

LOMBARD

Guarantee

GUARANTEES 101

Table of Contents

- Introduction to Lombard
- Lombard Partnerships
- Lombard Guarantee
- Construction Guarantees
- Comparing Banks and Insurance Companies
- Difference between Insurance and Guarantees
- Summary of Benefits
- Contact Details

Introduction to Lombard Guarantee: Who are we?

- Lombard Guarantee is a division of Lombard Insurance Company Limited (LIC).
- LIC is a privately owned short-term insurance company that has been in business since 1990
- Leading insurance provider of construction guarantees in Sub-Saharan Africa
- Backed by the world's leading Reinsurers
- Global Credit Rating of A+
- BEE Level 5
- Excellent claims paying record
- Flexible with our guarantee wording
- A great track record of backing major projects
- Our facilities are structured favourably to our client in both pricing and securities
- High focus on industry knowledge and insight

Our Client's Needs

- Large guarantee facility
- Guarantee accepted by employers
- Flexibility within their banking facilities
- Quick turnaround times
- Reliability

Our Promise

- We have the capacity to back very large and complex construction projects
- Our guarantees are widely accepted both locally and internationally
- We don't tie up their working capital
- Decision maker and relationship manager are one and the same, providing them with faster decisions
- Great track record of backing major projects

Lombard Guarantee

CONSTRUCTION GUARANTEES

Lombard Guarantee Construction provides the construction industry with a comprehensive range of products:

- Performance Guarantees
- Bid/Tender Bonds
- Advance Payment Guarantees
- Retention Guarantees
- Materials On-/Off Site Guarantees

GENERAL AND COMMERCIAL GUARANTEES

Lombard Guarantee General and Commercial provides specialist guarantees including:

- Logistics Guarantees
- Fuel Guarantees
- Utilities Guarantees
- Specialist Performance Guarantees
- Education Guarantees

MINING GUARANTEES

Lombard Guarantee Mining provides:

- Mine Rehabilitation Guarantees (Premature Closure and Environmental Rehabilitation Guarantees)
- Electricity Guarantees to Eskom
- Freight Guarantees to Transet Freight Rail
- Fuel Guarantees

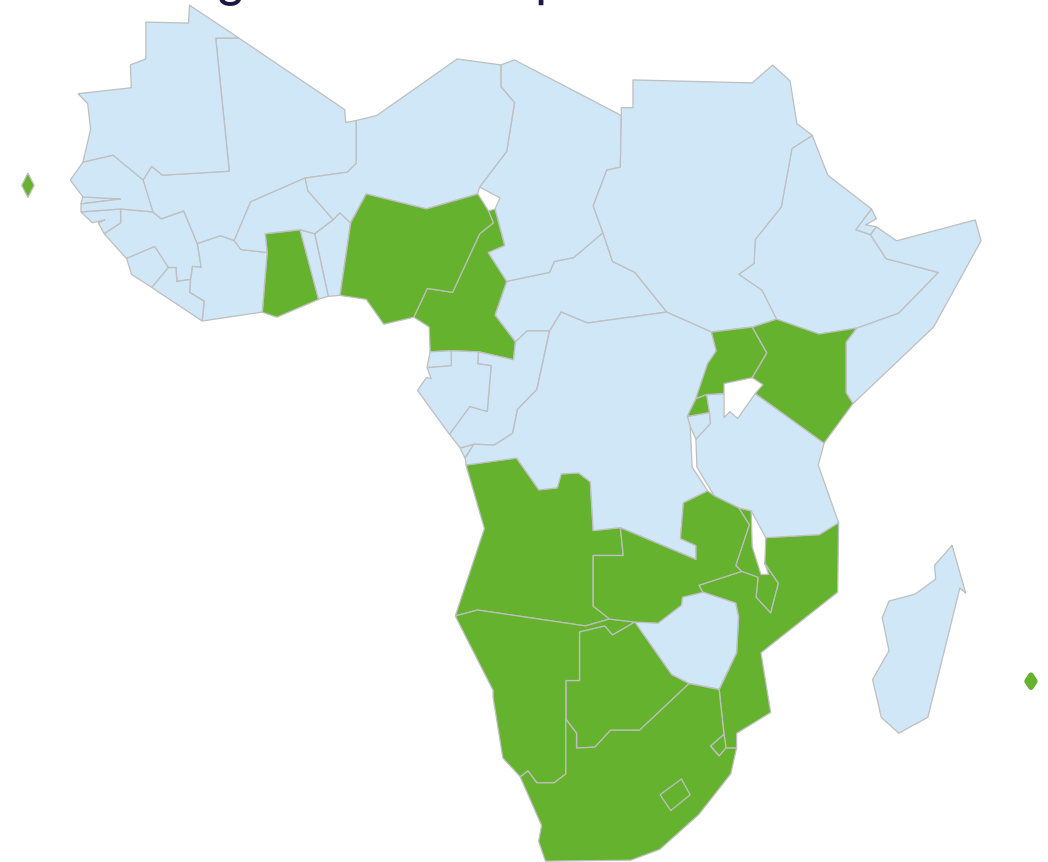
Lombard Guarantee: in Sub-Saharan Africa

