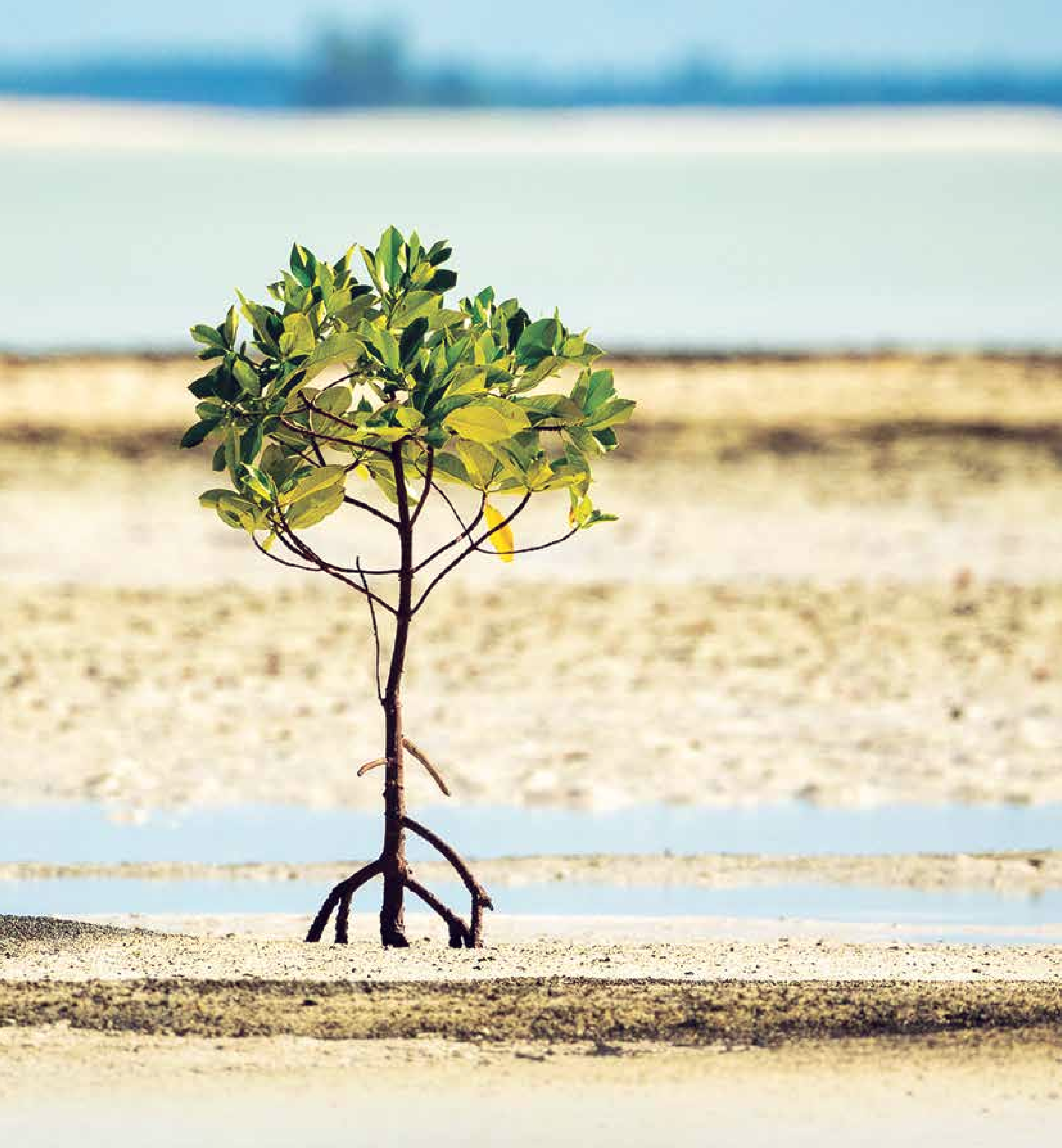

LOMBARD

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED **30 JUNE 2019**

GENERAL INFORMATION

Registration number	1990/001253/06
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	4th floor 22 Wellington Road Parktown 2193
Postal address	PO Box 1411 Killarney 2193
Holding company	LomHold Proprietary Limited incorporated in South Africa
Auditor	PricewaterhouseCoopers Inc.
Secretary	SJ Vivian

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

LOMBARD

ANNUAL **FINANCIAL STATEMENTS**

FOR THE YEAR ENDED **30 JUNE 2019**

CONTENTS

CORPORATE
GOVERNANCE STATEMENT

In line with the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV™), Lombard Insurance Company Limited (Lombard) key corporate governance pillars are:

- Ethical and effective leadership
- Sound and ethical governance
- Integrity
- Accountability
- Providing timely, relevant and meaningful reporting to all stakeholders.

The Board has established several 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 operations carried out by Lombard Insurance Company Limited, LomVest (Pty) Ltd and LomHold (Pty) Ltd (hereinafter referred to as the Group), the Board operates in a highly regulated environment with the aim of long-term sustainability and meeting financial soundness standards determined by the Prudential Authority. Further, certain statutory governance appointments have at all times been maintained throughout the year. These appointments are that of the Group Company Secretary, the Head of Risk Management, the Head of Compliance and the Head of Internal Audit for Lombard. In addition to the roles, a Head of Actuarial Control Function was appointed from November 2018. All of these roles will be more fully discussed below.

The Board, through the guidance of the sub-committees, recognises its responsibility to exercise effective leadership by adhering to its fiduciary duties, collectively and individually, as the directors of Lombard in order to lead effectively.

The Board possesses the required skills and competence, and acts in an ethical manner when discharging its responsibilities and control of Lombard as outlined in the Group Governance Policy and the Group Board's terms of reference. The Group Governance Policy, which is reviewed annually, serves as a guide to the Board and outlines the process for policies and practices on Board matters, such as dealing in securities, declaration of conflict of interests, and those matters delegated to management.

The Board, through the office of the Group Company Secretary, considers and deliberates on declarations when there is a conflict of interest at every Board meeting.

The Board is committed to ensuring that the Group's strategy and operations are executed by management based on an ethical foundation that supports ethical and sustainable business in the best interest of the Group and all stakeholders. The Group corporate governance policy framework details optimal corporate governance principles as well as the Group authorisation requirements. The Group corporate governance policy framework provides for those matters that are reserved for the Board's decision-making authority to enable the Board to exercise effective control and ensure the Group's good performance and legitimacy.

ORGANISATIONAL ETHICS

The Social and Ethics Committee exercises ongoing oversight responsibility for setting and reporting on Lombard's ethical values, principles of conducting ethical business practice, human and environmental rights considerations, and for Lombard to be a responsible corporate citizen.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

RESPONSIBLE CORPORATE CITIZENSHIP

In accordance with the Board's responsibility of ensuring that Lombard conducts itself as a good corporate citizen, the Board approves the business strategy as developed by management in creating value for all Lombard stakeholders on a sustainable basis. Lombard actively engages all its stakeholders and appreciates that being a responsible corporate citizen entails being responsive to stakeholders' needs and expectations. It is important for Lombard to be values driven and deliver in accordance with the expectation of all its stakeholders to enable it to measure its impact as a good corporate citizen. The Board, with the assistance of the Social and Ethics Committee, oversees and monitors all Lombard's processes and activities on how Lombard achieves its corporate citizenship responsibility. This is measured against the performance targets agreed with management to support the Group's strategic objectives.

The keys areas of focus of the Social and Ethics Committee during the reporting period remained on considering the transformation initiatives of Lombard, the Occupation Health and Safety of Lombard as well as Lombard's Corporate Social Investment initiatives.

STRATEGY, PERFORMANCE AND REPORTING STRATEGY AND PERFORMANCE

The Board informs and approves Lombard's strategy as developed by management and oversees that it is aligned to the Group value drivers. The process that outlines how the Group creates value for its stakeholders is explained in detail in the Group Governance Policy. The Board provides ongoing oversight and monitoring with the support of its committees and ensures that management implements and executes the Group's strategy. The Board ensures that the Group's executive accounts for its performance by ensuring that it reports on all key areas and key metrics of the Group's business operations and its progress in executing on the Group's strategy over the short, medium and long-term.

REPORTING

The Board, through the Risk and Compliance Committee, the Audit Committee as well as the Capital Management and Investment Committee, ensures that the necessary business and financial controls are in place to verify and safeguard the integrity of the Group's performance.

GOVERNING STRUCTURES AND DELEGATION OF THE PRIMARY ROLES AND RESPONSIBILITIES OF THE BOARD

The Board's role and responsibilities include, the role of setting the strategic direction of the group, approving policies and plans to give effect thereto, oversight and monitoring of the implementation of policies and plans by the Executive Committee, together with reporting and disclosure.

The Group Governance Policy and the Group Board's terms of reference set out the role and responsibilities of the Board, its membership requirements, authority and terms of reference. Board meetings are held at least three times a year, with additional meetings called as and when necessary. A quorum for Board 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 Board is satisfied with the level of attendance at meetings, which enabled it to fulfil its responsibilities according to its Group Governance Policy and the Group Board's Terms of Reference.

The Board and its committees have access to the Group Company Secretary and external professional advice (at the expense of the Group concerned) to provide guidance on their fiduciary duties and responsibilities. The Board has access to all information of the Group and may, via the chief executive officer and Group Company Secretary, set up meetings as and when required.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

COMPOSITION OF THE BOARD

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. The current chairman of the board is not considered independent and in light thereof and in compliance with paragraph 3(3)(b) with BN158 of 2014, GJM Carlin was appointed as a lead independent director and the registrar of insurance at the time notified. In compliance with the Governance and Operational Standards for Insurers 2 (GOI 2) and GOI 3, 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.

COMMITTEES OF THE BOARD

Board committees and governance structures

All of the Board committees have formal terms of reference and their responsibilities and functions as delegated by the Board are detailed in the terms of reference. A summary of each committee's terms of reference are contained below. The terms of reference of each committee is reviewed annually. The Board ensures that each committee has the necessary skills, experience and knowledge to discharge their duties effectively. Further to the aforementioned, the executive committee assists in conducting operational and administrative decision-making, implementation of Board-approved strategies, prioritizing the allocation of capital and ensuring best management practices.

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); the Insurance Act 18 of 2017 (Insurance Act) and also in terms of Prudential Standard GOI 3. 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 attend 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;
- Head of Actuarial Control Function;
- 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

COMMITTEES OF THE BOARD (CONTINUED)

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 Group's auditor;
- to determine the nature and extent of any non-audit services that the auditor may provide to the Group, or that the auditor must not provide to the Group, or any of its related companies;
- to pre-approve any proposed agreement with the auditor for the provision of non-audit services to the Group;
- to prepare a report, which is included on pages 13 - 15, 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 Group.
- to receive and deal appropriately with any concerns or complaints, whether from within or outside the Group, or on its own initiative, relating to:
  - the accounting practices and internal audit of the Group;
  - the content or auditing of the Group's financial statements;
  - the internal financial controls of the Group; and
  - any other related matter.
- to make submissions to the Board on any matter concerning the Group's accounting policies, financial controls and reporting; and
- to perform other oversight functions as may be determined by the Board.

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 Group, in compliance with the Companies Act, the Insurance Act of 2018, 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 GJM Carlin, this committee is constituted as a standalone statutory committee in respect of its regulatory duties in terms of GOI 3. 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;
- Head of the Actuarial Control Function;
- 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.

COMMITTEES OF THE BOARD (CONTINUED)

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 that 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.

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 GOI 3;
- 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 Group, in compliance with the Companies Act and the Insurance Act 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

COMMITTEES OF THE BOARD (CONTINUED)

Reinsurance and Other Forms of Risk Transfer Committee

In respect of the Group, the objectives of the Reinsurance and Other Forms of Risk Transfer Committee, are 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. The record of attendance by each committee member was as follows:

Name of committee member	11 July 2018	27 November 2018	14 May 2019
Miles Japhet (Chairman)	Yes	Yes	Yes
James Orford	Yes	Yes	Yes
Andrew Pienaar	Yes	Yes	Yes

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. The record of attendance by each committee member was as follows:

Name of committee member	14 August 2018	30 May 2019
Athi Magwenthu (Chairman)	Yes	Yes
James Orford (Prescribed officer)	Yes	Yes

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.

EVALUATIONS OF THE PERFORMANCE OF THE BOARD

The Board members undergo an annual self-evaluation. For the year under review, a self-assessment, which has been aligned to King IV under the direction of the Board, was conducted. The self-assessment included individual directors, Board committee and Board effectiveness assessments. Although not externally facilitated, the process was in accordance with the methodology approved by the Board. The results of the evaluation, including interventions for possible gaps identified, are discussed at the respective committees and subsequently considered at Board level.

APPOINTMENT AND DELEGATION TO MANAGEMENT

The Board has delegated certain powers and authorities to the various committees to assist the Board to fulfil its duties. The Board approved terms of reference and policies set out roles and responsibilities, as well as authority limits to give clarity with regards to the roles and the effective exercise of authority and responsibilities.

The Chief Executive Officer has a clearly defined role and, assisted by the executive committee, is responsible for the implementation and execution of the Board's strategy, policies and proposals presented to and approved by the Board. The Group has appointed Mr SJ Vivian as Group Company Secretary to act as conduit between the Board and the executive management of the Group. The Group secretary is not a director of the Group, nor related to any of the directors. The Group Company Secretary reports to the Board on all statutory, regulatory and governance matters concerning the Group on all other duties and administrative matters, while maintaining an arms-length relationship with the directors as far as reasonably possible. The suitability and effectiveness of the Group Company Secretary is reviewed by the Board on an annual basis.

Where delegation of certain powers and authorities to the executive management or committees have taken place, Board and statutory approved materiality levels apply, but the ultimate responsibility for retaining full and effective control of the group rests with the Board. Decisions on strategy and other material matters are reserved for the Board and there is a clear representation of the appropriate delegated powers. The Board has arrangements in place for accessing professional corporate governance advice.

GOVERNANCE FUNCTIONAL AREAS RISK GOVERNANCE

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.

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 Group with a framework to understand, evaluate, analyse and manage the on-going risk applicable to the Group's operation. The Group'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 Group's Head of Risk Management assists the Chief Executive Officer and the Board to identify and monitor risk. Three times a year the Group holds a Risk and Compliance Committee 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 Group's top risks by both severity and probability.

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 Group 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 Group from events that hinder the sustainable achievement of the Group's performance objectives.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

GOVERNANCE FUNCTIONAL AREAS RISK GOVERNANCE (CONTINUED)

The following elements of the Group'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 Group.

TECHNOLOGY AND INFORMATION GOVERNANCE

The Board has ultimate responsibility and accountability for the management and governance of technology and information. Technology and information management and governance are essential for the Group to achieve its strategic objectives. The Board exercises oversight and directs the strategic and operational use of technology and information to ensure that opportunities derived from the use of technology and information are maximised. Technology and information management and governance capacity and awareness are supported by the Board and management structures within the businesses. The Risk and Compliance committee is responsible for technology and information governance. It oversees the management of the Group's technology and information risks, including risks involved in major change programmes.

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).

The Group's IT strategy over the last two 2 years (2018 to 2019), has followed a phased delivery approach including understanding the IT governance, processes and architecture and the capacity to absorb change over the period.

