CREDIT GUARANTEE

ANNUAL REPORT 2013

Contents

Corporate profile

Registered in 1956, Credit Guarantee Insurance Corporation of Africa Limited (CGIC), is a proudly South African underwriting company operating in the domestic and export trade credit insurance arena. The company also underwrites bonds and sureties which naturally complements the core business.

The company is duly registered as an authorised financial services provider (FSP) with the Financial Services Board under licence number 17691.

Credit Guarantee remains the foremost trade credit insurer in Africa and carries an AA credit rating for its "first time claims paying" ability from Global Credit Rating Company. The SABS has again recertified Credit Guarantee's ISO 9001:2008 quality standard across the entire company.

The largest shareholder in Credit Guarantee is Mutual & Federal Insurance Company Limited, which is a subsidiary of the Old Mutual Group. Santam Limited, Munich Re and the IDC hold the balance of the shares in the company.

Our vision

To build on our position as industry leader so as to become the preferred provider of trade credit insurance and surety solutions in Africa.

Our mission

To our clients:

- Unrivalled, expert trade credit insurance and surety solutions.

To our employees:

- A performance culture with job satisfaction based on equitable remuneration through learning, development, enthusiasm and respect of the individual.

To our shareholders:

- Sustainable return on investment and growth.
- Professional standards of underwriting.
- An excellent reputation.

To society:

- The highest moral and ethical standards.
- Commitment to and the practice of good corporate governance.
- Commitment to the provisions of the Financial Sector Charter.

Financial and performance highlights

Insured turnover
R331 billion

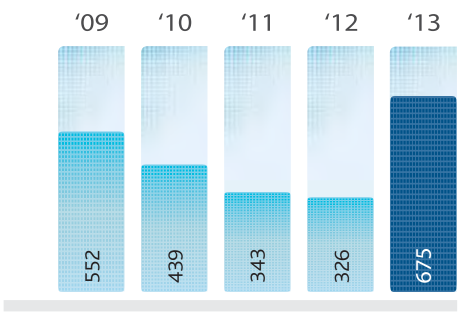
- Capital adequacy under the SAM interim measures is slightly in excess of two times.
- Premium income net of bonuses returned to clients grew 11%.

Claims paid
R675 million
Refer to note 22

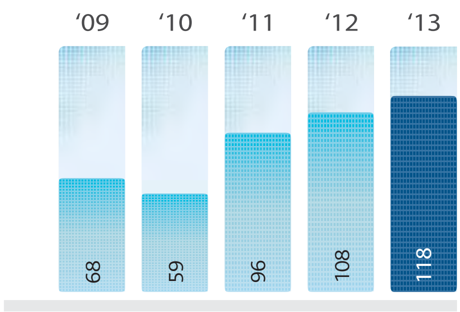
Underwriting result
R178 million

- Low/no-claims bonuses soared to R118.2 million.
- The ISO 9001:2008 quality system stands Credit Guarantee in good stead when implementing TCF.

Shareholders' funds
R699 million



Total commercial claims paid (Rm)



Low claims bonuses paid (Rm)

Salient features

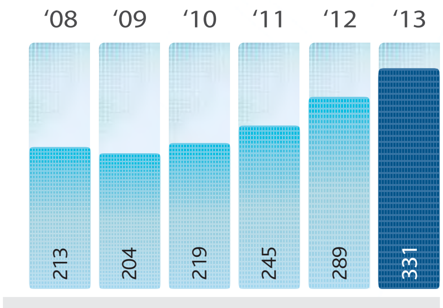
	31 Dec 2013 R'000	31 Dec 2012 R'000
Insured turnover	331 884 373	289 059 859
Premiums written		
– Gross	860 352	776 246
– Net	602 913	558 771
Claims paid		
– Gross#	743 812	385 539
– Net#	463 830	301 839
Management expenses	160 706	138 508
Underwriting result	178 028	203 397
Investment and other income	110 423	94 743
Income after taxation	219 169	219 802
Headline earnings per share (cents/share)	8 277	8 298
Dividend per share		
– Ordinary (cents/share)	5 624	2 395
Total assets	1 691 323	1 614 482
Shareholders' funds	698 986	641 213
Indicative statutory surplus asset ratio (%)	111.1	113.2
SAM interim measures CAR cover (multiple)*	2.03	2.06
International solvency margin (%)	115.9	114.8

#Includes claims administration expenses (refer note 22).
**Solvency Assessment and Management interim measures Capital Adequacy Requirement cover.*

Ten-year review

	12 months to Dec 2013 R'000	12 months to Dec 2012 R'000	12 months to Dec 2011 R'000
Insured turnover	331 884 373	289 059 859	245 905 131
Gross premiums written	860 352	776 246	722 787
Gross claims paid[1]	743 812	385 539	404 674
Gross salvages received	96 785	107 876	106 413
Management expenses[2]	160 706	138 508	141 733
As % of gross premiums written	18.7	17.8	19.6
Underwriting profit/(loss)	178 028	203 397	200 853
Investment income (net)	46 202	42 333	30 962
Income after taxation	219 169	219 802	178 392
Dividend per share (cents)	5 624	2 395	2 046
Shareholders' funds	698 986	641 213	484 863
Net insurance provisions	504 627	546 598	481 556
Indicative statutory surplus ratio (%)	111.1	113.2	75.2
Solvency margin (%)	115.9	114.8	92.5
Staff	293	288	284

Note: The company adopted International Financial Reporting Standards (IFRS) for the first time for the period ended 31 December 2005.
[1] Claims administration expenses have been included since 2005 (refer note 22).
[2] Management expenses exclude claims administration expenses and other operating income for 2005 onwards.



Insured turnover (Rbn)

The growth in insured turnover reflects the company's ability to underwrite in sometimes difficult conditions.

12 months to Dec 2010 R'000	12 months to Dec 2009 R'000	12 months to Dec 2008 R'000	12 months to Dec 2007 R'000	12 months to Dec 2006 R'000	12 months to Dec 2005 R'000	18 months to Dec 2004 R'000
219 531 745	204 117 092	213 554 667	203 934 808	157 292 415	109 274 239	140 208 679
722 631	570 874	562 259	491 710	458 119	436 873	678 556
488 887	594 731	250 838	359 097	211 867	253 406	404 590
105 387	69 955	88 233	201 941	84 205	59 821	94 467
116 168	97 768	97 644	91 190	88 580	77 901	114 980
16.1	17.1	17.4	18.6	19.3	17.8	16.9
118 104	(23 757)	102 263	151 573	176 575	167 572	136 499
28 092	33 273	34 764	29 797	30 939	25 672	32 303
127 503	14 584	29 301	180 431	237 237	254 244	222 904
1 757	–	2 474	11 235	9 907	9 839	3 246
360 676	279 722	265 138	277 926	395 148	415 601	431 052
453 037	425 214	441 748	301 703	283 428	264 410	281 159
61.0	63.7	48.9	73.8	122.9	161.8	150.7
73.4	79.7	70.9	84.7	133.6	170.2	205.3
281	269	267	267	275	279	296

Message from the chairman

Raimund Snyders
Chairman

Change in company leadership

During the year Mike Truter retired after 27 years of service, having been appointed as Managing Director and CEO in March 2002. Mike capably steered the company through some challenging times, especially the global financial crisis in 2008/9 which led to an unprecedented volume of payment defaults both in South Africa and internationally. On behalf of the board and the staff at CGIC, I would like to record my sincere thanks to Mike for his contribution during his tenure, and wish him a long and healthy retirement.

I was pleased to welcome Charles Nortje as CEO with effect from 1 August 2013. Charles is a qualified Chartered Accountant with over 20 years experience in the insurance industry, having held a number of senior management positions in the outside broking fraternity. A change of leadership in an organisation with the heritage of CGIC can be expected to give rise to some uncertainty. I am however very pleased to report that the transition has been seamless, and that the board has already observed many positive effects of new leadership in the relatively short time since Charles' appointment.

Trading environment

During the year the company was confronted by the well publicised collapse of the First Strut group of companies, which led to the single largest connected series of commercial trade credit claims ever paid in the history of CGIC. This event, however unfortunate, has served to vividly demonstrate the relevance of CGIC to our policyholders, and the highly important role of the company in protecting trade credit within the South African market place. This claim also confirmed the robustness of our reinsurance programme by limiting the net financial impact on CGIC.

The economies of South Africa and our major trading partners have experienced continuous headwinds over the past year. Recurrent labour disruptions in local industries continue, with the inevitable financial knock-on effects to buyers operating in these segments. Poor retail sales signal a cautious consumer, and prevailing business conditions remain uncertain. We are experiencing mixed early signals of recovery in the Building, Construction and Steel industry after witnessing a number of businesses operating in this sector falling into distress in the recent past. It remains to be seen whether recent ZAR weakness, precipitated by a tapering of quantitative easing in the USA, will bring a much needed stimulus to the export market which remains one of our key growth drivers.

Financial performance

The trading environment has presented the executive team with daily complexity in balancing top-line revenue growth objectives with the need to maintain underwriting quality and profitability. An excellent set of financial results has been achieved against this backdrop.

Premium income net of performance bonuses was R860 million reflecting growth of 11% (prior year R776 million). Salvage income was R83 million (prior year R66 million) showing positive growth of 25%. Net claims after reinsurance were R430 million (prior year R362 million) reflecting adverse claims experience during the year. The underwriting result achieved of 29.5% is a standout performance in the industry.

Investment income was R113 million (prior year R98 million) flowing from favourable financial market performance against the asset allocation strategy.

The balance sheet at year-end is strong, with total assets of R1 691 million (prior year R1 614 million) including shareholder funds of R699 million (prior year R641 million). Capital adequacy cover under the SAM interim measures is slightly in excess of two times.

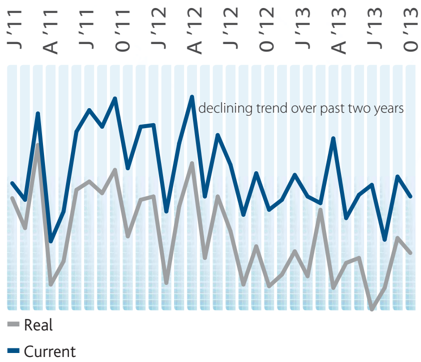
During the year, ordinary dividends of R74 million were declared. In addition a special dividend of R75 million was paid to shareholders. A final dividend in respect of the 2013 year of R69 million was approved by the board on 23 January 2014.

Board of directors

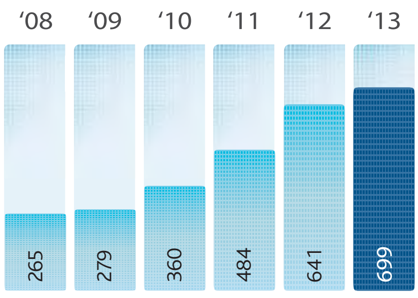
During the year, there were a number of changes to the board which are more fully set out in the Statutory Report of the Directors. I do, however, wish to express special thanks and acknowledgement to my predecessor and outgoing chairman Mr P Todd, and to Mr E Paul and Mr B T Gamedze for their highly capable services as directors. We welcome Mr M Mia to the board, and look forward to the benefit of his wisdom and experience in the year ahead.

Message from the chairman
(continued)

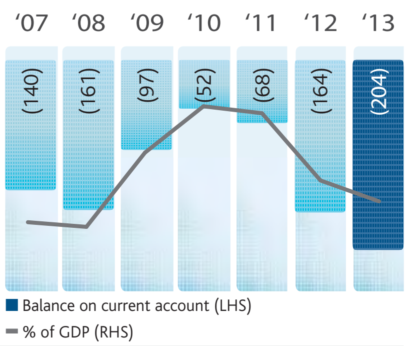
The SA business sector remains vulnerable to the gradual withdrawal of global liquidity.



Retail sales in real and current prices (year-on-year % change)



Shareholders' funds (Rm)



Balance on current account (Rbn)
% of GDP

Outlook

We anticipate party-political interests to evolve as well as continued labour unrest in the run-up to the 2014 general elections. South Africa can however be proud of its track record that all national elections since 1994 have been free and fair, and 2014 should be no exception. The SA business sector remains vulnerable to the gradual withdrawal of global liquidity, and growth expectations remain subdued. The trade deficit will remain wide, particularly if a continued slowdown in China dampens demand and prices for commodities. The immediate outlook for the early part of 2014 is continued economic weakness, and a high but moderating trend in adverse credit events across all business segments. The economic uptick in developed markets, particularly the USA and Europe, does however bode well for a sustained global recovery and the local economy. Management has set inflation-beating growth targets for the year ahead, and I have every confidence we will achieve those targets.

Acknowledgements

In closing I wish to express my special thanks to our clients, policyholders and broker partners for your business support over the past year. In many cases our business relationship with you extends over many years, for which we are very grateful. CGIC exists to serve you. Each year presents us with the opportunity to take your experience of our products and services to a higher level.

Thank you to the members of the board of directors, who continue to provide the highest standards of good governance and strategic guidance to the company.

My best wishes for 2014 go to Charles Nortje, the executive team and all the management and staff of CGIC. I remain assured that a secure and prosperous year ahead for the company lies in safe hands.

Raimund Snyders
Chairman

Board of Directors

1. **Melanie Bosman** (42)
   *Director (non-executive)**
   Joined the board 2010

2. **Philip Wessels** (55)
   Director (non-executive)°*
   Chief Risk Officer: Nedbank Group
   Joined the board 2007

3. **Junior Ngulube** (55)
   Director (non-executive)
   CEO: Munich Reinsurance Company of Africa
   Joined the board 2008

4. **Machiel Reyneke** (56)
   Director (non-executive)°*
   Non-executive Director: Santam Limited
   Joined the board 2003

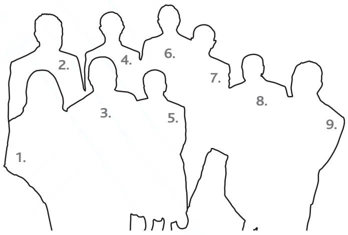
5. **Phuti Tsukudu** (60)
   Director (non-executive)°*
   Managing Director: Tsukudu Associates
   Joined the board 2009

6. **Wilhelm Lategan** (57)
   Executive Director and Chief Financial Officer
   Credit Guarantee
   Joined the board 1998

7. **Raimund Snyders** (49)
   Chairman of the Board
   Chief Executive Officer: Mutual & Federal
   Joined the board 2013

8. **Mac Mia** (66)
   *Director (non-executive)**
   Director of companies
   Joined the board 2013

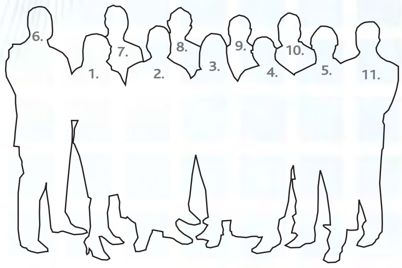
9. **Charles Nortje** (53)
   Managing Director and Chief Executive Officer
   Credit Guarantee
   Joined the board 2013



*Member of the Finance Oversight, Social Responsibility and Ethics Committee
°Member of the Remuneration, Nominations and Transformation Committee

Executive Management

1. Gloria Mokoena (43)
   Human Capital
2. Charles Nortje (53)
   Managing Director and Chief Executive Officer
3. Lisa Pines (45)
   Company Actuary
4. Gideon Bochedi (43)
   Salvages, Bonds and Surety
5. Roger Munitich (55)
   Sales, Marketing, Research and Development
6. Sandro Vita (59)
   Information Systems
7. Steve Smith (50)
   Chief Risk and Compliance Officer
8. Wilhelm Lategan (57)
   Executive Director and Chief Financial Officer
9. Vincent Nel (39)
   Company Secretary Designate
10. Theo Reddi (52)
    Trade Credit (domestic and export)
11. Mike Gee (52)
    Credit Risk



Chief Executive Officer's review

Charles Nortje
Managing Director and Chief Executive Officer

I assumed office on 1 August 2013 and take pleasure in presenting my first annual review.

Trading environment

The 2013 underwriting year unfolded against a challenging economic background. The 17% depreciation of the Rand against the US Dollar over the course of last year highlighted fundamental weaknesses in the local economy. Fixed investment flows are at a low level. High rates of input cost increases, persistent industrial action in the mining and manufacturing sectors, and inflexible labour regulations all continue to deter foreign investors. Corporate South Africa is reputedly hoarding over R500 billion in cash, adopting a "wait-and-see" attitude, with the notable exception of some corporations expanding northward into the African continent. The general business environment remains cautious.

It is worth reflecting that some commentators raised grave concerns in 2013 about "imminent" global crises which never happened. There was talk about a US sovereign debt default, disintegration of the Eurozone, fears of an extreme China slowdown, the belief in catastrophic outcomes from US tapering, and the prospect of significant capital flight from South Africa. These never came about, and now look to be unlikely. We thus observe the normal pressures of modern economic times on our clients and policyholders, who resolutely go about their daily business of finding avenues for profitable growth despite the numerous challenges. Only innovative and dynamic sectors such as mobile telecommunications and personal computing are showing any real signs of significant sales growth. More humdrum realities prevail in other sectors. In Construction, Steel and Building, where we have a significant exposure, our market share provides a steady pipeline of fresh credit information. Retail sales growth has been muted which may prove the tipping point for highly indebted companies in the sector. Most of the large retailers in South Africa nevertheless exhibit good credit quality, but we continue to watch all the eggs in our basket carefully.

Signs of economic stability and growth are gaining traction in the developed economies. The International Credit Insurance & Surety Association (ICISA), whose members represent 95% of the world's trade credit insurance business, reports a positive outlook for both Trade Credit, and Surety & Bond business in 2014. South Africa can expect to benefit from positive global tailwinds, benefiting our exports in particular, even if shortcomings in the local economy have a dampening effect.

It is precisely in the present uncertain economic environment, that CGIC finds its greatest relevance. We allow our policyholders to embark on profitable trades insured against the risk of default thereby broadening their scope to grow market share. Despite favourable signs of economic recovery we continue to experience elevated levels of adverse credit events, which will inevitably give rise to claims in months ahead.

We have found from experience that the best way of managing our underwriting risk is to carefully consider each individual risk we underwrite, rather than allowing sweeping economic assumptions about the creditworthiness (or not) of any particular sector of the economy to dominate. Economic analysis of the environment has its place, but it is no substitute for careful examination of individual buyers, and our accumulation of risk across various policyholders to any single buyer.

Financial highlights

The company delivered a very satisfactory set of results despite the incidence of large individual claims during the year.

Gross premiums grew by 10.6% to R979 million (prior year R885 million) reflecting excellent customer retention and acquisition, and the positive effects of a weak Rand on our export business.

Performance bonuses returned to policyholders with favourable claims experience were R118 million (prior year R108 million) increasing by 9.3%. Salvage income and recoveries were R83 million (prior year R66 million) showing positive growth of 25%.