Regulation is changing in most African territories which prohibits non-local companies from issuing guarantees into these markets. Lombard has overcome this through the development of an extensive partner network.

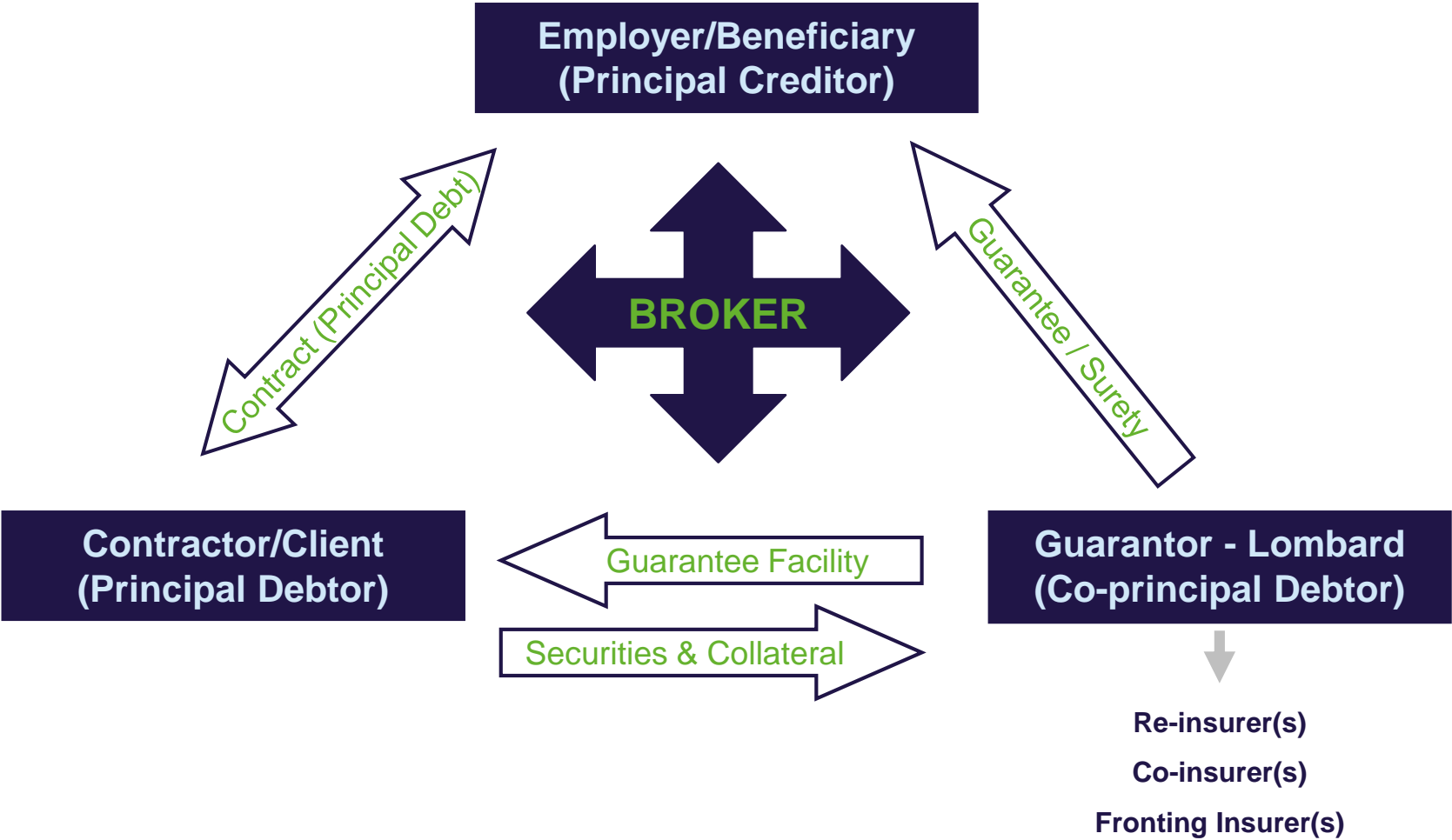
Countries where Lombard has established partnerships:

- Angola
- Botswana
- Cameroon
- Cape Verde
- Ghana
- Kenya
- Lesotho
- Malawi
- Mauritius
- Mozambique
- Namibia
- Nigeria
- Rwanda
- Swaziland
- Tanzania
- Uganda
- Zambia

* Solutions for other countries may be facilitated



Guarantees: Parties Involved



Lombard Guarantees: The Underwriting Process

Principles

- Guarantor is not meant to be an absorber of losses - lots of collateral doesn't make a bad risk, good
- Act as Co-principle Debtor and “put yourself in the shoes” of the Client

The 5 Main C's of Underwriting

- Character: People behind the business (IP & Security)
- Capability: Physical ability to execute the Contract
- Conditions: Location, Contract type, Nature of work
- Credibility: Track-record, Credit checks
- Capital: Financial capability of the Client

Lombard Guarantees: The Underwriting Process

Information we need to make an informed decision:

- Application Forms: Facility and guarantee specific
- Financial Statements: Audited, reviewed and signed
- Management Accounts: Trial balance, P&L statement
- Debtors / Creditors Ageing: Current to +120 days
- Contract / Project Info: Letter of award, copy of contract
- Company Docs: CIPRO, Tax clearance, Company profile

Additional Information:

- Credit / Statutory Reports: Experian
- Membership / Regulatory: CIDB / MBA / ISO / SAAFF / SAPIA / LFWA, etc.
- Website / References: Research, Press, News, 3rd Party references

Lombard Guarantees: The Underwriting Process

Underwriting Assessment Completed

- Quotation from Lombard (no cost, no obligation)
 - Terms and conditions vary, depending on client's standing and facility requirements
 - Spells out facility limit, rate, minimum fee, min/max periods
 - Will require indemnity and suretyship(s) to be signed
 - May call for collateral
 - NOTE – at this stage we could issue a Letter of intent
- Acceptance of quotation by client
- Lombard instructs attorneys to prepare securities
- Once securities are in place, we're ready to proceed!

Lombard Guarantees: The Underwriting Process

Guarantee Application procedure

- Submit the following to Lombard:
 - Guarantee application form (downloadable from website)
 - Copy of the letter of award
 - Copy of the contract
 - Guarantee pro forma wording, if provided to Client
 - Project programme, on request
 - Cash flow projection, on request
- Application assessment completed
 - Input sheet (checks and balances)
 - Processing of guarantee once all check items have been cleared
 - Issue guarantee

Construction Guarantees: The Underwriting Process

Claims

- Guarantee wording stipulates the conditions under which a claim can be made
- Employer must comply with specified procedure