The IT strategy going forward will continue to be supported by the following elements:

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

COMPLIANCE GOVERNANCE

The Risk and Compliance committee advises and assists the Board in respect of overseeing governance of compliance by setting the direction for how compliance should be approached and addressed in the Group. The Group's Compliance Policy mandates the Board of directors of business divisions and employees to comply with the Group's Compliance Policy, applicable laws, non-binding rules, codes and standards that support the Group being a good corporate citizen. Implementing sound compliance management practices and procedures serve to mitigate compliance risk and improve the corrective measures taken in any instances of non-compliance which may occur. The Group's compliance policy seeks to ensure compliance with the applicable laws and non-binding rules, codes and standards in all jurisdictions within which the Group operates. Creating sound compliance culture in the Group means that compliance is understood for the obligations it creates, and for the rights and protections it affords to the Group and its stakeholders.

The Group's compliance policy gives effect to the "right" aspects of governance in respect of which the Group establish the principles and minimum standards to be adhered to. The Group's compliance policy provides for principles and minimum standards in respect of the defined right aspects of governance that are set and approved by the Risk and Compliance Committee based on its delegated authority from the Board.

The Group's compliance officer develops procedures to facilitate implementation of the Compliance Policy in respect of compliance across the Group and monitor adherence to the Group's Compliance Policy. The Risk and Compliance Committee receives regular reports on compliance matters through the Group's Compliance officer, who is suitably skilled and experienced.

REMUNERATION GOVERNANCE

The Board, through of the Remuneration Committee, has ultimate responsibility and accountability to ensure that the Group remunerates fairly, responsibly and transparently for the achievement and promotion of the Group's strategic objectives over the short, medium and long term. Through careful alignment of performance hurdles with the Companies' strategic objectives and the execution of a robust performance management system, the desired behaviours are rewarded, and a high-performance culture is promoted.

The terms of reference of the Remuneration Committee is aligned to the Group's business strategy and is designed to create value for the Group and its stakeholders. Decisions on remuneration are made jointly by the chairman of the Board and Chief Executive Officer, or any persons delegated by them. The Remuneration Committee ensures that the core objectives listed below are complied with.

The terms of reference's core objectives are to ensure that the Group's remuneration practices are:

- consistent with the insurance business and risk strategy, risk profile, objectives, values, risk management practices and long-term group-wide interests and performance;
- considered as a whole for the entire Group, in a proportionate and risk-based manner and contains specific arrangements that take into account the respective roles of each individual or class of individuals being remunerated; and
- when, including, both fixed and variable elements; provide that:
  - the fixed portion represents a sufficiently high proportion of the total remuneration to avoid dependence on the variable components;
  - the variable component is based on a combination of the assessment of the individual and collective performance for example such as the performance of the business area and the overall results of the insurer; and
- that consideration be given, should the circumstances so dictate and if the long-term interests of the business so suggest, to the payment of significant bonuses, irrespective of the form in which it is to be paid, contains a flexible, deferred component that considers the nature and time horizon of the insurer's business; and
- in considering an individual's performance, in the variable aspect of his/her remuneration, both financial and non-financial performance are considered.

ASSURANCE

The Board is responsible for assurance for the Group and has adopted a combined assurance approach during the year under review. The responsibility of overseeing these arrangements have been delegated to the Audit as well as the Risk and Compliance committees, with the Audit Committee ensuring the development of a combined assurance framework and plan and the Risk and Compliance Committee overseeing the implementation of the plan.

The Board has ensured the levels of assurance required are defined and adequate and effective controls have been defined and applied. The audit committee ensures a system of internal financial controls that is designed to provide assurance on the maintenance of proper accounting records and the reliability of financial information is maintained. Internal Audit operates under an internal audit charter recommended by the Audit Committee and approved by the Board. Currently, the Group'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 plan is executed under the mandate approval of the Audit committee. The internal audit function has been outsourced to KPMG with the aim of ensuring that the necessary skills and resources are available to address the complexity of risks faced by the Group. Progress against the approved plan is reported quarterly to the Audit committee.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

STAKEHOLDER RELATIONSHIPS

The Board, through the Social, Ethics and Sustainability committee sets the direction for how stakeholder relations should be approached and conducted throughout the Group. The Group has implemented an inclusive approach that consider stakeholders as an integral part of the Group business. This approach is embedded to the Group's stakeholder engagement function and remains a practice across the Group. The committee has oversight of stakeholder engagement and management through bi-annual reporting by management to the Social, Ethics and Sustainability committee.

The chairman of the Social, Ethics and Sustainability committee provides feedback to the Board for the Board's satisfaction that the stakeholder approach balances the needs, interest and expectations of material stakeholders in the best interest of the Group over time.

RESPONSIBILITIES OF INSTITUTIONAL INVESTORS

The Board exercises oversight responsibility, rights and obligations through The Capital Management and Investment Committee in the various ventures in which it has invested. The Capital Management and Investment Committee considers capital adequacy and asset/liability matching risks and other applicable investment risks.

The Group investments are managed in accordance with the relevant policies and investment mandates. The Board ensures that these governance practices promote responsible investment, achieve good governance, promote ethical culture, and enhance effective control, good performance and legitimacy.

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 auditor is 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 2020 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 auditor is responsible for independently auditing and reporting on the company's annual financial statements. The annual financial statements have been audited by the company's external auditor and their report is presented on page 16 to 21.

The annual financial statements set out on pages 24 to 95, which have been prepared on the going concern basis, were approved by the Board on 30 October 2019 and were signed on their behalf by:

APPROVAL OF FINANCIAL STATEMENTS

ML Japhet
Chairman

30 October 2019

PJ Orford
Chief Executive Officer

30 October 2019

COMPANY
SECRETARY'S CERTIFICATION

DECLARATION BY THE COMPANY SECRETARY IN RESPECT OF SECTION 88(2)(E) OF THE COMPANIES ACT 71 OF 2008

In terms of Section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that the company has lodged with the Commissioner all such returns as are required of a company in terms of the Companies Act 71 of 2008 and that all such returns are true, correct and up to date.

SJ Vivian
Company Secretary

30 October 2019

AUDIT COMMITTEE REPORT

The Audit Committee (the Committee) has the pleasure in submitting its report for the financial year ended 30 June 2019.

In respect of the Group 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 Insurance Act 18 of 2017 and the King Code of Governance Principles for South Africa, 2016 (King IV) as approved by the Board during 2018.

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 Group, for appointment as external auditor of the Group, 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 Group and pre-approval of any proposed contract with the external auditor for the provision of those non-audit services;
- review and approval of the annual internal audit plan;
- monitoring the compliance of the Group with legal requirements, statutes, regulations and the Group's code of ethics;
- consideration of the reports by the internal and external auditors on their findings and recommendations;
- review of the effectiveness of the Group's systems of internal control; and
- review of the relationship between management, the internal auditors and the external auditors.

The committee is satisfied that the members thereof have the required knowledge and experience as set out in Section 94(5) of the Companies Act 71 of 2008 and Regulation 42 of the Companies Regulation, 2011.

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

Name of committee member	Date appointed to committee	25 July '18	24 October '18	27 March '19
GJM Carlin	16 November 1995	Yes	Yes	Yes
CE Backeberg	18 March 2015	Yes	Yes	Yes
AC Magwentshu	23 July 2015	Yes	Yes	Yes

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 nominated PricewaterhouseCoopers Inc. (PwC) as independent external auditors to the Group, which nomination for appointment was approved by the Shareholders.

In making this determination the Committee has considered PwC 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 PwC that internal governance processes in the audit firm support its claim of independence.

The Committee also considered the tenure of PwC and the engagement partner and deemed it appropriate.

The Committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2019 year.

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.

Key Audit Matter (KAM)

In addressing the KAM, the Committee understands the level of judgement, modelling, methodologies and assumptions applied in determining the figures demonstrated for the technical insurance reserve that is disclosed in the financial statements. The Committee has duly applied their best knowledge, care and skill in determining the stated figure.

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 2018/2019, and considering information and explanations given by management and discussions with PwC 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.

AUDIT COMMITTEE REPORT (CONTINUED)

INTERNAL AUDIT

Internal Audit operates under terms of reference recommended by the Committee and approved by the Board. The Group'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 Group. It helps the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the adequacy and effectiveness of risk management, control and governance processes.

INTERNAL AUDIT RESPONSIBILITIES

Internal Audit is responsible to the Group for contributing to the achievement of the Group's goals and objectives by providing assurance to the Group'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 Group;
- 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 Group's activities and in matters affecting internal audit work;
- being responsive to the Group'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 2019, 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 Group or to the contents or auditing of its annual financial statements, or to any related matter were received by the Committee.

GJM Carlin
Chairperson

30 October 2019

Independent auditor's report

To the Shareholder of Lombard Insurance Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lombard Insurance Company Limited (the Company) as at 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Lombard Insurance Company Limited's financial statements set out on pages 24 to 95 comprise:

- the statement of financial position as at 30 June 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended;
- the accounting policies; and
- the notes to the financial statements.

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

Independence

We are independent of the Company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

Our audit approach

Overview

Materiality	• Overall materiality: R 19,817,260, which represents 1% of total revenue (Insurance Premium Revenue).
Key audit matter	• Valuation of insurance liabilities.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	R 19,817,260
How we determined it	1% of total revenue (Insurance Premium Revenue)
Rationale for the materiality benchmark applied	We chose insurance premium revenue as the benchmark because, in our view, it is a benchmark against which the performance of the Company can be consistently measured in circumstances of volatility and near break-even earnings, and it is a generally accepted benchmark. We chose 1% which is consistent with quantitative materiality thresholds used for public interest entities.

pwc

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 our audit addressed the key audit matter

Valuation of insurance liabilities
 	
Refer to Accounting Policy note 1.3, Notes 3.2 and 11 to the financial statements.
 	
Insurance liabilities include outstanding claims reserve ("OCR") and claims incurred but not reported ("IBNR") as disclosed in note 11 to the financial statements.
 	
We considered the valuation of insurance liabilities to be a matter of most significance to the current year audit due to the following:
 	
• the valuation of OCR and IBNR involves significant estimation uncertainty as a result of assumptions used by management which included the following:
  ○ the claims notification or the trigger event;
  ○ the likelihood of receiving the claim;
  ○ timing of the settlement;
  ○ the amount expected to be paid; and
  ○ the ultimate loss ratio.
 	
• the magnitude and significance of the OCR and the IBNR balances of R 792.2 million and R 332.1 million in relation to the financial statements.
	We obtained an understanding of the process followed by management to calculate the OCR and IBNR.
	
	Outstanding Claims Reserve
	
	We evaluated and tested the relevant controls put in place by management.
	
	For outstanding claims notified, on a sample basis, we agreed the outstanding claims raised to the claims supporting documentation. No material differences were noted.
	
	For the trigger events, on a sample basis, we tested the reasonability of the likelihood of receiving the claims, the timing of settlement and the amount expected to be paid used by management in their calculation by agreeing these to relevant supporting documents such as underwriters' reports and minutes of meetings. We found management's assumptions to be reasonable.
	
	We assessed the consistency of the methods and assumptions used by management in determining the reserves by comparing these to the accounting policies used in the previous years. No inconsistencies were noted.
	
	Incurred But Not Reported
	
	We made use of our industry and actuarial expertise to assess the reasonability of management's IBNR provision by performing the following procedures:
	
	• We tested, on a sample basis, the accuracy of the data and policyholder information used by management in their calculations by agreeing these to underlying policyholder contracts. No material differences were noted.

pwc

	• We evaluated the methodology and assumptions used by management in the estimation of IBNR and the accounting policy against the generally accepted actuarial approaches and industry norms. We found the methodologies applied by management to be in line with industry norms and generally accepted actuarial approaches. • On a sample basis we performed an independent recalculation of management's estimate. We found management's estimates to be within a reasonable range of our independent recalculations.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Lombard Insurance Company Limited Annual Financial Statements for the year ended 30 June 2019", which includes the Company Secretary's Certification, the Audit Committee Report and the Directors' Report as required by the Companies Act of South Africa. 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 identified above 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, 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 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.

pwc

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 PricewaterhouseCoopers Inc. has been the auditor of Lombard Insurance Company Limited for one year.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: F.J. Kruger
Registered Auditor
Johannesburg
31 October 2019

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 2019.

1. NATURE OF BUSINESS

Lombard Insurance Company Limited was incorporated in South Africa operating in the insurance industry. The company operates in Sub Saharan Africa and Australia.

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, except for the change in accounting policy for new standards - refer to Note 2.

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

3. 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 and Insurance Act 18 of 2017, a dividend of R27,790 million (2018: R54,814 million) was declared and paid to the shareholder of the Company during the year under review.

5. DIRECTORATE

The directors in office at the date of this report are as follows:

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

6. DIRECTORS' INTERESTS IN CONTRACTS

During the financial year, no contracts were entered into which directors or officers of the company had an interest and which significantly affected the business of the company.

DIRECTORS' REPORT (CONTINUED)

7. HOLDING COMPANY

LomHold Proprietary Limited which is incorporated in South Africa.

For the year ended 30 June 2019, LomHold Proprietary Limited's 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 Proprietary Limited (at 19,87%) and Charles Garth Japhet (at 0,50%). The aforementioned shareholding being the shareholding as approved by the Prudential Authority (PA).

8. EVENTS AFTER THE REPORTING PERIOD

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

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. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the company. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the company.

10. AUDITORS

The company has rotated external auditors for the financial year ending 30 June 2019.

PwC have been appointed in office as auditors for the company for 2019 in accordance with section 90(1) of the Companies Act of South Africa.

11. SECRETARY

The company secretary is Mr SJ Vivian.

Postal address:	PO Box 1411 Killarney 2193
Business address:	4th floor 22 Wellington Road Parktown 2193

STATEMENT
OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	2019 R '000	2018 Restated* R '000	2017 Restated* R '000
Assets				
Non-Current Assets				
Equipment	4	2 082	3 140	22 477
Intangible assets	5	36 991	29 799	19 212
Financial assets at amortised cost	6	248 676	-	-
Receivables including reinsurance receivables	10	3 912	352 415	200 672
Financial assets at fair value through profit or loss	7	331 821	-	-
Financial assets	8	-	339 857	251 742
Deferred tax asset	9	1 560	-	7 703
Reinsurance assets	11	246 753	497 855	276 814
		871 795	**1 223 066**	**778 620**
Current Assets				
Financial assets at amortised cost	6	513 483	-	-
Receivables including reinsurance receivables	10	465 132	492 126	965 985
Financial assets at fair value through profit or loss	7	120 228	-	-
Financial assets	8	-	154 070	48 326
Current tax receivable		-	2 143	4 034
Reinsurance assets	11	726 545	400 755	373 509
Cash and cash equivalents	12	1 028 234	1 250 752	966 602
		2 853 622	**2 299 846**	**2 358 456**
Total Assets		**3 725 417**	**3 522 912**	**3 137 076**
Equity and Liabilities				
Equity				
Share capital and share premium	13	189 050	189 050	189 050
Retained earnings		538 206	498 806	467 257
		727 256	**687 856**	**656 307**
Liabilities				
Non-Current Liabilities				
Payables including reinsurance payables	17	693 366	632 057	578 706
Unsecured borrowings	14	100 000	200 000	200 000
Deferred tax liability	9	-	2 963	-
Employee benefit provisions	15	9 318	-	-
Insurance liabilities	11	383 585	763 867	429 932
		1 186 269	**1 598 887**	**1 208 638**
Current Liabilities				
Payables including reinsurance payables	17	438 477	404 223	410 629
Unsecured borrowings	14	102 995	2 147	-
Employee benefit provisions	15	32 843	65 238	74 660
Insurance liabilities	11	1 216 830	764 561	784 392
Financial liabilities at fair value through profit or loss	16	16 434	-	2 450
Current tax payable		4 313	-	-
		1 811 892	**1 236 169**	**1 272 131**
Total Liabilities		**2 998 161**	**2 835 056**	**2 480 769**
Total Equity and Liabilities		**3 725 417**	**3 522 912**	**3 137 076**

*Refer to note 34 for details.