Earned premiums were R604 million (prior year R552 million) after taking reinsurance cessions into account. Net claims after reinsurance were R430 million (prior year R362 million) reflecting adverse credit events, most notably the liquidation of the First Strut group of companies. Our reinsurance programme is designed to provide protection against such catastrophic incidents and I wish to acknowledge the role of our lead reinsurer and the panel for their unwavering support and advice throughout this challenging episode.

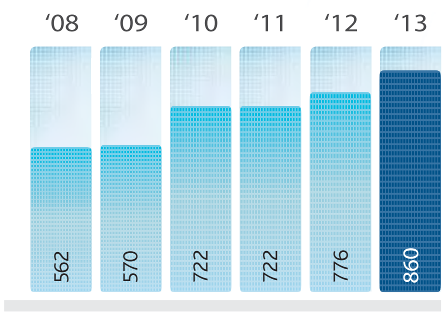
Chief Executive Officer's review
(continued)

The underwriting result was 29.5% being R178 million (prior year R203 million) including the improved salvage performance and windfall foreign exchange gains on our export account. This is a superior performance in the context of the South African short-term insurance industry.

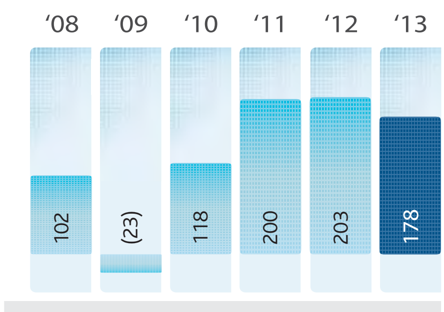
Net income before taxation was R288 million (prior year R298 million), a reduction on the prior year of 3%.

Capital management and security

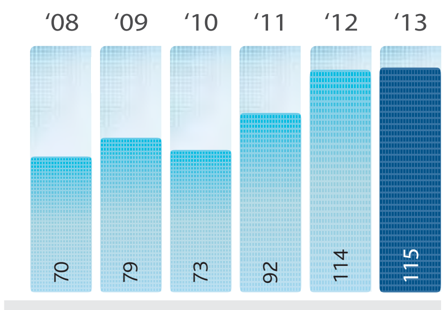
CGIC continues to offer a very high level of security and claims paying ability to our client base. At year-end, the statutory surplus asset ratio was 111% (prior year 113%) and the capital adequacy under SAM interim measures is slightly in excess of two times. Our credit rating was confirmed at AA (Global Credit Ratings).



Gross premium income (Rm)



Underwriting result (Rm)



International solvency ratio (%)

Efficient capital management under the new Solvency Assessment and Management (SAM) regulations continues to be a key focus area. Our preparations are on track. The new SAM regime is currently planned to commence on 1 January 2016, and will determine how insurers calculate their capital requirements, and prescribes new standards related to governance, risk and disclosure. Our shareholders have signalled their readiness to provide additional reinsurance support as may be required. Maintaining a strong capital shield is essential to the business stability of CGIC and our growth ambitions. Our reinsurance programme has become intertwined with our broader capital management strategy under SAM, and our shareholders are accordingly an integral part of this discussion.

Key revenue and product initiatives

Relationships with our broker partners remain of paramount importance with 70% of insurance revenue flowing to CGIC through intermediaries. We have commenced a series of intensive engagements with our brokers to listen, collaborate on product innovation, and respond to the needs of this important channel.

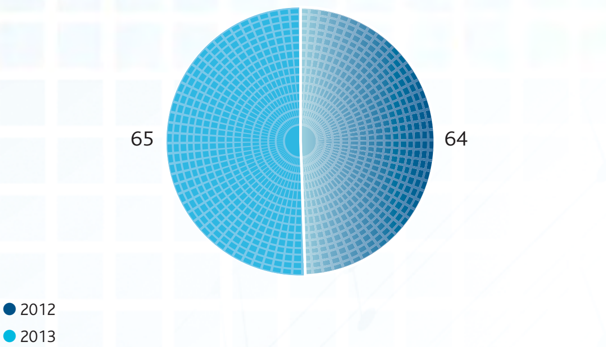
Gideon Bochedi has been appointed as executive head of our Bonds & Surety division, in order to elevate and bring focus to the business in 2014. During 2013 we approved R3.3 billion in total bonding facilities for clients, against which R1.1 billion was utilised (33%). We expect utilisation to increase to around 65% in the year ahead having identified additional resources needed to further grow this business.

The Commercial & SME sector is an important part of our growth objectives, currently contributing around 10% of our insurance revenue. This is the market segment where the small business owner is particularly vulnerable to a payment default. We provide a cost-effective, simple product solution with the requisite support for a business owner who does not possess the in-house resources of a major corporate. Structures have been created to take this business to a new level in the year ahead.

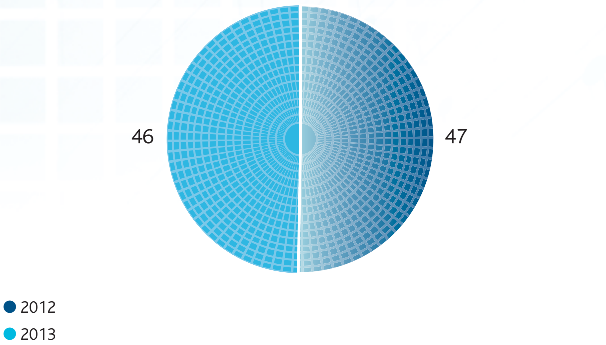
The need for us to build additional Sales capacity in both our broker and direct channels is receiving vigorous attention. The Sales function has been combined with Marketing, under the executive leadership of Roger Munitich, and we have strengthened our offices in all the major centres.

Cregalink, our online "app" providing clients and intermediaries with a direct portal into CGIC, continues to differentiate us. The rollout programme was a significant effort in the 4th quarter and is now complete. Over 3 000 policies were converted to the new upgrade and nearly 7 000 user certificates issued to client and broker users.

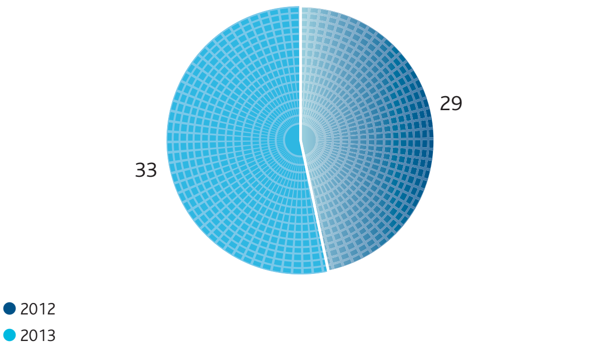
Chief Executive Officer’s review
(continued)



Black staff (%)



Black supervisory (%)



Black managerial (%)

Human capital and transformation

In order to provide a baseline against which to measure Employee Engagement levels, an independent HR consultancy was commissioned to conduct an online survey of all employees and we were very pleased with a 90%+ response rate. Our employees rated the company across a number of different dimensions including strategy, leadership, line management, ethics, performance management and recognition and reward. I am pleased to report we scored well across almost all of these variables. A significant effort has gone into improving staff communication over the past year.

A new operational structure which came into effect on 1 January 2014 has been established to support our 2014 strategy, resulting in a sense of energy and expectation in the company about the potential we can unlock.

Progress on transformation continues across the organisation with Black, Coloured and Asian staff comprising two thirds of our employee base. Our demographic compares less favourably at senior management levels, where we have under-representation of Black people (particularly African Blacks). A number of senior Black promotions were made during the year. I am pleased to report that all of the significant business divisions within CGIC are headed by Black executives.

Retention of key staff remains high, with a staff turnover rate of less than 7%.

Risk and compliance

Regulatory developments are continuously monitored to ensure that the company maintains strong corporate governance in line with international standards relating to fraud and corruption, money laundering and the controlled management of our business.

The company operates within an environment of delegated underwriting risk mandates with oversight by four successive layers of Credit Committees, which avoids a “rogue” underwriter exposing the company to unacceptable risk.

Chief Executive Officer's review
(continued)

Underwriting decisions are based on available information. As the world moves ever toward an environment of data privacy, including the recent approval by parliament of the Protection of Private Information (POPI) Act, we are experiencing new headwinds in obtaining bank reports and similar data of a non-public nature on which to base our decisions. Alternative channels of procuring underwriting information are being explored.

The pace and volume of regulatory change, and tight deadlines, introduce their own pressures. We are satisfied that our three lines of defence are adequate following changes in our corporate structure and reporting lines. Top of mind compliance issues relate to the implementation of SAM, TCF and POPI where good progress is being made against milestones on all fronts.

International network partner

We have a co-operative relationship with Atradius N.V., the second largest trade credit insurance group in the world with revenues over Euro 1.6 billion and 160 offices in 45 countries. Atradius is able to provide underwriting guidance on export buyers domiciled abroad, from their database of over 100 million companies. On a reciprocal basis, we represent Atradius in South Africa and provide services to the local subsidiaries of their global client base. This network relationship enables CGIC to remain relevant in an increasingly globalised economy, and helps us to offer seamless trade credit solutions to South African businesses expanding outside of our borders.

Corporate social investment

The company continues to respond to the need to give something back to the society within which we operate, especially those communities affected by poverty, HIV/Aids, and challenges in delivering quality education to children. During the year an amount of R2.3 million was contributed to identified CSI projects. Approximately 25% of this amount took the form of educational bursaries to mainly Black students. We also built new classrooms, sports and catering facilities at a number of primary schools across South Africa and three hospices were provided with much needed care-giving equipment. The company is also privileged to support a number of school feeding schemes.

Acknowledgements

The course of the past year was marked with several leadership changes, including my own introduction to the business. I wish to acknowledge the groundwork laid by my predecessor, Mike Truter, for our successful financial result in 2013.

My personal thanks go to the chairman and the board of directors for their accessibility and business wisdom which has been invaluable. Finally I would like to pay tribute to my fellow Exco colleagues for their strong leadership and all the staff of CGIC for your professionalism, sheer hard work and dedication over the past year. Our success belongs to you.

Charles Nortje
Managing Director and CEO

Corporate governance

Board of directors

The board of directors consists of two executive directors and seven non-executive directors, four of whom represent the major shareholders and three of whom are independent. All directors have been selected for their particular experience and business acumen. The executive directors have service contracts with the company containing notice periods of six calendar months.

The roles of the chairman of the board and the chief executive officer (CEO) do not vest in the same person. The chairman is non-executive and this position is put up for election at least every three years.

In terms of the articles of association, one-third of the non-executive directors are required to retire by rotation and are subject to re-election each year at the annual general meeting of the company.

The board meets quarterly to discuss results, and annually to approve the strategic plan, key policies and budgets for the coming year. Additional meetings are held on an ad hoc basis.

Sub-committees have been appointed by the board to assist in discharging its duties, details of which are provided below.

Board members have direct access to the company secretary, and are entitled to obtain independent professional advice at the company's expense.

An executive committee, chaired by the CEO and comprising the chief financial officer (CFO), the chief risk and compliance officer (CRO), the general managers of the various operating divisions, the company actuary, and the company secretary designate, meets regularly to deal with the day-to-day decision making in the company.

Finance Oversight, Social Responsibility and Ethics Committee (FOC)

The FOC complies with the Corporate Laws Amendment Act and carries out the functions of an audit committee. The Mutual & Federal Insurance Company Limited (M&F) Audit Committee retains the responsibility of approving the appointment of the independent external auditors.

The FOC functions within written terms of reference approved by the board. The objective of the FOC is to support the board in ensuring that appropriate internal controls are in place to identify and manage the risks to which the company is exposed.

The FOC meets quarterly and comprises five members, all of whom (including the chairman) are non-executive directors. The CEO and CFO represent management.

The internal and external auditors of the company both attend these meetings and have unrestricted access to the chairman of the FOC.

Financial statements

Management is responsible for the preparation of annual financial statements and supporting notes in a manner which fairly presents the results and financial position of the company.

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The statements are supported by reasonable and prudent judgements and estimates and also provide guidance on the financial outlook for the coming year.

The directors are of the opinion that the company is a going concern.

Management reporting

Management reporting disciplines are diligently observed. Budgets are submitted for board approval and results are reviewed quarterly.

Management maintains internal controls and systems to ensure the integrity of financial statements. These controls are based on established policies and procedures and are under the supervision of qualified personnel.

Internal control

The board acknowledges its accountability for the internal control systems of the company. Responsibility for the implementation of these systems is delegated to management. The board performs a monitoring function over these activities.

The company maintains the SABS ISO 9001:2008 quality system to supplement its internal controls.

Corporate governance
(continued)

The company has implemented procedures and controls to comply with the provisions of the Financial Advisory and Intermediary Services Act (FAIS) and is an Authorised Financial Services Provider No.17691.

Internal audit

The purpose of the internal audit function, which reports to the chairman of the FOC, is to assist management and the board in testing and improving the control environment.

This function operates within written terms of reference and adheres to the standards and code of conduct of the Institute of Internal Auditors of South Africa. Any material control weaknesses identified are brought to the attention of the chairman of the FOC for consideration and appropriate action.

During the reporting period this function was performed by the internal audit department of M&F.

Remuneration, Nominations and Transformation Committee (REMCO)

REMCO consists of four non-executive directors.

REMCO considers nominations for appointment to the board and makes recommendations to the board on remuneration and benefits to be paid to employees. The committee sets the remuneration of the executive directors and the general managers of the company. The CEO and CFO attend REMCO as representatives of management.

REMCO also monitors the status of the company in meeting its broad-based black economic empowerment and employment equity objectives.

Transformation

The CGIC total permanent staff profile at 31 December 2013 comprises 33% white persons and 67% black persons (38% African, 15% Coloured and 12% Asian).

For top management and senior management combined, the ratios are less favourable at 62% white, 11% African, 1% Coloured, and 19% Asian. This remains a key focus area for transformation within the company. Preference is given to new employment of black staff, including our annual intake of graduates and learners. All of the significant revenue-producing divisions within the company are headed by black persons.

The board has approved the company's employment equity plan and annual reports are sent to the Department of Labour. An employment equity committee has been constituted and actively engages executive management in meeting our targets.

Investment Committee (IC)

The IC reports to the board of directors and operates within a written mandate setting out its terms of reference.

The IC comprises the CEO, the CFO and the senior manager: investments and economic services, and meets monthly with the company's outside investment advisers to review the investment portfolio.

The IC reports quarterly to the board on the performance of the investment portfolio.

Treating Customers Fairly (TCF)

A separate TCF Committee has been established, comprising executive management, to oversee the implementation and delivery of TCF requirements. The TCF Committee reports to the chairman of the FOC.

Risk management

The Risk Management Committee is chaired by the CRO and comprises the representatives of key departments. This committee meets regularly to identify new risks, assess known risks and to satisfy itself that adequate controls and measures are in place to address these risks.

Ethics

The company has adopted a formalised code of ethics which commits management and employees to follow a highly principled set of standards. This code is contained in the staff manual and forms part of the company's induction and training programmes.

The company subscribes to whistleblowers, an independent entity that enables employees, clients and the marketplace to raise alerts, regarding ethical breaches on an anonymous basis.

The company also subscribes to the Industry Code of Conduct and Ethics as published by the South African Insurance Association (SAIA).

Management

André Freeman
Business Rescue and Bond Recovery

Khadija Mansoor
Liquidations

Nazel Veldtman
Inland Sales and Servicing

Abdul Cassim
Export Risk Evaluation

Raymond Lellyett
Steel

Chantelle Davies
Freight, Finance and Food

Vaughn Hutton
Building and Electrical

Felicitas Mabirimisa
Commercial

Management
(continued)

Donna Furmidge
Electronics, Timber, Furniture, Paper and Packaging

Adriaan du Preez
Business Analytics

Eric Loubser
Human Capital

Kenny Khoza
Training

Luke Doig
Investments and Economic Services

Kevin Dyamond
Coastal Sales and Servicing

Veronica Chisanga
SME

Willie Lottering
Operations – IS

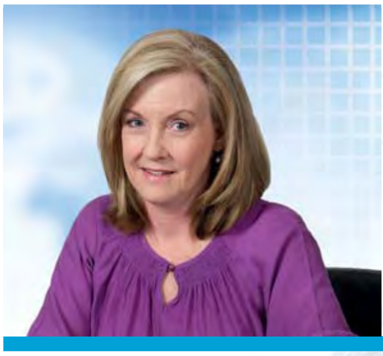
Management
(continued)

Abdul Vally
Commercial and SME

George Bracey
Domestic Information Services

Martin Levine
Domestic Risk Evaluation

Mel Strydom
Foreign Information Services



Vivienne Naudé
System Development – IS

Rudolph Coetzer
Infrastructure – IS

Ruwayda Petersen
Clothing, Textiles, Footware, Motor, Advertising and Media

Moosa Jooma
Export

Rhyna Brand
Bonds and Surety

Management
(continued)

Amina Ackerman
Compliance

Linda Smith
Research and Development

Shamala Dawood
IT, Pharmaceuticals and Chemicals

Our people

Audited financial statements

Prepared under supervision of W H Lategan CA(SA)

Introduction

Wilhelm Lategan
Executive Director and Chief Financial Officer

I am pleased to present the set of financial statements representing the results of the group and the company for the year ended 31 December 2013 with comparative numbers for the year ended 31 December 2012.

Our core business of insuring our clients' risk of non-payment of trade-related transactions requires us to follow the soundest risk management and the strictest governance standards in our own business. Our internal risk and governance framework considers risks reasonably, consistently and explicitly across every facet of the organisation.

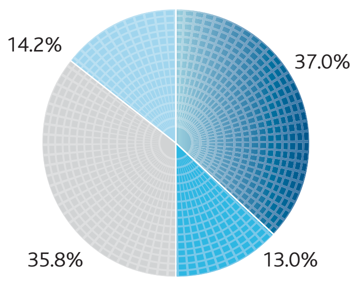
The Risk Management Committee is chaired by the Chief Risk and Compliance Officer who is aided by general managers representing the major divisions within Credit Guarantee. A comprehensive risk management profile identifies, assesses, measures and monitors the identified risks to which the group and the company are exposed to from both an internal and an external perspective. This profile is reviewed immediately once a new risk is identified or an existing risk has changed and reassessed, at least annually, to consider the appropriate measurement and relevance of the identified risks.

More information relating to the risk framework is contained within these financial statements (notes 5 and 6).

