LOMBARD

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

LOMBARD

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 GJM Carlin CE Backeberg A Pienaar NC Mabunda M Mthombeni
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:
CB Tebele CA(SA)
(Head of Finance)

LOMBARD

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FOR THE YEAR ENDED 30 JUNE 2023

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CORPORATE
GOVERNANCE STATEMENT

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

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

The Board has established several sub-committees, which operate within defined written terms of reference and in accordance with the Group's Governance policies, such terms of reference and policies having been proposed and recommended by these sub-committees for approval by the Board. Members of these committees are suitably qualified and sufficiently experienced 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 and Investment Management 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 governance and financial soundness standards determined by the Prudential Authority. Further, certain statutory governance appointments have been maintained throughout the year. These appointments are that of the Group Company Secretary, the Heads of Control Functions (Risk Management, Compliance and Actuarial) as well as the Head of Internal Audit. All of these roles will be fully discussed below.

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

The Board possesses the required skills and competence, and acts in an ethical manner when discharging its responsibilities for and control of Lombard as outlined in the Group's 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 conflicts of interest, 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's corporate governance policy framework details optimal corporate governance principles as well as the Group's authorisation requirements. The Group's corporate governance policy framework provides for those matters that are reserved for the Board's decision-making authority which enables 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 the Group'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 key areas of focus of the Social and Ethics Committee during the reporting period remained on considering Lombard's transformation initiatives, the health and safety of its employees 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 and Investment Management 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, 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 and authority. 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 6.4 of Governance and Operational Standards for Insurers (GOI) 2, Mr. GJM Carlin was appointed as a lead independent director. This appointment was approved by the Prudential Authority. In compliance with the GOI 2 and GOI 3, the Board currently consists of six non-executive directors and one executive director. Four of the non-executive directors are independent. No block of directors can dominate the Board. All non-executive directors have attended at least two meetings in the year under review. All Board members are kept abreast of current 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. Refer to page 11 for record of attendance by each board member.

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, prioritising the allocation of capital and ensuring best management practices.

Audit Committee

The Audit Committee comprises three independent non-executive members, namely:

- CE Backeberg (Chairman);
- GJM Carlin;
- AC Magwentshu (resigned); and
- NC Mabunda (newly appointed).

Chaired by Mr. CE Backeberg and consequent to approval received from the Prudential Authority, this committee is a Group level committee which has been mandated as the Audit Committee for the Company and is constituted as a standalone statutory committee in respect of its statutory duties in terms of the Companies Act of South Africa (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, by invitation only and cannot vote:

- Chief Executive Officer;
- Chief Financial Officer;
- Heads of Control Functions (Risk Management, Compliance and Actuarial);
- Head of Internal Audit;
- representatives from the Group's external auditor;
- representatives from the Group's corporate actuarial function;
- any other assurance providers for the Group; and
- other invited attendees.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

AUDIT COMMITTEE (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 17 - 19, 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 chairman 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, 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 (Chairman);
- CE Backeberg;
- AC Magwentshu (resigned); and
- M Mthombeni (newly appointed).

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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

RISK AND COMPLIANCE COMMITTEE (CONTINUED)

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

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

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

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

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

- review the effectiveness of the system for monitoring compliance with laws and regulations and the results of investigations, management's actions and follow up (including disciplinary action) in any instance of non- compliance;
- ensure 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 Head of Compliance Function 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. Refer to page 11 for record of attendance by each committee member.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

CAPITAL AND INVESTMENT MANAGEMENT COMMITTEE

In respect of the Group, the objective of the Capital and Investment Management 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 and Investment Management Committee, chaired by Mr. GJM Carlin, met four times this year. Refer to page 11 for record of attendance by each committee member.

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. Refer to page 11 for record of attendance by each committee member.

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. Refer to page 11 for the record of attendance by each committee member.

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. Refer to page 11 for record of attendance by each committee member.

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. Some 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 prepared in accordance with 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

APPOINTMENT AND DELEGATION TO MANAGEMENT (CONTINUED)

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 a conduit between the Board and the executive management of the Group. The Group Company 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 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 internal auditors. The Capital and Investment Management 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 and Investment Management Committee. The Head of Risk Management assists all levels of 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 and high severity commercial guarantee, credit and surety insurance lines and that of high frequency and 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 Group's portfolio. Senior management is responsible for identifying material risks prior to 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 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);
- transformation (innovating using technology and leadership); and
- governance (measuring ourselves against industry frameworks and best practice, and establishing processes to support ongoing compliance).

The Group's IT strategy over the last two years (2022 to 2023), has followed a phased delivery approach including understanding the IT governance, processes and an integrated architecture. This has included an understanding of differences in maturity in different regions or businesses in the group. The phased approach is to ensure business continuity and enabling a data driven focused technology platform for the future.

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

- a focused technology and data strategy;
- a single value delivery framework (IT architectures and maturity model);
- a focused governance and risk management approach; and
- a 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 serves 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

COMPLIANCE GOVERNANCE (CONTINUED)

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 monitors 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 the Remuneration Committee, has ultimate responsibility and accountability to ensure that the Group's remuneration structures are fair, responsible and transparent.

The terms of reference of the Remuneration Committee is aligned to the Group's business strategy. 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 the achievement of the following remuneration practice within the Group:

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

- Practices that are consistent with the insurance business and risk strategy, objectives, risk profile, risk management and long-term group-wide interests and performance;
- Considers the remuneration practices for the Group as a whole and in a proportionate and risk-based manner which ensures specific assessment that take into account the respective roles of each individual or class of individuals being remunerated; and
- The fixed and variable elements, provided that:
    - the fixed portion represents a sufficiently high proportion of the total remuneration to avoid dependence on the variable components; and
    - the variable component is based on a combination of the assessment of the individual and collective performance of the business; with consideration being given (should the circumstances so dictate and if the long-term interests of the business so suggest) to the payment of any significant bonuses, irrespective of the form in which it is to be paid, contains flexible, deferred component that considers the nature and time horizon of the insurer's business as a whole; and in assessing an individual's performance, 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 has been delegated to the Audit Committee and the Risk and Compliance Committee, 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, while 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

ASSURANCE (CONTINUED)

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.

STAKEHOLDER RELATIONSHIPS

The Board, through the Social and Ethics 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 and Ethics Committee.

The chairman of the Social and Ethics 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 and Investment Management Committee in the various ventures in which it has invested. The Capital and Investment Management 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.

BOARD COMMITTEE MEETINGS

Details of member attendance at board and board committee meetings July 2022 – June 2023.

	Board Meeting	Risk and Compliance Committee	Capital and Investment Management Committee	Reinsurance and Other Forms of Risk Transfer Committee	Remuneration Committee	Social and Ethics Committee	Audit Committee
Meetings held in 2023	**3**	**3**	**4**	**2**	**1**	**2**	**3**
ML Japhet	C 3/3			C 2/2	1/1	C 1/2	
PJ Orford	3/3		4/4	2/2	1/1	2/2	
RJ Symmonds	2/3						
GJM Carlin	3/3	C 2/3	C 4/4				3/3
CE Backeberg	3/3	3/3			C 1/1		C 3/3
AC Magwentshu *	1/3	1/3				C 1/2	1/3
A Pienaar	2/3		4/4				
NC Mabunda **	1/1					1/2	1/3
M Mthombeni **	1/1	1/1	2/2		1/1		
N Hoosen ***			3/3	1/1			
GB Neilson			4/4	1/1			
E Damoulakis				2/2			
I Poonan					1/1	2/2	

* Resigned December 2022
** Appointed July 2022, eligible to act as director after PA approval (December 2022)
*** Appointed CFO November 2022

C - Chairman

DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are required in terms of the Companies Act of South Africa, to maintain adequate accounting records and are responsible for the content and integrity of the 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 and the Companies Act, 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 2024 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 financial statements. The financial statements have been audited by the company's external auditor and their report is presented on pages 17 to 19.

The financial statements set out on pages 22 to 91, which have been prepared on the going concern basis, were approved by the Board on 27 October 2023 and were signed on their behalf by:

APPROVAL OF FINANCIAL STATEMENTS

ML Japhet
Chairman

27 October 2023

PJ Orford
Chief Executive Officer

27 October 2023

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

SJ Vivian
Company Secretary

27 October 2023

AUDIT
COMMITTEE REPORT

The Audit Committee (the Committee) has the pleasure in submitting its report for the financial year ended 30 June 2023.

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 and the King Code of Governance Principles for South Africa, 2016 (King IV).

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 of South Africa and Regulation 42 of the Companies Regulation, 2011.

COMPOSITION OF COMMITTEE

Members: CE Backeberg, GJM Carlin, AC Magwentshu (resigned), NC Mabunda (newly appointed).

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. Refer to page 11 for record of attendance by each committee member.

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.

AUDIT COMMITTEE REPORT (CONTINUED)

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 2023 year.

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

INTERNAL FINANCIAL AND ACCOUNTING CONTROLS

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

Financial risk management policies are communicated directly to executive management and the appropriate levels of management in the various operations. The Board acknowledges its responsibility for ensuring that management implements and monitors the effectiveness of systems of internal financial and operating controls. The Board, via the Committee, monitors the effectiveness of established controls and procedures to ensure the accuracy and integrity of accounting records, and monitors the Group's businesses, financial risks and performance. Based on internal audit's review of the design, implementation and effectiveness of the Group's system of internal financial controls in 2022/2023, 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.

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, and 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.

AUDIT COMMITTEE REPORT (CONTINUED)

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:

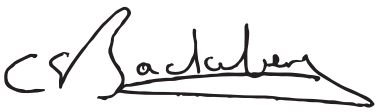
- assisting management in evaluating their processes for identifying, assessing and managing the key operational, financial and compliance risks of the Group;
- systematically analysing and evaluating business processes and the effectiveness of associated internal control systems, including compliance with internal policies;
- recommending improvements on 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 2023, 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.



CE Backeberg
Chairman

27 October 2023

Independent auditor's report

To the Shareholders 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 (the Company) as at 30 June 2023, 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 22 to 91 comprise:

- the statement of financial position as at 30 June 2023;
- 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; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 consolidated and separate 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 Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

PricewaterhouseCoopers Inc., 4 Lisbon Lane, Waterfall City, Jukskei View, 2090
Private Bag X36, Sunninghill, 2157, South Africa
T: +27 (0) 11 797 4000, F: +27 (0) 11 209 5800, www.pwc.co.za

Chief Executive Officer: L S Machaba
The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jukskei View, where a list of directors' names is available for inspection.
Reg. no. 1998/012055/21, VAT reg.no. 4950174682.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Lombard Annual Financial Statements for the year ended 30 June 2023", which includes the Directors' Report, the Audit Committee Report and the Company Secretary's Certification 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 the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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 5 years.

PricewaterhouseCoopers Inc.
Director: F.J. Kruger
Registered Auditor
Johannesburg, South Africa
27 October 2023

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 2023.

1. NATURE OF BUSINESS

Lombard Insurance Company Limited was incorporated in South Africa operating in the insurance industry. The company writes business 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. The accounting policies have been applied consistently compared to the prior year.

The operating results and state of affairs of the company are fully set out in the 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

No dividend was declared and paid to the shareholder of the Company during the year under review (2022: R105m).

5. DIRECTORATE

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

Directors	Designation	Appointment/resignation date
ML Japhet	Non-executive Chairman	Appointed 16 November 1995
PJ Orford	Executive Director	Appointed 23 July 2015
RJ Symmonds	Executive Director	Resigned 27 March 2023
GJM Carlin	Non-executive Lead Independent Director	Appointed 16 November 1995
CE Backeberg	Non-executive Independent Director	Appointed 23 November 2011
AC Magwentshu	Non-executive Independent Director	Resigned 31 December 2022
A Pienaar	Non-executive Director	Appointed 23 July 2015
NC Mabunda	Non-executive Independent Director	Appointed 15 December 2022
M Mthombeni	Non-executive Independent Director	Appointed 15 December 2022

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 2023, LomHold Proprietary Limited's shareholding was held by Lombard Consolidated Proprietary Limited - 41.50%, IVM Intersurer BV - 30.00%, Cast Arena Trade & Invest 87 Proprietary Limited - 28.00% and CG Japhet - 0.50%. The aforementioned shareholding is 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.

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 negatively affect the company.

In the context of the current challenging environment, the company has evaluated the potential adverse effects of a range of stress scenarios. Further to this, the company has evaluated the potentially adverse effects of unexpected but plausible events on the Company's current and future financial condition. Lombard is expected to remain solvent under all modelled scenarios.

As a result, the board believes that the company is well placed to meet future capital and liquidity requirements. Based on this review, no material uncertainties have been identified in relation to the ability of the company to remain a going concern for the next 12 months.

Refer to note 29 for further information.

10. AUDITORS

PwC will continue in office as auditors in accordance with section 90(1) of the Companies Act.