STATEMENT
OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2019 R '000	2018 Restated* R '000
Insurance premium revenue		1 981 726	1 760 816
Insurance premium revenue ceded to reinsurers		(1 149 082)	(1 107 922)
Net insurance premium revenue	18	**832 644**	**652 894**
Investment income	19	12 990	144 716
Interest income using the effective interest rate method	19	119 631	-
Reinsurance commission		351 663	373 415
Net realised gains/(losses) on financial assets at fair value through profit or loss		14 845	(3 665)
Other operating income	20	9 462	13 793
Other Income		**508 591**	**528 259**
Insurance claims incurred		(1 552 838)	(938 004)
Insurance claims recovered from reinsurers		1 215 250	701 213
Net Insurance claims	21	**(337 588)**	**(236 791)**
Impairment of financial assets		(16 794)	(14 459)
Expenses for marketing and administration		(7 070)	(6 854)
Expenses for the acquisition of insurance contracts		(482 242)	(414 651)
Other operating expenses	22	(377 417)	(368 316)
Expenses		**(883 523)**	**(804 280)**
Operating profit (loss)		**120 124**	**140 082**
Finance costs	23	(26 553)	(23 514)
Profit (loss) before taxation		**93 571**	**116 568**
Taxation		(26 381)	(30 205)
Profit (loss) for the year		**67 190**	**86 363**
Other comprehensive income		-	-
Total comprehensive income (loss) for the year		**67 190**	**86 363**

*Refer to note 34 for details.

STATEMENT
OF CHANGES IN EQUITY

	Share capital R '000	Share premium R '0000	Total share capital R '000	Retained earnings R '0000	Total equity R '000
Balance at 01 July 2017	**47**	**189 003**	**189 050**	**467 257**	**656 307**
Profit for the year	-	-	-	86 363	86 363
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**86 363**	**86 363**
Dividends	-	-	-	(54 814)	(54 814)
Balance at 01 July 2018	**47**	**189 003**	**189 050**	**498 806**	**687 856**
Profit for the year	-	-	-	67 190	67 190
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**67 190**	**67 190**
Dividends	-	-	-	(27 790)	(27 790)
Balance at 30 June 2019	**47**	**189 003**	**189 050**	**538 206**	**727 256**
Note	13	13	13		

STATEMENT OF CASH FLOWS

	Note	2019 R '000	2018 Restated* R '000
Cash flows from operating activities			
Cash (utilised by)/generated from operations	25	(62 251)	499 585
Interest income		119 631	125 796
Investment income		12 611	(3 457)
Dividend income		3 966	5 406
Interest paid		(58 956)	(65 659)
Tax paid	26	(24 448)	(17 648)
Payments for financial assets		(91 154)	-
Net cash (utilised in)/from operating activities		**(100 601)**	**544 023**
Cash flows from investing activities			
Payments for acquisition of equipment	4	(155)	(344)
Proceeds from sale of equipment	4	3	17 431
Payments for acquisition of intangible assets	5	(17 197)	(20 286)
Payments for financial assets		(167 032)	(352 821)
Proceeds from sale of financial assets		94 678	146 285
Net cash from investing activities		(89 703)	(209 735)
Cash flows from financing activities			
Dividends paid to company's shareholders		(27 790)	(54 814)
Proceeds on issue of unsecured borrowings		100 000	-
Redemption of unsecured borrowings		(100 000)	-
Net cash from financing activities		**(27 790)**	**(54 814)**
Total cash and cash equivalents movement for the year		**(218 094)**	**279 474**
Cash and cash equivalents at the beginning of the year		1 250 752	966 602
Effect of foreign exchange rate changes on the balance of cash held in foreign currencies		(4 424)	4 676
Total cash and cash equivalents at end of the year	**12**	**1 028 234**	**1 250 752**

*Refer to note 34 for details.

ACCOUNTING POLICIES

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 and Australia.

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

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the company's financial statements are included in the specific notes to which they relate. These policies have been consistently applied to all the years presented, except for the mandatory adoption of IFRS 9 Financial Instruments (IFRS 9) and IFRS 15 Revenue Recognition from Contracts with Customers in the year under review.

1.1 STATEMENT OF COMPLIANCE

The financial statements are prepared in accordance and comply with:

- International Financial Reporting Standards (IFRS);
- the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee;
- Financial Pronouncements as issued by the Financial Reporting Standards Council;
- the Listings Requirements of the JSE Limited; and
- the South African Companies Act 71 of 2008.

1.2 BASIS OF PREPARATION

The annual financial statements have been prepared under the historical cost convention, apart from the revaluation of certain financial assets and liabilities.

Presentation changes made to the annual financial statements in the current year:

- IFRS 9 - As a result of adoption of IFRS 9, the company adopted certain consequential amendments to IAS 1 Presentation of Financial Statements, which requires the disclosure of interest revenue on the effective interest rate method, as well as impairment losses on financial assets held at amortised cost. Refer to note 2 for a detailed assessment.
- IFRS 15 Revenue from Contracts with Customers - The impact on the net results was not material. Refer to note 2 for a detailed assessment.

ACCOUNTING POLICIES (CONTINUED)

1.2 BASIS OF PREPARATION (CONTINUED)

- Segment reporting - The segment reporting information has been aligned to the information used by the chief operating decision makers. 2018 comparative information has been restated.
- Restatement of statement of cash flows - Refer to note 34
- Restatement of statement of financial position - Refer to note 34

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

1.3 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Insurance liabilities under short term insurance contracts

The estimation of provision for outstanding claims and incurred but not reported (IBNR) claims are the most critical accounting estimates. The estimates for reported and unreported losses are continually reviewed and updated and adjustments are reflected in profit or loss. The estimates are based on maximum probable losses payable on claims which are likely to be paid.

Outstanding claims

Guarantee - The outstanding claims reserve is determined using managements discretion. Once a trigger event occurs, management will assess the facility or guarantee with respect to the value of the outstanding guarantees, likelihood of a claim being received and the amount expected to be paid. These items will be influenced by the type of guarantee, the stage of completion of the contract and the company’s financial condition. The following are examples of trigger events; adverse information is received about a company, the company is in business rescue, the company has filed for liquidation or call on the guarantee has been received and is under review.

Partnerships - The outstanding claims reserve is the estimate of all amounts likely to be paid to the policyholder or third party relating to a legitimate claim. Specialist claim staff for the various lines of business will raise the estimates based on all the relevant information available and prior claim experiences. Specialist claim assessors would also be used when necessary. Estimates will be continuously adjusted based on the updated information received until the full and final settlement of the claim. Refer to note 3.2 for details.

IBNR

Provision for IBNR claims is determined based on a set percentage of net written premium for all lines of business except guarantee.

For guarantee 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).

ACCOUNTING POLICIES (CONTINUED)

1.3 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

For partnerships IBNR reserves for the engineering and motor fleet lines of business are calculated using actuarial methods, for the other lines of business in the Partnerships division a percentage of 12-month written premium is used to calculate the IBNR reserves.

The percentages applied differ between the lines of business based on the expected tail of the business as per the table below:

Line of business	IBNR%
Motor warranty	4 %
Property	7 %
Engineering	7 %
Marine	7 %
Liability	22,5 %
Motor	7 %
Personal accident and kidnap and ransom	7 %
Medical gap	7 %

Residual values and useful lives of tangible and intangible assets

Residual values and useful lives of tangible and intangible 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 of 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. Refer to 1.6.

Expected Credit Losses (ECL)

The company makes use of a provision matrix to calculate the impairment loss based on the default rate percentage and a loss given default rate percentage applied to the group of financial assets. The loss given default rate percentage rates is calculated as follows:

- derive the default rates from our own historical credit loss experience and current information; or
- there is an ability to use or sell it; or
- it will generate probable future economic benefits.

The default rate percentages assumed is based on the S&P Global cumulative default rates for one year which shows the probability of default for AAA rated to BBB- and unrated instruments.

1.4 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

Gross premiums written is accounted for as income when the risk relating to the insurance policy commences. This is recognized over the contractual period of risk cover by using an unearned premium provision. All premiums are shown before deduction of commission payable to intermediaries. Premiums written include adjustments to premiums written in prior periods. This also includes premiums received in terms of inward reinsurance arrangements.

Gross premiums exclude value added tax and other foreign indirect taxes. Premiums are earned from the date of attachment of risk, over the indemnity period, based on a time apportionment basis.

ACCOUNTING POLICIES (CONTINUED)

1.4 INSURANCE CONTRACTS (CONTINUED)

Acquisition costs

Expenses for the acquisition of insurance contracts represent commission paid.

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. The provision is included under insurance liabilities on the statement of financial position.

Deferred acquisition cost

Commissions that vary with and are related to securing insurance contracts and renewing existing contracts are deferred over the period in which the related premiums are earned and, recognised as an asset. All other costs are recognised as expenses when incurred. This deferred acquisition cost asset is included with insurance liabilities on the statement of financial position.

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. 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.

Outstanding claims include:

- Outstanding claims reserves (OCR): claims reported but not paid at the valuation date. The OCR claim estimates are based on the most recent information available relating to reported claims that have not been paid. The company has appointed a number of administrators who assess claims on an individual basis, upon notification of a potential claim.
- Incurred but not reported (IBNR): claims relating to events that have occurred but have not yet been reported as at the valuation date

Anticipated reinsurance recoveries are disclosed separately as reinsurance assets.

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 profit or loss. The company gathers the objective evidence that an insurance receivable is impaired by means of monthly reviews and the administrators assessments 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.

ACCOUNTING POLICIES (CONTINUED)

1.4 INSURANCE CONTRACTS (CONTINUED)

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 profit or loss.

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 at the company level 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 profit or loss.

1.5 EQUIPMENT

Equipment is initially measured at cost.

Costs include costs incurred initially to acquire 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 profit or loss during the financial period in which they are incurred.

Equipment is 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	Depreciation method	Average useful life
Motor vehicles	Straight line	5 years
Office furniture	Straight line	10 years
Computer equipment	Straight line	3 years
Aircraft major components	Straight line	4 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively 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.

Depreciation expense has been included in “Expenses for marketing and administration” in the statement of profit or loss.

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.

ACCOUNTING POLICIES (CONTINUED)

1.5 EQUIPMENT (CONTINUED)

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 profit or loss 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.

1.6 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 reassessed 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.

1.7 FINANCIAL INSTRUMENTS

Financial instruments held by the company are as follows:

Financial assets:

- Equity instrument; or
- Debt instrument; or

Financial assets are classified as follows:

- Amortised cost; or
- Designated at fair value through profit or loss.

Financial liabilities:

- Amortised cost; or
- Mandatorily at fair value through profit or loss; or
- Designated at fair value through profit or loss.

The company classifies all equity investments at fair value through profit or loss, except where the company has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income.

ACCOUNTING POLICIES (CONTINUED)

1.7 FINANCIAL INSTRUMENTS (CONTINUED)

The company classify equity investments at fair value through other comprehensive income when those investments are held for purposes other than for trading or to generate investment returns. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value.

Note 3 Risk management presents the financial instruments held by the company based on their specific classifications.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the company is as follows:

1.7.1 Financial assets at fair value through profit and loss

Classification

The company classifies the following financial assets at fair value through profit or loss:

- Listed and unlisted shares;
- Listed and unlisted unit trusts and pooled funds;
- Hedge instruments; and
- Loans – Post commencing financing (PCF).

Recognition and measurement

Financial assets at fair value through profit or loss are recognised when the company becomes a party to the contractual provisions of the instrument. The investments plus transaction costs if any, are measured, at initial recognition, at fair value. All other transaction costs are recognised in profit or loss.

Financial assets not classified at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. In addition, on initial recognition the company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recoginising gains the gains or losses on them on a different basis.

In some cases PCF and related loans are recovered from reinsurers. These PCF and related loans meets the criteria to be classified and measured at amortised cost while the liability to the reinsurer meet the classification and measurement criteria of financial liabilities at fair value through profit or loss. As this will result in an accounting mismatch the company has irrevocably designated these PCF and related loans and the reinsurance liabilities at fair value thorough profit or loss.

Net gains or losses, including any interest or dividend income and foreign exchange gains and losses are recognised in profit or loss.

Dividends received are recognised in profit or loss when the company's right to receive the dividends is established. Dividends are included in investment income (note 19).

1.7.2 Financial instruments at fair value through other comprehensive income

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income, if these financial assets are not designated at fair value through profit or loss.

Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other movements in the carrying amount are taken through other comprehensive income.

ACCOUNTING POLICIES (CONTINUED)

1.7 FINANCIAL INSTRUMENTS (CONTINUED)

1.7.3 Financial asset at amortised cost

The company classifies its loans and receivables at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect contractual cash flows, and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

Loans and receivables are recognised when the company becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

Loans and receivables are carried at amortised cost using the effective interest method, less any expected credit losses.

Prepayments and other receivables are measured at amortised cost. The balances at amortised cost are assessed for impairment charges in terms of the expected credit loss model.

Application of the effective interest method

Interest income is calculated using the effective interest method, and is included in profit or loss in investment income and interest income using the effective interest rate method (note 19).

The application of the effective interest method to calculate interest income on a loan receivable is dependent on the credit risk of the loan as follows:

- The effective interest rate is applied to the gross carrying amount of the loan, provided the loan is not credit impaired. The gross carrying amount is the amortised cost before adjusting for a loss allowance.
- If a loan was not purchased or originally credit-impaired, but it has subsequently become credit-impaired, then the effective interest rate is applied to the amortised cost of the loan in the determination of interest. If, in subsequent periods, the loan is no longer credit impaired, then the interest calculation reverts to applying the effective interest rate to the gross carrying amount.

1.7.4 Impairment of financial assets

The company recognises a loss allowance for expected credit losses on all receivables measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective receivables.

The company measures the loss allowance at an amount equal to lifetime expected credit losses (lifetime ECL) when there has been a significant increase in credit risk since initial recognition. If the credit risk on a receivable has not increased significantly since initial recognition, then the loss allowance for that receivable is measured at 12 month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a receivable. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a receivable that are possible within 12 months after the reporting date.

In order to assess whether to apply lifetime ECL or 12 month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the company considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than evidence of a receivable being credit impaired at the reporting date or of an actual default occurring.

ACCOUNTING POLICIES (CONTINUED)

1.7 FINANCIAL INSTRUMENTS (CONTINUED)

Significant increase in credit risk

In assessing whether the credit risk on a receivable has increased significantly since initial recognition, the company compares the risk of a default occurring on the receivable as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on a receivable is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the company has reasonable and supportable information that demonstrates otherwise.

By contrast, if a receivable is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the receivable has not increased significantly since initial recognition. The risk of default occurring over the expected life of the financial instrument has not increased during the year.

The company monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

Definition of default

For purposes of internal credit risk management purposes, the company consider that a default event has occurred if there is either a breach of financial covenants by the counterparty, or if internal or external information indicates that the counterparty is unlikely to pay its creditors in full (without taking collateral into account).

Irrespective of the above analysis, the company considers that default has occurred when a receivable instalment is more than 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is appropriate. Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company or the debtor goes into liquidation.

Where loans or receivables have been written off, the company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default and loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. The exposure at default is the gross carrying amount of the receivable at the reporting date.

Lifetime ECL is measured on a collective basis in cases where evidence of significant increases in credit risk are not yet available at the individual instrument level. Receivables are then grouped in such a manner that they share similar credit risk characteristics, such as nature of the loan, external credit ratings (if available), industry of counterparty etc.

ACCOUNTING POLICIES (CONTINUED)

1.7 FINANCIAL INSTRUMENTS (CONTINUED)

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the company measures the loss allowance at an amount equal to 12 month ECL at the current reporting date, and visa versa.