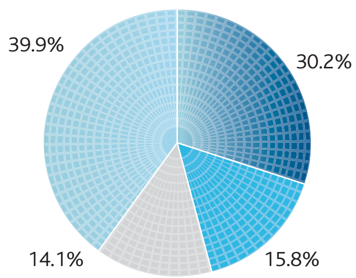
Statement of cash value added (unaudited)

	Group and company			
	%	2013 R'000	2012 R'000	%
Cash value added:				
From normal operations	78.9	328 698	433 744	96.8
From sale of assets and investments	21.1	87 915	14 530	3.2
	100.0	416 613	448 274	100.0
Cash value applied:				
Employees*	37.0	154 408	135 256	30.2
Local corporate taxation paid	13.0	54 011	70 807	15.8
Providers of capital	35.8	148 998	63 452	14.1
– Dividend		148 998	63 452	
Retained in the business	14.2	59 196	178 759	39.9
– Purchase of fixed assets and investments		34 526	29 455	
– Increase in cash reserves		24 670	149 304	
	100.0	416 613	448 274	100.0

**Restated to exclude post-retirement medical aid and phantom share scheme provisions (refer to note 24.1).*



Employees
Local corporate tax
Providers of capital
Retained in the business



2013

2012

Approval of consolidated and separate annual financial statements

The statutory report of the directors, the report of the Audit Committee and the consolidated and separate annual financial statements of Credit Guarantee Insurance Corporation of Africa Limited, as identified on pages 24 to 79, were approved by the board of directors on 27 March 2014 and are signed on behalf of the board by:

R Snyders
Chairperson

C D Nortje
Managing Director and CEO

Certification by Company Secretary

I certify that, to the best of my knowledge and belief, the company has lodged with the Registrar of Companies all returns required of a public company in terms of the Companies Act, in respect of the year ended 31 December 2013, and that all such returns are true, correct and up to date.

W H Lategan
In his capacity of Company Secretary

27 March 2014

Statutory report of the directors

for the year ended 31 December 2013

Your directors submit their report and the annual financial statements of the group and the company for the year ended 31 December 2013.

Nature of business

The main business of the company is that of trade credit insurance (which is within the meaning of insurance for the purposes of the Short-Term Insurance Act, No 53 of 1998).

Review of operations

The operating results of the company are dealt with in the accompanying annual financial statements.

Dividend

A final dividend amounting to R48 297 341 relating to the 2012 financial year was paid during the 2013 financial year. An interim dividend of R25 698 530 and a special dividend of R75 002 617 were proposed and paid relating to the 2013 financial year. A final dividend of R69 439 018 for 2013 was proposed by the board on 23 January 2014.

Share capital and the holding company

The authorised share capital remained unaltered during the financial period. Old Mutual plc, which is the ultimate parent company, is incorporated in the United Kingdom and listed on the London Stock Exchange.

Directors

The names of the directors of the company as at the date of this report appear on page 8. Since the last report the following changes have taken place:

	Appointed	Resigned
D Dharmalingam	–	1 March 2013
E Paul	15 July 2013	18 November 2013
P G Todd	–	31 July 2013
M C Truter	–	31 July 2013
C D Nortje	1 August 2013	–
R Snyders	1 August 2013	–
B T Gamedze	–	24 October 2013
M Mia	18 November 2013	–

Mr M J Reyneke, Mr B T Gamedze and Ms M Bosman retired on 23 April 2013 in terms of the articles of association, and were re-elected.

Secretary

The business and postal addresses of Mr W H Lategan in his capacity as Company Secretary, appears on page 81 of this report.

Going concern

The directors have satisfied themselves that the group is in a sound financial position and has adequate resources to continue its operations for the foreseeable future. Accordingly, they are satisfied that it is appropriate to adopt a going-concern basis in preparing the consolidated annual financial statements.

Corporate governance

The company is fully committed to the principles advocated in the King III Committee's Code of Corporate Practices and Conduct to the extent that they can be reasonably applied given the size and nature of the business. The directors recognise the need to conduct the affairs of the group with integrity and in accordance with generally accepted corporate practices and thereby to retain the confidence of shareholders, employees and other stakeholders.

Directors' responsibilities in relation to the annual financial statements

The directors are responsible for the preparation and fair presentation of the group annual financial statements and annual financial statements of Credit Guarantee Insurance Corporation of Africa Limited, comprising the statements of financial position at 31 December 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible 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, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The auditor is responsible for reporting on whether the consolidated and separate financial statements are fairly presented in accordance with the applicable financial reporting framework.

Auditors

KPMG Inc. will continue in office as external auditors in accordance with section 90 of the Companies Act of South Africa.

Liquidity and solvency

The directors have performed the required liquidity and solvency tests required by the Companies Act of South Africa.

Report of the Audit Committee

for the year ended 31 December 2013

Due to practical implications of governance requirements of the Companies Act No 71 of 2008, the company has, in terms of section 94(2), agreed with its holding company, Mutual & Federal Insurance Company Limited (Mutual & Federal) to constitute a Finance Oversight, Social Responsibility and Ethics Committee (FOC) to perform the duties of an audit committee for the Credit Guarantee Insurance Corporation of Africa Limited group of companies, comprising Credit Guarantee Insurance Corporation of Africa Limited and its subsidiary, as prescribed in section 94(7).

The FOC comprises five non-executive directors. The committee met quarterly with the chief executive officer, chief financial officer and representatives from external and internal auditors, risk management as well as other assurance providers by invitation. The committee operated in accordance with an annual work plan to cover all relevant matters. Items discussed at these meetings were formally minuted and, where needed, appropriate action plans were documented.

The mandate and responsibilities of the committee encompass, among others, all actions required to:

- oversee annual financial reporting including the annual financial statements;
- ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities;
- oversee the internal audit function;
- oversee the risk management process;
- oversee the external audit function; and
- receive and deal with complaints (whether from within or outside the Credit Guarantee group) relating either to the accounting practices and internal audit of the group, or to any related matter and report to the Mutual & Federal Audit Committee on all complaints received and the action to be taken thereon.

During the year the committee assisted the Mutual & Federal Audit Committee and the board of directors by performing an objective and independent review of the performance of the finance and risk management functions. This was achieved through close cooperation and communication with management and the internal and external auditors, who have unrestricted access to members of this committee.

The committee also reviewed the annual financial statements for the year ended 31 December 2013 and recommended these financial statements for approval by the board on 23 January 2014. The committee has functioned well and has performed all its other duties properly.

The committee considered the external auditor's independence for the financial year ended 31 December 2013 and is satisfied that the registered auditor, KPMG Inc., was independent of all companies within the Credit Guarantee group.

The Mutual & Federal Audit Committee, with the appropriate assistance from the committee, is satisfied that it had fulfilled its responsibilities.

M Mia
Chairperson of the Mutual & Federal Audit Committee

28 March 2014

Independent auditor's report

To the shareholders of Credit Guarantee Insurance Corporation of Africa Limited

Report on the financial statements

We have audited the group financial statements and financial statements of Credit Guarantee Insurance Corporation of Africa Limited, which comprise the statements of financial position at 31 December 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 27 to 79.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Credit Guarantee Insurance Corporation of Africa Limited at 31 December 2013, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2013, we have read the statutory report of the directors, the report of the audit committee and certification by the company secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

KPMG Inc.
Registered auditor

Mark Danckwerts
Chartered Accountant (SA)
Registered auditor
Director
KPMG Crescent
85 Empire Road
Parktown
2122

28 March 2014

Statements of financial position

at 31 December 2013

	Note	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Assets					
Property and equipment	7	61 046	62 367	9 169	8 895
Intangible assets	8	108	268	108	268
Investments in subsidiary	9	–	–	44 200	45 497
Investments	10	510 958	503 567	510 958	503 567
Salvages receivable	11	98 232	73 746	98 232	73 746
Reinsurers' share of insurance contract provisions	11	125 108	127 999	125 108	127 999
Deferred taxation	12	31 733	40 505	31 733	40 505
Deposits with cedants		24 804	20 926	24 804	20 926
Taxation receivable		–	1 332	–	1 332
Other receivables	13	148 141	140 994	148 141	140 994
Reinsurers' balances		7 041	4 541	7 041	4 541
Cash and cash equivalents	14	684 152	638 237	684 152	638 237
Total assets		1 691 323	1 614 482	1 683 646	1 606 507
Liabilities					
Post-retirement medical benefit provision	15.1	60 247	39 700	60 247	39 700
Share-based payment provision	15.2	7 647	9 569	7 647	9 569
Deferred taxation	12	46 644	47 661	38 967	39 686
Reinsurers' share of salvages	11	19 911	15 329	19 911	15 329
Insurance contract provisions	11	708 056	733 014	708 056	733 014
Deposits owing to reinsurers		38 084	32 495	38 084	32 495
Other payables		57 262	42 834	57 262	42 834
Reinsurers' balances		16 558	18 114	16 558	18 114
Provisions	15.3	36 565	34 553	36 565	34 553
Taxation payable		1 363	–	1 363	–
Total liabilities		992 337	973 269	984 660	965 294
Equity					
Share capital	16	2 649	2 649	2 649	2 649
Property revaluation reserve	17	40 000	40 000	–	–
Retained income	18	656 337	598 564	696 337	638 564
Total shareholders' equity		698 986	641 213	698 986	641 213
Total liabilities and equity		1 691 323	1 614 482	1 683 646	1 606 507

Statements of comprehensive income

for the year ended 31 December 2013

	Note	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Continuing and discontinued operations					
Gross premiums written	19	860 352	776 246	860 352	776 246
Less: Reinsurance premiums		257 439	217 475	257 439	217 475
Net premiums		602 913	558 771	602 913	558 771
Change in provision for low claims and no-claims bonus		(1 951)	(4 494)	(1 951)	(4 494)
– Gross amount		(2 337)	(5 178)	(2 337)	(5 178)
– Reinsurers' share		386	684	386	684
Change in provision for unearned premiums		2 693	(2 704)	2 693	(2 704)
– Gross amount		1 340	(3 239)	1 340	(3 239)
– Reinsurers' share		1 353	535	1 353	535
Earned premiums net of reinsurance		603 655	551 573	603 655	551 573
Salvage income	22	82 854	66 472	82 854	66 472
– Gross amount		121 271	111 424	121 271	111 424
– Reinsurers' share		(38 417)	(44 952)	(38 417)	(44 952)
Commission income	20	70 567	76 383	70 567	76 383
Investment income		113 358	98 316	112 061	96 452
– Interest and dividends	21.1	49 137	45 906	49 137	45 906
– Realised and unrealised gains on investments	21.2	64 221	52 410	64 221	52 410
– Unrealised loss on investment in subsidiary	21.2	–	–	(1 297)	(1 864)
Foreign exchange gains	24.4	13 908	3 328	13 908	3 328
Other operating income		67 882	65 359	68 195	65 652
Total income		952 224	861 431	951 240	859 860
Claims incurred	22	(429 887)	(362 358)	(429 887)	(362 358)
– Gross amount		(705 239)	(457 401)	(705 237)	(457 401)
– Reinsurers' share		275 352	95 043	275 352	95 043
Acquisition costs	23	(70 245)	(58 852)	(70 245)	(58 852)
Management expenses	24	(160 706)	(138 508)	(159 424)	(137 202)
Interest paid		(2 935)	(3 573)	(2 935)	(3 573)
Net income before taxation		288 451	298 140	288 749	297 875
Taxation	25	(69 282)	(78 338)	(69 580)	(82 759)
Net income for the year		219 169	219 802	219 169	215 116
Other comprehensive income:					
– Actuarial increase in post-retirement medical aid liability	33.2	(17 219)	–	(17 219)	–
– Tax effect of actuarial increase in post-retirement medical aid liability	25	4 821	–	4 821	–
Total comprehensive income for the year		206 771	219 802	206 771	215 116
Net income for the year attributable to:					
– Owners of the company		108 596	115 440	108 596	112 979
– Non-controlling interest		98 175	104 362	98 175	102 137
		206 771	219 802	206 771	215 116
Basic earnings per share (cents)	26	8 273	8 297	8 273	8 120
– Continued operations	26	8 296	8 243	8 296	8 066
– Discontinued operations		(23)	54	(23)	54
Headline and diluted earnings per share (cents)	26	8 277	8 298	8 277	8 121
Dividend per share paid in the year (cents)		5 624	2 395	5 624	2 395

Statements of changes in equity

for the year ended 31 December 2013

	Share capital R'000	Contingency reserve R'000	Property revaluation reserve R'000	Retained income R'000	Total R'000
Group					
Balance at 31 December 2011	2 649	52 424	40 000	389 790	484 863
Transfer from contingency reserve		(52 424)		52 424	–
Total comprehensive income for the year				219 802	219 802
Dividends paid				(63 452)	(63 452)
Balance at 31 December 2012	2 649	–	40 000	598 564	641 213
Total comprehensive income for the year				206 771	206 771
Dividends paid#				(148 998)	(148 998)
Balance at 31 December 2013	2 649	–	40 000	656 337	698 986

	Share capital R'000	Contingency reserve R'000	Retained income R'000	Total R'000
Company				
Balance at 31 December 2011	2 649	52 424	434 476	489 549
Transfer from contingency reserve		(52 424)	52 424	–
Total comprehensive income for the year			215 116	215 116
Dividends paid			(63 452)	(63 452)
Balance at 31 December 2012	2 649	–	638 564	641 213
Total comprehensive income for the year			206 771	206 771
Dividends paid#			(148 998)	(148 998)
Balance at 31 December 2013	2 649	–	696 337	698 986

Refer to note 29.

Statements of cash flows

for the year ended 31 December 2013

	Note	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Cash received from policyholders and intermediaries		854 646	773 921	854 646	773 921
Cash paid to policyholders, intermediaries, staff, suppliers and reinsurers		(726 735)	(516 599)	(726 735)	(516 599)
Cash generated by operations	27	127 911	257 322	127 911	257 322
Taxation paid	28	(54 011)	(70 807)	(54 011)	(70 807)
Net cash flow from operating activities		73 900	186 515	73 900	186 515
Net additions to equipment and intangible assets		(3 441)	(3 336)	(3 441)	(3 336)
– Purchases		(3 841)	(3 392)	(3 841)	(3 392)
– Proceeds on disposals		400	56	400	56
Listed shares purchases	30	(30 685)	(26 063)	(30 685)	(26 063)
Proceeds on sale of shares		87 515	14 474	87 515	14 474
Interest received		30 019	26 031	30 019	26 031
Interest paid		(2 935)	(3 573)	(2 935)	(3 573)
Dividends received		19 295	18 708	19 295	18 708
Net cash flow from investing activities		99 768	26 241	99 768	26 241
Dividends paid	29	(148 998)	(63 452)	(148 998)	(63 452)
Net cash flow from financing activities		(148 998)	(63 452)	(148 998)	(63 452)
Net increase in cash and cash equivalents		24 670	149 304	24 670	149 304
Effect of foreign exchange rate movements on cash and cash equivalents		21 245	3 965	21 245	3 965
Cash and cash equivalents at the beginning of the year		638 237	484 968	638 237	484 968
Cash and cash equivalents at the end of the year		684 152	638 237	684 152	638 237

Notes to the financial statements

for the year ended 31 December 2013

Credit Guarantee Insurance Corporation of Africa Limited (the company) is domiciled in South Africa. The annual financial statements of the group, domiciled in South Africa, for the year ended 31 December 2013 comprise the consolidation of the financial results of the company and its subsidiary, Galilean Properties Proprietary Limited domiciled in South Africa. The annual financial statements of the company comprise the financial results of the company as a separate legal entity. These financial statements were authorised for issue by the directors on 27 March 2014.

1. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below and are consistent with those of the previous year.

1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standards Board (IASB).

1.2 Basis of preparation

The financial statements are presented in Rand, rounded to the nearest thousand, which is also the functional currency of the group and the company. The financial statements are prepared on the historical cost basis, modified by the revaluation of financial instruments to fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in future years are disclosed in note 2.

1.3 Basis of consolidation

The group financial statements comprise the consolidation of the assets and liabilities of the company and its subsidiary. Subsidiaries are all entities over which the group has the power to govern the financial and operating policies accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that presently are exercisable or convertible are considered when assessing whether the company controls another entity. Investments in subsidiaries in the financial statements of the company are designated at fair value through profit or loss financial instruments. The fair value is calculated using a discounted earnings model or shown at net asset value, if the net asset value approximates fair value. The financial statements of subsidiaries are included in the group financial statements from the date that the control commenced.

1.4 Classification of insurance contracts

Contracts under which the company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Contracts where the transfer of insurance risk to the company from the policyholder is not significant, are classified as investment contracts. Credit Guarantee policies are classified as insurance contracts.

Notes to the financial statements

for the year ended 31 December 2013

1. Accounting policies (continued)

1.5 Recognition and measurement of insurance contracts

Premiums

Premiums written comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission to intermediaries and exclude value added tax. Premiums written include adjustments to premiums written in prior accounting periods. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business. The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received, at the undiscounted amounts payable in terms of reinsurance contracts.

Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in subsequent financial years, computed separately for each insurance contract using the time apportionment basis. The provision also includes premium reserves maintained under alternative risk transfer policies which are calculated with reference to the underlying risk profile of the policies.

Claims incurred

Claims incurred consist of claims paid during the financial year together with movements in the provision for outstanding claims.

Claims outstanding comprise provisions for the company's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not, and an appropriate sufficiency margin. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as the state of the economy, interest rates, changes in claims-handling procedures, inflation, judicial trends, legislative changes as well as past experience and other trends. Anticipated reinsurance recoveries are disclosed separately as assets. Reinsurance and other recoveries are assessed in a manner similar to the assessment of claims outstanding. Actual reinsurance recoveries are recognised in profit and loss in the same period as the related claim at the undiscounted amount receivable in terms of the reinsurance contract.

While the directors consider that the gross provisions for claims and the related reinsurance recoveries are stated fairly on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used, and the estimates made, are reviewed on a monthly basis by the Reserving Committee, and are reviewed on an annual basis by both the company actuary and an independent external actuary.

Low claims and no-claims bonus

A low claims or no-claim bonus is paid to policyholders based on a fixed calculation as per endorsements that form part of the insurance contract. The bonuses are paid upon the policyholders meeting certain criteria in terms of their policy for a specific underwriting year. The low claims bonus is determined over a 12-month period and is calculated as a percentage of premium, less net claims paid during the bonus period. The no-claim bonus becomes payable after the 12-month period of the expired policy, provided that no indemnity has been paid and that a written confirmation has been received from the insured that no claim will be payable in respect of insurable transactions concluded during the period. A provision is made for unpaid bonuses at year-end.

Salvage reimbursement

After the occurrence of a cause of loss or payment of an indemnity the insured, at the request of the company, remains obligated to take all reasonable steps, including legal proceedings, in order to obtain recoveries from whatever source. Any salvage collected by the insured or the company shall be shared in proportion to their respective interests. Estimates of salvage receivables are raised as a separate asset.

Unexpired risk provision

Provision is made for unexpired risks arising where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premium provision in relation to such policies after the deduction of any deferred acquisition costs.

Notes to the financial statements

for the year ended 31 December 2013

1. Accounting policies (continued)

1.5 Recognition and measurement of insurance contracts (continued)

Reinsurance

The company ceded reinsurance in the normal course of business for the purpose of limiting its net loss potential. Reinsurance arrangements do not relieve the company from its direct obligations to its policyholders.

Premiums ceded, claim recoveries and commission income are presented in the consolidated statement of comprehensive income and consolidated statement of financial position separately from the gross amounts.

Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in profit and loss for the period.

Only reinsurance arrangements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. Contracts that do not transfer significant insurance risk (i.e. financial reinsurance), are accounted for as investment contracts.

Deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the unearned premium provision. Where deferred acquisition costs are insignificant, they are set off against unearned premiums.

Reinsurance commission

Reinsurance commission received consists of commission received on insurance premium ceded to reinsurers and a profit commission dependent on the result of the portfolio for a given underwriting year. Reinsurance commission received is measured at the fair value of the consideration received or receivable and represents the amount receivable for services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

Deposits retained from reinsurers

Deposits owing to reinsurers are held as security against foreign reinsurance in the event of the non-settlement of claims by reinsurers. Deposits retained are measured at amortised cost.

Liabilities and related assets under liability adequacy test

The net liability recognised for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs. Where a shortfall is identified, an additional provision is made and the corresponding expense is recognised.

1.6 Recognition and measurement of investment contracts

Receipts and payments under investment contracts are not classified as insurance transactions in the consolidated statement of comprehensive income, but are deposit accounted in the consolidated statement of financial position. The deposit liability recognised in the consolidated statement of financial position represents the expected amounts payable to the holders of the investment contracts, inclusive of allocated investment income.

1.7 Foreign currency translation

Transactions in foreign currencies are translated to Rand at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Rand at the foreign exchange rate ruling at that date. Foreign exchange gains or losses arising on translation are recognised in the consolidated statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Rand at foreign exchange rates ruling at the dates the fair value is determined.

1.8 Property and equipment

Land and buildings held for administrative use are stated at revalued amounts, determined from market-based evidence from appraisals undertaken by professional valuers and subsequently reduced for any accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Notes to the financial statements

for the year ended 31 December 2013

1. Accounting policies (continued)

1.8 Property and equipment (continued)

Any revaluation increase arising from the revaluation of such land and buildings is credited to the property revaluation reserve, except to the extent that it reverses previously recognised decreases for the same asset as an expense, in which case the increase is credited to the statement of comprehensive income of the subsidiary company to the extent of the decrease previously charged. A decrease in the carrying amount of the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to the previous revaluation of that asset. Land is not depreciated. Depreciation of the residual value on revalued buildings is charged to income. Where no valuation has taken place, the revaluation reserve at balance sheet date is maintained. Buildings are depreciated over a period of 20 years. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained income.

Equipment is stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged over the estimated useful life of the asset up to the residual value, using the straight-line method, on the following bases:

Furniture and equipment	16% – 50%
Motor vehicles	25%
Computer equipment	33.3%

Both the useful lives and the residual values (if not insignificant) are re-assessed annually.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is impaired to the level of its recoverable amount.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount of the assets. Repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits will flow to the company.

1.9 Intangible assets

Expenditure associated with research activities, regarding the development of computer software programmes, is recognised as an expense when incurred. Purchased computer software costs recognised as assets are amortised using the straight-line method over a two-year period.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is expensed as incurred.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired.

1.10 Financial instruments

Recognition of financial assets and liabilities

Regular way purchases and sales of financial assets are recognised on trade date; the date on which the company commits to purchase or sell the asset.

Derecognition of financial assets and liabilities

The company derecognises an asset:
- when the contractual rights to cash flows from the asset expires;
- where there is a transfer of contractual rights to receive cash flows on the assets in a transaction in which substantially all the risks and rewards of ownership of the assets are transferred; or
- where the company retains the contractual right to the cash flows from these assets but assumes a corresponding liability to transfer these contractual rights to another party and subsequently transfers substantially all the risks and benefits associated with the assets.

Financial liabilities are derecognised when the company's contractual obligations are discharged, cancelled or expire.

Initial measurement

Financial instruments are initially recognised at fair value plus, for financial instruments not at fair value through profit or loss, any directly attributable transaction costs.

Notes to the financial statements

for the year ended 31 December 2013

1. Accounting policies (continued)

1.10 Financial instruments (continued)

Investments

Listed investments, classified as at fair value through profit or loss, are carried at fair value which is calculated by reference to stock exchange quoted bid prices at the close of business on the reporting date. Unlisted investments are shown at fair value that is calculated on bases that best present the estimated proceeds to be realised from a sale to an informed purchaser under normal market conditions.

Insurance and other receivables

Insurance and other receivables are measured at initial recognition at fair value plus any directly attributable cost, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current accounts with banks and short-term deposits with a maturity of not greater than 90 days, all of which are available for use by the company, unless otherwise stated. Cash and cash equivalents are initially measured at fair value and subsequently at amortised cost.

Insurance and other payables

Insurance payables consist primarily of premiums payable for reinsurance contracts. Insurance and other payables are initially measured at fair value and subsequently at amortised cost, using the effective interest rate method.

Gains or losses on subsequent measurement

Gains or losses arising from a change in the fair value of financial instruments are included in net profit or loss in the period in which the change arises. A fair value hierarchy is used to measure the fair values of financial instruments. This hierarchy determines the significance of inputs and assumptions used in determining fair values. All financial instruments held by the company are fair valued according to quoted prices in an active market (level 1 of the hierarchy), observable inputs directly or indirectly derived from both market data and non-market data (level 2) or on inputs not based on observable market data (level 3).

Fair value hedges

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognised in profit or loss. The hedged item is also stated at fair value in respect of the risk being hedged and the gain or loss attributable to the hedged risk is recognised in profit or loss with an adjustment to the carrying amount of the hedged item.

Offset

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.11 Impairment of assets

Financial assets carried at amortised cost

The company assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss event") and that such loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or a delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease may not yet be identified with the individual financial assets in the company. This may include adverse changes in the payment status of issuers or debtors in the company, or national or local economic conditions that correlate with defaults on the assets of the company.

Notes to the financial statements

for the year ended 31 December 2013

1. Accounting policies (continued)

1.11 Impairment of assets (continued)

Financial assets carried at amortised cost (continued)

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment account and the amount of the loss is recognised in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the impairment account. The amount of the reversal is recognised in the consolidated statement of comprehensive income.

Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount, the reduction in value being an impairment loss. An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease. The increased carrying amount of an asset, other than goodwill, attributable to a reversal of an impairment loss, does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation, other than goodwill, is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.12 Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised directly in other comprehensive income or equity or where it arises from a business combination, in which case the related income tax is also recognised in equity.

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment of tax payable for previous years. Deferred tax is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date. Deferred tax is charged to the consolidated statement of comprehensive income, except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination. The effect on deferred tax of any changes in tax rates is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items previously charged or credited directly to other comprehensive income or equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entitles, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

1.13 Employee benefits

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. The provision for employee entitlements to salaries and annual leave represents the amount which the company has a present obligation to pay, as a result of employees' services provided up to the reporting date. The provision has been calculated at undiscounted amounts based on current salary rates.

Notes to the financial statements

for the year ended 31 December 2013

1. Accounting policies (continued)

1.13 Employee benefits (continued)

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits when it is demonstrably committed either to terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

Leave pay accrual

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Short-term incentive

A liability for employee benefits in the form of bonus plans is recognised in current provisions when there is no realistic alternative but to settle the liability, and at least one of the following conditions is met:

- there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements; or
- past practice has created a valid expectation by employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Share-based payment scheme

A liability for an employee retention scheme is recognised as a provision. The amount recognised is determined based on the number of notional option shares offered to eligible employees, which is determined by managerial grade.

An option can be exercised by an eligible employee after 36 months, but not more than 51 months after the date of the offer to that employee. The exercise price of the option shall be determined on the basis of a valuation of the company by an independent party.

The services received in terms of cash-settled share-based payment transactions with employees are measured at the fair value of the underlying instruments. The fair value of those instruments is measured at the grant date and remeasured at each subsequent reporting date.

Where the instruments do not vest until the employee has completed a specified period of service, it is assumed that the services rendered by the employee, as consideration for those equity instruments, will be received in the future, during the vesting period. The services are accounted for in the consolidated statement of comprehensive income as they are rendered during the vesting period, with a corresponding increase in the related liability based on the latest fair value of the underlying equity instrument.

Post-employment benefits

Defined contribution pension plan

Contributions to the defined contribution pension plan are recognised as an expense in the consolidated statement of comprehensive income as incurred. The defined contribution pension plan is a plan under which the group pays fixed contributions into a separate fund and has no obligation to pay further contributions to the fund.

Defined benefit pension plan

The company's obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current year and prior years. The benefits are discounted to determine the present value of the obligation, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method which is appropriate for a fund closed to new entrants and with less than 5% of the company's employees participating in the fund. The fund is valued at least once in three years. Any actuarial gains or losses are recognised as incurred.

Defined benefit medical plan

The company provides post-retirement medical benefits to current and future pensioners, except in the case of employees who joined the company after 1 September 1998, from which date these employees are no longer entitled to this benefit. The entitlement to the post-retirement medical benefits is conditional on the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment using the projected unit credit method. Actuarial gains or losses are recognised in the consolidated statement of comprehensive income when identified. Independent qualified actuaries value these obligations biennially.

Notes to the financial statements

for the year ended 31 December 2013

1. Accounting policies (continued)

1.14 Provisions

Provisions are recognised when the company has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

1.15 Revenue recognition

Revenue which includes premium income measured at the fair value of the consideration received or receivable and represents the amount receivable for services provided in the normal course of business, net of trade discounts and volume rebates, and value added taxation. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably:
  - to the extent that it is probable that they will result in revenue; and
  - they are capable of being reliably measured.

Interest income

Interest income is recognised as it accrues, using the effective interest method.

Dividend income

Dividends are recognised when the right to receive payment is established.

Fee income

Fee income arising from credit limit fees, rapid response fees and administration fees on fixed and risk financing business is recognised in the consolidated statement of comprehensive income as earned.

1.16 Dividends payable

Dividends payable and the related taxation thereon are recorded in the company's financial statements in the period in which the shareholders' rights to receive payment have been established.

1.17 Leases

Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This asset or liability is not discounted. Any contingent rents are expensed in the period they are incurred.

Finance leases

Leases of fixed property and equipment, where the company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased equipment or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the finance of the liability outstanding.

The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the consolidated statement of comprehensive income over the lease period according to the effective interest rate method. The equipment acquired under the finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Notes to the financial statements

for the year ended 31 December 2013

1. Accounting policies (continued)

1.18 Contingencies and commitments

Transactions are classified as contingencies where the company's obligations depend on uncertain future events. Items are classified as commitments where the company commits itself to future transactions with external parties.

1.19 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Incremental costs directly attributable to issue of the equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

1.20 Segmental reporting

The company has decided not to apply the requirements of IFRS 8 *Operating Segments* as management believes that providing such information will not provide any additional benefit to the users of these consolidated financial statements, over and above the information already provided.

2. Accounting estimates and judgements

Certain critical accounting judgements in applying the company's accounting policies are described below:

Policyholder claims and benefits

The company's estimates of reported and unreported losses, adjusted by estimated salvages and resulting provisions, and related reinsurance recoverables are continually reviewed and updated. Adjustments resulting from this review are reflected in income. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events. The company's process for determining significant reserving assumptions is outlined in note 11.

Defined benefit medical plan

The estimations used to calculate the company's future liability to employees eligible for post-retirement medical benefits can be summarised as follows: future liabilities have been discounted at 9.2% per annum compounded. This rate is based on the market yield obtainable on government bonds at the valuation date.

Future medical scheme contribution rates have been assumed to increase by 8.6% per annum compounded. Although rates may fluctuate widely in the short term, a net discount rate (i.e. the discount rate net of medical scheme contribution inflation) of 0.6% per annum is deemed to be a realistically sustainable level.

Share-based payment

As the growth in the share incentive scheme is independently verified by external valuers only after the presented balance sheet date, the company estimates the growth in the potential liability under the share incentive scheme based on the net asset value of the company at that balance sheet date and the estimated future cash flows for the following five financial years.

Impairment testing

The company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and intangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including significant financial difficulty of the issuer or debtor; a breach of contract, such as default or delinquency in payments; adverse changes in the payment status of issuers or debtors in the company; or national or local economic conditions that correlate with defaults on assets in the company.

Notes to the financial statements

for the year ended 31 December 2013

3. New and amended standards and interpretations not yet adopted

At the date of authorisation of these financial statements the following standards and interpretations were in issue, but not yet effective.

Amendments to IAS 19 *Employee Benefits*

The amendments deal with the recognition of the net liability or asset of employee benefits and removes the previously allowed option to defer the recognition. The amendments are effective for the annual period beginning on or after 1 January 2014. The amendments are not expected to have a significant impact on the consolidated financial statements.

Amendments to IAS 32 *Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities*

The amendments clarify when an entity can offset financial assets and financial liabilities. This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted. The amendments are not expected to have a significant impact on the consolidated financial statements.

IFRS 9 *Financial Instruments*

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The impact of the adoption of IFRS 9 (2010) on the company has not yet been assessed.

Notes to the financial statements

for the year ended 31 December 2013

4. Categorisation of assets and liabilities

4.1 Group 2013

		Financial instrument					Liquidity classification	
	Note	Total R'000	At fair value through profit or loss R'000	Loans and receivables R'000	At amortised cost R'000	Non-financial assets/ liabilities R'000	Current assets/ liabilities* R'000	Non-current assets/ liabilities R'000
Assets								
Property and equipment	7	61 046				61 046		61 046
Intangible assets	8	108				108		108
Investments#	10	510 958	510 958				510 958	
Salvages receivable	11	98 232				98 232	86 808	11 424
Reinsurers' share of insurance contract provisions	11	125 108				125 108	110 558	14 550
Deferred taxation	12	31 733				31 733	14 864	16 869
Deposits with cedants		24 804				24 804	24 804	
Other receivables	13	148 141		22 505		125 636	148 141	
Reinsurers' balances		7 041		7 041			7 041	
Cash and cash equivalents	14	684 152			684 152		684 152	
Total assets		1 691 323	510 958	29 546	684 152	466 667	1 587 326	103 997
Liabilities								
Post-retirement medical benefit provision	15.1	60 247				60 247		60 247
Share-based payment provision	15.2	7 647				7 647	5 363	2 284
Deferred taxation	12	46 644				46 644	38 967	7 677
Reinsurers' share of salvages	11	19 911				19 911	17 595	2 316
Insurance contract provisions	11	708 056				708 056	625 710	82 346
Deposits owing to reinsurers		38 084				38 084	38 084	
Other payables		57 262		48 753		8 509	57 262	
Reinsurers' balances		16 558		16 558			16 558	
Provisions	15.3	36 565				36 565	36 565	
Taxation payable		1 363				1 363	1 363	
Total liabilities		992 337	–	65 311	–	927 026	837 467	154 870

** Current assets and liabilities are due or payable within 12 months.*

 # The liquidity profile of investments are of a nature allowing their classification as current. The maturity profile of these assets is however of such a nature that they can be sold immediately or held in perpetuity.

Notes to the financial statements

for the year ended 31 December 2013

4. Categorisation of assets and liabilities (continued)

4.2 Group 2012

		Financial instrument					Liquidity classification	
	Note	Total R'000	At fair value through profit or loss R'000	Loans and receivables R'000	At amortised cost R'000	Non-financial assets/ liabilities R'000	Current assets/ liabilities* R'000	Non-current assets/ liabilities R'000
Assets								
Property and equipment	7	62 367				62 367		62 367
Intangible assets	8	268				268		268
Investments#	10	503 567	503 567				503 567	
Salvages receivable	11	73 746				73 746	63 252	10 494
Reinsurers' share of insurance contract provisions	11	127 999				127 999	109 785	18 214
Deferred taxation	12	40 505				40 505	29 389	11 116
Deposits with cedants		20 926				20 926	20 926	
Taxation receivable		1 332				1 332	1 332	
Other receivables	13	140 994		22 145		118 849	140 994	
Reinsurers' balances		4 541		4 541			4 541	
Cash and cash equivalents	14	638 237			638 237		638 237	
Total assets		1 614 482	503 567	26 686	638 237	445 992	1 512 023	102 429
Liabilities								
Post-retirement medical benefit provision	15.1	39 700				39 700		39 700
Share-based payment provision	15.2	9 569				9 569	7 676	1 893
Deferred taxation	12	47 661				47 661	39 686	7 975
Reinsurers' share of salvages	11	15 329				15 329	13 148	2 181
Insurance contract provisions	11	733 014				733 014	628 706	104 308
Deposits owing to reinsurers		32 495				32 495	32 495	
Other payables		42 834		36 242		6 592	42 834	
Reinsurers' balances		18 114		18 114			18 114	
Provisions	15.3	34 553				34 553	34 553	
Total liabilities		973 269	–	54 356	–	918 913	817 212	156 057

** Current assets and liabilities are due or payable within 12 months.*

 # The liquidity profile of investments are of a nature allowing their classification as current. The maturity profile of these assets is however of such a nature that they can be sold immediately or held in perpetuity.

Notes to the financial statements

for the year ended 31 December 2013

4. Categorisation of assets and liabilities (continued)

4.3 Company 2013

	Note	Financial instrument					Liquidity classification	
	Note	Total R'000	At fair value through profit or loss R'000	Loans and receivables R'000	At amortised cost R'000	Non-financial assets/ liabilities R'000	Current assets/ liabilities* R'000	Non-current assets/ liabilities R'000
Assets								
Property and equipment	7	9 169				9 169		9 169
Intangible assets	8	108				108		108
Investment in subsidiary	9	44 200	44 200					44 200
Investments#	10	510 958	510 958				510 958	
Salvages receivable	11	98 232				98 232	86 808	11 424
Reinsurers' share of insurance contract provisions	11	125 108				125 108	110 558	14 550
Deferred taxation	12	31 733				31 733	14 864	16 869
Deposits with cedants		24 804				24 804	24 804	
Other receivables	13	148 141		22 505		125 636	148 141	
Reinsurers' balances		7 041		7 041			7 041	
Cash and cash equivalents	14	684 152			684 152		684 152	
Total assets		1 683 646	555 158	29 546	684 152	414 790	1 587 326	96 320
Liabilities								
Post-retirement medical benefit provision	15.1	60 247				60 247		60 247
Share-based payment provision	15.2	7 647				7 647	5 363	2 284
Deferred taxation	12	38 967				38 967	38 967	
Reinsurers' share of salvages	11	19 911				19 911	17 595	2 316
Insurance contract provisions	11	708 056				708 056	625 710	82 346
Deposits owing to reinsurers		38 084				38 084	38 084	
Other payables		57 262		48 753		8 509	57 262	
Reinsurers' balances		16 558		16 558			16 558	
Provisions	15.3	36 565				36 565	36 565	
Taxation payable		1 363				1 363	1 363	
Total liabilities		984 660	–	65 311	–	919 349	837 467	147 193

** Current assets and liabilities are due or payable within 12 months.*

 # The liquidity profile of investments are of a nature allowing their classification as current. The maturity profile of these assets is however of such a nature that they can be sold immediately or held in perpetuity.