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 2023

	Note(s)	2023 R '000	2022 R '000
Assets			
Deferred tax asset	3	40 522	15 997
Intangible assets	4	13 247	10 748
Equipment and right-of-use asset	5	34 566	19 768
Reinsurance assets	6	2 792 748	2 586 119
Financial assets at amortised cost	7	1 006 166	1 089 004
Receivables including reinsurance receivables	8	453 894	402 353
Current tax receivable		-	18 807
Financial assets at fair value through profit or loss	9	2 048 424	1 729 522
Cash and cash equivalents	10	695 992	721 260
Total assets		**7 085 559**	**6 593 578**
Equity and Liabilities			
Equity			
Share capital	11	189 050	189 050
Retained income		703 907	594 801
		892 957	**783 851**
Liabilities			
Unsecured borrowings	12	370 589	369 050
Lease liabilities	13	28 977	15 904
Insurance liabilities	6	3 873 589	3 550 420
Employee benefit provisions	14	129 837	82 756
Payables including reinsurance payables	15	1 784 097	1 781 521
Financial liabilities at fair value through profit or loss	16	1 455	10 076
Current tax payable		4 058	-
		6 192 602	**5 809 727**
Total Equity and Liabilities		**7 085 559**	**6 593 578**

STATEMENT
OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note(s)	2023 R '000	2022 R '000
Insurance premium revenue		3 811 510	3 051 394
Insurance premium revenue ceded to reinsurers		(2 514 698)	(1 932 424)
Net insurance premium revenue	17	**1 296 812**	**1 118 970**
Investment income	18	102 945	58 208
Interest income using the effective interest rate method	18	144 607	87 185
Reinsurance commission		844 192	592 912
Net realised gains on financial assets at fair value through profit or loss		4 846	523
Revenue from contracts with customers		27 873	20 359
Other income	19	11 092	1 937
Total other income		**1 135 555**	**761 124**
Insurance claims incurred		(1 902 328)	(2 033 628)
Insurance claims recovered from reinsurers		1 315 629	1 564 668
Net Insurance claims	20	**(586 699)**	**(468 960)**
Impairment reversal /(impairment) of financial assets		30 831	(9 917)
Expenses for marketing and administration		(3 628)	(9 483)
Expenses for the acquisition of insurance contracts		(897 928)	(745 569)
Other operating expenses	21	(790 145)	(541 606)
Expenses		**(1 660 870)**	**(1 306 575)**
Operating profit		**184 798**	**104 559**
Finance costs	22	(41 082)	(26 762)
Profit before taxation		**143 716**	**77 797**
Taxation	23	(34 610)	(26 994)
Profit for the year		**109 106**	**50 803**
Other comprehensive income		-	-
Total comprehensive income for the year		**109 106**	**50 803**

STATEMENT
OF CHANGES IN EQUITY

	Share capital R '000	Share premium R '000	Total share capital R '000	Retained income R '000	Total equity R '000
Balance at 01 July 2021	**47**	**189 003**	**189 050**	**648 998**	**838 048**
Profit for the year	-	-	-	50 803	50 803
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	**50 803**	**50 803**
Dividends	-	-	-	(105 000)	(105 000)
Balance at 01 July 2022	**47**	**189 003**	**189 050**	**594 801**	**783 851**
Profit for the year	-	-	-	109 106	109 106
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**109 106**	**109 106**
Balance at 30 June 2023	**47**	**189 003**	**189 050**	**703 907**	**892 957**

STATEMENT
OF CASH FLOWS

	Note(s)	2023 R '000	2022 R '000
Cash flows from operating activities			
Cash used in operations	24	(241 068)	(30 428)
Interest received		87 097	71 780
Investment income		60 447	28 958
Dividend income		295	172
Interest paid		(52 694)	(47 932)
Tax paid	25	(36 270)	(35 307)
Net cash (used in)/from operating activities		**(182 193)**	**(12 757)**
Cash flows from investing activities			
Payments for acquisition of equipment	5	(6 179)	(619)
Proceeds from leasehold improvement		415	-
Payments for acquisition of intangible assets	4	(9 407)	(4 668)
Payments for financial assets		(75 044)	(10 047)
Proceeds from sale of financial assets		247 130	85 451
Net cash from investing activities		**156 915**	**70 117**
Cash flows from financing activities			
Dividends paid to company's shareholders		-	(65 000)
Payment of lease liability		(7 633)	(7 732)
Proceeds on issue of unsecured borrowings		-	65 000
Net cash used in financing activities		**(7 633)**	**(7 732)**
Total cash and cash equivalents movement for the year		**(32 911)**	**49 628**
Cash and cash equivalents at the beginning of the year		721 260	659 089
Effect of foreign exchange rate changes on the balance of cash held in foreign currencies		7 643	12 543
Total cash and cash equivalents at end of the year	10	**695 992**	**721 260**

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*);
- Ami Underwriting Managers Proprietary Limited;
- Praesidio Risk Managers Proprietary Limited (runoff*);
- Motor Funding Underwriters Managers Proprietary Limited;
- Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency;
- Turnberry Management Risk Solutions Proprietary Limited;
- Turnberry Management Services Proprietary Limited;
- Orca Underwriting Managers Proprietary Limited;
- Assurant Underwriting Managers Proprietary Limited; and
- Charter Risk Proprietary Limited.

*Runoff - The insurer has ceased incepting new insurance policies but remains liable for exposure that has not expired and valid claims for which a final settlement has not been paid.

The company writes 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 8 are set out below.

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; and
- The Companies Act.

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.

Assets and liabilities that are expected to be realised within the operating cycle are disclosed as current assets/liabilities while those expected to be realised after the operating cycle are disclosed as non-current assets/liabilities.

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

ACCOUNTING POLICIES (CONTINUED)

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.

Valuation of unlisted investments and other assets

The company determines fair value of its unlisted investments using appropriate valuation techniques. These techniques include discounted cash flow, price earnings multiples, appraisal value and net asset value methodologies. In instances where these valuation methods are not appropriate, the investment is valued on the net asset value basis, which reflects the fair value of the underlying investments. The assumptions used in these valuation techniques are described as part of the fair value hierarchy analysis included in the risk management note 2.4.

Insurance liabilities under insurance contracts

The estimation of provision for outstanding claims and incurred but not reported (IBNR) claims are the most significant 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.

Materially different outcomes to those assumed are possible. Assumptions have been made in key areas in order to estimate the ultimate quantum of claims.

Outstanding claims

Guarantee - The outstanding claims reserve is determined using managements judgement. 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.

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.

Partnerships - 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 2.2 for details.

Lombard Broker Partners (LBP) - Claims below a specified quantum are raised by the division's binder brokers. Above this quantum, claims estimates are raised by specialist claims staff within the division with estimates based on all the relevant information available and prior claims experience. Where required claims assessors would be used. Estimates are adjusted based on the emergence of relevant information received until the full and final settlement of the claim.

IBNR

Provision for IBNR claims is determined based on actuarial methods for all lines of business except motor warranty, liability(runoff), accident and health, kidnap and ransom and travel and heavy commercial vehicles.

ACCOUNTING POLICIES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.3 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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).

The partnerships IBNR reserves for the engineering, liability (excluding business in runoff), accident and health 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 LBP IBNR reserves are calculated using actuarial methods. For the accident and health, kidnap and ransom and travel lines of business in the LBP 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%**	
	2023	**2022**
Accident and health, kidnap and ransom and travel (LBP)	7.0 %	7.0 %
Heavy Commercial Vehicles	7.0 %	7.0 %
Liability (runoff)	22.5 %	22.5 %
Marine*	- %	7.0 %
Motor*	- %	7.0 %
Motor Warranty	2.0 %	2.0 %
Property*	- %	7.0 %

*Actuarial method adopted.

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;
- adjust the default rates for forward-looking information that could affect the credit losses in the future, for example macroeconomic forecasts;
- consider significant increase in credit risk; and
- consider whether the asset will generate probable future economic benefits.

The default rate percentages assumed are 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.

ACCOUNTING POLICIES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.4 INSURANCE CONTRACTS (CONTINUED)

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.

Acquisition costs

Expenses for the acquisition of insurance contracts represent commissions, policy fees, administration fees, management fees and movement in deferred acquisition costs.

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 in 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 in 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 at the date of the statement of financial position. 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; and
- Incurred but not reported (IBNR): claims relating to events that have occurred but have not yet been reported as at the valuation date.

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due 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.

ACCOUNTING POLICIES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.4 INSURANCE CONTRACTS (CONTINUED)

Reinsurance contracts

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

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

The company assesses its reinsurance assets for impairment on a quarterly basis. If there is any objective evidence that the reinsurance asset is impaired, the company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the statement of 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 reinsurance commission 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 AND RIGHT-OF-USE ASSET

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 the expected useful life to the estimated residual value. The useful lives of items of equipment and right-of-use asset 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
Right-of-use asset	Straight line	Lease term

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.

ACCOUNTING POLICIES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.5 EQUIPMENT AND RIGHT-OF-USE ASSET (CONTINUED)

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

Depreciation expense has been included in “Other operating expenses” in the statement of profit or loss.

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

The carrying amount of the company’s equipment and right-of-use asset 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 the 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 LEASES

Leases are recognised as a right-of-use (ROU) asset, together with a corresponding lease liability for the future payments unless the underlying asset is of low value. The right-of-use asset is presented under Equipment and right-of-use asset and lease liability is presented as a separate line item under liabilities. When the lease is terminated, the ROU asset and lease liability are derecognised.

A lease is recognised when the company has a right to use an asset over a period of time (more than 12 months) in exchange for an agreed consideration, except for:

- Leases with a term of less than 12 months; and
- Leases where the underlying asset is of low value.

Lease liability

Lease liabilities are initially measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate implicit in the lease unless this is not readily determinable, in which case the company’s incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted in favour of the company, should it be reasonably certain that this option will be exercised; and
- Any penalties payable for terminating the lease, should the term of the lease be estimated on the basis of this termination option being exercised.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at an incremental borrowing rate on the balance outstanding and are reduced for lease payments made.

ACCOUNTING POLICIES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.6 LEASES (CONTINUED)

Right-of-use assets (ROU asset)

ROU assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before the commencement date;
- initial direct costs incurred; and
- the amount of any provision recognised where the company is contractually required to dismantle, remove or restore the leased asset.

Interest expense on lease liability

A lease finance cost, determined with reference to the interest rate implicit in the lease or the company's incremental borrowing rate, is recognised as part of finance costs over the lease period.

Depreciation on ROU asset

Subsequent to initial measurement, the ROU assets are depreciated on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset should this term be shorter than the lease term, unless ownership of the underlying asset transfers to the company at the end of the lease term, whereby the ROU assets are depreciated on a straight- line basis over the remaining economic life of the asset (note 1.5). This depreciation is recognised as part of other operating expenses.

Termination of leases

When the company or lessor terminates or cancels a lease, the ROU asset and lease liability are derecognised. On derecognition of the ROU asset and lease liability, any difference is recognised as a derecognition gain or loss together with termination or cancelation costs in profit or loss.

Leases that meet the criteria as either a lease of a low value asset or a short-term lease are accounted for on a straight-line basis over the lease term. Payments made under these leases, net of any incentives received from the lessor, are recognised in operating expenses on a straight-line basis over the term of the lease. When these leases are terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating expenses in the period in which termination takes place.

Lease modifications

When the company modifies the terms of a lease, it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted at a revised discount rate (the interest rate implicit in the lease for the remaining lease term or the company's incremental borrowing rate) at the date of modification. An equivalent adjustment is made to the carrying amount of the right-of-use asset, with the revised carrying amount being depreciated over the revised lease term. However, if the carrying amount of the right-of-use asset is reduced to zero any further reduction in the measurement of the lease liability is recognised in profit or loss.

1.7 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.

ACCOUNTING POLICIES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.7 INTANGIBLE ASSETS (CONTINUED)

Direct costs include the external software development team's costs. Computer software acquired as part of the software development project is capitalised on the basis of the acquisition costs and related costs to bring it to use. All development costs not meeting the recognition criteria and costs for maintaining computer software programs are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised from the date the asset is brought into use, using the straight-line method over their useful lives, not exceeding a period of 5 years. The useful lives of the assets are 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.

1.8 FINANCIAL INSTRUMENTS

Financial instruments held by the company are as follows:

Financial assets:
- Equity instrument; or
- Debt instrument.

Financial assets are classified as follows:
- Amortised cost; or
- Designated at fair value through profit or loss; or
- 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.

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 2 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:

1.8.1 Financial assets at fair value through profit or 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;
- Money market funds; and
- Hedge instruments.

ACCOUNTING POLICIES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.8 INTANGIBLE ASSETS (CONTINUED)

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

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 recognising gains or losses on them on a different basis.

In some cases Post Commencement Funding (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 through 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 18).

1.8.2 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.

1.8.3 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.

Fixed deposits are measured at amortised cost where maturity is longer than 90 days.

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.

ACCOUNTING POLICIES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.8 INTANGIBLE ASSETS (CONTINUED)

1.8.3 Financial asset at amortised cost (continued)

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 18).