An impairment gain or loss is recognised for all loans in profit or loss with a corresponding adjustment to their carrying amount through a loss allowance account. The impairment loss is included in profit or loss as a movement in credit loss allowance (note 22).

Details of credit risk related to receivables are included in the specific notes and the risk management (note 3).

1.7.5 Unsecured borrowings (Financial liability at amortised cost)

Debt instrument issued by the company comprise unsecured subordinated notes. Debt instruments are initially measured at fair value, with subsequent measurement at amortised cost.

Interest accruals are based on effective interest rate method and is recognised as finance costs in the profit or loss.

1.7.6 Payables including reinsurance payables

Financial liabilities are either held at fair value (either required) or at amortised cost. Other payables are classified and measured at amortised cost using the effective interest method.

1.7.7 Financial liabilities at fair value through profit or loss

Financial liabilities are designated to be measured at fair value if in doing so it would eliminate or significantly reduce an accounting mismatch that would otherwise arise where the financial liabilities are managed and their performance evaluated and reported on a fair value basis.

Fair value gains and losses attributable to changes in own credit risk are recognised within other comprehensive income, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within profit or loss.

The changes in fair value attributable to changes in own credit risk which accumulated in equity for financial liabilities which were designated at fair value through profit or loss are not reclassified to profit or loss. Instead, they are transferred directly to retained earnings on derecognition.

1.7.8 Cash and cash equivalents

Cash and cash equivalents are stated at amortised cost which is deemed to be fair value. Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term liquid investments and bank overdrafts.

Impairments on cash and cash equivalents held at amortised cost are measured on a 12 -month expected credit loss basis and reflect the short-term maturities of the exposures. The company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

ACCOUNTING POLICIES (CONTINUED)

1.7 FINANCIAL INSTRUMENTS (CONTINUED)

1.7.9 Derivatives

Derivatives are initially recognised at fair value on the date which the derivative contract is entered into and are subsequently measured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

1.7.10 Derecognition

Financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The company derecognises financial liabilities when, and only when, the company obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

1.7.11 Reclassification of financial assets

Financial assets

The company only reclassifies affected financial assets if there is a change in the business model for managing financial assets. If a reclassification is necessary, it is applied prospectively from the reclassification date. Any previously stated gains, losses or interest are not restated.

The reclassification date is the beginning of the first reporting period following the change in business model which necessitates a reclassification.

Financial liabilities

Financial liabilities are not reclassified.

1.7.12 Fair value hierarchy

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 (CONTINUED)

1.8 FINANCIAL INSTRUMENTS IAS 39 COMPARATIVES (UNTIL 30 JUNE 2018)

Classification

The company classified 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 depended on the purpose for which the financial assets were acquired. Management determined 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.

Financial assets at fair value through profit or loss

Financial assets, other than those held for trading, were classified in this category if they meet one or more of the following criteria set out below at initial recognition, and were 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 were:
- the allocation of fair value measurements into the fair value hierarchy is reflective of the significant inputs used in making the measurements.
- 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. 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 profit or loss. Subsequent to initial recognition, the fair value is remeasured, and gains and losses from changes therein are recognised in investment income unless recognition elsewhere provides better information to the users.

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.

ACCOUNTING POLICIES (CONTINUED)

1.8 FINANCIAL INSTRUMENTS IAS 39 COMPARATIVES (UNTIL 30 JUNE 2018) (CONTINUED)

Financial assets were 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 were 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 were 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 were 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 were carried at amortised cost using the effective yield method.

Available-for-sale financial assets

Available-for-sale financial assets were any non-derivative financial assets designated on initial recognition as available for sale or any other instruments that were 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 were 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 were 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 were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. Loans and receivables were initially recognised at cost, which is the fair value of the consideration given. Subsequently receivables were measured at amortised cost. Impairment is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts were written off in the statement of profit or loss during the year as they were 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 and bank overdrafts.

Other financial liabilities

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

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

ACCOUNTING POLICIES (CONTINUED)

1.8 FINANCIAL INSTRUMENTS IAS 39 COMPARATIVES (UNTIL 30 JUNE 2018) (CONTINUED)

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.

1.9 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 assets/(liabilities) for the current and prior periods are measured at the amount expected to be (paid to)/ recovered from the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Allowance is also made for dividends withholding tax at the rate applicable at the reporting date.

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 and 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.

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 profit or loss, or
- a business combination.

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

1.10 LEASES

Operating leases – lessee

Operating lease payments are recognised as an expense 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 asset is not discounted.

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

ACCOUNTING POLICIES (CONTINUED)

1.11 EMPLOYEE BENEFITS

Provident fund

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

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.

Bonus plan

The short-term incentive (STI) is a scheme for all Lombard staff. A provision is raised based on bonus pay-outs approved by senior management and shareholders. Bonus pay-out are broadly based on divisional ROE metrics as well as individual performance. STI is paid out in October after the financial year end.

The long-term incentive (LTI) scheme is for senior management and key risk-taking staff, and is calculated taking into account total shareholder return (TSR) on a divisional basis for all participants. The LTI operates with a three year window and is paid out in three equal instalments commencing once results have been finalised for the final year of the scheme.

All payments made under the STI and LTI schemes are at the discretion of senior management and the shareholders.

Leave pay provision

The company recognises a liability for the amount of accumulated leave if the company has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be e stimated reliably.

1.12 TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions

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.

ACCOUNTING POLICIES (CONTINUED)

1.13 INVESTMENT INCOME

Interest income using the effective interest rate method

Interest income on debt financial assets is recognised in interest income in terms of the effective interest method. Interest income from these assets is shown as a separate line on the face of the statement of profit or loss and other comprehensive income (combined with interest from financial assets held at amortised cost).

Dividend income

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

1.14 IFRS 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS AND OTHER INCOME

Revenue from contracts with customers includes:

- Management fees
- Aviation income
- Fee income

Revenue is recognised as services are provided at a point in time in terms of the company's contracts with its customers.

NOTES
TO THE FINANCIAL STATEMENTS

1. SEGMENTAL INFORMATION

Segmental reporting has been updated in line with information that is currently reported to management and 2018 segment information was restated on the same basis.

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 profit or loss but does not include items in the statement of financial position. Geographical segmentation has not been reviewed as the majority of the premiums are written in South Africa. The chief operating decision-maker has been identified as the Chief Executive Officer, supported by the company's executive committee.

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 operating segments, which are aggregated as follows:
- Guarantee – is a division that underwrites commercial guarantee, credit and surety insurance lines of business.
- Partnerships – is a division that underwrites more general lines of insurance business.

The performance of insurance activities is based on gross written premium as a measure of growth, with net underwriting result as a 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. CIM is the capital & investment management division. Investment activities are measured based on net investment income.

Segment analysis
Business activity - 30 June 2019

	Gaurantee R '000	Partnerships R '000	CIM R '000	Total R '000
Gross written premium - before UPR movement	733 863	1 284 698	-	2 018 561
Net written premium	359 236	466 807	-	826 043
Net earned premium	345 221	487 423	-	832 644
Net claims incurred	(130 877)	(206 711)	-	(337 588)
Net commission earned	44 446	30 743	-	75 189
Management expenses	(138 591)	(273 971)	(144 442)	(557 004)
Underwriting results	**120 199**	**37 484**	**(144 442)**	**13 241**
Investment income net of management fee and finance costs	6 771	10 348	63 211	80 330
Internal allocations	(71 733)	(38 793)	110 526	-
	55 237	9 039	29 295	93 571

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. SEGMENTAL INFORMATION (CONTINUED)

Segment analysis
Business activity - 30 June 2018

	Gaurantee R '000	Partnerships R '000	CIM R '000	Total R '000
Gross written premium	651 115	1 162 326	-	1 813 441
Net written premium	287 162	411 140	-	698 302
Net earned premium	281 714	371 180	-	652 894
Net claims incurred	(42 402)	(194 389)	-	(236 791)
Net commission earned	41 149	87 781	-	128 930
Management expenses	(127 033)	(251 786)	(124 675)	(503 494)
Underwriting results	**153 428**	**12 786**	**(124 675)**	**41 539**
Investment income net of management fee and finance costs	7 560	22 912	44 557	75 029
Internal allocations	(76 980)	(33 672)	110 652	-
	84 008	**2 026**	**30 534**	**116 568**

For detailed analysis of investment activities refer to notes 7 and 19 of the annual financial statements.

2. NEW STANDARDS AND INTERPRETATIONS

2.1 STANDARDS AND INTERPRETATIONS EFFECTIVE AND ADOPTED IN THE CURRENT YEAR

In the current year, the company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/Interpretation:	Effective date: Years beginning on or after	Summary
• IFRS 9 Financial Instruments	01 January 2018	This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities. It also includes an expected credit loss model that replaces the current incurred loss impairment model.
• IFRS 15 Revenue from Contracts with Customers	01 January 2018	This is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

Discussion of the impact of initial application of changes to standards and interpretations that are effective and adopted by the company.

IFRS 9 - Financial instruments

IFRS 9 was adopted on 1 July 2018. Based on the transitional approach adopted, as permitted by IFRS 9, comparative financial results and disclosures were not restated, refer to note 33 and 34. The assessment of the impact of implementation included the following:

Classification and measurement - Financial assets

- Debt instruments, previously measured at FVPL (fair value through profit and loss), are also measured at FVPL under IFRS 9. A key input in the assessment of the classification of debt instruments held was the business model applied to manage the financial assets.
- Loans and receivables, previously measured at amortised cost, continue to be measured at amortised cost under IFRS 9 as the business model is held to collect cash flows which represent solely payments of principal and interest.
- Equity instruments, previously measured at FVPL, are also measured as FVPL under IFRS 9.

Classification and measurement - Financial liabilities

- The company continues to recognises financial liabilities at amortised cost therefore there will be no impact under IFRS 9.

Hedge Accounting

- Not applicable to the company

Impairment of financial assets

- The financial assets in the company are measured at amortised cost. Insurance and reinsurance receivables are recognised and measured in terms of IFRS 4 Insurance Contracts and the company has not amended its policies for the measurement under IFRS 4. The insurance and reinsurance receivables are therefore excluded from the scope of IFRS 9's expected credit loss (ECL) impairment. The most significant class of financial asset subject to an ECL impairment is financial assets at amortised cost. Applying the ECL model to loans and receivables at amortised costs did have an impact on the additional provisions for impairment.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces both IAS 11 and IAS 18 as well as SIC 31, IFRIC 13, IFRIC 15 and IFRIC 18 and establishes a single, comprehensive framework for revenue recognition.

Its core principle is that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

2.2 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 periods beginning on or after 01 July 2019 or later periods:

Standard/Interpretation:	Effective date: Years beginning on or after	Summary
• IFRS 17 Insurance Contracts	01 January 2022	Impact is currently being assessed, refer below for details.
• IFRS 16 Leases	01 January 2019	Impact is currently being assessed, refer below for details.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

Discussion of the impact of initial application of changes to standards and interpretations that are not yet effective and have not been early adopted by the company.

IFRS 17 – Insurance contracts

The IASB issued IFRS 17 Insurance Contracts in May 2017 and will be effective for annual periods beginning on or after 1 January 2022 (subject to IASB due process). The previous IFRS standard on insurance contracts, IFRS 4, was an interim standard that allowed entities to use a wide variety of accounting practices for insurance contracts, reflecting national accounting requirements and variations of those requirements. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct and reinsurance), regardless of the type of entity that issue these contracts.

In contrast to the requirements of IFRS 4, IFRS 17 provides a comprehensive model (general model) for the measurement of insurance contracts, supplemented by the variable fee approach for contracts with direct participation features and the premium allocation approach applicable mainly for short-duration contracts.

The implementation of IFRS 17 will have financial and operational implications for the company. It is expected that fundamental changes will be required in the following areas:

- Liability measurement
- Data requirements
- Operations and the underlying systems
- Internal and external financial reporting
- Presentation and disclosure

The company implemented an IFRS 17 internal workgroup. Its primary mandate will be to ensure a smooth and practical transition to the new reporting standard and to ensure a structured approach is followed resulting in a successful implementation of the new standard.

IFRS 16 – Leases

In January 2016 the IASB issued IFRS 16 Leases. IFRS 16 replaces IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 has one model for lessees which will result in almost all leases being included in the statement of financial position. Under the new standard, an asset (the right to use the leased item) and the liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

As lessees, the standard will affect primarily the accounting of the company’s operating lease for the rental property it uses. As at the reporting date, the company has non-cancellable operating lease commitments of R40 million. However, the company has not yet finalised the amount of the recognition of the right of use asset and lease liability for future payments and how this affects the company’s profit and classification of cash flows.

The company can either apply the standard using one of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The company is assessing the potential impact of the above-mentioned approaches on the financial results.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 both:

- An underwriter of low frequency, high severity commercial guarantee, credit and surety insurance lines of business and
- An underwriter of risks in the more general lines of insurance business written in company's partnership division.

Significantly, the company's Risk Management Framework takes into account the several classes of insurance business the company underwrites, some of which are written onto the company's insurance licence through binder agreements.

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 for. The guarantee division has appointed a number of administrators who assess claims on an individual basis, upon notification of a potential claim.

It is senior management's responsibility for identifying material risks before or as they emerge. The company's Head of Risk Management assists the Chief Executive Officer and the Board in the identifying and monitoring of the risks of the organisation. Three times a year the company holds a Risk and Compliance Committee 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 identified risks and which also quantifies the potential residual impact this risk would have on the organisation should these risks materialise.

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.

3.2 INSURANCE RISK

The company's insurance risks can be broadly split into the following categories:

- Surety and bond non-life underwriting risks;
- non-life underwriting risks written through binder agreements;
- non-life underwriting risks written by internal divisions; and
- inward reinsurance risks.

The company itself directly issues two distinct types of insurance policies within its surety business.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

The other type of policy issued is in the form of trade credit insurance policy, 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 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.

It is the company's policy to only enter into binder agreements with the underwriting mangers that share its corporate values, and that have a similar approach to managing risks.

The company currently has eight binder agreements in place with the following specialist insurance underwriting management partners. These underwriting partners are listed below as well as the type of risks these underwriting partners write on to the company's licence:

- AMP Motor Warranties, writes motor warranty risks. These risks relate to warranting various motor parts against breakages within a warrantied period.
- Commercial Crime Concepts, writes fidelity insurance risks. These risks relate to the indemnification of employers against the theft of funds by employees.
- Consort this is a specialised insurance underwriting manager that writes engineering insurance risks onto the company's licence. These risks relate to indemnifying its engineering clients against any claim received in respect of engineering services provided, as well as the impact of the failure of engineering products and machinery failing.
- Horizon Marine Underwriting Managers, writes marine related insurance risks. These risks cover all aspects of shipping goods into and out of South Africa.
- Leppard Underwriters, writes professional indemnity and liability insurance risks.
- Motor Acceptances, writes motor risks relating to commercial motor fleets.
- Praesidio, writes personal accident and kidnap and ransom risks.
- Turnberry, writes medical gap health risks.

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 provides policies of guarantee in the construction sector, deferred payment bonds to the Department of Customs and Excise, payment guarantees, mining rehabilitation guarantees, trade credit insurance for both local and export debtor default.

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 the 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 FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

Frequency and severity of claims in the Surety and Bond Non-Life Underwriting Book of Business

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 trade 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 use of reinsurance as a risk mitigation tool relating to the surety and bond non-life underwriting risks

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 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. By spreading the ceded risk across several reinsurers, the risk of failure to recover from reinsurance agreements is reduced.