Salvaging

- Beneficiary /Principle is to “consume” part of guarantee rather than to pay it out fully
- Not always possible (e.g. Demand guarantee)
- Lombard intervention
 - Skilled salvaging team (Lawyers and Engineers)
 - Approach Employer to salvage contract
 - Lombard proposes replacement contractor (Employer’s discretion)

Comparing Banks and Lombard

	Lombard Guarantee	Bank Guarantee
Definition	<ul style="list-style-type: none"> • On-demand guarantee is provided to the Beneficiary, who can call upon the guarantee at any time • Conditional guarantee is provided to the Beneficiary, who can call upon the guarantee if the client did not fulfil their contractual obligations properly or on time 	
Types	<ul style="list-style-type: none"> • Insurers are able to provide conditional and on-demand guarantees 	<ul style="list-style-type: none"> • Banks tend to provide on-demand guarantees (similar to a letter of credit)
Under-writing	<ul style="list-style-type: none"> • Prequalify the client to determine that they have the capital, capacity and character to perform the contract. This implies that if an insurer underwrites the guarantee, the client is able to perform and unlikely to default • Even if the client's capital is sufficient an insurer may still choose not to issue the guarantee as they may believe that the client may be unable to fulfil the contract 	<ul style="list-style-type: none"> • Examine the quality and liquidity of the client's collateral to ensure it can reimburse the bank if the guarantee is called
Accounting	<ul style="list-style-type: none"> • Accounted for as a liability (like other insurance products) 	<ul style="list-style-type: none"> • Credit risks in a bank are accounted for as assets

Comparing Banks and Lombard

	Lombard Guarantee	Bank Guarantee
Borrowing Capacity of Contractor	<ul style="list-style-type: none"> Guarantees are usually provided on the client's financial strength, experience and corporate and personal indemnities (i.e. on an unsecured basis) so they do not diminish the client's borrowing capacity and may instead be viewed as a credit enhancement 	<ul style="list-style-type: none"> The existing facility with the bank is pledged so the client's line of credit is diminished. This could adversely affect the client's cash flow in funding initial stages of construction and retention amounts can be adversely affected
Duration	<ul style="list-style-type: none"> Guarantee can remain in force for the duration of the project (usually linked to a specific event) Or you can have a guarantee with a fixed expiration date 	<ul style="list-style-type: none"> Banks prefer to offer guarantees with a fixed expiration date (similar to a letter of credit), they may override the project owner's request to have the guarantee remain in force for the duration of the project
Wording	<ul style="list-style-type: none"> Will use template or bespoke workings (Beneficiary can recommend wording) 	<ul style="list-style-type: none"> While template wordings will be accepted, a bank is unlikely to accommodate bespoke wordings
Claims	<ul style="list-style-type: none"> Less than R5m – 3 - 5 working days More than R5m – 7-10 working days We care about getting the project finished 	<ul style="list-style-type: none"> 1-2 working days

Difference between Insurance and Guarantees

	Guarantee	Insurance
Parties Involved	<ul style="list-style-type: none">• Guarantees assume an arrangement of 3 Parties, the Employer, the Contractor and the Guarantor.	<ul style="list-style-type: none">• Insurance typically assume an arrangement between 2 parties, the Insurer and the Insured.• Other parties may be involved, such as a Policyholder or Payer.
Cancellation	<ul style="list-style-type: none">• Cancellation of a guarantee is determined by the guarantee wording and may also be dependent on the contract.• Guarantee cannot be cancelled outside of the wording by the Guarantor, for whatever reason	<ul style="list-style-type: none">• An insurance policy can be cancelled by the Insurer under various grounds and is generally disclosed under the terms and conditions.
Payment	<ul style="list-style-type: none">• Guarantee premium is paid by the Contractor• Claim on the guarantee may still be payable even if premium is not paid. Once a guarantee is issued it is a living financial instrument.	<ul style="list-style-type: none">• Insurance premium is paid by the Insured, the Policyholder or the Payer• Insurance may be cancelled due to non-payment of the premium and any claims under the Policy will be repudiated