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.

1.8.4 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.

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 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.

ACCOUNTING POLICIES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.8 INTANGIBLE ASSETS (CONTINUED)

1.8.4 Impairment of financial assets (continued)

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.

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 vice 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 7).

Details of credit risk related to receivables are included in the specific notes and the risk management (note 2).

ACCOUNTING POLICIES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.8 INTANGIBLE ASSETS (CONTINUED)

1.8.5 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.

1.8.6 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.

1.8.7 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.

1.8.8 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.

1.8.9 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.

1.8.10 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.

ACCOUNTING POLICIES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.8 INTANGIBLE ASSETS (CONTINUED)

1.8.10 Derecognition (continued)

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.

1.8.11 Reclassification

Financial assests

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.

1.8.12 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.

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 recovered from/(paid to) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. 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).

ACCOUNTING POLICIES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.9 TAX (CONTINUED)

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 EMPLOYEE BENEFITS

Provident fund

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

Bonus plan

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.

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-outs are broadly based on divisional return on equity (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 estimated reliably.

ACCOUNTING POLICIES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.11 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.

1.12 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.

1.13 REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers includes:

- Management fees; and
- Fee income.

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

1.14 OTHER INCOME

Other income includes:

- Sundry income; and
- Aviation income.

NOTES
TO THE FINANCIAL STATEMENTS

1. NEW STANDARDS AND INTERPRETATIONS

1.1 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	Expected Impact:
• Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 1	01 January 2022	The impact of the amendment is not material.
• Reference to the Conceptual Framework: Amendments to IFRS 3	01 January 2022	The impact of the amendment is not material.
• Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 9	01 January 2022	The impact of the amendment is not material.
• Property, Plant and Equipment: Proceeds before Intended Use: Amendments to IAS 16	01 January 2022	The impact of the amendment is not material.

1.2 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 2023 or later periods:

Standard/Interpretation:	Effective date: Years beginning on or after	Expected Impact:
• IFRS 17 Insurance Contracts	01 January 2023	Impact is currently being assessed and IFRS 17 systems are in the process of being implemented.

IFRS 17 Insurance Contracts

Background and overview

IFRS 17 Insurance Contracts (IFRS 17) is a comprehensive new accounting standard for insurance contracts that governs recognition, measurement, presentation and disclosure.

IFRS 17 introduces a measurement model for insurance contracts based on the estimates of the present value of future cash flows that are expected to arise as the Company fulfils the contracts, an explicit risk adjustment for non-financial risk (together these represent the fulfilment cash flows) and a contractual service margin (CSM). The main difference between IFRS 4 and IFRS 17 measurement relates to how margins are calculated and released over time (i.e. compulsory and discretionary margins for prudence applied under IFRS 4, versus the risk adjustment for non-financial risk and CSM required under IFRS 17).

The default model is the General Measurement Model (GMM), which is supplemented by a specific modification called the Variable Fee Approach (VFA) for measurement of contracts where policyholders participate in underlying items. IFRS 17 also makes provision for a simplified approach, the Premium Allocation Approach (PAA), mainly for short-duration contracts with a coverage period of less than one year.

Regardless of the measurement model used, the basic revenue recognition principle of IFRS 17 is that profit is recognised over the lifetime of a group of insurance contracts, as services are provided, but losses are recognised immediately if the group of insurance contracts is onerous. No profit is recognised on initial recognition.

1. NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

1.2 STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE (CONTINUED)

Under IFRS 17, the discount rate used to reflect the time value of money in the fulfilment cash flows must be based on the characteristics of the liability.

The effective date of IFRS 17 is for annual reporting periods beginning on or after 1 January 2023. Hence the Company will apply the standard retrospectively on 1 July 2023 and restate comparatives for the 30 June 2022 financial period, as if IFRS 17 had always been in place.

Transition approach

On transition, IFRS 17 requires the standard to be applied either retrospectively (full or modified retrospective approaches) or using the fair value approach. The Company will apply the full retrospective approach from 1 July 2023 to all its portfolios. As required by the transitional provisions of IFRS 17, the June 2022 comparatives will be restated.

Estimated impact of adopting IFRS 17

The impact of adopting IFRS 17 for the Company on its results is estimated to mainly be because of applying the risk adjustment and the discounting of reserves. Under the current accounting policy, the Company does not provide for either. The Company holds its policyholder liabilities at best estimate and does not discount reserves, while this is required under IFRS 17.

Variations to profitability will also arise from the deferral of acquisition costs beyond only brokerage, for groups with coverage periods greater than one year. Unwinding of the CSM using different patterns to the current unwinding patterns of unearned premium reserves, will also have an estimated impact on the profits.

Tax implications

In terms of IAS 12, both current and deferred tax assets and liabilities are to be valued applying the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Changes in the tax laws should be regarded as being substantively enacted when the changes in tax laws have been approved by parliament and signed into law, by the president.

Amendments to tax legislation to cater for the impact of IFRS 17 on insurers are effective from 1 January 2023. This legislation was signed by the president on 22 December 2022 and is therefore regarded as being substantively enacted as contemplated for the 30 June 2023 financial year.

These changes do not have any impact on the current tax charge for the year ended 30 June 2023. IAS 12 requires an entity to recognise deferred tax for temporary differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. As IFRS 17 is not applicable to the 2023 annual financial statements, there is no change in the carrying value of assets and liabilities at the end of the reporting period. Hence, there is no impact on deferred tax assets and liabilities as at 30 June 2023.

IFRS 17 Insurance contracts: Summarised accounting policies relating to insurance and reinsurance liabilities and assets

Detailed below are the draft accounting to be applied to insurance contracts within the scope of IFRS 17. These draft accounting policies are subject to change until the 30 June 2024 financial statements have been finalised.

1. NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

1.2 STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE (CONTINUED)

Classification and measurement
The Company applies IFRS 17 Insurance contracts to insurance contracts issued and reinsurance contracts held.

The determination whether a particular contract is an insurance contract according to IFRS 17 is to be made at its inception. Once classified as an insurance contract, the classification is irrevocable throughout the entire contractual period. The classification is to be made at an individual contract level evaluating the contract throughout its entire contractual period without consideration of pooling or any other collective risk mitigation effects. IFRS 17 defines an insurance contract as a "contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder [or the beneficiaries of the policyholder] if a specified uncertain future event (the insured event) adversely affects the policyholder.

The contracts that have previously met the definition of an insurance contract under IFRS 4 will also be classified as insurance contracts under IFRS 17 as both standards include a consistent definition.

The accounting model applied to these insurance contracts, including reinsurance contracts issued and/or held, for liability measurement purposes is the GMM unless the PAA applies. Where the requirements are met to measure a group of insurance contracts using the PAA, the liability for remaining coverage (LRC) at initial recognition corresponds to premiums received less acquisition costs. However, the GMM remains applicable for the measurement of incurred claims.

The standard provides that the LRC of insurance contracts and reinsurance contracts be measured as: fulfilment cash flows, that is, the present value of future cash flows necessary to fulfil insurance obligations under the contract; plus a risk adjustment for non-financial risk and the CSM (representing unearned profit). Under the simplified approach (PAA), the insurance and reinsurance groups of contracts are measured as the premiums received less acquisition costs (if the accounting policy choice was made to defer acquisition costs). The liability for incurred claims (LIC) is measured as the present value of future cash flows necessary to fulfil a claim, plus a risk adjustment for non-financial risk and applies to both GMM and PAA.

The Company has reviewed its product offering and has determined that all its separately issued insurance contracts can be considered on an individual basis however, within the commercial guarantee insurance line, the guarantee, facility and security agreements will be considered together to assess accurately the overall commercial effect of such agreements.

Likewise, where an insurance contract (or reinsurance contract held) is made up of a series of sub-components that are individually managed and have only been combined into one contract for convenience, these sub-components are considered separately. The Company has not identified any insurance or reinsurance contracts that have separately managed sub- components that should be separately accounted for.

The contractual terms for reinsurance held agreements are whether the insurance risk transferred to the reinsurer was first transferred to the Company from the policyholder. If a reinsurance contract does not expose the reinsurer to the possibility of a significant loss, that contract is still deemed to transfer significant insurance risk, if it transfers to the reinsurer, substantially all the insurance risk relating to the reinsured portions of the underlying insurance contracts. If this is not applicable, the contract would not fall within the scope of an insurance contract and be treated as an expense for accounting purposes. The Company has assessed its reinsurance contracts held and has concluded that all its reinsurance agreements meet the definition of an insurance contract.

Based on the analysis of insurance policies issued, the Company predominantly writes short duration contracts, to which the PAA will be applied. Certain portfolios within AMP, Consort and the Construction sub-divisions will be measured under the GMM. Reinsurance will also be measured using GMM unless PAA eligibility has been met. Based on assessments performed to date, the Company does not expect to have contracts which meet the definition of insurance or investment contracts with discretionary participation features. Therefore, the Company does not anticipate that the VFA measurement model will be applied to insurance contracts that exist.

Insurance revenue and insurance service expenses are recognised in the statement of comprehensive income based on the concept of services provided during the period. The standard also recognises losses earlier on contracts that are expected to be onerous.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

1.2 STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE (CONTINUED)

Initial recognition
At initial recognition, groups of insurance contracts issued are recognised from the earliest of the following:

- The beginning of the coverage period;
- The date when the first payment from the policyholder is due or actually received if there is no due date; or
- When the Company determines that a group of contracts becomes onerous.

Only contracts that individually meet one of the recognition criteria for the group by the end of the reporting period are included in the group.

Liability components
A group of insurance contracts is measured as the sum of the LRC and the LIC. These components relate to the provision of future service and past service respectively.

The LRC is defined as the sum of the following components:

- Fulfilment cash flows related to future service, which comprise:
  - Best estimate of future cash flows
  - Risk adjustment for non-financial risk
- CSM

The LIC is structured similarly to the LRC, except for the CSM. The LIC consists of the following:

- Fulfilment cash flows related to past service, which comprise:
  - Best estimate of future cash flows
  - Risk adjustment for non-financial risk

On initial recognition, there is no difference in measurement of insurance contracts, including the CSM, between the GMM and VFA. The key difference between the VFA and the GMM is evident at subsequent measurement.

The PAA measures the LIC in the same way as the GMM and VFA but measures the LRC differently.

Contract boundaries
Under IFRS 17, the measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. For insurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and investment services). A substantive obligation to provide services ends when:

- the Company has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the Company has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

In assessing an entity's practical ability to reprice, the Company only considers policyholder risks (transferred from the policyholder to the issuing entity) such as insurance risk and financial risk. This would depend on the terms and conditions of each contract being assessed.

Cash flows outside the insurance contract boundary relate to future insurance contracts and are recognised by the Company only when those contracts meet the recognition criteria.

1. NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

1.2 STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE (CONTINUED)

For reinsurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

Risk adjustment for non-financial risk
Cash flows from insurance contracts involve a high degree of uncertainty regarding the timing and amount of a potential claim and may also include changes in assumptions made about the business or policyholder's behaviour. To account for this, IFRS 17 allows for explicit risk adjustments for non-financial risks that are determined to reflect the compensation that the Company would require for bearing such risk.

The risk adjustment for non-financial risk is determined using a confidence level technique and different methodologies are utilised depending on the product and the data available on a product level.

- Guarantee – a volatility measure will be calculated and applied to the current best estimate using exposure data.
- Partnership – the products in this division lends itself more towards the use of traditional actuarial methods to quantify volatility or the required risk adjustment. These traditional methodologies can accommodate various levels of data availability with more approximations and assumptions required the lower the level of data availability.
- Reinsurance risk adjustment represents the amount of risk ceded from Lombard to the reinsurers and each reinsurance arrangement's risk adjustment will follow the underlying product's risk adjustment methodology.

Based on the above a best estimate reserve is calculated, where there is an equal chance that the actual amount needed to pay future claims will be higher or lower than the calculated best estimate. The risk adjustment is then calculated such that there is 75% probability that the reserves will be sufficient to cover future claims.

Discount rates
The Company has adopted a bottom-up approach to determining discount rates for the purpose of IFRS 17. Under a bottom-up approach, insurance contract liabilities re calculated by discounting expected future cash flows using a risk-free yield curve plus an illiquidity premium.

The risk-free yield curve will be aligned with the Prudential Authority's published risk-free rates, which is consistent with observable current market rates and is believed to align with the discount rate requirements in the Standard.

The liabilities of the Company are deemed to be liquid and can be confirmed by the Asset Liability Management (ALM) strategy. This implies that the illiquidity premium cannot be reliably earned on the assets backing the liabilities. Therefore, for consistency, no risk premium has been added to the risk-free discount rate.