Claims handing as a mitigation tool in the Guarantee Division

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 company has also commenced providing funding to entities after they entered into business rescue (i.e. Post Commencement Funding). Post commencement funding is being used as a loss-mitigation tool to minimise the extent of a claim by providing a distressed entity with necessary funding to trade-out of business rescue when this appears feasible.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

Concentration risk

The majority of insurance risk is concentrated in Southern Africa (93%), 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. 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 severe.

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.

The highest individual gross exposures are in property, engineering and guarantee as per the table below. These risks are mitigated through proportional and non-proportional reinsurance to get net exposure:

Lines of business	Gross exposure R '000	Net* exposure R '000
Property risk 1	7 931 304	5 000
Property risk 2	3 544 829	5 000
Engineering risk 1	3 043 478	10 000
Engineering risk 2	3 018 683	10 000
Engineering risk 3	2 869 102	10 000
Property risk 3	2 721 000	5 000
Engineering risk 4	2 481 037	10 000
Guarantee risk 1	2 370 000	35 000
Guarantee risk 2	2 320 000	26 000
Guarantee risk 3	2 240 000	32 000

*Net exposure excludes reinstatement premium.

Sources of uncertainty in the estimation of future claim payments relating to surety and bond non-life underwriting risks and the manner this uncertainty is addressed

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 the company in delivering in terms of the guarantee.

The estimated costs of the claims include direct expenses (mainly legal and professional) to be incurred in settling claims. Claim recoveries are only accounted for when received, and are not provided for in the estimation. The company takes 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

In calculating the estimated cost of unpaid claims, the company provides for the most likely cost of settling the claim 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.

Credit and surety IBNR is calculated separately for each of the Guarantee sub-divisions. The IBNR for all sub-divisions is approximated using an ultimate loss ratio method with input from Guarantee Underwriters.

On an underwriting year basis ultimate loss ratios (“ULR%”) are multiplied by earned premium to compute the ultimate loss per underwriting year. This ultimate loss is reduced by claims incurred including claims settlement expenses to compute the IBNR.

The ultimate loss ratio is considered to be the assumption most sensitive to change; therefore a sensitivity analysis is performed. In the Guarantee operations, a 5% additional multiplier loading in the ultimate loss ratio per underwriting year where IBNR already exists would result in an additional charge of approximately R15 million (2018: R11 million) to the net IBNR.

In the engineering operations, a 5% additional loading on the IBNR per underwriting year where IBNR already exists would result in an additional charge of approximately R497 000 (2018: R410 000) to the net IBNR.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

Claims Development - gross claims incurred

The claims development table represent the cumulative development of gross claims incurred for the guarantee book separated into underwriting year cohorts with financial development years:

Underwriting year	Financial year				
	2015 R '000	2016 R '0000	2017 R '000	2018 R '000	2019 R '000
2014	100 837	106 965	111 079	182 433	783 035
2015	-	36 553	33 540	62 792	96 181
2016	-	-	82 975	265 073	283 771
2017	-	-	-	40 675	88 275
2018	-	-	-	-	192 367

The claims development table represent the cumulative development of gross claims incurred for the engineering book separated into underwriting year cohorts with financial development years:

Underwriting year	Financial year				
	2015 R '000	2016 R '000	2017 R '000	2018 R '000	2019 R '000
2014	20 224	57 011	68 927	62 258	62 686
2015	-	96 741	151 926	161 809	166 286
2016	-	-	17 442	61 599	69 299
2017	-	-	-	51 296	89 512
2018	-	-	-	-	18 313

The impact of gross claims on the company is mitigated through the utilisation of proportional and non-proportional reinsurance.

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 or business written through our binder holders.

3.3 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 and equity exposures.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

The following tables reconciles the Statement of Financial Position to the classes and portfolio's used in the company's risk management framework:

3.3.1 Categories of assets

2019

	Note	Fair value through profit or loss R '000	Amortised cost R '000	Insurance contract assets R '000	Other R '000	Total R '000
Financial assets at amortised cost	6	-	762 159	-	-	762 159
Financial assets at fair value through profit or loss	7	452 049	-	-	-	452 049
Reinsurance assets	11	-	-	726 545	-	726 545
Receivables including reinsurance receivables	10	-	-	388 312	80 732	469 044
Cash and cash equivalents	12	-	1 028 234	-	-	1 028 234
		452 049	**1 790 393**	**1 114 857**	**80 732**	**3 438 031**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

Categories of assets

2018

	Note	Fair value through profit or loss R '000	Held to maturity R '000	Loans and receivables R '000	Insurance contract assets R '000	Other assets R '000	Total R '000
Assets							
Financial assets:							
- Preference shares and debt instruments	4	-	11 856	-	-	-	11 856
- Equities	5	197 254	-	-	-	-	197 254
- Unit trusts and pooled funds		284 817	-	-	-	-	284 817
Receivables due from insurance contracts		-	-	405 550	-	-	405 550
Other loans and receivables		-	-	438 991	-	-	438 991
Reinsurance assets		-	-	-	898 610	-	898 610
Cash and cash equivalents		-	-	-	-	1 250 752	1 250 752
		482 071	**11 856**	**844 541**	**898 610**	**1 250 752**	**3 487 830**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

Categories of liabilities

2019

	Note	Fair value through profit or loss - Designated R '000	Amortised cost R '000	Insurance contract liabilities R '000	Total R '000
Payables including reinsurance payables	17	-	58 067	649 357	707 424
Insurance liabilities	11	-	-	1 600 415	1 600 415
Unsecured borrowings		-	202 995	-	202 995
Financial liabilities at fair value	16	16 434	-	-	16 434
		16 434	**261 062**	**2 249 772**	**2 527 268**

2018

	Note	Insurance contract liabilities R '000	Other liaibilities R '000	Total R '000
Liabilities				
Short term insurance contracts	16	1 528 428	-	1 528 428
Trade and other payables		-	547 570	547 570
Unsecured borrowings	14	-	202 147	202 147
Total liabilities		**1 528 428**	**749 717**	**2 278 145**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 or loss 2019	**Level 1 R '000**	**Level 2 R '000**	**Level 3 R '000**	**Total R '000**
Listed - ordinary share	82 931	-	-	82 931
Unlisted - ordinary shares	-	-	101 678	101 678
Listed - unit trust funds and pooled funds	19 393	-	-	19 393
Unlisted - unit trust funds and pooled funds	-	215 523	-	215 523
Loans - PCF	-	-	28 851	28 851
Fair value hedge instrument	3 673	-	-	3 673
	105 997	**215 523**	**130 529**	**452 049**

Financial assets at fair value through profit or loss 2018	**Level 1 R '000**	**Level 2 R '000**	**Level 3 R '000**	**Total R '000**
Listed - ordinary shares	100 758	-	-	100 758
Unlisted - ordinary shares	-	-	96 496	96 496
Unit trust funds and pooled funds	11 648	254 206	-	265 854
Listed - unit trust funds and pooled funds	18 963	-	-	18 963
	131 369	**254 206**	**96 496**	**482 071**

Financial liabilities 2019	**Level 1 R '000**	**Level 2 R '000**	**Level 3 R '000**	**Total R '000**
Financial liabilities through profit or loss	-	-	(16 434)	(16 434)
Unsecured borrowings	-	(202 995)	-	(202 995)
	-	**(202 995)**	**(16 434)**	**(219 429)**

Financial liabilities 2018	**Level 1 R '000**	**Level 2 R '000**	**Level 3 R '000**	**Total R '000**
Unsecured borrowings	-	(202 143)	-	(202 143)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

Included in the Level 1 category are financial assets and liabilities 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 and liabilities 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 and liabilities 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.

The fair value of level 3 financial assets and liabilities are determined using valuation techniques that incorporate assumptions that are not supported by prices from observable current market transactions in the same instruments and are not based on available observable market data.

Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the company. Therefore, unobservable inputs reflect the company's own assumptions about the inputs that market participants would use in pricing the asset and liability. These inputs are developed based on the best information available, which might include the company's own data.

Valuation techniques used in determining the fair value of assets classified within level 3

Instrument	Valuation basis/techniques	Main assumptions
Unlisted Ordinary Shares	Recent arm's length transaction provided by entity	Not applicable
Loans - PCF	Discounted cash flow	Ability to repay debt

Reconciliation of movements in Level 3 financial instruments measured at fair value.

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

Financial assets at fair value through profit or loss	At 1 July 2018	Additions	Fair value through profit or loss	At 1 July 2019
	R '000	R '000	R '000	R '000
Unlisted Ordinary Shares	96 496	-	10 086	106 582
Loans - PCF (net of reinsurance contributions)	-	38 956	(10 105)	28 851

Sensitivity analysis of level 3 assets

The disclosure of a sensitivity analysis on the PCF loans has not been prepared as this value is based on subsequent recoveries received.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

Financial risk management

3.3.2 Credit risk

Credit risk refers to the risk of loss or of adverse change in the financial position resulting, directly or indirectly, from fluctuations in the credit standing of counterparties and any debtors to which shareholders and policyholders are exposed. Credit risk is measured as a function of probability of default (PD), exposure at default (EAD) and the recovery rates (RR) post a default.

Key areas where the company is exposed to credit risk are:

- investments and cash equivalents;
- amounts due from insurance contracts;
- amounts due from reinsurers; and
- other financial assets (loans and receivables).

Credit risk exposure arising on cash and cash equivalents is managed by the company through dealing with well-established financial institutions with high credit ratings.

Concentrations of credit risk with respect to amounts due from insurance contracts is limited due to the company's large number of customers who 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 receivables. The aggregate exposure to credit risk is R 3 232 735 (2018: R 3 005 759).

Reinsurance is used to manage insurance risk and consequently reinsurance assets are raised for expected recoveries on projected claims. This does not, however, discharge the company's liability as primary insurer. In addition, reinsurance debtors are raised for specific recoveries on claims recognised. 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. Exceptions to this are only possible with the approval of the Reinsurance and Risk Transfer Committee.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

The table below indicates the reinsurers used by the guarantee and partnerships division to ensure the losses suffered by the company, remain within the company's risk appetite:

	Treaty Estimated Premium Cession 2019			Treaty Estimated Premium Cession 2018		
Reinsurer	**Guarantee**	**Partnerships**	**2019 *Credit rating**	**Guarantee**	**Partnerships**	**2018 *Credit rating**
Africa Re-SA	-	20 %	A-	-	21 %	A-
Arch Re	7 %	-	A+	8 %	-	A+
AXIS-Deblin/Zurich Branch	4 %	-	A+	6 %	-	A+
CCR Re	-	-	A-	-	-	-
Chubb Tempest Re Bermuda	-	-	AA	-	-	AA
Echo Re, Zurich	-	-	A-	-	-	A-
Endurance (Sompo Endurance)	5 %	1 %	A+	5 %	-	A+
Everest Reinsurance-New Jersey	-	6 %	A+	-	6 %	A+
Everest Reinsurance, Ireland	3 %	-	A+	-	-	-
GIC Re-SA	-	-	BB+	-	-	BB+
Hannover-SA	16 %	5 %	A-	16 %	7 %	A-
Hannover Re-Germany	1 %	-	AA-	1 %	-	AA-
Infiniti	-	-	BB-	-	2 %	BB-
Liberty Mutual (Europe)	7 %	-	A	7 %	-	A
Lloyd's	-	4 %	A+	-	11 %	A+
MS Amlin, Zurich	3 %	-	A	-	-	A
Munich Re-SA	-	15 %	A	-	15 %	A-
One Sure (M&F Risk Fin)	-	-	BB+	-	-	BB+
Partner Re	4 %	-	A+	8 %	-	A+
R&V-Wiesbaden	14 %	15 %	AA-	14 %	2 %	AA-
Santam Re	-	4 %	BB+	-	3 %	BB+
Scor-Local	17 %	8 %	AA-	17 %	8 %	A-
Scor-Paris	1 %	2 %	AA	1 %	2 %	AA-
Sirius International Insurance Corporation Belgian Branch	2 %	-	A	-	-	-
Swiss-Zurich	15 %	-	AA	17 %	-	AA-
Swiss Re-SA	-	10 %	A	-	11 %	A-
Transatlantic Re	-	7 %	A+	-	3 %	A+
WR Berkley	-	3 %	A+	-	7 %	A+
	100 %	100 %		100 %	100 %	

* Rating as per Standard & Poor's Financial Services LLC as at 30 June 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

The following table provides information regarding the aggregated credit risk exposure for financial instruments and insurance contracts:

2019	A R '000	A- R '000	A+ R '000	AA R '000	AA- R '000	BB- R '000	BB+ R '000	BB R '000	Not rated R '000	Total R '000
Receivables due from contract holders	-	-	-	-	-	-	-	87 880	300 432	388 312
Reinsurance assets	55 609	315 260	216 630	262	367 788	1 139	16 609	-	-	973 298
Cash and cash equivalents	-	-	97	-	-	-	140 004	888 107	26	1 028 234
Financial assets at amortised cost	-	-	-	-	24 778*	-	-	-	762 135	762 159
Other loans receivables	-	-	-	-	-	-	-	-	80 732	80 732
	55 609	**315 260**	**216 727**	**262**	**367 788**	**1 139**	**156 613**	**888 107**	**842 893**	**3 232 735**

2018	A+ R '000	BB+ R '000	BB R '000	Not rated R '000	Total R '000
Preference shares and debt instruments	-	-	-	11 856	11 856
Receivables due from contract holders	-	-	98 542	307 008	405 550
Reinsurance assets	-	-	-	898 610	898 610
Cash and cash equivalents	30	87 359	1 163 336	27	1 250 752
Other loans and receivables	-	-	-	438 991	438 991
	30	**87 359**	**1 261 878**	**1 656 492**	**3 005 759**

*The amounts presented above are after providing ECL on the gross carrying receivable. The balance rated AA- has ECL provided for a 12 month basis. Please refer to note 6 where further details of ECL raised on these balances has been provided.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

3.3.3 Impairment of financial assets

Credit loss allowances for expected credit losses are recognised for all debt instruments, but excluding those measured at fair value through profit or loss. Credit loss allowances are also recognised for loan commitments.

To measure the credit loss allowances, management determine whether the loss allowances should be calculated on a 12 month or on a lifetime expected credit loss basis. This determination depends on whether there has been a significant increase in the credit risk since initial recognition. If there has been a significant increase in credit risk, then the loss allowance is calculated based on lifetime expected credit losses. If not, then the loss allowance is based on 12 month expected credit losses. This determination is made at the end of each financial period. Thus the basis of the loss allowance for a specific financial asset could change year on year.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial. The maximum exposure to credit risk is presented in the table below:

		2019			2018		
	Note	**Gross carrying amount R '000**	**Loss allowance R '000**	**Amortised cost/fair value R '000**	**Gross carrying amount R '000**	**Impairment R '000**	**Amortised cost/fair value R '000**
Financial assets at amortised cost	6	778 785	(16 626)	762 159	-	-	-
Cash and cash equivalents	12	1 028 234	-	1 028 234	1 250 752	-	1 250 752
		1 807 019	**(16 626)**	**1 790 393**	**1 250 752**	**-**	**1 250 752**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

3.3.4 Impairment history

The following table provides information regarding the carrying value of receivables due from insurance contracts that have been impaired and the ageing thereof:

		Past due but not impaired						
	Neither past due nor impaired R '000	30 days R '000	60 days R '000	90 days R '000	120 days R '000	Impaired assets R '000	Impairment R '000	Carrying value R '000
As at 30 June 2019								
Receivables due from insurance contracts	244 963	60 479	43 097	23 130	16 643	22 746	(22 746)	388 312
Other loans and receivables	71 619	-	-	-	-	-	-	71 619
	316 582	**60 479**	**43 097**	**23 130**	**16 643**	**22 746**	**(22 746)**	**459 931**

		Past due but not impaired						
	Neither past due nor impaired R '000	30 days R '000	60 days R '000	90 days R '000	120 days R '000	Impaired assets R '000	Impairment R '000	Carrying value R '000
As at 30 June 2018								
Receivables due from insurance contracts	288 421	49 499	46 171	8 075	13 384	13 086	(13 086)	405 550
Other loans and receivables	438 991	-	-	-	-	-	-	438 991
	727 412	**49 499**	**46 171**	**8 075**	**13 384**	**13 086**	**(13 086)**	**844 541**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

3.3.5 Foreign currency risk

The company has entered into derivative contracts to hedge its exposure to foreign currency and equity risk.