Summary of Benefits

Benefits to the Client

- Larger funding facilities
 - Improved cash flow
- Less collateral requirement
- Access to a greater array of flexible guarantee wordings
- Solution in most African and selected International territories

Benefits to the Broker

- Better solution provider to client
- Opportunity to diversify your service/product offering
- Don't allow other brokers a chance to get a "foot in the door"

Benefits to the Insurer

- Build core business
- Access to non-traditional client base
 - Expanded distribution channel
 - Market awareness and insight

Benefits to the Bank

- Improved capital adequacy
- Focus on preferred funding solution

Lombard Partnerships

- Employee Theft and Fraud
- Computer Fraud
- Computer Virus
- Electronic Data Loss
- Extortion
- Fraudulent Transfer Instructions



- Professional Indemnity
- Liability Insurance:
 - General Public, Broad Form, Events, Commercial, Products, Events, XOL and Umbrella, 3rd Party Motor Fleet, Contractors, Warehousemen's and Carriers' etc.



- Fire
- Buildings Combined
- Office Contents
- Theft
- Business Interruption
- Business All Risks
- Employer's Liability
- Home owners & Householders
- And more...



- Marine Import and Export Risks
- Goods in Transit Risks
- Small Craft Risks & Liabilities
- Stock Throughput Risks
- Certain Marine Liabilities – Warehouseman's & Carriers'

Lombard Partnerships

- Motor Fleet Insurance:
 - Burning Cost Structure
 - Conventional Structure
 - Aggregate Structure



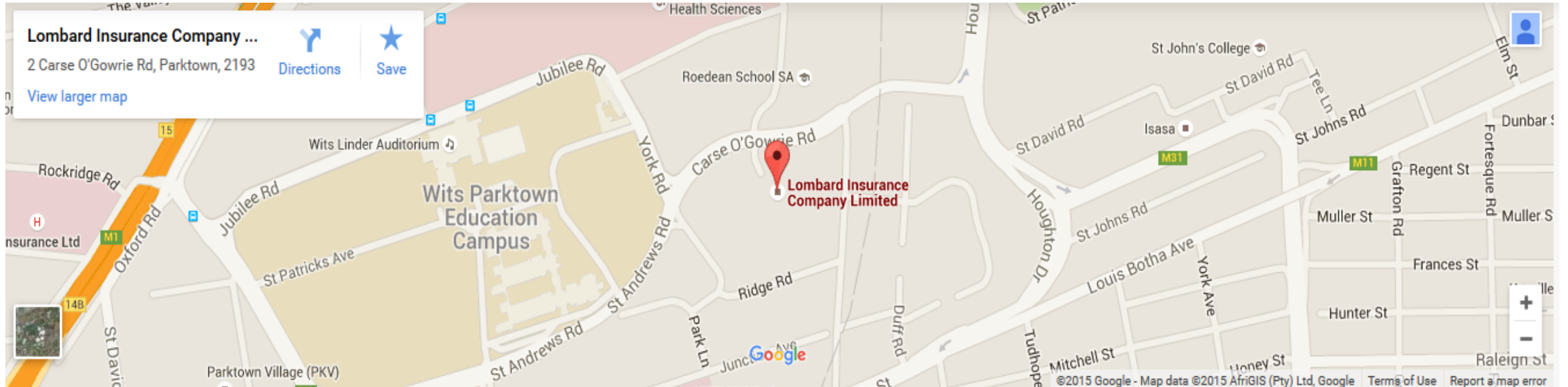
- Medical Gap Cover

- Contractors All Risk
- Public Liability
- Plant All Risks
- Electronic Equipment
- Machinery Breakdown
- Deterioration of Stock
- Business Interruption



- Personal Accident
- Group Personal Accident
- Stated Benefits
- Aviation Personal
- Kidnap & Ransom
- Political Evacuation
- Keyman
- Occupational HIV

Contact Details



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