Foreign currency translation
The measurement of a group of insurance contracts (including the contractual service margin) with cash flows in more than one currency, will be denominated in a single currency based on the dominant currency in which expected cash flows are generated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

1.2 STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE (CONTINUED)

Levels of aggregation and unit of account

Under IFRS 17, insurance contracts are aggregated into groups for measurement purposes. The Company manages insurance contracts issued by product lines within an operating segment. All insurance contracts within a product line represent a portfolio of contracts when they are subject to similar risks. If contracts within a product line have different risks, the product line may be sub-divided into further separate portfolios. Each portfolio is further disaggregated into groups of contracts that are issued within a financial year (annual cohorts) and are either: (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; or (iii) a group of remaining contracts. These groups represent the level of aggregation at which insurance contracts are initially recognised and measured. Such groups are not subsequently reconsidered.

For each portfolio of contracts, the Company determines the level at which reasonable and supportable information is available, to assess whether these contracts are onerous at initial recognition and whether non-onerous contracts have a significant possibility of becoming onerous. The Company uses significant judgement to determine at what level of granularity the entity has reasonable and supportable information that is sufficient to conclude that all contracts within a set are sufficiently homogeneous and will be allocated to the same group without performing an individual contract assessment.

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, Lombard aggregates reinsurance contracts held, concluded within a financial year (annual cohorts), into groups of either: (i) contracts for which there is a net gain at initial recognition, if any; (ii) contracts for which, at initial recognition, there is no significant possibility of a net gain arising subsequently; and (iii) remaining contracts in the portfolio, if any.

Reinsurance contracts held are assessed for aggregation requirements on an individual contract basis. The Company tracks internal management information reflecting historical experiences of such contracts' performance. This information is used for negotiating pricing of these contracts such that they result in reinsurance contracts held in a net cost position without a significant possibility of a net gain arising subsequently.

The Company's contracts are aggregated into separate groups for the purpose of determining the IFRS 17 profit recognition in respect of each financial reporting period. A group is defined to include contracts issued or renewed in a particular financial year that use the same measurement approach and have a similar level of expected profitability split at a business line level. Each reinsurance treaty, further split by business line is assigned to a group of its own with facultative reinsurance agreements grouped together based on expected profitability, inception year and risks covered. A contract is assigned to a group at initial recognition, and this is not reassessed until the contract boundary has been reached. Where the premium allocation approach is applied, due to similar expected profitability, each portfolio cohort year's contracts are assigned to a group as a whole and not on a contract-by-contract basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. RISK MANAGEMENT

In 2023, global political and economic volatility continued. Global geopolitical events like the Russia-Ukraine conflict as well as South Africa specific events like constrained electricity supply and deteriorating public infrastructure have impacted market conditions and the insurance industry. These events have contributed to unprecedented levels of inflation, higher interest rates, volatile investment markets and, in a South African context, low economic growth. On an ongoing basis the business continues to assess the impact on the principal risks managed by the company.

2.1 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 general and specialist lines of insurance business written in the company's Partnership and Lombard Broker Partners Divisions.

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.

Binder agreements also exist for non-mandated intermediaries; however these non-mandated intermediaries are only entitled to an administration fee on the policies they administer and not a profit share.

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 which highlights the company's top identified risks.

The Chief Executive Officer, divisional managers and the Head of Risk Management are responsible for evaluating emerging risks before and as they emerge 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 a 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.

2.2 INSURANCE RISK

The return to shareholders under the company's insurance products arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred. There is scope for the company to earn investment income owing to the time delay between the receipt of premiums and the payment of claimed.

2. RISK MANAGEMENT (CONTINUED)

2.2 INSURANCE RISK (CONTINUED)

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

- Guarantee 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 guarantee 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 specific contractor to deliver its 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.

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 and non-mandated intermediaries or directly through its internal divisions and juristic representatives. These policies include accident and health, liability, marine, transport, motor, property, miscellaneous, travel and engineering in either commercial or 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. A second limited binder agreement is also issued to non-mandated intermediaries who are only entitled to an administration fee on the insurance policies which they administer and handle claims on.

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

The company currently has nine 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:

- Advantage Motor Protector Proprietary Limited writes motor warranty risks. These risks relate to warranting various motor parts against breakages within a warrantied period;
- Ami Underwriting Managers Proprietary Limited writes personal business relating to property and motor business;
- Consort Technical Underwriting Managers Proprietary Limited is a specialised insurance underwriting manager that writes engineering insurance risks. 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;
- Horizon Underwriting Managers Proprietary Limited writes marine related insurance risks. These risks cover all aspects of shipping goods into and out of South Africa;
- Leppard and Associates Proprietary Limited writes professional indemnity and liability insurance risks;
- Motor Funding Underwriters Managers Proprietary Limited writes motor risks relating to commercial motor fleets;
- Praesidio Risk Managers Proprietary Limited writes personal accident and kidnap and ransom risks; (run-off). New business from 1 July 2021 is now underwritten within Lombard Broker Partners, a division of Lombard;
- Turnberry Management Risk Solutions Proprietary Limited and Turnberry Management Services Proprietary Limited write medical gap health risks; and
- Assurant Underwriting Managers Proprietary Limited and Charter Risk Proprietary Limited write personal and commercial business relating to property and motor risks.

2. RISK MANAGEMENT (CONTINUED)

2.2 INSURANCE RISK (CONTINUED)

The company currently has two juristic representative agreements in place. These juristic representatives are listed below as well as the type of risks these juristic representatives write on to the company's licence:

- Commercial Crime Concepts Proprietary Limited writes fidelity insurance risks. These risks relate to the indemnification of employers against the theft of funds by employees;
- Orca Underwriting Managers Proprietary Limited writes commercial risks business relating to commercial property and motor risks.

Insurance risk under guarantee insurance policies

The company provides policies of guarantee in the construction sector, deferred payment bonds to the Department of Customs and Excise, payment guarantees in the South African and Australian markets, mining rehabilitation guarantees and 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.

Insurance risk under personal and commercial insurance policies

The insurance risk associated with the personal and commercial insurance policies issued by the company result from the uncertainty related to the timing, frequency and severity of insured events. It includes the risk that the premium liabilities and/or claims liabilities are inadequate.

Frequency and severity of claims in the guarantee 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 policyholders, 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 which are governed by the reinsurance and other forms of risk transfer policy and proactive claims handling. Limits are set according to the risk appetite 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, beneficiary 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.

2. RISK MANAGEMENT (CONTINUED)

2.2 INSURANCE RISK (CONTINUED)

In accordance with the terms of the trade credit insurance policy, the majority of cover bought is subject to deductibles 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 and industry sector risk.

Frequency and severity of claims in the personal and commercial book of business

The primary activity of the company relates to the assumption of risk from policyholders who may be persons or organisations. Through the issuing of insurance contracts, the company aims to indemnify its policyholders for the risk of loss associated with the insured events under the terms, conditions and limits of the insurance contract.

As such the company is exposed to the uncertainty surrounding the timing and severity of claims covered under the insurance contracts. Insurance events are by their nature uncertain and the actual number and size of events during any one year may vary from those estimated in the setting of an appropriate premium.

The company manages insurance risk through underwriting strategy which seeks to write risk in a diversified manner and through the internal employment of skilled underwriters and concluding of binder agreements with underwriting managers or non-mandated intermediaries who have a proven track record. The Company's underwriting managers are leaders in their chosen line of business and are aligned with the Company both culturally and financially. Prior to issuing any binder agreement a comprehensive due diligence process is undertaken.

Adherence to the underwriting delegated authority is managed through the monitoring of adherence to the binder agreements, underwriting and claims controls and through the monitoring of underwriting performance.

The use of reinsurance as a risk mitigation tool

The company also has proportional reinsurance and non-proportional reinsurance agreements in place to manage losses and exposure in relation to its own equity capital. Treaty reinsurance arrangements are reviewed annually and put in place after analysis of the company's capital requirements. Facultative reinsurance arrangements are utilised on a case-by-case basis as required. Non-proportional reinsurance limits the company's net exposure, in the case of large losses or an accumulation of small losses from one event, 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 handling 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 also provides funding to entities after they have entered into business rescue (i.e. PCF). PCF 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)

2. RISK MANAGEMENT (CONTINUED)

2.2 INSURANCE RISK (CONTINUED)

Concentration risk

The majority of insurance risk is concentrated in Southern Africa and this amount is 98% (2022: 96%), with only pre-approved countries outside of South Africa being underwritten.

Within insurance business, concentrations of risk may arise where a particular risk, event or series of events could impact heavily upon the company's resources.

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 risk, any one contractor, debtor, company or industry. In addition, the risk is also managed through the purchase of adequate and appropriate reinsurance protection.

Within the guarantee portfolio, 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 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 ten highest gross exposures grouped per the following lines of business in the table below. These risks are mitigated through proportional and non-proportional reinsurance to get net exposure:

2023 **Lines of business**	**Gross exposure R'000**	**Net exposure* R'000**
Engineering	10 774 032	10 000
Guarantee	11 223 149	35 000
Property	1 842 835	5 000

2022 **Lines of business**	**Gross exposure R'000**	**Net exposure* R'000**
Engineering	10 639 771	10 000
Guarantee	10 718 448	10 000
Property	6 057 413	5 000

*Net exposure excludes reinstatement premium.

Sources of uncertainty in the estimation of future claims payments relating to the personal and commercial insurance book of business and the manner this uncertainty is addressed

The company is largely liable for insured events which occur during the term of the insurance contract, even if the loss is discovered after the end of the contract term, subject to predetermined times scales and the nature of the insurance contract. The claims which originate from the company's personal and commercial insurance contracts are settled over a short to medium period of time.

2. RISK MANAGEMENT (CONTINUED)

2.2 INSURANCE RISK (CONTINUED)

The provisions established for these insurance liabilities are a single estimate in a range of possible outcomes in the development of reported or unreported claims.

In calculating the estimated cost of reported unpaid claims, the company, through its divisions or binder holders, 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.

The estimation of the cost of unreported claims is subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company.

The personal and commercial insurance IBNR is determined separately for each of the divisions or binder agreements. Where possible and applicable the IBNR uses historical claims development information to estimate the development of current claims. This method assumes that historical claims development will occur again into the future, however there may be reasons where this may not be the case. Where this is identified, allowance is made by modifying the method. Where utilising historical claims development is not possible a method of applying a percentage to written premium is utilised.

Sources of uncertainty in the estimation of future claim payments relating to guarantee book of business 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 IBNR claims.

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 reported claims not yet paid, a provision for IBNR, and a provision for unexpired risks at the statement of financial position date.

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.

Guarantee 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 net of recoveries to compute the IBNR.

2. RISK MANAGEMENT (CONTINUED)

2.2 INSURANCE RISK (CONTINUED)

An exposure based expected loss model is run in parallel to substantiate the reserve set on the ultimate loss ratio method.

The ULR is considered to be the assumption most sensitive to change; therefore a sensitivity analysis is performed. An additional multiplier loading in the ultimate loss ratio per underwriting year where IBNR already exists would result in an increase in the net IBNR charge.

The ultimate cost of claims are always uncertain, therefore management has modelled sensitivity in a range and not just at a single point. As such a 5% and 10% increase in net IBNR and this is presented in the table below:

Line of business	5 % Increase 2023 R '000	5 % Increase 2022 R '000	10 % Increase 2023 R '000	10 % Increase 2022 R '000
Guarantee	33 671	32 294	67 342	64 588
Engineering	769	491	1 539	981
Liability	2 527	2 321	5 054	4 642
Gap Cover	811	679	1 622	1 358
Motor Fleet	57	147	115	293
Marine	197	-	394	-
Motor	443	-	885	-
Non-Motor	601	-	1 201	-

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:

	Financial year				
Underwriting year	2019 R '000	2020 R '000	2021 R '000	2022 R '000	2023 R '000
2015	96 181	560 912	473 987	483 873	474 972
2016	283 771	257 297	233 314	234 671	238 259
2017	88 275	114 936	300 584	612 048	645 845
2018	192 367	284 431	175 673	169 664	144 779
2019	-	229 434	231 114	209 597	209 197
2020	-	-	29 589	67 084	50 314
2021	-	-	-	44 693	106 793
2022	-	-	-	-	74 557

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:

	Financial year				
Underwriting year	2019 R '000	2020 R '000	2021 R '000	2022 R '000	2023 R '000
2015	166 286	169 093	169 930	170 265	170 286
2016	69 319	69 958	72 424	72 838	73 490
2017	90 112	103 346	104 718	105 136	105 184
2018	18 313	54 787	68 737	69 843	70 383
2019	-	22 218	74 571	85 390	94 158
2020	-	-	45 757	101 171	108 874
2021	-	-	-	37 462	110 149
2022	-	-	-	-	38 385

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. RISK MANAGEMENT (CONTINUED)

2.3 MARKET RISK

The company's activities expose it to a variety of market 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.