Notes to the financial statements

for the year ended 31 December 2013

4. Categorisation of assets and liabilities (continued)

4.4 Company 2012

	Note	Total R'000	At fair value through profit or loss R'000	Loans and receivables R'000	At amortised cost R'000	Non-financial assets/liabilities R'000	Current assets/liabilities* R'000	Non-current assets/liabilities R'000
		Financial instrument					Liquidity classification	
Assets								
Property and equipment	7	8 895				8 895		8 895
Intangible assets	8	268				268		268
Investment in subsidiary	9	45 497	45 497					45 497
Investments#	10	503 567	503 567				503 567	
Salvages receivable	11	73 746				73 746	63 252	10 494
Reinsurers' share of insurance contract provisions	11	127 999				127 999	109 785	18 214
Deferred taxation	12	40 505				40 505	29 389	11 116
Deposits with cedants		20 926				20 926	20 926	
Taxation receivable		1 332				1 332	1 332	
Other receivables	13	140 994		22 145		118 849	140 994	
Reinsurers' balances		4 541		4 541			4 541	
Cash and cash equivalents	14	638 237			638 237		638 237	
Total assets		1 606 507	549 064	26 686	638 237	392 520	1 512 023	94 484
Liabilities								
Post-retirement medical benefit provision	15.1	39 700				39 700		39 700
Share-based payment provision	15.2	9 569				9 569	7 676	1 893
Deferred taxation	12	39 686				47 661	39 686	
Reinsurers' share of salvages	11	15 329				15 329	13 148	2 181
Insurance contract provisions	11	733 014				733 014	628 706	104 308
Deposits owing to reinsurers		32 495				32 495	32 495	
Other payables		42 834		36 242		6 592	42 834	
Reinsurers' balances		18 114		18 114			18 114	
Provisions	15.3	34 553				34 553	34 553	
Total liabilities		965 294	–	54 356	–	910 938	817 212	148 082

** Current assets and liabilities are due or payable within 12 months.*

 # The liquidity profile of investments are of a nature allowing their classification as current. The maturity profile of these assets is however of such a nature that they can be sold immediately or held in perpetuity.

Notes to the financial statements

for the year ended 31 December 2013

5. Insurance risk management

Risk management objectives and policies for mitigating risk

The primary insurance activity carried out by the company assumes the risk of loss from small businesses to large corporates that are directly subject to the risk. Such risks may relate to credit or alternative risk transfer that may arise from an insurable event. As such, the company is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

The company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed mandate limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues.

The company uses several methods to assess and monitor insurance risk exposures for individual types of risks insured. These methods include internal risk measurement models, sensitivity analysis and scenario analyses. The principal risk is that the frequency and severity of claims is greater than expected. Insurance claims are, by their nature, random, and the actual number and size during any one year may vary from those estimated.

Experience shows that the larger the portfolio of similar contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in the portfolio. The company has developed its insurance underwriting strategy to diversify the type of insurance risk accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The internal audit function is outsourced. Regular reviews are conducted to assess the degree of compliance with company procedures.

Underwriting strategy

The company's underwriting strategy strives to ensure a balanced portfolio and is based on a large number of similar risks both in the domestic and international markets. It is believed that the size of the portfolio reduces the variability of the outcome. The underwriting strategy is set out by the Executive Credit Committee which gives guidelines to management and underwriters regarding the levels to which the company should be exposed.

Adherence to the underwriting authorities is measured through a series of exception reports that are produced on a daily basis covering unusual movements in any particular risk. There are several underwriting committees which meet on a weekly basis to review management information including any specific as well as industry and country concerns.

Reinsurance strategy

The company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The company buys a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure to the company. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances.

Ceded reinsurance contains credit risk and as such, reinsurance recoverables are reported after deductions for known insolvencies and uncollectible items. The company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. Reinsurance requirements are placed with the world's leading reinsurers who offer the best security, as they are highly rated by international agencies.

Notes to the financial statements

for the year ended 31 December 2013

5. Insurance risk management (continued)

Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are as follows:

Nature of risk covered

The company's main business is that of credit insurance. Credit insurance is a highly specialised industry and, in many jurisdictions, only specialised companies are authorised to write credit and surety business. Underwriting is complex and requires specialised staff, and the same applies to claims, where staff are not only required to process complex claims, but are also intensely involved in recovering losses from collateral securities and litigation. The nature of claims makes the calculation of reserves a critical element in the credit insurer's accounting records.

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

The event giving rise to a claim usually occurs with the insolvency, liquidation or protracted default of a buyer, or a political event in a foreign country that gives rise to default payment. The claim will be notified to the company in terms of the specific policy conditions. The company's business can be classified as short to medium-term business, because the company could be notified of a claim only six months or longer after the company has accepted the risk.

Management of risks

The key risks are underwriting risk and adverse claims development. The company is also exposed to the risk of dishonest actions by policyholders.

Underwriting risk is the risk that the company does not charge premiums appropriate for the different credit risks it insures. This risk is managed primarily through sensible pricing, product design, risk selection, appropriate investment strategy, rating and reinsurance. The company therefore monitors and reacts to changes in the general economic and business environment in which it operates.

Insurance companies are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. Sophisticated software and fraud detection measures are in place to improve the company's ability to proactively detect fraudulent claims.

Capital management

The company is required to maintain a statutory surplus asset ratio as defined in Board Notice 169 as issued under the Short-Term Insurance Act, No 53 of 1998. The capital requirement, as contemplated under the board notice, represents the interim measure requirements and are not the final measures expected under the Solvency Assessment and Management regime currently being drafted by the Financial Services Board (the regulator). The capital requirements, as envisaged for trade credit and surety insurers and as currently represented under the quantitative impact study undertaken by the regulator, is higher than the capital requirement under the current interim measures. Management is in regular communication with both the regulator and the insurance body representing certain insurers, namely the South African Insurance Association, to determine the capital requirements a niche trade credit and surety underwriter should reasonably be expected to hold in a South African context. Management believes that these discussions will result in an equitable solution for the trade credit and surety insurance industry.

Notes to the financial statements

for the year ended 31 December 2013

5. Insurance risk management (continued)

Concentration of insurance risk

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

2013 2012

The recognition of losses due to such events will accurately reflect the events taking place. However, it is important to understand the wider relevant cash impact relating to, for example, a high severity risk such as liquidations of major participants in a specific industry.

The company sets out the total aggregate exposure that it is prepared to accept in certain industries. The aggregate position is reviewed on an ongoing basis and procedures are in place to make sure that the reinsurance programmes are properly structured to cover the company against its exposures. The chart above details the major industries to which the company is exposed.

Exposure relating to catastrophic events

The company sets out the total aggregate exposure that it is prepared to accept within the parameters of its reinsurance arrangements with its lead reinsurers. The exposures are evaluated at least once a year by trained financial analysts and approved by the Executive Credit Committee, which stress-tests the financial information of the single/cumulative risk. Regular updated information is collected during the 12-month period.

Exposure to single incidents

The company would consider that its most significant exposure would arise in the event of substantial bank interest rate increases. Highly geared companies are identified, managed and monitored throughout financial periods.

Exposure to stop-loss non-linearities

The company's policies for mitigating risk exposure include the use of both proportional and excess-of-loss features against certain insurance risks.

Notes to the financial statements

for the year ended 31 December 2013

5. Insurance risk management (continued)

Claims development

The company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term, subject to predetermined time scales dependent on the nature of the insurance contract. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. 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 claims liability comprises a provision for claims not yet paid and a provision for claims incurred but not yet reported (IBNR).

The cost of claims reported and not yet paid is easily determined. The calculation of the IBNR is complex, and the company makes use of statistical models which include the development factor (DFM), Bornhuetter-Ferguson and Bootstrap models to calculate the IBNR.

In terms of IFRS 4, an insurer need only disclose claims run-off information where uncertainty exists about the amount and timing of claims payments not resolved within one year. The claims from long-tail business arise mainly from the Reinsurance Inwards Division, which has been in run-off since December 2002. The development of the provisions for this division and the accompanying cumulative claims payments for the last five financial years are illustrated below.

	Group and company				
	2013 R'000	2012 R'000	2011 R'000	2010 R'000	2009 R'000
Total provision at the beginning of the period	40 552	39 823	35 835	50 189	87 126
Payment made for the period	(1 558)	(1 957)	(2 780)	(3 309)	(7 116)
Provision at the end of the period	(45 178)	(40 552)	(39 823)	(35 835)	(50 189)
Excludes foreign exchange movements	12 618	1 171	10 452	(6 457)	(13 087)
Net decrease/(increase) in provision	6 434	(1 515)	3 684	4 588	16 734

6. Financial risk management

Transactions in financial instruments result in the company assuming financial risks. These include market risk, credit risk and liquidity risk. Each of these financial risks is described below, together with a summary of the ways in which the company manages these risks.

6.1 Market risk

Market risk can be described as the risk of change in fair value of a financial instrument due to changes in interest rates, equity prices or foreign currency exchange rates.

6.1.1 Interest rate risk

Fluctuations in interest rates impact the value of short-term cash investments, giving rise to price risk. Other than ensuring optimum money market rates for deposits, the company does not make use of financial instruments to manage this risk. Formal policies, procedures and limits have been put in place for derivative instruments. No derivative instrument contracts were entered into during the financial year. The cash investments are primarily held in call accounts and the company's exposure to longer fixed interest investments are insignificant and therefore are not exposed to interest rate risk. The cash investment held in call accounts are, however, subject to the ruling interest rates as determined by the South African Reserve Bank. A movement in the interest rate of 1% could result in the fluctuation of interest earned of approximately R5.7 million, based on current investments in call accounts.

Notes to the financial statements

for the year ended 31 December 2013

6. Financial risk management (continued)

6.1 Market risk (continued)

6.1.2 Equity price risk

The company's portfolio of marketable equity securities, which it carries on its consolidated statement of financial position at fair value, has exposure to price risk. This risk is defined as the potential loss in market value resulting from an adverse change in prices. The company's objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively managed through a variety of modelling techniques. The company's holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by senior management, as well as by statutory requirements. The largest equity investment in any one company comprises approximately 3% of the group's and company's total assets.

At 31 December 2013, marketable equity securities were recorded at their fair value of R410 million. A hypothetical 10% decline in each stock's price would have decreased income before tax by R41 million. Refer to Annexure A for an analysis of equity exposure. Each additional 10% change in each stock's price would have a similar effect.

6.1.3 Foreign exchange risk

The company discontinued its Reinsurance Inwards Division with effect from 1 January 2003. This portfolio is currently in run-off and revenue income is mainly in the form of salvages received in respect of claims paid. Claims are still being paid on an ongoing basis. Revenue and claim payments are received and paid in two main currencies (United States Dollar (USD) and Euro) and assets in these currencies are broadly matched to the outstanding liabilities in the foreign currencies.

The company maintains onshore Euro and USD accounts, as well as offshore premium and claim provisions in terms of regulatory requirements. Experience has shown that this matches the currency requirements of the claims profile. In addition, the company's operations are subject to local regulatory requirements in many jurisdictions which prescribe the type, quality and concentration of assets, as well as the level of assets that should be maintained in local currency in order to meet local insurance liabilities.

At 31 December 2013 and 2012, respectively, approximately 7.1% and 6.2% of the total assets of the group were denominated in foreign currencies. Group invested assets denominated in Euro comprised approximately 3.9% of total invested assets at 31 December 2013. A hypothetical 10% reduction in the value of the Euro relative to the Rand would have resulted in an estimated R6.6 million reduction in the value of these group assets, although there would be a similar offsetting change in the value of the related insurance provisions held by the group. No other individual foreign currency accounts for more than 3.1% of total assets of the group.

Notes to the financial statements

for the year ended 31 December 2013

6. Financial risk management (continued)

6.1 Market risk (continued)

Concentration of assets and liabilities of the group

	2013				
	R'000				
Currency	Rand	Euro	USD	Other	Total
Assets					
Property, equipment and intangible assets	61 154				61 154
Investments	510 958				510 958
Deferred taxation	31 733				31 733
Reinsurers' share of insurance provisions	223 340				223 340
Trade and other receivables	154 609	24 748	73	556	179 986
Cash and cash equivalents	590 091	41 085	52 976		684 152
Total assets	1 571 885	65 833	53 049	556	1 691 323
Liabilities					
Post-retirement medical aid provision	60 247				60 247
Share-based payment liability	7 647				7 647
Deferred taxation	46 644				46 644
Insurance contract provisions	682 900	39 749	3 470	1 848	727 967
Accounts payable and other provisions	144 387	2 012	1 834	1 599	149 832
Total liabilities	941 825	41 761	5 304	3 447	992 337
Net assets	630 060	24 072	47 745	(2 891)	698 986
Percentage of total	90.2	3.4	6.8	(0.4)	100.0

	2012				
	R'000				
Currency	Rand	Euro	USD	Other	Total
Assets					
Equipment and intangible assets	62 635				62 635
Investments	503 567				503 567
Deferred taxation	40 505				40 505
Reinsurers' share of insurance provisions	201 745				201 745
Trade and other receivables	146 310	20 991	58	434	167 793
Cash and cash equivalents	559 090	29 860	49 287		638 237
Total assets	1 513 852	50 851	49 345	434	1 614 482
Liabilities					
Post-retirement medical aid provision	39 700				39 700
Share-based payment liability	9 569				9 569
Deferred taxation	47 661				47 661
Insurance contract provisions	707 791	35 747	3 362	1 443	748 343
Accounts payable and other provisions	123 625	1 286	1 463	1 622	127 996
Total liabilities	928 346	37 033	4 825	3 065	973 269
Net assets	585 506	13 818	44 520	(2 631)	641 213
Percentage of total	91.3	2.1	7.0	(0.4)	100.0

Notes to the financial statements

for the year ended 31 December 2013

6. Financial risk management (continued)

6.1 Market risk (continued)

Concentration of assets and liabilities of the company

	2013				
	R'000				
Currency	**Rand**	**Euro**	**USD**	**Other**	**Total**
Assets					
Equipment and intangible assets	9 277				9 277
Investments in subsidiary	44 200				44 200
Investments	510 958				510 958
Deferred taxation	31 733				31 733
Reinsurers' share of insurance provisions	223 340				223 340
Trade and other receivables	154 609	24 748	73	556	179 986
Cash and cash equivalents	590 091	41 085	52 976		684 152
Total assets	1 564 208	65 833	53 049	556	1 683 646
Liabilities					
Post-retirement medical aid provision	60 247				60 247
Share-based payment liability	7 647				7 647
Deferred taxation	38 967				38 967
Insurance contract provisions	682 900	39 749	3 470	1 848	727 967
Accounts payable and other provisions	144 387	2 012	1 834	1 599	149 832
Total liabilities	934 148	41 761	5 304	3 447	984 660
Net assets	630 060	24 072	47 745	(2 891)	698 986
Percentage of total	90.2	3.4	6.8	(0.4)	100.0

	2012				
	R'000				
Currency	Rand	Euro	USD	Other	Total
Assets					
Equipment and intangible assets	9 163				9 163
Investments in subsidiaries	45 497				45 497
Investments	503 567				503 567
Deferred taxation	40 505				40 505
Reinsurers' share of insurance provisions	201 745				201 745
Trade and other receivables	146 310	20 991	58	434	167 793
Cash and cash equivalents	559 090	29 860	49 287		638 237
Total assets	1 505 877	50 851	49 345	434	1 606 507
Liabilities					
Post-retirement medical aid provision	39 700				39 700
Share-based payment liability	9 569				9 569
Deferred taxation	39 686				39 686
Insurance contract provisions	707 791	35 747	3 362	1 443	748 343
Accounts payable and other provisions	123 625	1 286	1 463	1 622	127 996
Total liabilities	920 371	37 033	4 825	3 065	965 294
Net assets	585 506	13 818	44 520	(2 631)	641 213
Percentage of total	91.3	2.1	7.0	(0.4)	100.0

Notes to the financial statements

for the year ended 31 December 2013

6. Financial risk management (continued)

6.1 Market risk (continued)

Currency	2013 Closing	2012 Closing
Rand/Euro	14.43	11.11
Rand/USD	10.49	8.43

In managing market risk, a distinction is drawn between policyholder and shareholder funds and the following strategies are adopted for each:

Policyholder funds: The overall philosophy governing the investment of policyholder funds will be driven by liquidity considerations and a strong emphasis on capital preservation. The maturity profile of investments will approximate the average term of operational liabilities. To this end, funds will be invested predominantly in cash and fixed interest-bearing investments.

Shareholder funds: Shareholder funds will be invested in a broader spread of investments (including equities), reflecting the more stable nature of the fund pool and the need for strong real returns over the long term. The spread of investments will, however, need to be constructed in such a manner as to guarantee operational capacity (solvency margin) at all times. The extent of investment in equities will be expressed as a ratio of shareholders' funds as determined by the board from time to time, taking into consideration solvency issues and shareholder expectations.

6.2 Credit risk

The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance policyholders; and
- investments and cash equivalents.

The company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. No collateral is required in respect of financial assets.

Mechanisms are in place to monitor the risk of default by individual policyholders. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the company's risk department.

Under the terms of its reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event a claim is paid. However, the company remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes.

Reinsurance is used to manage insurance risk. The creditworthiness of reinsurers is considered regularly by reviewing their financial strength prior to the finalisation of any contract.

Notes to the financial statements

for the year ended 31 December 2013

6. Financial risk management (continued)

6.2 Credit risk (continued)

When selecting a reinsurer, the company considers its security. This is assessed from public rating information and from internal investigations. The table below illustrates the credit ratings of the reinsurers who participated in the company's reinsurance programme.

	2013 %	2012 %
(As rated by internationally recognised rating agencies)		
AA-	16	14
A+	31	15
A	7	57
A-	46	14
	100	100

The group and company's maximum exposure to credit risk is analysed below:	2013 R'000	2012 R'000
Reinsurers' share of net insurance contract provisions*	105 197	112 670
Reinsurers' balances*	7 041	4 541
Deposits held with cedants (unrated)	24 804	20 926
Loans and advances (staff loans – unrated)	–	2
Other receivables (unrated)	22 505	22 143
Insurance-related receivables (unrated)	125 636	118 849
Cash and cash equivalents*	684 152	638 237
	969 335	917 368

**These balances are designated at international or local rating agency ratings of at least those equivalent to that of South Africa or higher.*

The company held deposits of R37.5 million (2012: R32.5 million) as security for the reinsurers' share of insurance contract provisions at the balance sheet date. The underlying asset for loans included in other staff loans is held as security against the principal debt.

The company suspends cover on policies where the outstanding balance exceeds 60 days. The company therefore has receivables that are past due but not impaired at the reporting date. The company believes that impairment of these receivables is not appropriate on the basis of stage of collection of amounts owed. An age analysis of insurance receivables (excluding treaty reinsurance receivables) that are past due but not impaired is presented below:

	2013 %	2012 %
Up to 30 days	65	63
30 – 60 days	31	31
60 – 90 days	3	3
90 + days	1	3
Total	100	100

6.3 Liquidity risk

The company is exposed to daily calls on its available cash resources, mainly due to authorised claim settlements. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The company sets limits on the minimum proportions of maturing funds available to meet such calls and unexpected levels of demand. Consequently, the company is unlikely to suffer loss from unexpected cash calls.

