,086)
Insurance claims incurred	**(656,738)**	**(486,296)**
Recoveries from reinsurers	244,851	171,056
Reinsurers' portion of incurred but not reported provision	125,093	50,634
Reinsurers' portion of outstanding claims provision	60,799	19,004
Insurance claims recovered from reinsurers	**430,743**	**240,694**
Net insurance claims	**(225,995)**	**(245,602)**

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000
19. Other operating expenses		
Amortisation	6,245	5,345
Auditors remuneration - External	4,210	3,324
Auditors remuneration - Internal	1,351	1,578
Depreciation	1,221	1,352
Profit share	53,381	35,279
Foreign exchange difference	6,587	(5,697)
Information technology	16,415	15,805
Travel and accomodation	7,152	5,262
Corporate social investment	5,192	4,941
Directors' remuneration	18,223	12,316
Employee costs	171,299	161,860
Interest expense	5,262	3,641
Lease rentals on operating leases	14,037	14,496
Other expenses	17,634	22,410
Professional fees	15,332	14,262
Repairs and maintenance	1,905	460
	345,446	**296,634**
20. Finance costs		
Interest paid	24,182	22,753
21. Taxation		
Major components of the tax expense		
Current		
Local income tax - current period	48,026	9,682
Local income tax - recognised in current tax for prior periods	191	256
Foreign income tax or withholding tax - current period	2,073	947
	50,290	**10,885**
Deferred		
Originating and reversing temporary differences	(28,034)	8,321
	22,256	**19,206**

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000

21. Taxation (continued)

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

Applicable tax rate	28.00 %	28.00 %
Foreign withholdig tax	1.71 %	1.48 %
Prior year under provision	0.27 %	0.95 %
Exempt income dividends not taxable	(1.23)%	(4.51)%
Capital loss taxed at CGT rate	0.68 %	0.82 %
Effect of tax loss not recognised as deferred tax asset	0.85 %	(3.10)%
Non deductible expenses - capital in nature	0.14 %	0.24 %
Non deductible donations	0.64 %	0.54 %
Other non-taxable income	(0.18)%	(1.78)%
Capital gains tax	-	2.31 %
Change in capital gains inclusion rate	-	4.82 %
Other non-deductible expenses	0.27 %	0.22 %
	31.15 %	**29.99 %**

22. Cash used in operations

Results of operating activities	95,630	86,787
Adjustments for:		
Depreciation and amortisation	7,466	6,696
Investment income	(94,254)	(86,706)
Finance costs	(24,182)	(22,753)
Loss/(Profit) on disposal of investment	2,175	(7,098)
Increase in net technical provisions	40,640	20,155
Changes in working capital:		
Receivables including reinsurance receivables	(140,076)	(173,314)
Trade and other payables	96,581	163,504
	(16,020)	**(12,729)**

23. Tax paid

Balance at beginning of the year	(267)	(19,715)
Current tax for the year recognised in profit or loss	(50,290)	(10,885)
Balance at end of the year	(4,034)	267
	(54,591)	**(30,333)**

24. Operating lease commitments

Operating leases – as lessee

Minimum lease payments due		
- within one year	15,195	13,761
- in second to fifth year inclusive	6,382	2,016
	21,577	**15,777**

The Company entered into a 2-year lease agreement with Growthpoint Properties Limited to lease the Sunnyside Office Park with effect from 1 January 2017. The lease is subject to a 9% annual escalation rate. Operating lease payments represent rentals payable by the Company for its office properties. No contingent rent
is payable.

Notes to the Annual Financial Statements

25. 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 2017, the provident fund had accumulated funds of R 65 609 544 (2016: R 58 231 792).

26. Related parties

Relationships

Holding company	LomHold Proprietary Limited
Other related parties (fellow subsidiary and associate companies)	Consort Technical Underwriting Managers Proprietary Limited Horizon Underwriting Managers Proprietary Limited Leppard & Associates Proprietary Limited Motor Funding Underwriting Managers Proprietary Limited Praesidio Risk Managers Proprietary Limited Turnberry Risk Management Solutions Proprietary Limited Turnberry Management Services 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 Simply Financial Services Proprietary Limited Harvey Premium Guarantee Proprietary Limited
Shareholders of holding company	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% (2016: 19.87%), Lombard Consolidated Proprietary Limited – 49.63% (2016: 49.63%), IVM Intersurer BV – 30% (2016: 30%) and CG Japhet – 0.5% (2016: 0.50%).