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

2.3.1 Categories of assets and liabilities

Categories of assets
2023

	Note(s)	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	7	-	1 006 166	-	-	1 006 166
Financial assets at fair value through profit or loss	9	2 048 424	-	-	-	2 048 424
Reinsurance assets	6	-	-	2 792 748	-	2 792 748
Receivables including reinsurance receivables	8	-	-	347 336	106 558	453 894
Cash and cash equivalents	10	-	695 992	-	-	695 992
		2 048 424	**1 702 158**	**3 140 084**	**106 558**	**6 997 224**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. RISK MANAGEMENT (CONTINUED)

2.3 MARKET RISK (CONTINUED)

2.3.1 Categories of assets and liabilities (continued)

Categories of assets*

2022

	Note(s)	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	7	-	1 089 004	-	-	1 089 004
Financial assets at fair value through profit or loss	9	1 729 522	-	-	-	1 729 522
Reinsurance assets	6	-	-	2 586 119	-	2 586 119
Receivables including reinsurance receivables	8	-	-	311 252	91 101	402 353
Cash and cash equivalents	10	-	721 260	-	-	721 260
		1 729 522	**1 810 264**	**2 897 371**	**91 101**	**6 528 258**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. RISK MANAGEMENT (CONTINUED)

2.3 MARKET RISK (CONTINUED)

2.3.1 Categories of assets and liabilities (continued)

Categories of liabilities

2023

	Note(s)	Fair value through profit or loss R '000	Amortised cost R '000	Insurance contract liabilities R '000	Total R '000
Payables including reinsurance payables	15	-	694 291	1 089 806	1 784 097
Insurance liabilities	6	-	-	3 873 589	3 873 589
Unsecured borrowings	12	-	370 589	-	370 589
Financial liabilities at fair value	16	1 455	-	-	1 455
		1 455	**1 064 880**	**4 963 395**	**6 029 730**

2022

	Note(s)	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	15	-	735 846	1 045 675	1 781 521
Insurance liabilities	6	-	-	3 550 420	3 550 420
Unsecured borrowings	12	-	369 050	-	369 050
Financial liabilities at fair value	16	10 076	-	-	10 076
		10 076	**1 104 896**	**4 596 095**	**5 711 067**

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

Financial assets at fair value through profit and loss 2023	Level 1 R '000	Level 2 R '000	Level 3 R '000	Total R '000
Listed - ordinary shares	1 620	-	-	1 620
Unlisted - ordinary shares	-	-	-	-
Listed - unit trust funds and pooled funds	25 234	-	-	25 234
Unlisted - unit trust funds and pooled funds	-	308 544	-	308 544
Short-term money market instruments	-	1 647 500	-	1 647 500
Other assets	-	7 367	58 159	65 526
	26 854	**1 963 411**	**58 159**	**2 048 424**

Financial assets at fair value through profit and loss 2022	Level 1 R '000	Level 2 R '000	Level 3 R '000	Total R '000
Listed - ordinary shares	1 619	-	-	1 619
Unlisted - ordinary shares	-	-	130 510	130 510
Listed - unit trust funds and pooled funds	21 163	-	-	21 163
Unlisted - unit trust funds and pooled funds	-	215 562	-	215 562
Short-term money market instruments	-	1 356 673	-	1 356 673
Other assets	-	3 995	-	3 995
	22 782	**1 576 230**	**130 510**	**1 729 522**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. RISK MANAGEMENT (CONTINUED)

2.3 MARKET RISK (CONTINUED)

2.3.1 Categories of assets and liabilities (continued)

Financial liabilities 2023	Level 1 R '000	Level 2 R '000	Level 3 R '000	Total R '000
Unsecured borrowings	-	370 589	-	370 589
Hedge instrument	-	1 455	-	1 455
	-	**372 044**	**-**	**372 044**

Financial liabilities 2022	Level 1 R '000	Level 2 R '000	Level 3 R '000	Total R '000
Unsecured borrowings*	-	369 050	-	369 050
Hedge instrument	10 076	-	-	10 076
	10 076	**369 050**	**-**	**379 126**

*The amortised cost value approximates the fair value.

Included in the Level 1 category are financial assets and liabilities that are traded 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 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	Embedded value, projected VNB, terminal value
Other assets	Appraisal value	Projected VNB, VNB multiple

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 30 June 2022 R '000	Additions R '000	Disposals R '000	Fair value through profit or loss R '000	At 30 June 2023 R '000
Unlisted Ordinary Shares	130 510	-	(126 742)	(3 768)	-
Other assets	-	58 159	-	-	58 159

2. RISK MANAGEMENT (CONTINUED)

2.3 MARKET RISK (CONTINUED)

2.3.1 Categories of assets and liabilities (continued)

Sensitivity analysis of level 3 assets

The value of the Sanlam debtor is based on the appraisal value at 30 June 2023.

R million Value	Value R'000	% change
Base value	58 161	- %
Multiple +1	64 351	11 %
Multiple -1	51 970	(11)%

Financial risk management

2.3.2 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 (including 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.

Reinsurance is used to manage insurance risk and consequently reinsurance assets are raised for expected recoveries on projected claims in line with reinsurance contracts. This does not, however, discharge the company's liability as primary insurer. In addition, reinsurance debtors are raised for specific recoveries on claims recognised. In the majority, 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.

The aggregate exposure to credit risk is R 6 997 224 (2022: R 6 528 258).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. RISK MANAGEMENT (CONTINUED)

2.3 MARKET RISK (CONTINUED)
2.3.2 Credit risk (continued)

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

	Treaty Estimated Premium Cession 2023			Treaty Estimated Premium Cession 2022		
Reinsurer	**Guarantee**	**Non-Guarantee**	**2023 Credit* rating**	**Guarantee**	**Non-Guarantee**	**2022 Credit* rating**
Africa Re-SA	- %	13 %	A-	- %	13 %	A-
AXIS-Deblin/Zurich Branch	4 %	- %	A+	4 %	- %	A+
CCR Re	- %	- %	A	- %	1 %	A
Echo Re, Zurich	2 %	- %	A-	2 %	- %	A-
Convex Insurance UK Limited	- %	1 %	A-	- %	1 %	A-
Everest Reinsurance - New Jersey	- %	4 %	A+	- %	4 %	A+
Everest Reinsurance - Ireland	3 %	- %	A+	3 %	- %	A+
GIC Re-SA	- %	1 %	BB+	- %	- %	BB+
Hannover-SA	15 %	2 %	AA-	14 %	2 %	AA-
Helvetia Re	- %	1 %	A+	- %	- %	A
Liberty Mutual (Europe)	13 %	- %	A	11 %	1 %	A
Lloyd's	- %	1 %	A+	- %	2 %	A+
Mapf Re, Spain	3 %	1 %	A+	2 %	- %	A+
MS Amlin, Zurich	12 %	- %	A	9 %	- %	A
Munich Re - SA	- %	27 %	AA-	- %	25 %	AA-
Nordic Guarantee, Sweden	- %	- %	Unrated	13 %	- %	Unrated
QBE	- %	- %	A+	- %	1 %	A+
R&V - Wiesbaden	15 %	30 %	A+	13 %	29 %	A+
Santam Re	- %	7 %	BB	- %	9 %	BB
Scor - Local	13 %	3 %	A+	12 %	3 %	AA-
Scor - Paris	2 %	1 %	A+	1 %	1 %	AA-
Sirius International Insurance Corporation Belgian Branch	3 %	- %	A-	3 %	- %	A-
Swiss - Zurich	15 %	- %	AA-	13 %	- %	AA-
Swiss Re-SA	- %	6 %	AA-	- %	6 %	AA-
Transatlantic Re	- %	2 %	AA+	- %	2 %	A+
	100 %	100 %		100 %	100 %	

* International rating as per Standard & Poor's Financial Services LLC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. RISK MANAGEMENT (CONTINUED)

2.3 MARKET RISK (CONTINUED)
2.3.2 Credit risk (continued)

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

2023	AAA R '000	AA+ R '000	AA- R '000	A+ R '000	A R '000	A- R '000	BB+ R '000	BB R '000	BB- R '000	B+ R '000	Not rated R '000	Total R '000
Receivables due from insurance contracts	-	-	-	-	-	-	-	-	-	-	347 336	347 336
Reinsurance assets	-	22 704	887 353	1 131 159	414 543	249 967	6 786	80 236		-	-	2 792 748
Cash and cash equivalents	-	-	-	9 312	-	-	-	162 429	524 231	-	20	695 992
Financial assets at amortised cost*	-	-	-	-	-	-	-	152 507	384 034	-	469 625	1 006 166
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	114	1 622 688	24 698	400 924	2 048 424
Other loans receivables	-	-	-	-	-	-	-	-	-	-	106 558	106 558
	-	22 704	887 353	1 140 471	414 543	249 967	6 786	395 286	2 530 953	24 698	1 324 463	6 997 224

2022	AAA R '000	AA+ R '000	AA- R '000	A+ R '000	A R '000	A- R '000	BB+ R '000	BB R '000	BB- R '000	B+ R '000	Not rated R '000	Total R '000
Receivables due from insurance contracts	-	-	-	-	-	-	-	-	-	-	311 252	311 252
Reinsurance assets	-	-	995 962	755 411	321 225	220 165	4 171	96 908	-	-	192 277	2 586 119
Cash and cash equivalents	-	-	-	55 145	-	-		133 200	532 891	-	24	721 260
Financial assets at amortised cost*	-	-	-	-	-	-	-	130 342	357 762	-	600 900	1 089 004
Financial assets at fair value through profit or loss	54 515	1 072 449	-	-	-	-	-	105	206 660	22 944	372 849	1 729 522
Other loans receivables	-	-	-	-	-	-	-	-	-	-	91 101	91 101
	54 515	**1 072 449**	**995 962**	**810 556**	**321 225**	**220 165**	**4 171**	**360 555**	**1 097 313**	**22 944**	**1 568 403**	**6 528 258**

*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 note 7 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.

2. RISK MANAGEMENT (CONTINUED)

2.3 MARKET RISK (CONTINUED)

2.3.3 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:

		2023			2022		
	Note(s)	Gross carrying amount R '000	Credit loss allowance R '000	Amortised cost / fair value R '000	Gross carrying amount R '000	Credit loss allowance R '000	Amortised cost / fair value R '000
Financial assets at amortised cost	7	1 040 078	(33 912)	1 006 166	1 156 299	(67 295)	1 089 004
Cash and cash equivalents	10	695 992	-	695 992	721 260	-	721 260
		1 736 070	**(33 912)**	**1 702 158**	**1 877 559**	**(67 295)**	**1 810 264**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. RISK MANAGEMENT (CONTINUED)

2.3 MARKET RISK (CONTINUED)

2.3.4 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 2023								
Receivables due from insurance contracts	166 235	64 199	86 365	12 761	17 776	17 305	(17 305)	347 336
Other loans and receivables	106 558	-	-	-	-	-	-	106 558
	272 793	**64 199**	**86 365**	**12 761**	**17 776**	**17 305**	**(17 305)**	**453 894**

		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 2022								
Receivables due from insurance contracts	134 818	78 858	88 172	7 956	1 448	18 965	(18 965)	311 252
Other loans and receivables	91 101	-	-	-	-	-	-	91 101
	225 919	**78 858**	**88 172**	**7 956**	**1 448**	**18 965**	**(18 965)**	**402 353**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. RISK MANAGEMENT (CONTINUED)

2.3 MARKET RISK (CONTINUED)

2.3.5 Foreign currency risk

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

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

	USD R '000	GBP R '000	BWP R '000	NAD R '000	EUR R '000	AUD R '000	Other* R '000	Total ZAR R '000
As at 30 June 2023								
Receivables due from insurance contracts	-	-	183	8 688	6 907	42 412	9 297	67 487
Financial assets	139 468	69 341	-	-	-	-	-	208 809
Cash and cash equivalents	13 783	891	-	-	-	-	2	14 676
	153 251	**70 232**	**183**	**8 688**	**6 907**	**42 412**	**9 299**	**290 988**
Exchange rate as at 30 June 2023	**18.8970**	**24.0240**	**1.3894**	**1.0000**	**20.6164**	**12.5742**	**-**	

	USD R '000	GBP R '000	BWP R '000	NAD R '000	EUR R '000	AUD R '000	Other* R '000	Total ZAR R '000
As at 30 June 2022								
Receivables due from insurance contracts	-	-	792	5 380	7 712	48 410	12 013	74 307
Financial assets	63 815	54 930	-	-	-	-	-	118 745
Cash and cash equivalents	58 561	738	-	-	-	-	20	59 319
	122 376	**55 668**	**792**	**5 380**	**7 712**	**48 410**	**12 033**	**252 371**
Exchange rate as at 30 June 2022	**16.3773**	**19.8902**	**1.3018**	**1.0000**	**17.1210**	**11.2629**		

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.

2. RISK MANAGEMENT (CONTINUED)

2.3 MARKET RISK (CONTINUED)

2.3.5 Foreign currency risk (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.

	2023 R '000	2022 R '000
10 % Increase	(1 775)	(1 503)
10 % Decrease	1 775	1 503

2.3.6 Interest rate risk

The company's income, expenses and operating cash flows are dependent on changes in market interest rates due to loans granted, bank balances, money market investments, fixed deposit investments and Tier II borrowings. 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.

	2023 R '000	2022 R '000
1 % Increase	28 562	24 323
1 % Decrease	(28 562)	(24 323)

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.