Notes to the financial statements

for the year ended 31 December 2013

7. Property and equipment

Group	Land R'000	Building R'000	Furniture and equipment R'000	Motor vehicles R'000	Computer equipment R'000	Total R'000
Cost or valuation						
Balance at 31 December 2011	16 060	56 209	15 924	4 653	11 565	104 411
Additions	–	–	517	513	1 964	2 994
Disposals	–	–	(142)	(196)	(136)	(474)
Balance at 31 December 2012	16 060	56 209	16 299	4 970	13 393	106 931
Additions	–	–	731	1 841	1 110	3 682
Disposals	–	–	(269)	(1 132)	(1 256)	(2 657)
Balance at 31 December 2013	**16 060**	**56 209**	**16 761**	**5 679**	**13 247**	**107 956**
Accumulated depreciation						
Balance at 31 December 2011	–	(17 198)	(12 251)	(1 751)	(9 621)	(40 821)
Depreciation	–	(1 599)	(856)	(520)	(1 149)	(4 124)
Disposals	–	–	122	118	141	381
Balance at 31 December 2012	–	(18 797)	(12 985)	(2 153)	(10 629)	(44 564)
Depreciation	–	(1 595)	(658)	(675)	(1 571)	(4 499)
Disposals	–	–	219	679	1 255	2 153
Balance at 31 December 2013	**–**	**(20 392)**	**(13 424)**	**(2 149)**	**(10 945)**	**(46 910)**
Net book value						
Balance at 31 December 2011	16 060	39 011	3 673	2 902	1 944	63 590
Net additions	–	–	497	435	1 969	2 901
Depreciation	–	(1 599)	(856)	(520)	(1 149)	(4 124)
Balance at 31 December 2012	16 060	37 412	3 314	2 817	2 764	62 367
Net additions	–	–	681	1 388	1 109	3 178
Depreciation	–	(1 595)	(658)	(675)	(1 571)	(4 499)
Balance at 31 December 2013	**16 060**	**35 817**	**3 337**	**3 530**	**2 302**	**61 046**

The land and building comprise an office block situated on Erf 690 and 1769 at 31 Dover Street, Randburg, Gauteng, and is registered in the name of Galilean Properties Proprietary Limited, a wholly owned subsidiary of the company. The land and building were originally purchased in 1983 and were last revalued on 1 December 2011 by JHI Real Estate Ltd, registered professional valuers (Mr B van Vuuren: Registration No 966/1 and Mr X P Shitlhangu: Registration No 4599/7). The valuation was made on the basis of an open market value. The land and buildings were revalued to an amount of R55 million with a residual value of R18.5 million. The revaluation surplus net of applicable deferred taxes was credited to a property revaluation reserve in shareholders' equity. Had the cost model been applied, the carrying value of land and buildings would have been R0.7 million and R10.1 million respectively.

Notes to the financial statements

for the year ended 31 December 2013

7. Property and equipment (continued)

Company	Furniture and equipment R'000	Motor vehicles R'000	Computer equipment R'000	Total R'000
Cost				
Balance at 31 December 2011	15 924	4 653	11 565	32 142
Additions	517	513	1 964	2 994
Disposals	(142)	(196)	(136)	(474)
Balance at 31 December 2012	16 299	4 970	13 393	34 662
Additions	731	1 841	1 110	3 682
Disposals	(269)	(1 132)	(1 256)	(2 657)
Balance at 31 December 2013	**16 761**	**5 679**	**13 247**	**35 687**
Accumulated depreciation				
Balance at 31 December 2011	(12 251)	(1 751)	(9 621)	(23 623)
Depreciation	(856)	(520)	(1 149)	(2 525)
Disposals	122	118	141	381
Balance at 31 December 2012	(12 985)	(2 153)	(10 629)	(25 767)
Depreciation	(658)	(675)	(1 571)	(2 904)
Disposals	219	679	1 255	2 153
Balance at 31 December 2013	**(13 424)**	**(2 149)**	**(10 945)**	**(26 518)**
Net book value				
Balance at 31 December 2011	3 673	2 902	1 944	8 519
Net additions	497	435	1 969	2 901
Depreciation	(856)	(520)	(1 149)	(2 525)
Balance at 31 December 2012	3 314	2 817	2 764	8 895
Net additions	681	1 388	1 109	3 178
Depreciation	(658)	(675)	(1 571)	(2 904)
Balance at 31 December 2013	**3 337**	**3 530**	**2 302**	**9 169**

8. Intangible assets

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Computer software purchased				
Cost	15 118	14 959	15 118	14 959
– Balance at the beginning of the year	14 959	14 561	14 959	14 561
– Current year purchases	159	398	159	398
Amortisation	(15 010)	(14 691)	(15 010)	(14 691)
– Balance at the beginning of the year	(14 691)	(13 311)	(14 691)	(13 311)
– Current year amortisation	(319)	(1 380)	(319)	(1 380)
Balance at the end of the year	108	268	108	268

Notes to the financial statements

for the year ended 31 December 2013

	Company 2013 R'000	Company 2012 R'000
9. Investment in subsidiary		
At the beginning of the year at fair value	45 497	47 361
Unrealised loss on revaluation	(1 297)	(1 864)
Directors' valuation	44 200	45 497

The directors' valuation is adjusted to the net asset value of the subsidiary, Galilean Properties Proprietary Limited. The subsidiary, a property holding company, is domiciled in South Africa. The subsidiary has been 100% held and controlled by Credit Guarantee Insurance Corporation of Africa Limited since 16 December 2007. The cost of the investment property in the subsidiary company is R10.8 million. There are no amounts owing to or from the subsidiary company. The investment is classified as a level 3 investment in the investment in subsidiary fair value hierarchy. The following information pertains to the financial statements of the subsidiary:

	Company 2013 R'000	Company 2012 R'000
Total assets	51 877	53 472
Total liabilities	(7 677)	(7 975)
Revenue	313	293
Net loss for the year	(1 297)	(1 864)

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
10. Investments				
Financial assets at fair value through profit and loss				
10.1 At cost				
Balance at the beginning of the year	290 508	277 709	290 508	277 709
Ordinary shares purchased	30 685	26 063	30 685	26 063
Ordinary shares disposed	(19 885)	(13 264)	(19 885)	(13 264)
Balance at the end of the year	301 308	290 508	301 308	290 508
Preference shares – listed	21 885	21 885	21 885	21 885
Ordinary shares – listed	178 423	167 623	178 423	167 623
Collective investment scheme	101 000	101 000	101 000	101 000
	301 308	290 508	301 308	290 508
10.2 At fair value				
Balance at the beginning of the year	503 567	439 576	503 567	439 576
Ordinary shares purchased	30 685	26 063	30 685	26 063
Proceed on ordinary shares disposed	(87 515)	(14 474)	(87 515)	(14 474)
Current year realised gains	67 630	1 209	67 630	1 209
Current year unrealised (losses)/gains	(3 409)	51 193	(3 409)	51 193
Balance at the end of the year	510 958	503 567	510 958	503 567
Preference shares – listed	20 018	20 349	20 018	20 349
Ordinary shares – listed	389 940	382 218	389 940	382 218
Collective investment scheme	101 000	101 000	101 000	101 000
	510 958	503 567	510 958	503 567

Notes to the financial statements

for the year ended 31 December 2013

Group and company	2013 – R'000 Level 1	Level 2	Level 3	Total
10. Investments (continued)				
10.3 Fair value hierarchy				
Preference shares – listed	20 018	–	–	20 018
Ordinary shares – listed	389 940	–	–	389 940
Collective investment scheme	–	101 000	–	101 000
	409 958	101 000	–	510 958

	2012 – R'000 Level 1	Level 2	Level 3	Total
Preference shares – listed	20 349	–	–	20 349
Ordinary shares – listed	382 218	–	–	382 218
Collective investment scheme	–	101 000	–	101 000
	402 567	101 000	–	503 567

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
10.4 Listed ordinary and preference shares at fair value by sector				
Resource	104 160	133 317	104 160	133 317
Financial	105 638	92 208	105 638	92 208
Industrial	200 160	177 042	200 160	177 042
	409 958	402 567	409 958	402 567

10.5 Major equity investments

The company's most significant listed equity investments at 31 December 2013 are set out in Annexure A on page 79.

Notes to the financial statements

for the year ended 31 December 2013

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
11. Insurance liabilities and assets				
11.1 Insurance contract liabilities net of reinsurance				
Gross	708 056	733 014	708 056	733 014
– Claims reported	323 750	388 313	323 750	388 313
– Claims incurred but not reported	278 697	240 089	278 697	240 089
– Unearned premium provision	41 206	42 546	41 206	42 546
– Low claims and no-claim bonus provision	64 403	62 066	64 403	62 066
Recoverable from reinsurers	(125 108)	(127 999)	(125 108)	(127 999)
– Claims reported	(58 559)	(70 153)	(58 559)	(70 153)
– Claims incurred but not reported	(55 739)	(48 775)	(55 739)	(48 775)
– Unearned premium provision	(2 231)	(878)	(2 231)	(878)
– Low claims and no-claim bonus provision	(8 579)	(8 193)	(8 579)	(8 193)
Total net insurance contract provisions	582 948	605 015	582 948	605 015
11.2 Salvage receivable and reinsurance liabilities				
Gross salvage receivable	98 232	73 746	98 232	73 746
Reinsurers' share of salvage	(19 911)	(15 329)	(19 911)	(15 329)
Total net salvage receivable and reinsurance liabilities	78 321	58 417	78 321	58 417
11.3 Insurance liabilities net of reinsurance and salvages				
Claims reported and claims incurred but not reported (net of salvages)	409 828	451 057	409 828	451 057
– Claims reported	265 191	318 160	265 191	318 160
– Claims incurred but not reported	222 958	191 314	222 958	191 314
– Salvages	(78 321)	(58 417)	(78 321)	(58 417)
Unearned premium provision	38 975	41 668	38 975	41 668
Low claims and no-claim bonus provision	55 824	53 873	55 824	53 873
Total net insurance liabilities	504 627	546 598	504 627	546 598

Notes to the financial statements

for the year ended 31 December 2013

Group and company	2013 – R'000 Gross	2013 – R'000 Reinsured	2013 – R'000 Net	2012 – R'000 Gross	2012 – R'000 Reinsured	2012 – R'000 Net
11. Insurance liabilities and assets (continued)						
11.4 Analysis of movements in unearned premium and low and no-claim bonus provision						
Net unearned premium provision	42 546	(878)	41 668	39 539	(343)	39 196
Low and no-claim bonus provision	62 066	(8 193)	53 873	56 888	(7 509)	49 379
Balance at the beginning of the year	104 612	(9 071)	95 541	96 427	(7 852)	88 575
Provision utilised during the year	(118 193)	22 862	(95 331)	(108 298)	25 739	(82 559)
Provision raised during the year	119 190	(24 601)	94 589	116 483	(26 958)	89 525
Balance at the end of the year	105 609	(10 810)	94 799	104 612	(9 071)	95 541
Net unearned premium provision	41 206	(2 231)	38 975	42 546	(878)	41 668
Low and no-claim bonus provision	64 403	(8 579)	55 824	62 066	(8 193)	53 873
11.5 Analysis of movements in outstanding claims (net of salvages)						
Claims reported	328 298	(57 671)	270 627	244 702	(44 189)	200 513
Incurred but not reported	226 358	(45 928)	180 430	240 469	(48 001)	192 468
Balance at the beginning of the year	554 656	(103 599)	451 057	485 171	(92 190)	392 981
Claims paid net of salvage	(578 198)	246 147	(332 051)	(218 317)	38 682	(179 635)
– Relating to prior years	(336 304)	105 190	(231 114)	(146 791)	22 099	(124 692)
– Relating to the current year	(241 894)	140 957	(100 937)	(71 526)	16 583	(54 943)
Increase in outstanding claim provisions	515 139	(236 935)	278 204	286 631	(50 091)	236 540
Foreign currency translation	12 618	–	12 618	1 171	–	1 171
Balance at the end of the year	504 215	(94 387)	409 828	554 656	(103 599)	451 057
Claims reported	244 255	(42 442)	201 813	328 298	(57 671)	270 627
Incurred but not reported	259 960	(51 945)	208 015	226 358	(45 928)	180 430

Notes to the financial statements

for the year ended 31 December 2013

Group and company	0 – 6m R'000	6m – 1y R'000	1y – 2y R'000	2y and on R'000	Total R'000
11. Insurance liabilities and assets (continued)					
11.6 Estimated maturity profile of gross insurance liabilities					
2013					
Claims incurred but not reported	181 972	77 988	–	–	259 960
Outstanding claims	42 566	135 829	55 379	10 481	244 255
Unearned premium and low claims and no-claim bonus provisions	35 092	65 455	2 548	2 514	105 609
	259 630	279 272	57 927	12 995	609 824
2012					
Claims incurred but not reported	181 040	45 318	–	–	226 358
Outstanding claims	64 540	170 715	70 599	22 444	328 298
Unearned premium and low claims and no-claim bonus provisions	27 952	75 913	637	110	104 612
	273 532	291 946	71 236	22 554	659 268

11.7 Assumptions and sensitivities for calculating insurance contract provisions

Process used to determine assumptions

The company makes use of the following stochastic methods to determine the IBNR provisions:

- Development Factor Model (DFM);
- Bornhuetter-Ferguson model; and
- Bootstrap method.

These methods assume a stable pattern of claims in the past and a continued stable pattern of claims into the future.

The model and methodology applied were consistent with that applied in the prior years in determining the results and these results were also reviewed by independent actuaries. The independent actuaries concluded that the results were reasonable.

To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons that this may not be the case and, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development/recording of claims paid and incurred;
- economic, legal, political and social trends;
- changes in mix of business; and
- random fluctuations including the impact of large claims.

It is therefore essential to determine an expected loss ratio which estimates ultimate losses per underwriting year. The Reserving Committee approves the expected loss ratio based on current conditions. The approval takes place during a monthly formal meeting attended by senior management of the different operating and finance divisions. This estimate is done independently of the result of any other projection methods.

Notes to the financial statements

for the year ended 31 December 2013

11. Insurance liabilities and assets (continued)

11.7 Assumptions and sensitivities for calculating insurance contract provisions (continued)

Credit insurance has a very close relationship with the economic conditions. It is therefore essential that the economic indicators form the base when a final decision on the loss ratio is made. Important economic indicators considered are:
– interest rate;
– liquidations;
– insolvencies;
– inflation index;
– commodity prices (e.g. steel, oil); and
– exchange rate.

Once the loss ratio has been approved, the results of the models are considered, and the Reserving Committee will then approve the final result.

Assumptions

The assumptions that have the greatest effect on the measurement of insurance contract provisions are the expected ultimate loss ratios for the most recent underwriting years. These are used for assessing the IBNR and unexpired risk provisions for the 2012 and 2013 underwriting years.

Changes in assumptions and sensitivities to changes in key variables

The Reserving Committee has provided for a net gross ultimate loss ratio of 78% (2012: 66.3%) on the domestic portfolio and 40.2% (2012: 46.6%) on the commercial export portfolio as at 31 December 2013.

The increase in the current underwriting year's loss ratio on the domestic portfolio can be attributed mainly to the following:
– The company was affected by the largest commercial claim in its history relating to the First Strut Group of companies.
– The overall trading environment during the reporting period remained subdued and is evident from an estimated lower gross domestic product (GDP) of 1.8% in 2013 compared to 2.5% in 2012. This is further supported by the increase in debt judgments against businesses of 12% as at November 2013.
– The increase in the average value of claims and an increase in the quantity and value of advised claims of 4.9% and 19.4% respectively during 2013 is of concern.

The expected decrease in the loss ratio on the export portfolio can be partly attributed to the volatility of the portfolio. There has, however, been a moderate ongoing recovery in certain markets and this, together with a weaker exchange rate, has resulted in improved export efforts.

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the company's estimation process and assists management in determining whether the liability for claims included in the consolidated statement of financial position is adequate.

The sensitivity of the insured liability estimates on the underwriting result for the 2013 financial year is provided below:

	Domestic portfolio R'000	Export portfolio R'000
Increase of 10% in the net ultimate loss ratio resulting in a net decrease in the underwriting result	64 134	10 852
Decrease of 10% in the net ultimate loss ratio resulting in a net increase in the underwriting result	(64 134)	(10 852)

Notes to the financial statements

for the year ended 31 December 2013

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
12. Deferred taxation				
Balance at the beginning of the year	7 156	(2 624)	(819)	(15 020)
– Deferred tax liabilities	47 661	35 838	39 686	23 442
– Deferred tax asset	(40 505)	(38 462)	(40 505)	(38 462)
Charged to profit or loss	12 576	9 780	12 874	14 201
Credited to other comprehensive income	(4 821)	–	(4 821)	–
Balance at the end of the year	14 911	7 156	7 234	(819)
– Deferred tax liabilities	46 644	47 661	38 967	39 686
– Deferred tax asset	(31 733)	(40 505)	(31 733)	(40 505)
Analysis of major temporary differences				
Share-based payment provision	(2 141)	(2 679)	(2 141)	(2 679)
Low claims and no-claim bonuses and other provisions	(12 621)	(26 605)	(12 621)	(26 605)
Post-retirement medical benefit provision	(16 869)	(11 116)	(16 869)	(11 116)
Unrealised gains on investment (capital gains tax)	38 288	39 206	38 288	39 206
Property revaluation	7 677	7 975	–	–
Other	577	375	577	375
	14 911	7 156	7 234	(819)
13. Other receivables				
Premium debtors	125 636	118 849	125 636	118 849
Legal fees related to claims	11 323	9 770	11 323	9 770
Prepayments	5 666	7 333	5 666	7 333
Accrued interest and dividends	3 566	3 743	3 566	3 743
Staff loans	–	2	–	2
Other	1 950	1 297	1 950	1 297
	148 141	140 994	148 141	140 994
The above receivables are due within one year and are neither past due nor impaired.				
14. Cash and cash equivalents				
Cash at bank and in hand	113 152	46 237	113 152	46 237
Call and fixed deposits	571 000	592 000	571 000	592 000
	684 152	638 237	684 152	638 237
Call and fixed deposits exclude accrued interest which is included in other receivables of R3 262 680 (2012: R3 393 695). Included in the above are cash balances denominated in foreign currency of R94.1 million (2012: R79.1 million). The company holds these balances to cover insurance liabilities also denominated in foreign currencies. (Refer to note 6.1.3.). The interest rates applicable to the company are as follows:				
Average interest rate earned (%)	5.01			
Year-end interest rate (%)	5.00			