The following tables provide information on the company's financial assets and liabilities denominated in foreign currencies converted to ZAR:

	USD R '000	GBP R '000	BWP R '000	NAD R '000	AUD R '000	Other* R '000	Total R '000
As at 30 June 2019							
Receivables due from insurance contracts	-	-	3 218	4 280	11 712	16 534	35 744
Financial assets	65 470	19 393	-	-	-	-	84 863
Cash and cash equivalents	41 212	33 226	-	-	-	10	74 448
	106 682	**52 619**	**3 218**	**4 280**	**11 712**	**16 544**	**195 055**
Exchange rate as at 30 June 2019	**14,0446**	**17,8224**	**1,3019**	**1,0000**	**9,8504**		

	USD R '000	GBP R '000	BWP R '000	NAD R '000	AUD R '000	Other* R '000	Total R '000
As at 30 June 2018							
Receivables due from insurance contracts	-	-	932	4 781	61 414	13 032	80 159
Financial assets	62 800	18 963	-	-	-	-	81 763
Cash and cash equivalents	87 778	32 504	-	-	-	24	120 306
	150 578	**51 467**	**932**	**4 781**	**61 414**	**13 056**	**282 228**
Exchange rate as at 30 June 2018	**13,7345**	**18,0629**	**1,2934**	**1,0000**	**10,1432**		

The table above has been updated to include foreign currency denominated investments after taking the hedges into account
* Other relate to other currencies that the company transacts in that are not significant.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

Exposure in Rand

A 10% strengthening/devaluation in the relevant unhedged foreign currencies against the ZAR at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as for prior year.

	2019 R '000	2018 R '000
10% Increase	(8 314)	(6 749)
10% Decrease	8 314	6 749

3.3.6 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 change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as for prior year.

	2019 R '000	2018 R '000
1% Increase	11 844	11 081
1% Decrease	(11 844)	(11 081)

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.

3.3.7 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 actively hedges it's equity exposure. 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:

	2019 R '000	2018 R '000
Fair value of listed equities	82 931	100 758
10% Increase	8 293	10 076
10% Decrease	(8 293)	(10 076)

The company's listed equity investments are listed on the JSE Limited. For such investments a 10% increase in equity price at reporting date would increase equity and profit or loss by amounts as shown below. A 10% decrease in equity price would have had the equal but opposite effect.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

3.4 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.

3.5 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.

3.6 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. Furthermore, the company's dealings with its regulators are conducted with openness, honesty and integrity.

3.7 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 developed 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 FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

3.8 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. Cash flow forecasts are prepared annually and updated quarterly to ensure that adequate resources are available to meet all obligations.

The following table summarises the contractual repricing or maturity dates (whichever is earlier) for financial assets and liabilities that are subject to fixed and variable interest rates. Insurance contract liabilities are also presented and are analysed by remaining estimated duration until settlement. Insurance and financial liabilities are presented on an undiscounted contractual cash flow basis.

Maturity analysis 2019

	Within 1 year R '000	1 - 5 years R '000	More than 5 years R '000	Open ended R '000	Total R '000
Financial and insurance assets					
Financial assets through profit or loss					
Equity securities					
Quoted	-	-	-	82 931	82 931
Unquoted	-	101 678	-	42 312	143 990
Unit trust and pooled funds					
Listed unit trust and pooled funds	19 393	-	-	-	19 393
Unlisted unit and pooled funds	68 311	65 467	39 433	-	173 211
Debt securities					
PCF loans	28 851	-	-	-	28 851
Fair value hedge instrument	3 673	-	-	-	3 673
Financial assets at amortised cost					
Financial assets at amortised cost	513 483	248 676	-	-	762 159
Insurance assets					
Reinsurance assets (incl DAC)	726 545	246 392	361	-	973 298
Receivables including reinsurance receivables	465 132	3 912	-	-	469 044
Cash and cash equivalents					
Short-term money market instruments	630 079	-	-	-	630 079
Cash and cash equivalents	398 155	-	-	-	398 155
Total financial and insurance assets	**2 853 622**	**666 125**	**39 794**	**125 243**	**3 684 784**
Financial and insurance liabilities					
Financial liabilities through profit or loss	(16 434)	-	-	-	(16 434)
Unsecured borrowings	(102 995)	(100 000)	-	-	(202 995)
Insurance liabilities	(1 216 830)	(381 868)	(1 717)	-	(1 600 415)
Payables including reinsurance payables	(438 477)	(271 512)	-	(421 854)	(1 131 843)
Employee benefits liabilities	(32 843)	(9 318)	-	-	(42 161)
Current tax liabilities	(4 313)	-	-	-	(4 313)
Total financial and insurance liabilities	**(1 811 892)**	**(762 698)**	**(1 717)**	**(421 854)**	**(2 998 161)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

Maturity analysis 2018

	Within 1 year R '000	1 - 5 years R '000	More than 5 years R '000	Open ended R '000	Total R '000
Financial and insurance assets					
Financial assets through profit or loss					
Equity securities					
Quoted	-	-	-	100 758	100 758
Unquoted	-	-	-	96 496	96 496
Held to maturity					
Unquoted	11 856	-	-	-	11 856
Unit trust and pooled funds					
Listed unit trust and pooled funds	18 963	-	-	-	18 963
Unlisted unit trust and pooled funds	123 251	101 712	40 891	-	265 854
Financial assets					
Other receivables	87 772	351 219	-	-	438 991
Insurance assets					
Reinsurance assets (incl DAC)	400 755	497 052	803	-	898 610
Receivables including reinsurance receivables	404 354	1 196	-	-	405 550
Cash and cash equivalents					
Short-term money market instruments	764 342	-	-	-	764 342
Cash and cash equivalents	486 410	-	-	-	486 410
Current tax assets	2 143	-	-	-	2 143
Total financial and insurance assets	**2 299 846**	**951 179**	**41 694**	**197 254**	**3 489 973**
Financial and insurance liabilities					
Unsecured borrowings	(2 147)	(200 000)	-	-	(202 147)
Insurance liabilities	(764 561)	(761 764)	(2 103)	-	(1 528 425)
Payables including reinsurance payables	(404 223)	(178 176)	-	(453 881)	(1 036 280)
Employee benefits liabilities	(65 238)	-	-	-	(65 238)
Total financial and insurance liabilities	**(1 236 169)**	**(1 139 940)**	**(2 103)**	**(453 881)**	**(2 832 093)**

3.9 OPERATIONAL RISK MANAGEMENT

Operational process risk, specifically related to risk in operational transaction processes that may impact service to customers, is an area of key focus and monitored continuously through various risk and control practices.

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 quarterly report to the Board, which includes the key risks identified in the company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

3.10 CAPITAL MANAGEMENT

The company's objectives is to maintain sufficient capital which comprises shareholders' equity and unsecured borrowings to meet its strategic business plan and objectives:

- to comply with the capital requirements set by legislation and regulation imposed by the Prudential Authority. The company currently aims to hold, on the SAM 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. The net insurance liabilities and unsecured borrowings are covered by liquid assets.

3.11 COMPLIANCE AND LEGAL RISK

This is the risk of loss, including legal or regulatory sanctions or damage to reputation resulting from the failure to comply with relevant legal, statutory, supervisory or regulatory requirements; inadequacy, inaccuracy or absence of written agreements or any type of financial crime.

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 a court ruling against the company, all reported claims are provided for at best estimate.

Compliance exposure assessments are carried out within the company with oversight from the Group compliance function to provide the Board with assurance on the status of compliance within the organisation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. EQUIPMENT

	2019			2018		
	Cost R '000	Accumulated depreciation R '000	Carrying value R '000	Cost R '000	Accumulated depreciation R '000	Carrying value R '000
Motor vehicles	530	(530)	-	530	(530)	-
Furniture and equipment*	14 647	(12 565)	2 082	14 501	(11 361)	3 140
Total	**15 177**	**(13 095)**	**2 082**	**15 031**	**(11 891)**	**3 140**

Reconciliation of equipment - 2019

	Opening balance R '000	Additions R '000	Disposals R '000	Depreciation R '000	Closing balance R '000
Furniture and equipment*	3 140	155	(3)	(1 210)	2 082

Reconciliation of equipment - 2018

	Opening balance R '000	Additions R '000	Disposals R '000	Depreciation R '000	Closing balance R '000
Aircraft	18 229	-	(17 431)	(798)	-
Furniture and equipment*	4 248	344	-	(1 452)	3 140
	22 477	**344**	**(17 431)**	**(2 250)**	**3 140**

*Furniture and equipment comprises office furniture and office equipment, computer equipment, helicopter and other parts of equipment.

Depreciation expense has been included in other operating expenses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. INTANGIBLE ASSETS

	2019			2018		
	Cost R '000	Accumulated amortisation R '000	Carrying value R '000	Cost R '000	Accumulated amortisation R '000	Carrying value R '000
Computer software	98 521	(61 530)	36 991	81 323	(51 524)	29 799

Reconciliation of intangible assets - 2019

	Opening balance R '000	Additions R '000	Amortisation R '000	Closing balance R '000
Computer software	29 799	17 197	(10 005)	36 991

Reconciliation of intangible assets - 2018

	Opening balance R '000	Additions R '000	Amortisation R '000	Closing balance R '000
Computer software	19 212	20 286	(9 699)	29 799

Amortisation expense has been included in other operating expenses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 R '000	2018 R '000

6. FINANCIAL ASSETS AT AMORTISED COST

Financial assets at amortised cost are presented at amortised cost, which is net of loss allowance, as follows:

	2019 R '000	2018 R '000
Private equity loans	258 302	-
Other loans receivable	123 191	-
Sundry debtors	16 649	-
Amounts due from related parties (note 29)	364 017	-
	762 159	**-**

Split between non-current and current portions

	2019 R '000	2018 R '000
Non-current assets	248 676	-
Current assets	513 483	-
	762 159	**-**

Exposure to credit risk

Credit loss allowances

The following tables set out the carrying amount, loss allowance and measurement basis of expected credit losses for financial assets at amortised cost:

2019

Instrument	Basis of loss allowance	Gross carrying amount R '000	Loss allowance R '000	Amortised cost R '000
Private equity loans	12m ECL	259 401	(1 099)	258 302
Other loans receivable	12m ECL	124 384	(1 193)	123 191
Sundry debtors	Lifetime ECL	30 630	(13 981)	16 649
Amounts due from related parties	12m ECL	364 370	(353)	364 017
		778 785	**(16 626)**	**762 159**

The transition move in credit risk to lifetime ECL in Sundry Debtor is due to the IGM debtor.

Reconciliation of loss allowances

The following tables show the movement in the loss allowances for financial assets at amortised cost.

	2019 R '000	2018 R '000
Opening balance	-	-
Raised for the period	(16 626)	-
Closing balance	**(16 626)**	**-**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 R '000	2018 R '000

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments held by the company which are measured at fair value through profit or loss are as follows:

	2019 R '000	2018 R '000
Equity investments at fair value through profit or loss	184 609	197 254
Debt investments at fair value through profit or loss	267 440	284 817
	452 049	**482 071**
At fair value through profit or loss (designated):		
Loans - PCF	28 851	-
At fair value through profit or loss:		
Listed shares	82 931	-
Unlisted shares	101 678	-
Unlisted unit trusts and pooled funds	215 523	-
Listed unit trusts and pooled funds	19 393	-
Fair value hedge instrument	3 673	-
	452 049	**-**
Split between non-current and current portions		
Non-current assets	331 821	-
Current assets	120 228	-
	452 049	**-**

8. FINANCIAL ASSETS - COMPARATIVES PER IAS 39

	2019 R '000	2018 R '000
At fair value through profit or loss		
Listed equity securities	-	100 758
Unlisted equity securities	-	96 496
Unlisted unit trusts and pooled funds	-	265 854
Listed unit trusts and pooled funds	-	18 963
	-	**482 071**
Held to maturity		
Unlisted preference shares	-	11 856
Loans and receivables		
Receivables due from insurance contracts	-	405 550
Other loans and receivables	-	438 991
	-	**844 541**
Non-current assets		
Financial assets	-	339 857
Current assets		
Financial assets	-	154 070

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. FINANCIAL ASSETS - COMPARATIVES PER IAS 39 (CONTINUED)

Reconciliation of financial assets - 2018

	Opening balance R '000	Additions R '000	Disposals R '000	Fair value gains R '000	Impairment R '000	Foreign exchange losses R '000	Closing balance R '000
Fair value through profit or loss	251 753	345 973	(124 285)	19 677	-	(11 047)	482 071
Held to maturity	26 315	-	-	-	(14 459)	-	11 856
Loans and receivables	22 000	-	(22 000)	-	-	-	-
	300 068	**345 973**	**(146 285)**	**19 677**	**(14 459)**	**(11 047)**	**493 927**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 R '000	2018 R '000
9. DEFERRED TAX ASSET/(LIABILITY)		
Deferred tax liability		
Intangible assets	(7 048)	(3 840)
Equipment	(266)	(351)
Provision for profit share	(6 094)	(5 874)
Unrealised gains on investments	(16 968)	(17 848)
Total deferred tax liability	**(30 376)**	**(27 913)**
Deferred tax asset		
Provisions	18 062	23 359
Statutory reserves	-	359
Assessed capital loss	-	1 232
Fair value adjustment on PCF loans	10 908	-
Loss allowance for financial assets	2 966	-
Total deferred tax asset	**31 936**	**24 950**

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:

	2019 R '000	2018 R '000
Deferred tax liability	(30 376)	(27 913)
Deferred tax asset	31 936	24 950
Net deferred tax asset/(liability)	**1 560**	**(2 963)**
Reconciliation of deferred tax asset/(liability)		
At beginning of year	(2 963)	7 703
Charge to statement of profit or loss	4 523	(10 666)
At the end of the year	**1 560**	**(2 963)**

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. DEFERRED TAX ASSET/(LIABILITY) (CONTINUED)

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

a) Deferred tax assets

	Loss allowance for financial assets R '000	Assessed capital loss R '000	Provisions R '000	Statutory reserves R '000	Fair value adjustment on PCF loans R '000	Total R '000
As at 30 June 2017	-	-	24 964	5 286	-	30 250
Charged to the statement of profit or loss	-	1 232	(1 605)	(4 927)	-	(5 300)
As at 30 June 2018	**-**	**1 232**	**23 359**	**359**	**-**	**24 950**
As at 30 June 2018	-	1 232	23 359	359	-	24 950
Charged to the statement of profit or loss	2 966	(1 232)	(5 297)	(359)	10 908	6 986
As at 30 June 2019	**2 966**	**-**	**18 062**	**-**	**10 908**	**31 936**

(b) Deferred tax liabilities

	Intangible assets R '000	Equipment R '000	Provision for future income R '000	Satutory reserves R '000	Unrealised gains on investments R '000	Total R '000
As at 30 June 2017	(2 519)	(448)	(4 467)	-	(15 113)	(22 547)
Charged to the statement of profit or loss	(1 321)	97	(1 407)	-	(2 735)	(5 366)
As at 30 June 2018	**(3 840)**	**(351)**	**(5 874)**	**-**	**(17 848)**	**(27 913)**
As at 30 June 2018	(3 840)	(351)	(5 874)	-	(17 848)	(27 913)
Charged to the statement of profit or loss	(3 208)	85	(220)	-	880	(2 463)
As at 30 June 2019	**(7 048)**	**(266)**	**(6 094)**	**-**	**(16 968)**	**(30 376)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 R '000	2018 R '000
10. RECEIVABLES INCLUDING REINSURANCE RECEIVABLES		
Receivables due from insurance contracts		
Due from insurance contracts	374 491	391 599
Impairment provision	(22 746)	(13 086)
Due from reinsurance contracts	36 567	27 037
	388 312	405 550
Other loans and receivables		
Amounts due from related parties (note 29)	-	184 535
Prepaid expenses	2 210	501
VAT	18 141	6 245
Fair value hedge instrument	-	(2 192)
Private equity loans	-	167 226
Other receivables	60 381	82 676
	469 044	**844 541**
Split between non-current and current portions		
Non-current assets	3 912	352 415
Current assets	465 132	492 126
	469 044	**844 541**

As a result of applying IFRS 9, sundry debtors at amortised cost, private equity loans and amounts due from related parties have been reclassified to Note 6 financial asset at amortised cost and fair value hedge instruments has been reclassified to Note 7 financial assets at fair value through profit or loss.