2.3.7 Equity risk

The company is exposed to equity securities price risk because of investments held by the company and classified on the Statement of Financial Position as at fair value through profit or loss. The company is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the company.

The table below summarises the impact of increases/(decreases) of the indexes on the company's profit or loss for the year. The analysis is based on the assumption that the equity price at reporting date has increased/(decreased) by 10% with all other variables held constant:

	2023 R '000	2022 R '000
Fair value of listed equities	1 620	1 619
10 % Increase	162	162
10 % Decrease	(162)	(162)

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

2. RISK MANAGEMENT (CONTINUED)

2.4 ASSET / LIABILITY MANAGEMENT

A distinction is drawn between insurance and shareholders' funds and the following strategies adopted for each.

The investment philosophy 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.

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

2.6 REPUTATION RISK

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 loss adjusting, 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.

2.7 NON-LIFE UNDERWRITING: PREMIUM 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.

The risks in the other specialist insurance lines are individually underwritten by binder holders or internal divisions and a rate is quoted. The company partners with and establishes binder agreements with underwriters who have demonstrated expertise. Where required, controls are employed to monitor and manage the rates quoted by binder holders.

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)

2. RISK MANAGEMENT (CONTINUED)

2.8 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 monthly to ensure that adequate resources are available to meet all obligations.

The following table summarises the contractual repricing or expected 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. Financial liabilities are presented on an undiscounted contractual cash flow basis.

Maturity analysis 2023

Financial and insurance assets	**Within 1 year R '000**	**1 - 5 years R '000**	**More than 5 years R '000**	**Open ended R '000**	**Total R '000**
Financial assets through profit or loss					
Equity securities					
Quoted	-	-	1 620	-	1 620
Unit trusts and pooled funds					
Listed unit trusts and pooled funds	-	-	25 234	-	25 234
Unlisted unit trusts and pooled funds	19 289	167 985	123 389	-	310 663
Other financial assets	-	58 159	-	-	58 159
Money market investments					
Short-term money market instruments	1 511 312	136 188	-	-	1 647 500
Debt securities					
Preference shares	-	5 248	-	-	5 248
Financial assets at amortised cost					
Financial assets at amortised cost	426 486	579 680	-	-	1 006 166
Insurance assets					
Reinsurance assets (incl DAC)	1 687 240	1 104 893	615	-	2 792 748
Receivables including reinsurance receivables	428 283	25 611	-	-	453 894
Cash and cash equivalents					
Short-term deposits	481 985	-	-	-	481 985
Cash and cash equivalents	214 007	-	-	-	214 007
Total financial and insurance assets	**4 768 602**	**2 077 764**	**150 858**	**-**	**6 997 224**
Financial and insurance liabilities					
Financial liabilities through profit or loss	(1 455)	-	-	-	(1 455)
Unsecured borrowings	(105 589)	(265 000)	-	-	(370 589)
Insurance liabilities	(2 762 320)	(1 110 347)	(922)	-	(3 873 589)
Payables including reinsurance payables	(577 235)	(725 172)	-	(481 690)	(1 784 097)
Unsecured borrowings - coupon payments*	(41 141)	(40 822)	-	-	(81 963)
Total financial and insurance liabilities	**(3 487 740)**	**(2 141 341)**	**(922)**	**(481 690)**	**(6 111 693)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. RISK MANAGEMENT (CONTINUED)

2.8 LIQUIDITY RISK (CONTINUED)

Maturity analysis 2022

Financial and insurance assets	Within 1 year R '000	1 - 5 years R '000	More than 5 years R '000	Open ended R '000	Total R '000
Financial assets through profit or loss					
Equity securities					
Quoted	-	-	-	1 619	1 619
Unquoted	130 510	-	-	-	130 510
Unit trusts and pooled funds					
Listed unit trusts and pooled funds	-	-	21 163	-	21 163
Unlisted unit trusts and pooled funds	-	111 609	72 051	35 897	219 557
Money market investments					
Short-term money market instruments	1 282 873	73 800	-	-	1 356 673
Financial assets at amortised cost					
Financial assets at amortised cost	311 543	770 191	7 270	-	1 089 004
Insurance assets					
Reinsurance assets (incl DAC)	1 883 906	702 213	-	-	2 586 119
Receivables including reinsurance receivables	381 882	20 471	-	-	402 353
Cash and cash equivalents					
Short-term deposits	489 802	-	-	-	489 802
Cash and cash equivalents	231 458	-	-	-	231 458
Total financial and insurance assets	**4 711 974**	**1 678 284**	**100 484**	**37 516**	**6 528 258**
Financial and insurance liabilities					
Financial liabilities through profit or loss	(10 076)	-	-	-	(10 076)
Unsecured borrowings	(4 050)	(365 000)	-	-	(369 050)
Insurance liabilities	(2 481 341)	(1 069 079)	-	-	(3 550 420)
Payables including reinsurance payables	(682 772)	(508 263)	-	(590 486)	(1 781 521)
Unsecured borrowings - coupon payments*	(30 988)	(57 485)	-	-	(88 473)
Total financial and insurance liabilities	**(3 209 227)**	**(1 999 827)**	**-**	**(590 486)**	**(5 799 540)**

* The settlement of coupon payments has been included in order to provide further information in relation to the cash obligations associated with the unsecured debt.

2. RISK MANAGEMENT (CONTINUED)

2.9 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.

2.10 CAPITAL MANAGEMENT

The company aims to maintain sufficient capital which comprises shareholders' equity and unsecured subordinated borrowings to meet its strategic business plan and the following 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.

2.11 COMPLIANCE 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.

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)

	2023 R '000	2022 R '000
3. DEFERRED TAX ASSET/LIABILITY		
Deferred tax liability		
Intangible assets	(1 514)	(2 339)
Equipment and right-of-use asset	(6 705)	(3 340)
Unrealised gains on investments	(22 080)	(25 751)
Other receivable	(12 562)	-
Total deferred tax liability	**(42 861)**	**(31 430)**
Deferred tax asset		
Provisions	38 561	26 184
Assessed capital loss	6 029	-
Loss allowance for financial assets	5 496	7 272
Lease liability	7 824	4 294
Provision for profit share	25 473	9 677
Total deferred tax asset	**83 383**	**47 427**
The deferred tax asset and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:		
Deferred tax liability	(42 861)	(31 430)
Deferred tax asset	83 383	47 427
Net deferred tax asset	**40 522**	**15 997**
Reconciliation of deferred tax asset		
At beginning of year	15 997	18 857
Charge to statement of comprehensive income	24 525	(2 860)
At the end of the year	**40 522**	**15 997**

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)

3. 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	Provision for profit share	Provisions	Assessed capital loss	Lease liability	Total
	R '000	R '000	R '000	R '000	R '000	R '000
As at 30 June 2022	7 272	9 677	26 184	-	4 294	47 427
Charged to the statement of profit or loss	(1 776)	15 796	12 377	6 029	3 530	35 956
As at 30 June 2023	**5 496**	**25 473**	**38 561**	**6 029**	**7 824**	**83 383**
As at 30 June 2021	7 532	10 031	29 398	-	6 043	53 004
Charged to the statement of profit or loss	(260)	(354)	(3 214)	-	(1 749)	(5 577)
As at 30 June 2022	**7 272**	**9 677**	**26 184**	**-**	**4 294**	**47 427**

b) Deferred tax liabilities

	Intangible assets	Equipment and ROU asset	Other receivable	Unrealised gains on investments	Total
	R '000	R '000	R '000	R '000	R '000
As at 30 June 2022	(2 339)	(3 340)	-	(25 751)	(31 430)
Charged to the statement of profit or loss	825	(3 365)	(12 562)	3 671	(11 431)
As at 30 June 2023	**(1 514)**	**(6 705)**	**(12 562)**	**(22 080)**	**(42 861)**
As at 30 June 2021	(4 204)	(5 054)	-	(24 889)	(34 147)
Charged to the statement of profit or loss	1 865	1 714	-	(862)	2 717
As at 30 June 2022	**(2 339)**	**(3 340)**	**-**	**(25 751)**	**(31 430)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. INTANGIBLE ASSETS

	2023			2022		
	Cost/ Valuation R '000	Accumulated amortisation R '000	Carrying value R '000	Cost/ Valuation R '000	Accumulated amortisation R '000	Carrying value R '000
Computer software	105 061	(91 814)	13 247	95 653	(84 905)	10 748

Reconciliation of intangible assets - 2023

	Opening balance R '000	Additions R '000	Amortisation R '000	Total R '000
Computer software	10 748	9 407	(6 908)	13 247

Reconciliation of intangible assets - 2022

	Opening balance R '000	Additions R '000	Write off R '000	Amortisation R '000	Total R '000
Computer software	17 252	4 668	(2 469)	(8 703)	10 748

Amortisation expense has been included in other operating expenses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. EQUIPMENT AND RIGHT-OF-USE ASSET

	2023			2022		
	Cost R '000	Accumulated depreciation R '000	Carrying value R '000	Cost R '000	Accumulated depreciation R '000	Carrying value R '000
Motor vehicles	1 095	(257)	838	600	(360)	240
Furniture and equipment*	28 789	(18 260)	10 529	23 424	(15 119)	8 305
Right-of-use asset	44 548	(21 349)	23 199	26 918	(15 695)	11 223
Total	**74 432**	**(39 866)**	**34 566**	**50 942**	**(31 174)**	**19 768**

Reconciliation of equipment and right-of-use asset - 2023

	Opening balance R '000	Additions R '000	Adjustment for lease modification R '000	Depreciation R '000	Total R '000
Motor vehicles	240	810	-	(212)	838
Furniture and equipment*	8 305	5 369	-	(3 145)	10 529
Right-of-use asset	11 223	-	17 630	(5 654)	23 199
	19 768	**6 179**	**17 630**	**(9 011)**	**34 566**

Reconciliation of equipment and right-of-use asset - 2022

	Opening balance R '000	Additions R '000	Depreciation R '000	Total R '000
Motor vehicles	-	284	(44)	240
Furniture and equipment*	10 625	335	(2 655)	8 305
Right-of-use asset	16 607	-	(5 384)	11 223
	27 232	**619**	**(8 083)**	**19 768**

* 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)

	2023 R '000	2022 R '000
6. INSURANCE LIABILITIES AND REINSURANCE ASSETS		
Gross		
Outstanding claims reserve	2 070 821	2 007 293
Claims incurred but not reported	1 013 341	842 132
Unearned premium reserve	934 101	822 196
Deferred acquisition costs	(144 674)	(121 201)
Total insurance liabilities	**3 873 589**	**3 550 420**
Recoverable from reinsurers		
Outstanding claims reserve	(1 730 857)	(1 713 263)
Claims incurred but not reported	(665 322)	(543 041)
Unearned premium reserve	(534 934)	(446 809)
Deferred reinsurance commission	138 365	116 994
Total reinsurers' share of insurance liabilities	**(2 792 748)**	**(2 586 119)**
Net		
Outstanding claims reserve	339 964	294 030
Claims incurred but not reported	348 019	299 091
Unearned premium reserve	399 167	375 387
Deferred acquisition costs	(144 674)	(121 201)
Deferred reinsurance commission	138 365	116 994
Total net insurance liabilities	**1 080 841**	**964 301**
Current asset	1 687 240	1 883 906
Current liability	(2 762 320)	(2 481 341)
Total net current liability	**(1 075 080)**	**(597 435)**
Non-current asset	1 105 508	702 213
Non-current liability	(1 111 269)	(1 069 079)
Total net non-current liability	**(4 839)**	**(366 866)**