All related party transactions are at arms length.

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000
26. Related parties (continued)		
Related party balances		
Amounts included in trade and other payables regarding related parties		
Commercial Crime Concepts Proprietary Limited	-	781
Consort Technical Underwriting Managers Proprietary Limited	7,789	3,895
Horizon Underwriting Managers Proprietary Limited	6,455	3,645
Leppard & Associates Proprietary Limited	5,318	11,804
Motor Funding Underwriting Managers Proprietary Limited	-	1,238
Praesidio Risk Managers Proprietary Limited	1,298	103
Turnberry Management Services Proprietary Limited	1,911	-
	22,771	**21,466**
Amounts included in receivables including reinsurance receivables regarding related parties		
BrightRock Holdings Proprietary Limited	392,859	276,470
BrightRock Proprietary Limited	940	911
Commercial Crimes Proprietary Limited	2,371	-
LomShelf01Proprietary Limited	-	2,433
Lombard Consolidated Proprietary Limited	68,522	59,557
LomHold Proprietary Limited	48,377	35,868
Motor Funding Underwriting Managers Proprietary Limited	2,789	-
Simply Financial Services Proprietary Limited	2,006	-
Stoneland Case 11 Proprietary Limited	26,013	26,001
Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency	8,085	6,218
	551,962	**407,458**
Related party transactions		
Amounts received from related parties		
BrightRock Holdings Proprietary Limited	24,479	14,410
BrightRock Proprietary Limited	4,430	4,157
Commercial Crime Concepts Proprietary Limited	-	2,562
Lombard Consolidated Proprietary Limited	3,837	3,786
Simply Financial Services Proprietary Limited	6	-
	32,752	**24,915**
Amounts paid to related parties		
Commercial Crime Concepts Proprietary Limited	3,990	2,533
Consort Technical Underwriting Managers Proprietary Limited	31,981	29,815
Horizon Underwriting Managers Proprietary Limited	18,932	18,105
Leppard & Associates Proprietary Limited	26,750	24,966
Lombard Consolidated Proprietary Limited	-	3,086
Motor Funding Underwriting Managers Proprietary Limited	8,877	8,423
Praesidio Risk Managers Proprietary Limited	3,662	958
Turnberry Management Services Proprietary Limited	12,105	-
	106,297	**87,886**
Compensation to Directors and other key management		
Salaries, bonuses and other employee benefits	**18,223**	**14,733**

Notes to the Annual Financial Statements

27. Directors' emoluments

2017

	For services as director/ prescribed officer	Salary	Bonuses and performance related payments	Pension contributions under any pension scheme, not otherwise disclosed	Total
	R'000	R'000	R'000	R'000	R'000
Director/prescribed officer 1	1,043	-	-	-	1,043
Director/prescribed officer 2	250	-	-	-	250
Director/prescribed officer 3	-	2,707	3,880	440	7,027
Director/prescribed officer 4	2,828	12	3,714	2	6,556
Director/prescribed officer 5	250	-	-	-	250
Director/prescribed officer 6	250	-	-	-	250
Director/prescribed officer 7	-	1,774	785	288	2,847
	4,621	**4,493**	**8,379**	**730**	**18,223**

2016

Director/prescribed officer 1	984	-	-	-	984
Director/prescribed officer 2	250	-	-	-	250
Director/prescribed officer 3	-	2,557	1,519	416	4,492
Director/prescribed officer 4	3,037	12	3,039	2	6,090
Director/prescribed officer 5	250	-	-	-	250
Director/prescribed officer 6	250	-	-	-	250
Director/prescribed officer 7	-	1,612	543	262	2,417
	4,771	**4,181**	**5,101**	**680**	**14,733**

28. 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.

29. Events after the reporting period

On 1 September 2017, BrightRock Holdings Proprietary Limited repaid its loan from the company. An amount of R414 million was received.

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.

30. Contingencies and commitments

A sales and purchase agreement was signed by the Company on 11 August 2017 to sell its shares in the unlisted equity instrument (available for sale - refer note 6). This sale is subject to a due diligence and various conditions precedent. The anticipated completion of the conditions precedent is end October 2017.