Reconciliation of provision for impairment of receivables due from insurance contracts

Opening balance	(13 086)	(11 542)
Provision utilised/(raised) in the period	(9 660)	(1 544)
Closing balance	**(22 746)**	**(13 086)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 R '000	2018 R '000
11. INSURANCE LIABILITIES AND REINSURANCE ASSETS		
Gross		
Outstanding claims reserve	792 183	763 605
Claims incurred but not reported	332 072	321 567
Unearned premium reserve	542 807	505 992
Deferred acquisition costs	(66 647)	(62 736)
Total insurance liabilities	1 600 415	1 528 428
Recoverable from reinsurers		
Outstanding claims reserve	(541 803)	(537 629)
Claims incurred but not reported	(234 352)	(207 132)
Unearned premium reserve	(255 888)	(212 533)
Deferred reinsurance commission	58 745	58 684
Total reinsurers' share of insurance liabilities	(973 298)	(898 610)
Net		
Outstanding claims reserve	250 380	225 976
Claims incurred but not reported	97 720	114 435
Unearned premium reserve	286 919	293 459
Deferred acquisition costs	(66 647)	(62 736)
Deferred reinsurance commission	58 745	58 684
Total net insurance liabilities	627 117	629 818
Current asset	726 545	400 755
Current liability	(1 216 830)	(764 561)
Total net current (liability)/asset	**(490 285)**	**(363 806)**
Non-current asset	246 753	497 855
Non-current liability	(383 585)	(763 867)
Total net non-current (liability)/asset	**(136 832)**	**(266 012)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. INSURANCE LIABILITIES AND REINSURANCE ASSETS (CONTINUED)

Analysis of movement in insurance liabilities and reinsurance assets	Gross R '000	Reinsured R '000	Net R '000
As at 30 June 2018			
Outstanding claims reserve	763 605	(537 629)	225 976
Incurred but not reported	321 567	(207 132)	114 435
Unearned premium reserve	505 992	(212 533)	293 459
Deferred acquisition costs	(62 736)	-	(62 736)
Deferred reinsurance commission	-	58 684	58 684
	1 528 428	(898 610)	629 818
Claims paid during the year (note 21)	(1 513 421)	1 183 526	(329 895)
Increase in outstanding claim reserves	1 541 972	(1 189 348)	352 624
Increase in incurred but not reported reserve	10 532	(27 251)	(16 719)
Increase in unearned premium reserve	36 835	(46 471)	(9 636)
Increase in deferred acquisition costs	(3 858)	-	(3 858)
Increase in deferred reinsurance commission	-	77	77
Foreign currency adjustment	(73)	67	(6)
As at 30 June 2019	**1 600 415**	**(978 010)**	**622 405**
Balance as at 30 June 2019 is made up as follows:			
Outstanding claims reserve	792 183	(541 803)	250 380
Incurred but not reported	332 072	(234 352)	97 720
Unearned premium reserve	542 807	(255 888)	286 919
Deferred acquisition costs	(66 647)	-	(66 647)
Deferred reinsurance commission	-	58 745	58 745
	1 600 415	**(973 298)**	**627 117**
As at 30 June 2017			
Outstanding claims reserve	425 942	(238 086)	187 856
Incurred but not reported	386 394	(261 764)	124 630
Unearned premium reserve	453 367	(205 314)	248 053
Deferred acquisition costs	(51 379)	-	(51 379)
Deferred reinsurance commission	-	54 841	54 841
	1 214 324	(650 323)	564 001
Claims paid during the year (note 21)	(665 172)	456 308	(208 864)
Increase in outstanding claim reserves	1 002 836	(755 857)	246 979
(Decrease) incurred but not reported reserve	(64 828)	54 638	(10 190)
Increase in unearned premium reserve	52 625	(7 219)	45 406
Deferred acquisition costs	(11 357)	-	(11 357)
Deferred reinsurance commission	-	3 843	3 843
As at 30 June 2018	**1 528 428**	**(898 610)**	**629 818**
Balance as at 30 June 2018 is made up as follows:			
Outstanding claims reserve	763 605	(537 629)	225 976
Incurred but not reported	321 567	(207 132)	114 435
Unearned premium reserve	505 992	(212 533)	293 459
Deferred acquisition costs	(62 736)	-	(62 736)
Deferred reinsurance commission	-	58 684	58 684
	1 528 428	**(898 610)**	**629 818**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 R '000	2018 R '000
12. CASH AND CASH EQUIVALENTS*		
Cash and cash equivalents consist of:		
Cash on hand	26	27
Bank balances	398 129	486 383
Short-term deposits	630 079	764 342
	1 028 234	**1 250 752**

*Restated, refer to note 34 for details.

13. SHARE CAPITAL AND SHARE PREMIUM

	2019 R '000	2018 R '000
Authorised		
10,000,000 Ordinary shares of 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.

14. UNSECURED BORROWINGS

	2019 R '000	2018 R '000
Unsecured subordinated notes	200 000	200 000
Interest accrued	2 995	2 147
	202 995	**202 147**

In November 2014, the company issued R200 million unsecured subordinated notes under a R1 billion notes programme listed on the JSE (Johannesburg Stock Exchange). Interest is based on 4,75% above 3 months JIBAR which was at 7,133% at 30 June 2019 (2018: 7,125%) for this instrument. On 30 January 2019, R100 million was redeemed and reissued in a capital switch. The reissued R100 million subordinated notes has a rate of 3,95% above 3 months JIBAR which was 7,158% at 30 June 2019. The redemption date for the notes issued in November 2014 is 25 November 2019 while the redemption date for the notes issued in January 2019 is 30 January 2024.

Refer to note 23 for details of the Tier II finance cost.

	2019 R '000	2018 R '000
Split between non-current and current portions		
Non-current liabilities	100 000	200 000
Current liabilities	102 995	2 147
	202 995	**202 147**

15. EMPLOYEE BENEFIT PROVISIONS

	2019 R '000	2018 R '000
Bonus provision - STI	25 869	44 312
Bonus provision - LTI	9 318	15 001
Leave pay provision	6 974	5 925
	42 161	**65 238**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. EMPLOYEE BENEFIT PROVISIONS (CONTINUED)

Reconciliation of employee benefit provisions - 2019

	Opening balance R '000	Raised R '000	Utilised during the year R '000	Closing balance R '000
Bonus provision	59 313	34 913	(59 039)	35 187
Leave pay provision	5 925	4 267	(3 218)	6 974
	65 238	**39 180**	**(62 257)**	**42 161**

Reconciliation of employee benefit provisions - 2018

	Opening balance R '000	Raised R '000	Utilised during the year R '000	Closing balance R '000
Bonus provision	68 992	46 919	(56 598)	59 313
Leave pay provision	5 668	1 027	(770)	5 925
	74 660	**47 946**	**(57 368)**	**65 238**

A performance related bonus is raised at financial year end for the benefit of employees. Majority of the bonus is paid annually in October.

The leave pay liability is calculated based on leave days accumulated by employees.

	2019 R '000	2018 R '000

16. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

At fair value through profit/(loss)		
Reinsurance liability - PCF loan	16 434	-

17. PAYABLES INCLUDING REINSURANCE PAYABLES*

Payables due to insurance contracts		
Payables under reinsurance contracts	616 996	481 759
Trade payables	32 361	26 405
Collateral payables	421 854	453 881
	1 071 211	962 045
Other payables		
Sundry creditors	29 064	62 296
Amounts due to related parties (note 29)	23 230	8 421
Accrued expense	8 338	3 518
	1 131 843	**1 036 280**
Split between non-current and current portions		
Non-current liabilities	693 366	632 057
Current liabilities	438 477	404 223
	1 131 843	**1 036 280**

*Restated, refer to note 34 for details.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 R '000	2018 R '000
18. NET INSURANCE PREMIUM REVENUE		
Insurance contracts		
- gross written premium	2 018 561	1 813 441
- change in unearned premium provision	(36 835)	(52 625)
Insurance premium revenue	**1 981 726**	**1 760 816**
Reinsurance contracts		
- reinsurance premium	(1 192 518)	(1 115 139)
- change in unearned premium provision - reinsurers' portion	43 436	7 217
Insurance premium revenue ceded to reinsurers	**(1 149 082)**	**(1 107 922)**
Net insurance premium revenue	**832 644**	**652 894**

19. INVESTMENT INCOME AND INTEREST INCOME USING THE EFFECTIVE INTEREST RATE METHOD*

	2019 R '000	2018 R '000
Investment income		
Dividend income on financial assets	3 966	5 406
Fair value movement on financial assets	(5 787)	23 326
Fair value movement on hedge instruments	8 092	(9 585)
Foreign exchange differences on financial assets	6 713	(365)
REIT income	6	-
Cash and cash equivalents interest income	-	65 280
Held-to-maturity interest income	-	27 383
Loans and receivables interest income	-	33 133
Other income - REIT	-	138
	12 990	**144 716**
Interest income using the effective interest rate method		
Interest income - loans	37 024	-
Interest income - deposits	54 057	-
Interest income - loans and receivables	28 058	-
Interest income - reinsurance	492	-
	119 631	-
Total	**132 621**	**144 716**

*Restated, refer to note 34 for details.

20. OTHER OPERATING INCOME

	2019 R '000	2018 R '000
Other income	7 326	7 608
(Loss)/profit on disposal of equipment	-	2 331
Aviation income	2 136	3 854
	9 462	**13 793**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 R '000	2018 R '000
21. NET INSURANCE CLAIMS		
Current year claims paid	(1 513 421)	(665 172)
Movement in incurred but not reported provision	(10 532)	64 828
Movement in outstanding claims provision	(28 885)	(337 660)
Insurance claims incurred	**(1 552 838)**	**(938 004)**
Recoveries from reinsurers	1 183 526	456 308
Reinsurers' portion of incurred but not reported provision	27 251	(54 638)
Reinsurers' portion of outstanding claims provision	4 473	299 543
Insurance claims recovered from reinsurers	**1 215 250**	**701 213**
Net insurance claims	**(337 588)**	**(236 791)**

22. OTHER OPERATING EXPENSES*

	2019 R '000	2018 R '000
Amortisation	10 005	9 699
Auditors remuneration - external audit	4 957	3 911
Internal audit fees	1 930	1 809
Depreciation	1 210	2 250
Profit share	39 678	24 328
Foreign exchange difference	2 536	103
Information expenses	7 527	18 427
Travel and accommodation	6 165	5 314
Corporate social investment	6 160	5 265
Directors remuneration	22 793	20 508
Employee costs - salaried staff	162 817	162 594
Interest expense	38 794	45 937
Lease rentals on operating lease	13 891	15 312
Consulting and professional fees	23 293	19 200
Repairs and maintenance	1 039	3 293
Information technology costs	14 751	-
Provision for doubtful debt	9 660	-
Other expenses	10 211	30 366
	377 417	**368 316**

*Restated, refer to note 34 for details.

23. FINANCE COSTS

	2019 R '000	2018 R '000
Interest expense - unsecured borrowings	24 855	23 514
Interest expense - other	1 698	-
Total finance costs	**26 553**	**23 514**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 R '000	2018 R '000
24. TAXATION		
Major components of the tax expense		
Current		
Local income tax - current period	28 242	17 705
Foreign income or withholding tax - current period	2 662	1 834
	30 904	**19 539**
Deferred	(4 523)	10 666
Originating and reversing temporary differences	**26 381**	**30 205**
Reconciliation of the tax expense		
Reconciliation between applicable tax rate and average effective tax rate:		
Applicable tax rate	28,00 %	28,00 %
Foreign withholding taxes	0,06 %	(0,57)%
Prior year under-provision	-	(0,66)%
Exempt dividend income	(1,18)%	(0,93)%
Capital gain taxed at CGT rate	(0,77)%	(0,68)%
Non-deductible expenses - capital in nature	0,08 %	0,20 %
Non-deductible donations	0,53 %	0,36 %
Other non-deductible expenses	1,48 %	0,19 %
	28,20 %	**25,91 %**
25. CASH (UTILISED BY)/GENERATED FROM OPERATIONS*		
Profit before taxation	93 571	116 568
Adjustments for:		
Depreciation and amortisation	11 215	11 949
Interest income	(119 631)	-
Investment income	(12 990)	(144 716)
Finance costs	26 553	23 514
Net realised (losses)/gains on financial assets at fair value through profit or loss	(14 845)	3 665
Movement in loss allowances	16 794	-
Impairment of financial assets	-	14 459
Reclassification of financial assets	-	98 542
Movement in net technical provisions	-	65 817
Movement in reinsurance assets	(58 254)	-
Movement in insurance liabilities - Outstanding claims reserve	28 578	-
Movement in insurance liabilities - Incurred but not reported	10 505	-
Movement in insurance liabilities - Unearned premium reserve	36 815	-
Movement in insurance liabilities - Deferred acquisition costs	(3 911)	-
Changes in working capital:		
Receivables including reinsurance receivables	(182 388)	230 422
Payables including reinsurance payables*	105 737	79 365
	(62 251)	**499 585**

*Restated, refer to note 34 for details.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 R '000	2018 R '000
26. TAX PAID		
Balance at beginning of the year	2 143	4 034
Current tax for the year recognised in profit or loss	(30 904)	(19 539)
Balance at end of the year	4 313	(2 143)
	(24 448)	**(17 648)**
27. OPERATING LEASE COMMITMENTS		
Operating leases – as lessee		
Minimum lease payments due		
- within one year	7 734	12 036
- in second to fifth year inclusive	32 567	40 315
	40 301	**52 351**

The company entered into a 5-year lease agreement with Azuraworx Proprietary Limited c/o Alchemy to lease the building situated on 22 Wellington Road, Parktown with effect from 1 August 2019. The lease is subject to a 7% annual escalation rate. Operating lease payments represent rentals payable by the company for its office properties. No contingent rent is payable.