6. 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 2022			
Outstanding claims reserve	2 007 293	(1 713 263)	294 030
Incurred but not reported	842 132	(543 041)	299 091
Unearned premium reserve	822 196	(446 809)	375 387
Deferred acquisition costs	(121 201)	-	(121 201)
Deferred reinsurance commission	-	116 994	116 994
	3 550 420	(2 586 119)	964 301
Claims paid during the year (note 20)	(1 667 617)	1 175 771	(491 846)
Movement in outstanding claim reserves	1 731 145	(1 193 369)	537 776
Movement in claims incurred but not reported reserve	171 209	(122 281)	48 928
Movement in unearned premium reserve (note 17)	111 905	(88 125)	23 780
Movement in deferred acquisition costs	(23 473)	-	(23 473)
Movement in deferred reinsurance commission	-	21 375	21 375
As at 30 June 2023	**3 873 589**	**(2 792 748)**	**1 080 841**
Balance as at 30 June 2023 is made up as follows:			
Outstanding claims reserve	2 070 821	(1 730 857)	339 964
Claims incurred but not reported	1 013 341	(665 322)	348 019
Unearned premium reserve	934 101	(534 934)	399 167
Deferred acquisition costs	(144 674)	-	(144 674)
Deferred reinsurance commission	-	138 365	138 365
	3 873 589	**(2 792 748)**	**1 080 841**
As at 30 June 2021			
Outstanding claims reserve	1 232 849	(977 414)	255 435
Incurred but not reported	560 566	(374 848)	185 718
Unearned premium reserve	641 050	(318 136)	322 914
Deferred acquisition costs	(93 063)	-	(93 063)
Deferred reinsurance commission	-	82 352	82 352
	2 341 402	(1 588 046)	753 356
Claims paid during the year (note 20)	(979 503)	660 633	(318 870)
Movement in outstanding claim reserves	1 752 059	(1 396 484)	355 575
Movement in claims incurred but not reported reserve	281 569	(168 190)	113 379
Movement in unearned premium reserve (note 17)	181 167	(128 705)	52 462
Movement in deferred acquisition costs	(28 239)	-	(28 239)
Movement in deferred reinsurance commission	-	34 945	34 945
Foreign currency adjustment	1 965	(272)	1 693
As at 30 June 2022	**3 550 420**	**(2 586 119)**	**964 301**
Balance at 30 June 2022 is made up as follows:			
Outstanding claims reserve	2 007 293	(1 713 263)	294 030
Claims incurred but not reported	842 132	(543 041)	299 091
Unearned premium reserve	822 196	(446 809)	375 387
Deferred acquisition costs	(121 201)	-	(121 201)
Deferred reinsurance commission	-	116 994	116 994
	3 550 420	**(2 586 119)**	**964 301**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2023 R '000	2022 R '000
7. FINANCIAL ASSETS AT AMORTISED COST		
Financial assets at amortised cost are presented at amortised cost, which is net of loss allowance, as follows:		
Loans receivable	360 872	354 795
Sundry debtors	42 167	22 024
Amounts due from related parties	66 586	224 081
Fixed deposits	536 541	488 104
	1 006 166	**1 089 004**
Split between non-current and current portions		
Non-current assets	579 680	777 461
Current assets	426 486	311 543
	1 006 166	**1 089 004**

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 :

2023

Instrument	Basis of loss allowance	Gross carrying amount R '000	Loss allowance R '000	Amortised cost R '000
Loans receivable	12m/Lifetime ECL	394 155	(33 283)	360 872
Sundry debtors	Lifetime ECL	42 167	-	42 167
Amounts due from related parties (note 27)	12m ECL	67 215	(629)	66 586
Fixed deposits	Not credit impaired	536 541	-	536 541
		1 040 078	**(33 912)**	**1 006 166**

2022

Instrument	Basis of loss allowance	Gross carrying amount R '000	Loss allowance R '000	Amortised cost R '000
Loans receivable	12m/Lifetime ECL	376 100	(21 305)	354 795
Sundry debtors	Lifetime ECL	67 272	(45 248)	22 024
Amounts due from related parties	12m ECL	224 823	(742)	224 081
Fixed deposits	Not credit impaired	488 104	-	488 104
		1 156 299	**(67 295)**	**1 089 004**

The lifetime ECL in sundry debtors is due to the IGM debtor.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2023 R '000	2022 R '000
7. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)		
Reconciliation of loss allowances		
The following tables show the movement in the loss allowances for financial assets at amortised cost.		
Opening balance	(67 295)	(57 380)
Raised	(12 682)	(10 328)
Utilised during the year	46 065	413
Closing balance	**(33 912)**	**(67 295)**

Credit rating framework

The loss allowance for loans receivable and amounts due from related parties as at 30 June 2023 and 30 June 2022 reconciles to the opening loss allowance for that provision as follows:

2023	**ECL Rate**	**ECL method**	**Gross**	**Provision opening balance R'000**	**Raised in the period R'000**	**Provision closing balance R'000**
Performing	1 %	12 month	320 793	(3 214)	(500)	(3 714)
Underperforming	25 %	Lifetime	113 092	(17 244)	(11 196)	(28 440)
Not performing	3 %	Lifetime	26 428	(532)	(169)	(701)
Write-off	100 %	Write-off	1 057	(1 057)	-	(1 057)
	129 %		**461 370**	**(22 047)**	**(11 865)**	**(33 912)**

2022	**ECL Rate**	**ECL method**	**Gross**	**Provision opening balance R'000**	**Raised in the period R'000**	**Provision closing balance R'000**
Performing	1 %	12 month	480 613	(2 582)	(632)	(3 214)
Underperforming	17 %	Lifetime	99 223	(8 390)	(8 854)	(17 244)
Not performing	3 %	Lifetime	20 030	(510)	(22)	(532)
Write-off	100 %	Write-off	1 057	(1 057)	-	(1 057)
	121 %		**600 923**	**(12 539)**	**(9 508)**	**(22 047)**

Performing	Low risk of default and a strong capacity to meet contractual cash flows
Underperforming	Significant increase in credit risk - presumed if interest and/or principal repayments are past due
Not performing	Interest and/or principal repayments are 30 days past due
Write-off	Interest and/or principal repayments are past due and there is no reasonable expectation of recovery

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2023 R '000	2022 R '000
8. RECEIVABLES INCLUDING REINSURANCE RECEIVABLES		
Receivables due from insurance contracts		
Due from insurance contracts	315 482	306 064
Impairment provision	(17 305)	(18 965)
Due from reinsurance contracts	49 159	24 153
	347 336	**311 252**
Other loans and receivables		
Prepaid expenses	1 891	1 372
VAT	31 025	9 688
Other receivables	73 642	80 041
	453 894	**402 353**
Split between non-current and current portions		
Non-current assets	25 611	20 471
Current assets	428 283	381 882
	453 894	**402 353**
Reconciliation of provision for impairment of receivables due from insurance contracts		
Opening balance	(18 965)	(23 934)
Provision utilised in the period	1 660	4 969
Closing balance	**(17 305)**	**(18 965)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2023 R '000	2022 R '000
9. FINANCIAL ASSETS AT FAIR VALUE		
Investments held by the company which are measured at fair value through profit or loss are as follows:		
Equity investments at fair value through profit or loss	1 620	132 129
Debt investments at fair value through profit or loss	333 778	236 725
Money market investments	1 647 500	1 356 673
Other investments	65 526	3 995
	2 048 424	**1 729 522**
Mandatorily at fair value through profit or loss:		
Listed shares	1 620	1 619
Unlisted shares	-	130 510
Unlisted unit trusts and pooled funds	308 544	215 562
Listed unit trusts and pooled funds	25 234	21 163
Short-term money market instruments	1 647 500	1 356 673
Other assets	65 526	3 995
	2 048 424	**1 729 522**
Split between non-current and current portions		
Non-current assets	517 823	316 139
Current assets	1 530 601	1 413 383
	2 048 424	**1 729 522**
10. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents consist of:		
Cash on hand	20	24
Bank balances	213 987	231 434
Short-term deposits	481 985	489 802
	695 992	**721 260**
11. SHARE CAPITAL		
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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2023 R '000	2022 R '000
12. UNSECURED BORROWINGS		
Unsecured subordinated notes	365 000	365 000
Interest accrued	5 589	4 050
	370 589	**369 050**
Reconciliation of unsecured borrowings		
Opening balance	369 050	302 853
Raised during the year	-	65 000
Finance costs raised (note 22)	38 421	24 708
Finance costs paid	(36 882)	(23 511)
	370 589	**369 050**

In November 2014, the company issued R200 million unsecured subordinated notes (LOM01) under a R1 000 million notes programme listed on the JSE. Interest is based on 4.75% above 3 months JIBAR. On 30 January 2019, R100 million was redeemed and reissued in a capital switch. The reissued R100 million subordinated notes (LOM02) have a rate of 3.95% above 3 months JIBAR which was 7.967% at 30 June 2023. The redemption date for this issue is 30 January 2024.

In November 2019, the company redeemed and reissued R100 million unsecured subordinated notes (LOM03). Interest is based on 3.90% above 3 months JIBAR which was 8.133%% at 30 June 2023. The redemption date for the notes issued is 25 November 2024.

In November 2019, the company issued an additional R100 million unsecured subordinated notes (LOM04). Interest is based on 4.10% above 3 months JIBAR which was 8.133% at 30 June 2023. The redemption date for the notes issued is 25 May 2025.

In June 2021, the subordinated notes were delisted from the JSE.

In April 2022, the company issued an additional R65 million unsecured subordinated notes (LOM05U). Interest is based on 3.60% above 3 month JIBAR which was 7.967% at 30 June 2023. The redemption date for the notes issued is 29 April 2027.

Interest on the notes is payable on a quarterly basis.

Split between non-current and current portions		
Non-current liabilities	265 000	365 000
Current liabilities	105 589	4 050
	370 589	**369 050**
13. LEASES		
Lease liability		
Opening balance	15 904	21 582
Lease modification	18 045	-
Finance costs	2 661	2 054
Repayments	(7 633)	(7 732)
	28 977	**15 904**
Split between non-current and current portions		
Non-current liabilities	23 595	9 015
Current liabilities	5 382	6 889
	28 977	**15 904**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2023 R '000	2022 R '000
13. LEASES (CONTINUED)		
Maturity analysis - contractual undiscounted cash flows		
Current	7 951	8 273
Non-current	27 495	9 594
	35 446	**17 867**
Right-of-use assets		
Office building (note 5)	44 548	26 918
The statement of profit or loss shows the following amounts relating to leases:		
Depreciation charge of right-of-use asset - office building	5 654	5 384
Interest expense (included in finance cost)	2 661	2 054

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. In August 2022, the lease was renegotiated and extended for a further 5-year term. The lease is subject to a 6% annual escalation rate. No contingent rent is payable.

14. EMPLOYEE BENEFIT PROVISIONS

Bonus provision - STI	94 387	61 729
Bonus provision - LTI	22 515	10 155
Leave pay provision	12 935	10 872
	129 837	**82 756**

Reconciliation of employee benefit provisions - 2023

	Opening balance R '000	Additions R '000	Utilised during the year R '000	Total R '000
Bonus provision	71 884	113 641	(68 623)	116 902
Leave pay provision	10 872	2 890	(827)	12 935
	82 756	**116 531**	**(69 450)**	**129 837**