Notes to the financial statements

for the year ended 31 December 2013

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
15. Provisions				
15.1 Post-retirement medical aid benefit*				
Balance at the beginning of the year	39 700	38 200	39 700	38 200
Provisions raised during the year	20 547	1 500	20 547	1 500
Balance at the end of the year	60 247	39 700	60 247	39 700
** Refer to note 33.2 for further information.*				
15.2 Share-based payment provision				
Balance at the beginning of the year	9 569	9 790	9 569	9 790
Paid during the current year	(10 372)	(4 024)	(10 372)	(4 024)
Reversal of provision on forfeited shares	(22)	–	(22)	–
Provisions raised during the year	8 472	3 803	8 472	3 803
Balance at the end of the year	7 647	9 569	7 647	9 569
15.3 Other provisions				
Bonus provision:				
Balance at the beginning of the year	34 553	30 659	34 553	30 659
Utilisation of provision	(30 046)	(24 611)	(30 046)	(24 611)
Provisions raised during the year	32 054	28 249	32 054	28 249
Interest on deferred bonus	4	256	4	256
Balance at the end of the year*	36 565	34 553	36 565	34 553
** Includes deferred bonus and interest on deferred bonus.*				
16. Share capital				
16.1 Authorised share capital				
3 000 000 ordinary shares of R1 each	3 000	3 000	3 000	3 000
16.2 Issued share capital				
2 649 333 shares of R1 each	2 649	2 649	2 649	2 649
17. Non-distributable reserves				
17.1 Contingency reserve:				
Balance at the beginning of the year	–	52 424	–	52 424
Reserve (released)/created	–	(52 424)	–	(52 424)
Balance at the end of the year	–	–	–	–
A contingency reserve is no longer required from 1 January 2012 in terms of Board Notice 169 issued by the Financial Services Board.				
17.2 Property revaluation reserve:				
Balance at the beginning of the year	40 000	40 000		
Balance at the end of the year	40 000	40 000		
18. Distributable reserve				
18.1 Retained income				
The retained income balance represents the amount available for dividend distribution to the shareholders of the company prior to any withholding tax liabilities.	656 337	598 564	696 337	638 564
19. Gross written premium				
Premiums written	978 545	884 544	978 545	884 544
Less: Low claims and no-claim bonus payments	(118 193)	(108 298)	(118 193)	(108 298)
	860 352	776 246	860 352	776 246

Notes to the financial statements

for the year ended 31 December 2013

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
20. Commission income				
Reinsurance commission	70 567	76 151	70 567	76 151
Movement in deferred reinsurance commission income	–	232	–	232
	70 567	76 383	70 567	76 383
21. Investment returns				
21.1 Interest and dividends				
Interest earned on:				
– Reinsurance inwards reserves	301	256	301	256
– Collective investment scheme	856	561	856	561
– Cash and cash equivalents	28 437	26 653	28 437	26 653
Total interest income	29 594	27 470	29 594	27 470
Dividend income:				
Received and accrued relating to:				
– Equity securities	14 939	14 348	14 939	14 348
– Collective investment scheme	4 604	4 088	4 604	4 088
Total dividends and interest income	49 137	45 906	49 137	45 906
21.2 Realised and unrealised gains on investments				
Return on investments:	64 221	52 410	64 221	52 410
– Realised profit on investments	17 195	2 454	17 195	2 454
– Component of realised surplus recognised in prior years	50 435	(1 237)	50 435	(1 237)
– Unrealised (loss)/profit on investments – current year fair value changes	(3 409)	51 193	(3 409)	51 193
Unrealised loss on revaluation of property held in subsidiary	–	–	(1 297)	(1 864)
Total realised and unrealised gains recognised in income	64 221	52 410	62 924	50 546

The company classifies all its investments as at fair value through profit or loss. The investments are managed and their performance evaluated and reported internally on a fair value basis in terms of a documented investment strategy. Therefore, all fair value gains or losses recognised in income relate to the revaluation of financial assets designated as fair value through profit or loss. Realised gains include investment costs.

Notes to the financial statements

for the year ended 31 December 2013

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
22. Claims incurred net of reinsurance and salvages				
Gross claims incurred	705 239	457 401	705 239	457 401
– Gross claims paid	743 812	385 539	743 812	385 539
– Change in provision for outstanding claims	(38 573)	71 862	(38 573)	71 862
Reinsurers' share of claims incurred	(275 352)	(95 043)	(275 352)	(95 043)
– Claims paid	(279 982)	(83 700)	(279 982)	(83 700)
– Change in provision for outstanding claims	4 630	(11 343)	4 630	(11 343)
	429 887	362 358	429 887	362 358
Salvages	(121 271)	(111 424)	(121 271)	(111 424)
– Gross salvages received	(96 785)	(107 876)	(96 785)	(107 876)
– Change in asset raised for outstanding salvages	(24 486)	(3 548)	(24 486)	(3 548)
Reinsurers' share of salvages	38 417	44 952	38 417	44 952
– Salvage received	33 835	45 018	33 835	45 018
– Change in asset raised for outstanding salvages	4 582	(66)	4 582	(66)
	(82 854)	(66 472)	(82 854)	(66 472)
Net claim incurred	347 033	295 886	347 033	295 886
Claims paid include:				
Payment to policyholders	674 983	326 193	674 983	326 193
Claims administration expenses	68 829	59 346	68 829	59 346
	743 812	385 539	743 812	385 539
23. Acquisition costs				
Brokerage paid	70 245	58 852	70 245	58 852

Notes to the financial statements

for the year ended 31 December 2013

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
24. Management expenses				
24.1 Management and claims administration expenses include:				
Staff costs	166 187	140 559	166 187	140 559
– Salaries	99 402	91 173	99 402	91 173
– Employer's contribution to retirement fund	11 385	10 503	11 385	10 503
– Post-retirement medical aid provision	3 328	1 500	3 328	1 500
– Share-based payment provision	8 451	3 803	8 451	3 803
– Other	43 621	33 580	43 621	33 580
Audit fees	1 880	1 799	1 880	1 799
– Current year	1 880	1 791	1 880	1 791
– Previous year under accrual	–	8	–	8
Depreciation and amortisation	4 818	5 504	3 223	3 905
– Land and buildings	1 595	1 599	–	–
– Furniture and equipment	658	856	658	856
– Motor vehicles	675	520	675	520
– Computer equipment	1 571	1 149	1 571	1 149
– Computer software	319	1 380	319	1 380
Loss on sale of equipment	104	37	104	37
Repairs and maintenance of equipment	1 375	1 514	1 375	1 514
Rentals under operating leases	1 133	1 054	1 133	1 054
– Office equipment	224	212	224	212
– Property	909	842	909	842
Executive directors' remuneration	18 571	11 912	18 571	11 912
Non-executive directors' remuneration	3 116	3 206	3 116	3 206

Notice periods in respect of the executive directors do not exceed one year. Non-executive directors are not bound by service contracts.

Notes to the financial statements

for the year ended 31 December 2013

24. Management expenses (continued)

24.2 Directors' and prescribed officers' emoluments

Group and company	Fees R'000	Basic salary R'000	Bonus R'000	Pension contribution R'000	Other R'000	Total R'000
2013						
C D Nortje*	–	991	1 535	116	2 000	4 642
W H Lategan*	–	1 721	2 151	202	1 853	5 927
M C Truter†	–	1 652	2 560	194	3 596	8 002
Prescribed officer 1	–	1 083	1 083	127	384	2 677
Prescribed officer 2	–	1 180	1 180	138	173	2 671
Prescribed officer 3	–	1 232	1 232	145	249	2 858
Prescribed officer 4	–	1 183	1 183	139	231	2 736
Prescribed officer 5	–	1 194	1 194	140	146	2 674
Prescribed officer 6	–	1 289	1 289	152	216	2 946
Prescribed officer 7	–	1 186	1 186	139	296	2 807
R Snyders	198	1 211	–	139	37	1 585
– Paid by company^	198	–	–	–	–	198
– Paid by other companies×	–	1 211	–	139	37	1 387
E Paul	146	2 091	2 017	245	39	4 538
– Paid by company^	146	–	–	–	–	146
– Paid by other companies×	–	2 091	2 017	245	39	4 392
P G Todd	278	1 974	723	231	9 279	12 485
– Paid by company^	278	–	–	–	–	278
– Paid by other companies×	–	1 974	723	231	9 279	12 207
D Dharmalingam	81	346	–	40	26	493
– Paid by company^	81	–	–	–	–	81
– Paid by other companies×	–	346	–	40	26	412
J J Ngulube^	239	–	–	–	–	239
P A Wessels^#	524	–	–	–	–	524
M J Reyneke^	482	–	–	–	–	482
P Tsukudu	772	–	–	–	–	772
– Paid by company^	453	–	–	–	–	453
– Paid by other companies×	319	–	–	–	–	319
M Mia	528	–	–	–	–	528
– Paid by company^	22	–	–	–	–	22
– Paid by other companies×	506	–	–	–	–	506
T B Gamedze	311	–	–	–	–	311
M Bosman	382	–	–	–	–	382
	3 941	18 333	17 333	2 147	18 525	60 279

^ *Remuneration paid to the company by whom the director is employed, and not the individual.*

* *Executive director.*

† *Retired executive director (retired 31 July 2013).*

Directors are not directors or prescribed officers of their respective employers and as a result the remuneration received from their employers is not disclosed above.

× *Refers to payments made by other South African group companies.*

Notes to the financial statements

for the year ended 31 December 2013

24. Management expenses (continued)

24.2 Directors' and prescribed officers' emoluments (continued)

Group and company	Fees R'000	Basic salary R'000	Bonus R'000	Pension contribution R'000	Other R'000	Total R'000
2012						
M C Truter*	–	2 671	4 140	314	766	7 891
W H Lategan*	–	1 598	1 997	188	238	4 021
Prescribed officer 1	–	1 012	1 012	119	160	2 303
Prescribed officer 2	–	1 113	1 113	131	114	2 471
Prescribed officer 3	–	1 141	1 141	134	155	2 571
Prescribed officer 4	–	1 065	1 065	125	217	2 472
Prescribed officer 5	–	1 068	1 068	125	60	2 321
Prescribed officer 6	–	1 216	1 216	143	241	2 816
Prescribed officer 7	–	1 068	1 068	125	64	2 325
P G Todd	450	2 431	1 473	287	1 866	6 507
– Paid by company^	450	–	–	–	–	450
– Paid by other companies^x	–	2 431	1 473	287	1 866	6 057
D Dharmalingam	461	2 051	374	237	2 304	5 427
– Paid by company^	461	–	–	–	–	461
– Paid by other companies^x	–	2 051	374	237	2 304	4 966
J J Ngulube^	225	–	–	–	–	225
P A Wessels^#	495	–	–	–	–	495
M J Reyneke^	428	–	–	–	–	428
P Tsukudu	719	–	–	–	–	719
– Paid by company^	427	–	–	–	–	427
– Paid by other companies^x	292	–	–	–	–	292
T B Gamedze	360	–	–	–	–	360
M Bosman	360	–	–	–	–	360
	3 498	16 434	15 667	1 928	6 185	43 712

^ *Remuneration paid to the company by whom the director is employed, and not the individual.*

* *Executive director.*

\# *Directors are not directors or prescribed officers of their respective employers and as a result the remuneration received from their employers is not disclosed above.*

x *Refers to payments made by other South African group companies.*

Notes to the financial statements

for the year ended 31 December 2013

24. Management expenses (continued)

24.3 Executive directors' notional share options

Group and company	Date of issue	Number	Strike price (R)	Exercisable before
C D Nortje				
Share options issued during 2013	01/08/2013	6 275 181	1.00	31/10/2017
Outstanding options at 31 December 2013		6 275 181		
M C Truter				
Outstanding share options at 31 December 2012		4 418 024		
– Share options issued during 2009	01/01/2009	985 419	1.00	31/03/2013
– Share options issued during 2010	01/01/2010	1 064 250	1.00	31/03/2014
– Share options issued during 2011	01/01/2011	1 144 132	1.00	31/03/2015
– Share options issued during 2012	01/01/2012	1 224 223	1.00	31/03/2016
Share options exercised during 2013		(4 418 024)		
Share options issued during current financial year	01/01/2013	1 297 676	1.00	31/03/2017
Outstanding options at 31 December 2013		1 297 676		
W H Lategan				
Outstanding share options at 31 December 2012		1 585 740		
– Share options issued during 2009	01/01/2009	353 684	1.00	31/03/2013
– Share options issued during 2010	01/01/2010	381 979	1.00	31/03/2014
– Share options issued during 2011	01/01/2011	410 665	1.00	31/03/2015
– Share options issued during 2012	01/01/2012	439 412	1.00	31/03/2016
Share options exercised during 2013		(735 663)		
Share options issued during current financial year	01/01/2013	465 779	1.00	31/03/2017
Outstanding options at 31 December 2013		1 315 856		

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
24.4 Foreign exchange				
Foreign exchange gains/(losses)	13 908	3 328	13 908	3 328
– Realised	2 120	174	2 120	174
– Unrealised	11 788	3 154	11 788	3 154

Notes to the financial statements

for the year ended 31 December 2013

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
25. Taxation				
25.1 South African and foreign				
Current year	56 706	67 353	56 706	67 353
– Current taxation	44 094	67 183	44 094	67 183
– Capital gains taxation	12 612	170	12 612	170
Prior years	–	905	–	905
– Current taxation	–	905	–	905
Current year deferred tax	12 576	9 780	12 874	14 201
Dividends tax	–	300	–	300
Taxation charge recognised in the income statement for the year	69 282	78 338	69 580	82 759
Current deferred tax recognised in other comprehensive income for the year	(4 821)	–	(4 821)	–
Tax charge for the year	64 461	78 338	64 759	82 759
25.2 Reconciliation of tax rate				
Effective rate	23.8%	26.3%	23.9%	27.8%
Investment gains at capital gains tax rates	0.1%	0.8%	–	(0.7%)
Non-taxable income	4.3%	1.8%	4.3%	1.8%
Disallowed expenditure	(0.2%)	(0.2%)	(0.2%)	(0.2%)
Dividend tax (including deferred tax credits)	–	(0.4%)	–	(0.4%)
Prior year adjustment	–	(0.3%)	–	(0.3%)
Standard rate	28.0%	28.0%	28.0%	28.0%
26. Earnings per share				
26.1 Basic earnings per share (cents)				
Basic earnings per share is calculated on a net income of R219 169 000 for the group and company (2012: group R219 802 000 and company R215 116 000) and a weighted average number of shares in issue during the period of 2 649 333 (2012: 2 649 333)	8 273	8 297	8 273	8 120
26.2 Headline and diluted earnings per share (cents)				
Headline and diluted earnings per share is calculated on a weighted average number of shares in issue during the period of 2 649 333 (2011: 2 649 333)	8 277	8 298	8 277	8 121
Reconciliation of headline earnings:				
– Net income	219 169	219 802	219 169	215 116
– Loss on the sale of equipment	104	37	104	37
– Headline earnings	219 273	219 839	219 273	215 153
26.3 Earnings per share on discontinued operations (cents)				
The loss per share on discontinued operations for the group and company is calculated on a net loss of R603 000 (2012: profit of R1 418 000) and a weighted average number of shares in issue during the period of 2 649 333 (2012: 2 649 333)	(23)	54	(23)	54

Notes to the financial statements

for the year ended 31 December 2013

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
27. Cash generated by operations				
Reconciliation of net income before taxation to cash generated by operations	288 451	298 140	288 749	297 875
Adjusted for:				
Depreciation and amortisation of equipment	4 818	5 504	3 223	3 905
Increase in provisions for bad debt	215	6	215	6
Increase in accruals	583	14	583	14
Unrealised foreign exchange loss	(24 406)	(4 325)	(24 406)	(4 325)
Unrealised loss/(profit) on investments	3 409	(51 193)	4 706	(49 329)
Profit on sale of investments, property and equipment	(67 526)	(1 180)	(67 526)	(1 180)
Investment income	(46 202)	(42 333)	(46 202)	(42 333)
(Decrease)/increase in insurance provisions	(41 971)	65 042	(41 971)	65 042
Operating profit before working capital changes	117 371	269 675	117 371	269 675
Changes in working capital:	10 540	(12 353)	10 540	(12 353)
– Increase in net agents' and reinsurers' balances	(3 244)	(3 813)	(3 244)	(3 813)
– Increase in other receivables	(7 324)	(8 988)	(7 324)	(8 988)
– Increase/(decrease) in deposits with reinsurers	4 033	(8 587)	4 033	(8 587)
– Increase on other payables and provisions	17 075	9 035	17 075	9 035
	127 911	257 322	127 911	257 322
28. Taxation paid				
Amounts (overpaid)/unpaid at the beginning of the year	(1 332)	917	(1 332)	917
Charge to profit or loss	69 282	78 338	69 580	82 759
Deferred tax movement	(12 576)	(9 780)	(12 874)	(14 201)
Amount (unpaid)/overpaid at the end of the year	(1 363)	1 332	(1 363)	1 332
Total taxation paid	54 011	70 807	54 011	70 807
29. Dividends paid				
Amounts unpaid at the beginning of the year	–	–	–	–
Dividends declared and paid	148 998	63 452	148 998	63 452
Total dividends paid	148 998	63 452	148 998	63 452

A final dividend amounting to R48 297 341 relating to the 2012 financial year was paid during the current financial year. An interim dividend of R25 698 530 and a special dividend of R75 002 617 were proposed and paid relating to the 2013 financial year. A final dividend of R69 439 018 for 2013 was proposed by the board on 23 January 2014.

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
30. Total listed share and collective scheme purchases				
Net increase in cost of investments	10 800	12 799	10 800	12 799
Cost of investments sold	19 885	13 264	19 885	13 264
Total acquisitions	30 685	26 063	30 685	26 063

Notes to the financial statements

for the year ended 31 December 2013

31. Discontinued operations

The board of directors decided to discontinue the Reinsurance Inwards operation with effect from 1 January 2003.

The decision was made because of excessive losses experienced due to ongoing high claims and the volatility of the Rand exchange rate against major currencies.

It was felt that the company could not afford to be exposed to this volatility, and that no treaties should be renewed with foreign cedants. The effect would be that the business would be placed into run-off.

The South African government terminated its reinsurance agreement with the company with effect from 1 July 2001. The company still administers all policies issued before that date. The underwriting result relating to policies, the risks of which were reinsured by the South African government before 1 July 2001, is regarded as discontinued business.