28. 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 2019, the provident fund had accumulated funds of R81 249 107 (2018 : R67 408 679).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. 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 Simply Financial Services Proprietary Limited Praesidio Risk Managers Proprietary Limited Turnberry Risk Management Solutions Proprietary Limited Turnberry Management Services Proprietary Limited Commercial Crimes Proprietary Limited LomShelf01 Proprietary Limited Lomvest Proprietary Limited Firefly Investments 301 Proprietary Limited Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency Relyant Insurance Company Limited Luzocode (RF) Proprietary Limited Stone Land Case 11 Proprietary Limited BrightRock Holdings Proprietary Limited BrightRock Proprietary Limited BrightRock Life Proprietary Limited .Explore Software Proprietary Limited Harvey Premium Guarantee Proprietary Limited Lombard Australia Holdings Proprietary Limited DP Bonds 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 Africa 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% (2018: 19,87%), Lombard Consolidated Proprietary Limited – 49,63% (2018: 49,63%), IVM Intersurer BV – 30,00% (2018: 30,00%) and CG Japhet – 0,50% (2018: 0,50%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 R '000	2018 R '000
29. RELATED PARTIES (CONTINUED)		
Related party balances		
Amounts due from related parties		
Fees due from related party		
Consort Technical Underwriters Proprietary Limited	65	-
Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency	46	-
	111	**-**
Interest bearing loan		
Leppard & Associates Proprietary Limited	28 136	-
Lombard Consolidated Proprietary Limited	76 411	-
Simply Financial Services Proprietary Limited	11 250	-
	115 797	**-**
Interest free loan		
LomHold Proprietary Limited	209 774	-
Stoneland Case 11 Proprietary Limited	24 120	-
	233 894	**-**
Profit share provision		
Leppard & Associates Proprietary Limited	13 838	-
Motor Funding Underwriting Managers Proprietary Limited	730	-
	14 568	**-**
Amounts due to related parties		
Fees due		
Commercial Crimes Concept Proprietary Limited	(276)	-
Horizon Underwriting Management Services Proprietary Limited	(2 935)	-
Motor Funding Underwriting Managers Proprietary Limited	(487)	-
Praesidio Risk Managers Proprietary Limited	(1 106)	-
Turnberry Management Services Proprietary Limited	(1 594)	-
	(6 398)	**-**
Profit share provision		
Commercial Crimes Concept Proprietary Limited	(1 137)	-
Consort Technical Underwriters Proprietary Limited	(4 170)	-
Horizon Underwriting Management Services Proprietary Limited	(353)	-
Praesidio Risk Managers Proprietary Limited	(1 392)	-
Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency	(9 157)	-
Turnberry Management Services Proprietary Limited	(623)	-
	(16 832)	**-**

The loan to Leppard & Associates bears interest at prime + 1% and is repayable on 31 October 2020.
The loan to Lombard Consolidated bears interest at the Standard Bank of South Africa call and is repayable on 30 June 2034.
The loan to Simply Financial Services bears interest at prime and is repayable on 30 September 2023.
The loan to LomHold is repayable on demand.
The loan to Stoneland Case 11 has no repayment terms.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 R '000	2018 R '000
29. RELATED PARTIES (CONTINUED)		
Amounts included in payables including reinsurance payables regarding related parties*		
Consort Technical Underwriting Managers Proprietary Limited	-	1 637
Horizon Underwriting Managers Proprietary Limited	-	2 226
Praesidio Risk Managers Proprietary Limited	-	2 527
Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency	-	1 984
Turnberry Management Services Proprietary Limited	-	47
	-	**8 421**
*Majority of the amounts relates to profit share provision.		
Amounts included in receivables including reinsurance receivables regarding related parties*		
BrightRock Proprietary Limited	-	460
Commercial Crimes Proprietary Limited	-	330
Leppard & Associates Proprietary Limited	-	13 063
Lombard Consolidated Proprietary Limited	-	68 698
LomHold Proprietary Limited	-	55 049
Motor Funding Underwriting Managers Proprietary Limited	-	819
Simply Financial Services Proprietary Limited	-	20 103
Stoneland Case 11 Proprietary Limited	-	26 013
	-	**184 535**
*Majority of the amounts relates to loans.		
Related party transactions		
Amounts paid to related parties		
Management fees paid		
Commercial Crimes Concept Proprietary Limited	(6 083)	-
Consort Technical Underwriters Proprietary Limited	(32 321)	-
Horizon Underwriting Management Services Proprietary Limited	(27 783)	-
Leppard & Associates Proprietary Limited	(42 780)	-
Motor Funding Underwriting Managers Proprietary Limited	(9 714)	-
Praesidio Risk Managers Proprietary Limited	(6 787)	-
Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency	(557)	-
Turnberry Management Services Proprietary Limited	(19 774)	-
	(145 798)	**-**
Partner commission		
Consort Technical Underwriters Proprietary Limited	(1 537)	-
Horizon Underwriting Management Services Proprietary Limited	(267)	-
Motor Funding Underwriting Managers Proprietary Limited	(25)	-
	(1 829)	**-**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 R '000	2018 R '000
29. RELATED PARTIES (CONTINUED)		
Profit share paid		
Commercial Crimes Concept Proprietary Limited	(1 541)	-
Consort Technical Underwriters Proprietary Limited	(19 224)	-
Horizon Underwriting Management Services Proprietary Limited	(4 343)	-
Leppard & Associates Proprietary Limited	(3 646)	-
Motor Funding Underwriting Managers Proprietary Limited	(2 269)	-
Praesidio Risk Managers Proprietary Limited	(306)	-
Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency	(9 897)	-
Turnberry Management Services Proprietary Limited	(2 202)	-
	(43 428)	**-**
Amounts received from related parties		
Interest received on loan		
Consort Technical Underwriters Proprietary Limited	605	-
Lombard Consolidated Proprietary Limited	4 280	-
Simply Financial Services Proprietary Limited	1 320	-
	6 205	**-**
Management fees received		
Brightrock Proprietary Limited	2 340	-
Partner commission		
Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency	40	-
Amounts received from related parties*		
BrightRock Holdings Proprietary Limited	-	5 392
BrightRock Proprietary Limited	-	4 725
Lombard Consolidated Proprietary Limited	-	4 127
Simply Financial Services Proprietary Limited	-	1 097
	-	**15 341**

*Majority of the amounts relates to interest received on loans.

	2019 R '000	2018 R '000
Amounts paid to related parties*		
Commercial Crime Concepts Proprietary Limited	-	5 853
Consort Technical Underwriting Managers Proprietary Limited	-	42 673
Horizon Underwriting Managers Proprietary Limited	-	36 597
Leppard & Associates Proprietary Limited	-	44 705
IVM Intersurer BV	-	2 046
Motor Funding Underwriting Managers Proprietary Limited	-	9 951
Praesidio Risk Managers Proprietary Limited	-	5 040
Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency	-	19 194
Turnberry Management Services Proprietary Limited	-	16 753
	-	**182 812**

*Majority of the amounts relates to management fees paid.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

2019

	For services as director R '000	Salary R '000	Bonuses and performance related payments R '000	Pension contributions under any pension scheme, not otherwise disclosed R '000	Total R '000
ML Japhet	1 150	-	-	-	1 150
PJ Orford	-	2 957	5 329	421	8 707
RJ Symmonds	3 306	79	3 329	2	6 716
GJM Carlin	250	-	-	-	250
CE Backeberg	250	-	-	-	250
AC Magwentshu	250	-	-	-	250
A Pienaar	-	-	-	-	-
DM Donaldson	-	1 996	3 178	296	5 470
	5 206	**5 032**	**11 836**	**719**	**22 793**

2018

	For services as director R '000	Salary R '000	Bonuses and performance related payments R '000	Pension contributions under any pension scheme, not otherwise disclosed R '000	Total R '000
ML Japhet	1 111	-	-	-	1 111
PJ Orford	-	2 956	4 210	462	7 628
RJ Symmonds	2 980	393	4 189	2	7 564
GJM Carlin	250	-	-	-	250
CE Backeberg	250	-	-	-	250
AC Magwentshu	250	-	-	-	250
A Pienaar	-	-	-	-	-
DM Donaldson	-	1 951	1 187	317	3 455
	4 841	**5 300**	**9 586**	**781**	**20 508**

31. 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.

32. EVENTS AFTER THE REPORTING PERIOD

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

33. CHANGES IN ACCOUNTING POLICY

Application of IFRS 9 Financial Instruments

In the current year, the company has applied IFRS 9 and the related consequential amendments to other IFRSs. IFRS 9 replaces IAS 39 and introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. Details of these new requirements as well as their impact on the company's financial statements are described below.

The company has applied IFRS 9 prospectively in accordance with the transition provisions set out in IFRS 9.

Classification and measurement of financial assets

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The measurement requirements are summarised below:

Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost.

All other debt investments and equity investments are subsequently measured at fair value through profit or loss, unless specifically designated otherwise.

The company may irrevocably designate a debt investment that meets the amortised cost criteria as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments that are subsequently measured at amortised cost are subject to new impairment provisions using an expected loss model. This contrasts the incurred loss model of IAS 39.

The directors reviewed and assessed the company's existing financial assets as at 01 July 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had an impact on the company's financial assets with regards to their classification and measurement.

Classification and measurement of financial liabilities

A change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at fair value through profit or loss attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. CHANGES IN ACCOUNTING POLICY (CONTINUED)

Please refer to table below for a summary of the reclassification of financial assets as a result of adopting IFRS 9.

	Classification under IAS 39	Measurement under IAS 39	Classification and measurement under IFRS 9	Impact	Carrying value
Listed and unlisted equity securities	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	No material impact	197 254
Listed and unlisted unit trusts and pooled funds	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	No material impact	284 817
Cash and cash equivalents	Amortised cost	Amortised cost	Amortised cost	No material impact	762 042
Receivables including reinsurance receivables	Loans and receivables	Amortised cost	Amortised cost	No material impact	844 541
Unsecured borrowings	Amortised cost	Amortised cost	Amortised cost	No impact	202 450

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. RESTATEMENT

As part of management's consideration of the way in which the investments are managed was assessed. It was concluded that it is more appropriate to classify the cash flows relating to related party loans which have previously been included as part of receivables including reinsurance receivables in the note of cash generated/(utilised) from operations to investing activities. This change in classification has resulted in a R6.8 million restatement of prior year. The acquisition of and proceeds from sales relating to strategic investments, equity and specific debt portfolios remain as part of investing activities as these portfolios are not considered part of the operations of the business. In addition, management amended the starting point for note 25 from results of operating activities to profit before tax which resulted in a restatement of prior year presentation.

Interest paid which was previously erroneously included in the note for cash (used in)/generated from operations line item has now been presented on the statement of cash flow. Comparative numbers have been restated.

Investment income has now been split into interest income using the effective interest rate method and investment income.

The correction of the error(s) results in adjustments as follows:

	2018 Issued R '000	2018 Restatement R '000	2018 Restated R '000
Statement of Cash Flows			
Cash flows from operating activities			
Cash generated/(utilised) from operations	452 380	30 362	482 742
Interest paid	-	(23 817)	(23 817)
Interest income	-	83 954	83 954
Investment income	-	(3 457)	(3 457)
Finance income	80 497	(80 497)	-
Cash flows from investing activities			
Payments for financial assets	(345 973)	6 848	(352 821)
Cash flows from financing activities			
(Decrease)/increase in borrowings	(303)	303	-
Note to the Cash flow statement			
Cash generated from/(utilised in) operations			
Result of operating activities	140 082	(140 082)	-
Profit before taxation	-	116 568	116 568
Adjustments for:			
Interest income	-	(83 954)	(83 954)
Investment income	(102 874)	83 954	(18 920)
Finance cost	(23 514)	47 028	23 514
Changes in working capital:			
Receivables including reinsurance receivables	223 574	6 848	230 422

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. RESTATEMENT (CONTINUED)

IFRS 7 Financial Instruments Disclosures: requires that a maturity analysis be presented in respect of financial liabilities. IFRS 4 requires the same analysis for insurance liabilities. The disclosure was not provided in 2018. In preparing a maturity analysis for the current year financial and insurance contract liabilities, it became evident that these liabilities include current and non-current liabilities. The majority of the non-current liabilities related to insurance liabilities. In order to avoid any mismatch of reinsurance assets, the same maturity analysis was performed. The maturity analysis was extended to all financial assets and has resulted in some financial assets being classified between current and non-current assets. This change in classification of financial assets and liabilities between current and non-current has resulted in a restatement of prior year presentation.

The correction of the error(s) results in adjustments as follows:

	2018 Issued R '000	2018 Restatement R '000	2018 Restated R '000
Statement of Financial Position			
Non-Current Assets			
Financial assets	493 927	(154 070)	339 857
Receivables including reinsurance receivables	-	352 415	352 415
Reinsurance assets	-	497 855	497 855
Current Assets			
Financial assets	-	154 070	154 070
Receivables including reinsurance receivables	844 541	(352 415)	492 126
Reinsurance assets	898 610	(497 855)	400 755
Non-Current Liabilities			
Insurance liabilities	-	763 867	763 867
Payables including reinsurance payables	-	178 176	178 176
Current Liabilities			
Insurance liabilities	1 528 428	(763 867)	764 561
Payables including reinsurance payables	547 570	(178 176)	369 394

	2017 Issued R '000	2017 Restatement R '000	2017 Restated R '000
Statement of Financial Position			
Non-Current Assets			
Financial assets	300 068	(48 326)	251 742
Receivables including reinsurance receivables	-	200 672	200 672
Reinsurance assets	-	276 814	276 814
Current Assets			
Financial assets	-	48 326	48 326
Receivables including reinsurance receivables	1 166 657	(200 672)	965 985
Reinsurance assets	650 323	(276 814)	373 509
Non-Current Liabilities			
Employee benefit provisions	-	20 744	20 744
Insurance liabilities	-	429 932	429 932
Payables including reinsurance payables	-	133 424	133 424
Current Liabilities			
Employee benefit provisions	74 660	(20 744)	53 916
Insurance liabilities	1 214 324	(429 932)	784 392
Payables including reinsurance payables	517 468	(133 424)	384 044

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. RESTATEMENT (CONTINUED)

In prior year, the company netted off cash collateral collected from clients with the corresponding liability. In the current year, the company has assessed its netting off treatment and corrected this treatment in the current year as well as its restating comparative information. As a result, collateral cash has been disclosed under cash collateral and the corresponding liability under payable. In addition, the corresponding interest received and interest expense is disclosed separately on the statement of profit or loss and other comprehensive income and the statement of cashflow.

The correction of the error(s) results in adjustments as follows:

	2018 Restated* R '000	2018 Restatement R '000	2018 Restated R '000
Statement of Cash Flows			
Cash flows from operating activities			
Cash generated/(utilised) from operations	482 742	16 843	499 585
Interest paid	(23 817)	(41 842)	(65 659)
Interest income	83 954	44 842	125 796
Total cash and cash equivalents movement for the year			
Cash and cash equivalents at the beginning of the year	494 735	471 867	966 602
Cash and cash equivalents at the end of the year	762 042	488 710	1 250 752
Note to the Cash flow statement			
Cash generated from/(utilised in) operations			
Adjustments for:			
Interest income	(83 954)	(41 842)	(125 796)
Changes in working capital:			
Payables including reinsurance payables	20 680	(58 685)	79 365
Statement of Profit or Loss and Other Comprehensive Income			
Investment income	102 874	41 842	144 716
Other operating expenses	(326 474)	(41 842)	(368 316)
Statement of Financial Position			
Current Assets			
Cash and cash equivalents	762 042	488 710	1 250 752
Non-Current Liabilities			
Payables including reinsurance payables	178 176	453 881	632 057
Current Liabilities			
Payables including reinsurance payables	369 394	34 829	404 223

	2017 Restated* R '000	2017 Restatement R '000	2017 Restated R '000
Statement of Financial Position			
Current Assets			
Cash and cash equivalents	494 735	471 867	966 602
Non-Current Liabilities			
Payables including reinsurance payables	133 424	445 282	578 706
Current Liabilities			
Payables including reinsurance payables	384 044	26 585	410 629

*Restated as per restatement note above