Reconciliation of employee benefit provisions - 2022

	Opening balance R '000	Additions R '000	Utilised during the year R '000	Total R '000
Bonus provision	76 633	76 426	(81 175)	71 884
Leave pay provision	11 313	107	(548)	10 872
	87 946	**76 533**	**(81 723)**	**82 756**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2023 R '000	2022 R '000
14. EMPLOYEE BENEFIT PROVISIONS (CONTINUED)		
Split between non-current and current portion		
Non-current liabilities	13 610	1 946
Current liabilities	116 227	80 810
	129 837	**82 756**
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 and is expected to be utilised in the following financial period.		
15. PAYABLES INCLUDING REINSURANCE PAYABLES		
Payables due to insurance contracts		
Payables under reinsurance contracts	1 052 574	1 009 218
Trade payables	37 232	36 457
Collateral payables	483 243	592 039
	1 573 049	**1 637 714**
Other payables		
Sundry creditors	44 012	40 630
Amounts due to related parties (note 27)	140 242	87 000
Accrued expense	26 794	16 177
	1 784 097	**1 781 521**
Split between non-current and current portions		
Non-current	1 206 862	1 098 749
Current	577 235	682 772
	1 784 097	**1 781 521**
16. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		
At fair value through profit or loss		
Hedge instruments	1 455	10 076
17. NET INSURANCE PREMIUM REVENUE		
Insurance contracts		
Gross written premium	3 923 415	3 232 561
Change in unearned premium provision	(111 905)	(181 167)
Insurance premium revenue	**3 811 510**	**3 051 394**
Reinsurance contracts		
Reinsurance premium	(2 602 823)	(2 061 129)
Change in unearned premium provision - reinsurers' portion	88 125	128 705
Insurance premium revenue ceded to reinsurers	**(2 514 698)**	**(1 932 424)**
	1 296 812	**1 118 970**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2023 R '000	2022 R '000
18. INVESTMENT INCOME AND INTEREST INCOME USING THE EFFECTIVE INTEREST RATE METHOD		
Investment income		
Dividend income on financial assets	295	172
Foreign exchange differences - other	1 176	-
Net fair value loss adjustment on hedge instruments	(31 036)	(10 698)
Foreign exchange differences on financial assets	37 917	22 379
Net fair value gain/(loss) adjustment on financial assets	3 110	(1 325)
Other income – financial assets	2 139	1 868
Interest income - financial assets at fair value through profit or loss	89 344	45 812
	102 945	**58 208**
Interest income using the effective interest rate method		
Interest income - loans	47 725	30 295
Interest income - deposits	96 755	56 880
Interest income - reinsurance	127	10
	144 607	**87 185**
Total	**247 552**	**145 393**
19. OTHER INCOME		
Sundry income	9 180	595
Aviation income	1 892	1 342
Profit on disposal of equipment	20	-
	11 092	**1 937**
20. NET INSURANCE CLAIMS		
Current year claims paid	(1 667 617)	(979 503)
Movement in incurred but not reported provision	(171 209)	(281 569)
Movement in outstanding claims provision	(63 502)	(772 556)
Insurance claims incurred	**(1 902 328)**	**(2 033 628)**
Recoveries from reinsurers	1 175 771	660 633
Reinsurers' portion of incurred but not reported provision	122 281	168 190
Reinsurers' portion of outstanding claims provision	17 577	735 845
Insurance claims recovered from reinsurers	**1 315 629**	**1 564 668**
Net insurance claims	**(586 699)**	**(468 960)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2023 R '000	2022 R '000
21. OTHER OPERATING EXPENSES		
Amortisation	6 908	8 703
Auditors remuneration - external audit	8 403	3 765
Auditors remuneration - internal audit	2 409	2 571
Depreciation	9 011	8 083
Profit share	176 905	95 155
Foreign exchange difference	-	(102)
Information expenses	9 656	9 377
Travel and accommodation	10 643	5 153
Corporate social investment	8 451	8 137
Directors and prescribed officers' emoluments	37 891	47 345
Employee costs - salaried staff	307 855	224 981
Interest expense	60 143	31 770
Lease rentals on operating lease	3 455	2 290
Consulting and professional fees	45 287	37 695
Repairs and maintenance	1 377	1 158
Information technology costs	36 931	28 250
Asset management fees	1 062	1 589
Bank charges	11 485	7 967
Assets written off	-	2 466
Provision for doubtful debts/bad debts written off	43 123	515
Other expenses	9 150	14 738
	790 145	**541 606**
22. FINANCE COSTS		
Interest expense - unsecured borrowings	38 421	24 708
Interest expense - lease liability	2 661	2 054
Total finance costs	**41 082**	**26 762**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2023 R '000	2022 R '000
23. TAXATION		
Major components of the tax expense		
Current		
Local income tax - current period	56 831	21 692
Foreign income or withholding tax - current period	2 304	2 442
	59 135	**24 134**
Deferred		
Originating and reversing temporary differences	(24 525)	2 860
	34 610	**26 994**
Reconciliation of the tax expense		
Reconciliation between applicable tax rate and average effective tax rate.		
Applicable tax rate	27.00 %	28.00 %
Foreign withholding taxes	- %	0.54 %
Prior year under provision	- %	(1.89)%
Exempt dividend income	(0.05)%	(0.06)%
Capital gains taxed at CGT rate	(0.66)%	(0.89)%
Non-taxable income	1.90 %	2.78 %
Non-deductible donations	0.44 %	0.78 %
Non-deductible expenses - capital in nature	0.06 %	0.12 %
Other non-deductible expenses	(1.22)%	7.35 %
Deductible expenses	(3.40)%	(2.78)%
Change in tax rate	- %	0.76 %
	24.07 %	**34.71 %**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2023 R '000	2022 R '000
24. CASH GENERATED FROM OPERATIONS		
Profit before taxation	143 716	77 797
Adjustments for:		
Depreciation and amortisation	15 919	16 786
Interest income	(144 607)	(87 185)
Investment income	(102 945)	(58 208)
Finance costs	41 082	26 762
Net realised gains on financial assets at fair value through profit or loss	(4 846)	(523)
Movement in loss allowances	(30 831)	9 917
Intangible assets written off	-	2 469
Movement in financial assets at fair value through profit or loss	(289 997)	(164 240)
Movement in financial assets at amortised cost	8 418	(47 425)
Movement in financial liabilities at fair value through profit or loss	(8 621)	5 923
Movement in reinsurance assets	(206 629)	(998 073)
Movement in insurance liabilities - outstanding claims reserve	63 528	774 444
Movement in insurance liabilities - claims incurred but not reported	171 209	281 566
Movement in insurance liabilities - unearned premium reserve	111 905	181 146
Movement in insurance liabilities - deferred acquisitions costs	(23 473)	(28 138)
Changes in working capital:		
Receivables including reinsurance receivables	(50 365)	(120 873)
Payables including reinsurance payables	65 469	97 427
	(241 068)	**(30 428)**
25. TAX PAID		
Balance at beginning of the year	18 807	7 634
Current tax for the year recognised in profit or loss	(59 135)	(24 134)
Balance at end of the year	4 058	(18 807)
	(36 270)	**(35 307)**

26. RETIREMENT BENEFITS

All employees of the company are members of the Lombard Insurance Company Limited Provident Fund. The fund is a defined contribution fund and is governed by the Pension Funds Act, 1956. As at 30 June 2023, the provident fund had accumulated funds of R140 530 000 (2022 : R 117 645 000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. RELATED PARTIES

Relationships

Holding company	LomHold Proprietary Limited
Other related parties (fellow subsidiary and associate companies)	Ami Underwriting Managers Proprietary Limited Commercial Crime Concepts Proprietary Limited Consort Technical Underwriting Managers Proprietary Limited DP Bonds Proprietary Limited .Explore Software Proprietary Limited .Explore Utilities Proprietary Limited Firefly Investments 301 Proprietary Limited Harvey's Premium Guarantee Company Proprietary Limited Horizon Underwriting Managers Proprietary Limited Leppard & Associates Proprietary Limited Lombard Australia Holdings Proprietary Limited LomVest Proprietary Limited Motor Funding Underwriting Managers Proprietary Limited Orca Underwriting Managers Proprietary Limited Praesidio Risk Managers Proprietary Limited Relyant Insurance Company Limited Simply Financial Services Proprietary Limited Stone Land Case 11 Proprietary Limited Turnberry Management Risk Solutions Proprietary Limited Turnberry Management Services Proprietary Limited Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency
Shareholders of holding company	Cast Arena Trade & Invest 87 Proprietary Limited CG Japhet IVM Intersurer BV Lombard Consolidated Proprietary Limited

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 87 Proprietary Limited – 28.00%, Lombard Consolidated Proprietary Limited – 41.50%, IVM Intersurer BV – 30.00% and CG Japhet – 0.50%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2023 R '000	2022 R '000
27. RELATED PARTIES (CONTINUED)		
Related party balances		
Amounts due from related parties		
Fees due from related party		
Horizon Underwriting Management Services Proprietary Limited	-	389
Interest bearing loan		
Leppard & Associates Proprietary Limited	4 771	-
Commercial Crime Concepts Proprietary Limited	189	647
Lombard Consolidated Proprietary Limited	7 712	7 270
Simply Financial Services Proprietary Limited	2 499	27 329
Harvey Premium Guarantee Proprietary Limited	7 628	11 608
.Explore Utilities Proprietary Limited	16 303	9 838
Orca Underwriting Managers Proprietary Limited	697	1 036
	39 799	**57 728**
Interest free loan		
LomHold Proprietary Limited	1 370	142 049
Stone Land Case 11 Proprietary Limited	24 657	24 657
	26 027	**166 706**
Profit share provision		
Consort Technical Underwriters Proprietary Limited	1 389	-
Total Amounts due from related parties (note 7)	**67 215**	**224 823**
Amounts due to related parties		
Fees due		
Commercial Crime Concepts Proprietary Limited	(501)	(322)
Consort Technical Underwriters Proprietary Limited	-	(3 748)
Leppard & Associates Proprietary Limited	(540)	(632)
Motor Funding Underwriting Managers Proprietary Limited	(872)	(796)
Praesidio Risk Managers Proprietary Limited	-	(423)
Turnberry Management Services Proprietary Limited	(1 569)	(1 514)
Ami Underwriting Managers Proprietary Limited	(69)	-
Horizon Underwriting Management Services Proprietary Limited	(516)	-
Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency	-	(149)
	(4 067)	**(7 584)**
Profit share provision		
Commercial Crime Concepts Proprietary Limited	(4 849)	(2 866)
Consort Technical Underwriters Proprietary Limited	-	(587)
Leppard & Associates Proprietary Limited	(121 661)	(66 420)
Motor Funding Underwriting Managers Proprietary Limited	(850)	(896)
Praesidio Risk Managers Proprietary Limited	-	(3 451)
Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency	(773)	(426)
Turnberry Management Services Proprietary Limited	(1 532)	(4 770)
	(129 665)	**(79 416)**
Accounts Payable		
.Explore Utilities Proprietary Limited	(6 510)	-
Total Amounts due to related parties (note 15)	**(140 242)**	**(87 000)**

27. RELATED PARTIES (CONTINUED)

The loan to Lombard Consolidated bears interest at the Standard Bank of South Africa call rate and is repayable on 30 June 2034.

The loan to Simply Financial Services bears interest at prime and is repayable on 31 December 2024.

The loan to LomHold is repayable on demand.

The loan to .Explore Utilities bears interest at prime + 2% and is repayable on 28 February 2024.

The loan to Orca bears interest at prime - 1% and is repayable on 30 June 2023.

The loan to Stone Land Case 11 is secured and has no repayment terms.

The loan to Harvey Premium Guarantee bears interest at prime and is repayable on 30 June 2024.

The loan to Leppard & Associates bears interest at prime - 1% and is repayable on 31 December 2025.

The loan to Commercial Crime Concepts bears interest at prime - 1%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2023 R '000	2022 R '000
27. RELATED PARTIES (CONTINUED)		
Related party transactions		
Amounts paid to related parties		
Management fees paid		
Ami Underwriting Managers Proprietary Limited	(358)	-
Commercial Crime Concepts Proprietary Limited	(7 085)	(5 984)
Consort Technical Underwriters Proprietary Limited	(46 278)	(33 589)
Horizon Underwriting Management Services Proprietary Limited	(41 250)	(30 555)
Leppard & Associates Proprietary Limited	(65 098)	(53 157)
Motor Funding Underwriting Managers Proprietary Limited	(11 697)	(8 950)
Turnberry Management Services Proprietary Limited	(29 815)	(23 967)
	(201 581)	**(156 202)**
Partner commission		
Consort Technical Underwriters Proprietary Limited	(2 878)	(2 360)
Horizon Underwriting Management Services Proprietary Limited	(616)	(448)
Motor Funding Underwriting Managers Proprietary Limited	(96)	(40)
Ami Underwriting Managers Proprietary Limited	(3)	-
	(3 593)	**(2 848)**
Profit share paid		
Commercial Crime Concepts Proprietary Limited	(7 205)	(1 495)
Consort Technical Underwriters Proprietary Limited	(18 857)	(26 782)
Horizon Underwriting Management Services Proprietary Limited	-	(8 196)
Leppard & Associates Proprietary Limited	(137 741)	(31 641)
Motor Funding Underwriting Managers Proprietary Limited	(1 601)	(206)
Praesidio Risk Managers Proprietary Limited	-	(1 465)
Tradeforth 6 Proprietary Limited trading as Abelard Underwriting Agency	(575)	(426)
Turnberry Management Services Proprietary Limited	(1 532)	(4 770)
	(167 511)	**(74 981)**
Amounts received from related parties		
Interest received on loan		
Commercial Crime Concepts Proprietary Limited	24	50
Leppard & Associates Proprietary Limited	1 038	-
Lombard Consolidated Proprietary Limited	443	256
Simply Financial Services Proprietary Limited	2 828	1 578
Harvey Premium Guarantee Proprietary Limited	1 020	1 096
Turnberry Management Risk Solutions Proprietary Limited	-	89
.Explore Utilities Proprietary Limited	1 365	878
Orca Underwriting Managers Proprietary Limited	81	5
	6 799	**3 952**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

2023

	For services as director	Salary	Bonuses and performance related payments	Pension contributions under any pension scheme, not otherwise disclosed	Total
	R '000	R '000	R '000	R '000	R '000
ML Japhet	1 474	-	-	-	1 474
PJ Orford	-	3 602	7 419	351	11 372
RJ Symmonds	-	4 198	7 470	2	11 670
GJM Carlin	300	-	-	-	300
CE Backeberg	300	-	-	-	300
AC Magwentshu	130	-	-	-	130
GB Neilson	-	2 548	5 803	243	8 594
N Hoosen	-	2 197	1 050	204	3 451
M Mthombeni	300	-	-	-	300
NC Mabunda	300	-	-	-	300
	2 804	**12 545**	**21 742**	**800**	**37 891**

2022

	For services as director	Salary	Bonuses and performance related payments	Pension contributions under any pension scheme, not otherwise disclosed	Total
	R '000	R '000	R '000	R '000	R '000
ML Japhet	1 378	-	-	-	1 378
PJ Orford	-	3 415	7 289	333	11 037
RJ Symmonds	-	4 198	24 933	2	29 133
GJM Carlin	300	-	-	-	300
CE Backeberg	300	-	-	-	300
AC Magwentshu	300	-	-	-	300
GB Neilson	-	2 385	2 283	229	4 897
	2 278	**9 998**	**34 505**	**564**	**47 345**

29. GOING CONCERN

The annual financial statements have been prepared on a going concern basis.

In adopting the going concern basis, the board has reviewed the company's ongoing commitments for the next 12 months and beyond. The board's review included the company's strategic plans and updated financial forecasts including capital position, liquidity and credit borrowing facilities and investment portfolio. As at 30 June 2023, the company was in a strong capital and liquidity position.

30. EVENTS AFTER THE REPORTING PERIOD

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