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
The results of both divisions are as follows:				
Gross premiums	2 198	10 021	2 198	10 021
Less: Reinsurance premiums	1 904	9 620	1 904	9 620
Net premiums earned	294	401	294	401
Less: Insurance expenditure	(87)	(1 491)	(87)	(1 491)
– Net claims incurred	450	662	450	662
– Net reserves movement	(7 992)	(442)	(7 992)	(442)
– Commission received	(712)	(2 192)	(712)	(2 192)
– Management expenses	1 438	1 211	1 438	1 211
– Foreign exchange losses	6 729	(730)	6 729	(730)
Underwriting result	381	1 892	381	1 892
Interest received	–	256	–	256
Profit before taxation	381	2 148	381	2 148
Taxation	(984)	(767)	(984)	(767)
(Loss)/profit after taxation	(603)	1 381	(603)	1 381
Transfer from contingency reserve	–	37	–	37
Net accumulated (loss)/profit for the year	(603)	1 418	(603)	1 418
Cash flows				
Net (loss)/profit after taxation	(603)	1 418	(603)	1 418
Adjusted for:				
Unrealised foreign exchange losses	3 134	592	3 134	592
Insurance provisions	(7 992)	(442)	(7 992)	(442)
Net cash flows from operating activities	5 461	1 568	5 461	1 568
Carrying amounts of the assets and liabilities of Reinsurance Inwards Division:				
Assets	74 166	70 628	74 166	70 628
– Deposits with cedants	25 377	21 481	25 377	21 481
– Cash and cash equivalents	48 789	49 147	48 789	49 147
Equity				
Liabilities	48 789	43 459	48 789	43 459
– Insurance contract provisions	45 178	40 552	45 178	40 552
– Reinsurance balances	3 611	2 907	3 611	2 907

Notes to the financial statements

for the year ended 31 December 2013

32. Related party transactions

During the year, the company, in the ordinary course of business, entered into various transactions with the holding company and associated companies. These transactions occurred under terms that are no less favourable than those arranged with third parties. The ultimate holding company is Old Mutual plc.

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
32.1 Transactions with related parties				
Mutual & Federal Insurance Company Limited (parent)	(80 360)	(35 685)	(80 360)	(35 685)
– Premiums paid for insurance cover and internal audit	(1 396)	(1 447)	(1 396)	(1 447)
– Directors' fees paid	(704)	(911)	(704)	(911)
– Dividends paid	(78 260)	(33 327)	(78 260)	(33 327)
Nedbank Limited (fellow subsidiary)	6 211	5 009	6 211	5 009
– Interest received	7 090	5 910	7 090	5 910
– Directors' fees paid	(524)	(495)	(524)	(495)
– Bank charges paid	(355)	(406)	(355)	(406)
Santam Limited (investor)	(47 099)	(19 053)	(47 099)	(19 053)
– Premium on underwriting agreement	3 380	2 667	3 380	2 667
– Directors' fees paid	(482)	(428)	(482)	(428)
– Dividends paid	(49 997)	(21 292)	(49 997)	(21 292)
Munich Reinsurance Company of Africa Limited (investor)	6 780	(25 398)	6 780	(25 398)
– Net payments from reinsurance activities	17 603	(20 666)	17 603	(20 666)
– Directors' fees paid	(239)	(225)	(239)	(225)
– Dividends paid	(10 584)	(4 507)	(10 584)	(4 507)
Galilean Properties Proprietary Limited			–	–
– Management fee			313	293
– Property expenses			(313)	(293)
32.2 Year-end balances with related parties				
Payable to related parties	(2 473)	(1 159)	(2 473)	(1 159)
– Mutual & Federal Insurance Company Limited (parent)	(731)	(234)	(731)	(234)
– Santam Limited (investor)	(58)	–	(58)	–
– Munich Reinsurance Company of Africa Limited (investor)	(1 684)	(925)	(1 684)	(925)
Receivable from related parties	299 148	171 714	299 148	171 714
– Santam Limited (investor)	–	482	–	482
– Nedbank Limited (included in cash and cash equivalents)*	299 148	171 232	299 148	171 232
32.3 Doubtful debts				
There was neither a provision for doubtful debts, nor any bad debt write-off during the year, that relates to related parties.				
32.4 Remuneration of key management personnel				
Directors (refer to note 24.2)	18 571	11 912	18 571	11 912
Other prescribed officers	19 369	17 279	19 369	17 279

** Includes an amount of R125 million relating to a money market fund product which is reinvested with major banking corporations in South Africa.*

Notes to the financial statements

for the year ended 31 December 2013

33. Employee benefits

33.1 Retirement plans

The company operates pension funds for all permanent staff. These comprise defined contribution pension plans and defined benefit pension plans governed by the Pension Funds Act, 1956. Under the pension plans, the employees are entitled to retirement benefits on attainment of a retirement age of between 55 and 65.

33.1.1 Defined benefit pension plan

The most recent actuarial valuation of the present value of the defined benefit obligation was carried out at 30 September 2013. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method. There are no other informal practices which have given rise to specific constructive obligations which have been included in the measurement of the defined benefit obligation.

The fund is a closed fund and management is in the process of reviewing the transfer of the fund.

Key assumptions	At valuation date (%)
Discount rate	8.2
Consumer price inflation	6.3
Rate of compensation increase	7.3
Pension increase – discount rate	5.0

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
Amounts recognised in profit or loss:				
Current service cost	326	595	326	595
The current service cost is included in staff costs. Actuarial gains and losses are recognised in profit or loss as identified and no portion is deferred.				
The present value of the obligation and the fair value of the plan assets are:				
Present value of defined benefit obligations	27 305	24 226	27 305	24 226
– Past service liabilities	26 457	22 295	26 457	22 295
– Contingency reserve	848	1 931	848	1 931
Fair value of plan assets, inclusive of the value of utilised services	29 729	24 226	29 729	24 226
Surplus in plan assets	2 424	–	2 424	–
Movement in present value of defined benefit obligation in current period:				
At the beginning of the year	22 295	16 258	22 295	16 258
Contributions from plan members	326	595	326	595
Actuarial increase in liability	3 836	5 442	3 836	5 442
At the end of the year	26 457	22 295	26 457	22 295
Movement in plan assets in current period:				
At the beginning of the year	24 226	31 912	24 226	31 912
Contributions paid into the plan	326	595	326	595
Actuarial increase/(decrease) in plan assets	5 177	(8 281)	5 177	(8 281)
At the end of the year	29 729	24 226	29 729	24 226

Notes to the financial statements

for the year ended 31 December 2013

33. Employee benefits (continued)

33.2 Post-retirement medical benefit

The company has an obligation to provide post-retirement medical aid benefits to eligible employees. Employees are eligible if they joined the company on or before 1 September 1998 and are still in the service of the company or have retired on pension. The obligation is calculated using the projected unit credit method. There are no other informal practices which have given rise to specific constructive obligations which have been included in the measurement of the post-retirement medical benefit obligation.

The last valuation was performed by our consultants Alexander Forbes who assessed the obligation as at 31 December 2013 updating previous actuarial assumptions. The next valuation will be conducted at 31 December 2015. Investigations into mortality trends, both locally and internationally, have resulted in a change in the standard post-retirement mortality assumptions. The change in this assumption, as well as the change in the variance between medical aid inflation and the real discount rate, resulted in a significant increase in the post-retirement medical aid obligation. This amount is recognised in the statement of comprehensive income. There are no plan assets.

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
Change in liability				
Opening balance	39 700	38 200	39 700	38 200
Current service costs	1 167	1 113	1 167	1 113
Interest costs	3 666	–	3 666	–
Actuarial gains	17 219	–	17 219	–
– Demographic assumptions	5 942	–	5 942	–
– Financial assumptions	11 238	–	11 238	–
– Other assumptions	39	–	39	–
Benefits paid	(1 505)	–	(1 505)	–
Other	–	387	–	387
Closing balance	60 247	39 700	60 247	39 700
Recognised in the income statement:				
Service costs	1 167	1 113	1 167	1 113
Interest costs	3 666	–	3 666	–
Benefit payments	(1 505)	–	(1 505)	–
Other	–	387	–	387
	3 328	1 500	3 328	1 500
Recognised in other comprehensive income:				
Actuarial increase in liability	17 219	–	17 219	–
Key assumptions:				
Discount rate (%)	9.2	9.0	9.2	9.0
Medical aid inflation (%)	8.6	6.9	8.6	6.9
Sensitivity analysis:				
1% increase in rate of medical inflation				
– Increase in obligation	11 680	6 948	11 680	6 948
– Increase in obligation (%)	18.1	17.5	18.1	17.5
1% decrease in rate of medical inflation				
– Decrease in defined benefit obligation	(9 371)	(5 517)	(9 371)	(5 517)
– Decrease in obligation (%)	(14.5)	(13.9)	(14.5)	(13.9)
1% decrease in discount rate				
– Increase in obligation	12 044	–	12 044	–
– Increase in benefit obligation (%)	18.7	–	18.7	–
1% increase in discount rate				
– Decrease in obligation	(9 474)	–	(9 474)	–
– Decrease in obligation (%)	(14.7)	–	(14.7)	–

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33. Employee benefits (continued)

33.3 Share-based payments

On 1 January 2007, an employee retention scheme was introduced to attract and retain skilled employees and to allow those employees to participate in the company's future growth. The scheme has been devised with the objective of providing eligible employees with a long-term financial incentive to remain in the employ of the company and to maximise their contribution to the company's continued growth and prosperity.

The eligible employees who are to participate in the scheme are those employees at managerial level who, at the discretion of the board, play a valuable role in the management of the company and contribute to its growth and prosperity.

The number of notional option shares offered shall be determined by the managerial grade of the eligible employee concerned. Additional options amounting in value to one-sixth of that eligible employee's current gross salary will be offered to eligible employees annually. The value of the company shall be established by an independent party selected by the board and determined in accordance with an accepted valuation technique agreed to by the board. The exercise price shall be determined on the basis of a valuation of the company as at 31 December of each year. Once determined, the exercise price shall remain in effect until varied as a result of an ensuing company valuation.

An option can be exercised by an eligible employee after 36 months, but not more than 51 months after the date of offer of that option. An option may be exercised in full and not in part. An unexercised option shall lapse automatically. If the company at any time before the exercise or lapse of an option is placed into liquidation for the purpose of reorganisation; or is a party to a scheme of arrangement affecting the structure of its share capital; or reduces or increases its capital; or splits or consolidates its shares, the board shall make such adjustments to this scheme as the independent third party who last valued the company determines to be appropriate.

Notional option shares do not accrue dividends.

The notional value of options granted as at 31 December 2013 amounted to R9 799 022 (2012: R10 745 298) and a provision of R7 647 045 (2012: R9 568 608) was made in the financial statements for the growth in value during 2012.

	Group and company			
	2013		2012	
Reconciliation of share options in issue:	Number	Weighted average exercise price (cents)	Number	Weighted average exercise price (cents)
Balance at the beginning of the year	25 123 497	142.8	22 583 779	155.4
Allocated during the year	15 353 487	113.2	7 637 736	106.0
Exercised during the year	(12 646 113)	182.0	(4 999 095)	180.5
Forfeited during the year	(151 776)	114.5	(98 923)	–
Balance at the end of the year	27 679 095	135.4	25 123 497	142.8

Exercise prices for outstanding share options range from R1.13 to R2.28.

Notes to the financial statements

for the year ended 31 December 2013

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
34. Operating lease commitments				
The company leases certain of its office buildings and office equipment in terms of operating leases. The company does not have an option to acquire the assets at termination of the lease. There are escalation clauses imposed on the property leases, but none on the office equipment.				
Total future minimum lease payments under non-cancellable operating lease	2 309	1 218	2 309	1 218
– Not later than one year	613	631	613	631
– Between one and five years	1 696	587	1 696	587
35. Contingent liabilities				
Collateral security provided to employees in terms of the company's Housing Assistance Scheme	–	12	–	12
Letters of guarantees issued in favour of:				
SA Post Office	30	30	30	30
Truzen 6 Trust	–	56	–	56
Redefine Properties Proprietary Limited	72	–	72	–
	102	98	102	98

Nedbank has issued a guarantee facility of R52 million that can be utilised to issue guarantees. This facility has specifically been put in place to assist in the recovery of prior claims paid in the case of business liquidations, and is used exclusively for this purpose.

	Company	
	2013 R'000	2012 R'000
36. Solvency ratios		
The solvency ratios have been calculated on two bases:		
36.1 The indicative statutory surplus asset ratio representing net insurance assets as a percentage of net premium income (gross premium income less reinsurances as defined by the Short-Term Insurance Act, No 53 of 1998)	111.1	113.2
36.2 The solvency margin in terms of international reporting guidelines representing shareholders' funds as a percentage of net premium income (gross premium income less total reinsurances)	115.9	114.8

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for the year ended 31 December 2013

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
37. Reconciliation of income as reflected in the statement of comprehensive income to underwriting result				
Gross premiums	860 352	776 246	860 352	776 246
Less: Reinsurance premiums	257 439	217 475	257 439	217 475
Net premiums written	602 913	558 771	602 913	558 771
Provision for unearned premiums, low claims and no-claim bonus	742	(7 198)	742	(7 198)
Net premiums earned	603 655	551 573	603 655	551 573
Less:	425 627	348 176	424 032	346 577
– Claims net of reinsurance and salvages	347 033	295 886	347 033	295 886
– Net commission	(322)	(17 531)	(322)	(17 531)
– Expenses	160 706	138 508	159 424	137 202
– Other operating income	(67 882)	(65 359)	(68 195)	(65 652)
– Foreign exchange losses	(13 908)	(3 328)	(13 908)	(3 328)
Underwriting result	178 028	203 397	179 623	204 996
Investment income	46 202	42 333	46 202	42 333
– Dividends	19 543	18 436	19 543	18 436
– Net interest received	26 659	23 897	26 659	23 897
Sundry income	64 221	52 410	62 924	50 546
– Profit on sale of investments	67 630	1 217	67 630	1 217
– Unrealised (loss)/profit on investments	(3 409)	51 193	(3 409)	51 193
– Unrealised loss on investments in subsidiary	–	–	(1 297)	(1 864)
Profit before taxation	288 451	298 140	288 749	297 875
Taxation	69 282	78 338	69 580	82 759
– Income tax and deferred tax	69 282	78 038	69 580	82 459
– STC	–	300	–	300
Net income for the year	219 169	219 802	219 169	215 116

38. Nature of business

The main business of the company is that of trade credit insurance (which is within the meaning of insurance for the purposes of the Short-Term Insurance Act, No 53 of 1998).

39. Going concern

The directors have satisfied themselves that the group and company are in a sound financial position and have adequate resources to continue their operations for the foreseeable future. Accordingly, they are satisfied that it is appropriate to adopt a going-concern basis in preparing the consolidated and separate annual financial statements.

40. Event after the reporting date

The directors are not aware of any matter or circumstance arising since the end of the financial year, which require further disclosure or adjustment to the group annual financial statements and annual financial statements.

Annexure A: Share portfolio

for the year ended 31 December 2013

Group and company	Shares held		Total cost		Market value	
Ordinary shares and preference shares	2013 No	2012 No	2013 R'000	2012 R'000	2013 R'000	2012 R'000
ABSA preference shares	5 000	5 000	5 000	5 000	4 383	4 565
Anglo American plc	65 000	116 000	16 527	18 818	14 876	30 073
BHP Billiton plc	103 000	142 000	7 180	8 159	33 290	41 565
Bidvest Group Limited	70 000	70 000	6 731	6 731	18 784	15 084
British American Tobacco plc	91 000	102 000	9 430	9 441	50 972	43 678
Discovery Limited	120 000	–	9 810	–	10 092	–
Exxaro Resources Limited	86 000	118 000	7 000	8 862	12 596	19 941
FirstRand B preference shares	90 000	90 000	9 180	9 180	8 748	8 685
FirstRand Limited	460 000	460 000	9 325	9 325	16 367	14 260
Growthpoint Limited	600 000	600 000	14 962	14 962	14 568	14 700
MTN Group Limited	116 000	115 500	15 643	14 483	25 174	20 513
Naspers Limited	14 500	–	8 666	–	15 838	–
Pick n Pay Stores Limited	–	310 000	–	4 322	–	13 779
Reinet Inv SCA	–	300 000	–	777	–	4 725
Royal Bafokeng Platinum Limited	208 000	258 000	13 262	16 432	12 272	14 709
RMB Holdings Limited	158 000	158 000	4 100	4 100	7 639	6 431
RM Insurance Holdings Limited	530 000	450 000	7 157	5 191	14 548	9 261
SABMiller plc	92 000	116 500	6 088	7 619	48 956	45 370
Sasol Limited	60 500	74 500	11 203	11 791	31 127	27 029
Shoprite Holdings Limited	37 000	–	6 709	–	6 028	–
Spar Group Limited	118 000	145 000	3 176	3 796	15 522	18 778
Standard Bank Group Limited	173 115	189 115	11 588	12 171	22 404	22 482
Standard Bank preference shares	72 000	72 000	7 705	7 705	6 888	7 099
Vodacom Group Limited	142 000	160 000	9 866	10 643	18 886	19 840
Total			200 308	189 508	409 958	402 567

BEE certificate

Independent Credible Assurance.

AQRate
VERIFICATION SERVICES

MEASURED ENTERPRISE

Company Name	Credit Guarantee Insurance Corporation of Africa Limited
Trade Name	Credit Guarantee Insurance Corporation of Africa Limited
Location	31 Dover Street, Ferndale Randburg
Registration Number	1956/000368/06
Vat Number	4790116877
Certificate Number	CGI00252-GREV2.1

B-BBEE SCORE PER ELEMENT

Equity Ownership	16.46
Management & Control	4.97
Employment Equity	9.59
Skills Development	7.93
Preferential Procurement	13.55
Enterprise Development	9.18
Socio Economic Development	3.00
Access to Financial Services	N/A
Total Score	**64.68**
Final Score (converted)	**79.85**

B-BBEE STATUS

BBBEE Procurement Recognition Level	110%
BBBEE Status	Level Three Contributor
Black Ownership	36.14%
Black Female Ownership	12.76%
Value- Adding Supplier	Yes
Enterprise Development Beneficiary	Yes
Beneficiary Category	Category B
Applicable Scorecard	Financial Sector Code Generic Scorecard: Short Term Insurers
Applicable BEE Code	Gazetted Codes 35914
Verification Date	05 September 2013
Expiry Date	19 August 2014

AQRated
Level 3 CONTRIBUTOR
B-BBEE Verified Company

Bridget Ntombela
Verification Manager

AQRate has assessed and verified the relevant B-BBEE Elements of the above mentioned enterprise, to provide an independent and impartial opinion on the BEE status of the enterprise, based on the Broad-Based BEE Codes of Good Practice (Codes 000-800).

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BVA 102

www.aqrate.co.za

Administration

Credit Guarantee Insurance Corporation of Africa Limited

Reg No 1956/000368/06
Authorised financial services provider No. 17691

Secretary

W H Lategan
Credit Guarantee House
31 Dover Street, Randburg
PO Box 125, Randburg, 2125

Auditors

KPMG Inc, 85 Empire Road
KPMG Crescent
Parktown, 2193

Bankers

Nedbank Limited
35 Rivonia Road, Sandton

Head office

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31 Dover Street, Randburg
PO Box 125, Randburg, 2125
Website: www.creditguarantee.co.za
Tel +27 11 889 7000
Fax +27 11 886 1027 or 886 5715
E-mail address: #info@cgic.co.za

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BASTION GRAPHICS

CREDIT GUARANTEE

Credit Guarantee
Insurance Corporation of Africa Limited

Reg No 1956/000368/06

Authorised financial services provider No. 17691

Head office

Credit Guarantee House
31 Dover Street, Randburg
PO Box 125, Randburg, 2125
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