CREDIT GUARANTEE

ANNUAL REPORT

2014

CONTENTS

Registered in 1956, Credit Guarantee Insurance Corporation of Africa Limited (CGIC or Credit Guarantee), is a proudly South African underwriting company operating in the domestic and export trade credit insurance and the bond and surety arenas with expansion initiatives into Africa.

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 leading trade credit insurer in South Africa and carries an AA credit rating for its claims paying ability, issued by Global Credit Rating Company. The SABS has again recertified Credit Guarantee's ISO 9001:2008 quality standard.

The majority shareholder and holding company of Credit Guarantee is Mutual & Federal Insurance Company, which is a subsidiary of the Old Mutual Group. Santam, Munich Re and the Industrial Development Corporation hold the balance of the shares in the company.

OUR MISSION AND VISION

OUR MISSION

TO OUR CLIENTS:

- Expert trade credit insurance, bond and surety solutions.
- Unrivalled service in the industry.

TO OUR SHAREHOLDERS:

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

TO OUR EMPLOYEES:

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

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 Code.
- Investment in our community.

OUR VISION

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

R1,091 billion
Gross written premium before performance bonuses paid to policyholders

R180 billion
Insured trade

+13%
Premium income

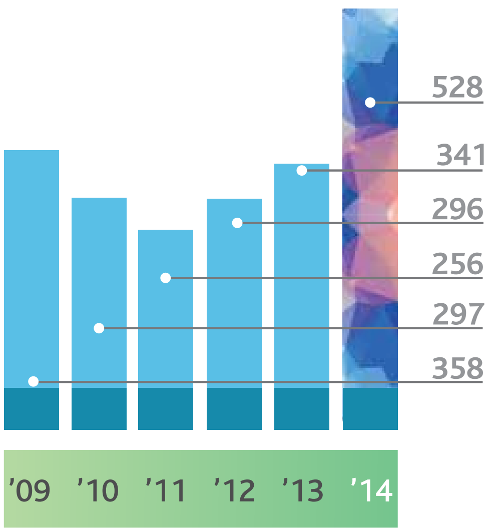
R528 million
Net claims after salvages

Refer to note 22

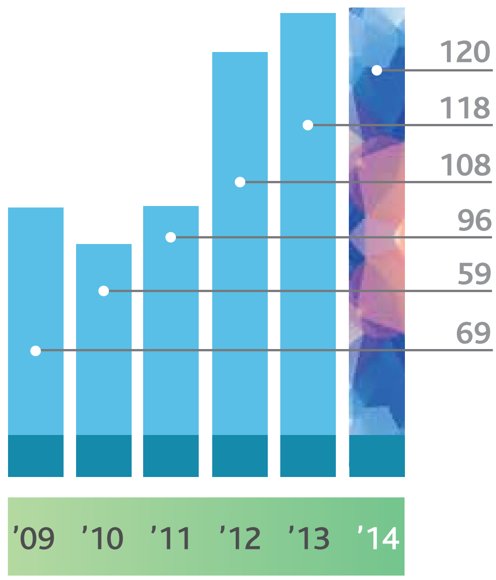
R71 million
Underwriting result

R120 million
Performance bonuses paid to policyholders

Net claims incurred (Rm)



Performance bonuses paid to policyholders (Rm)



SALIENT FEATURES

	31 Dec 2014 R'000	31 Dec 2013 R'000
Premiums written		
– Gross	971 180	860 352
– Net	704 248	602 913
Claims incurred		
– Gross	852 537	705 239
– Net	528 497	347 033
Management expenses	166 928	160 706
Underwriting result	71 085	178 028
Net investment income	82 880	110 423
Income after taxation	118 021	219 169
Headline earnings per share (cents/share)	4 455	8 277
Dividend per share		
– Ordinary (cents/share)	3 815	5 624
Total assets	1 947 046	1 691 323
Shareholders' funds	724 410	698 986
Indicative capital adequacy requirement (CAR) (%)	177	216
Solvency margin (%)	103	116

13% increase in gross written premiums

21% increase in gross claims incurred

17% return on shareholders' funds

TEN-YEAR REVIEW

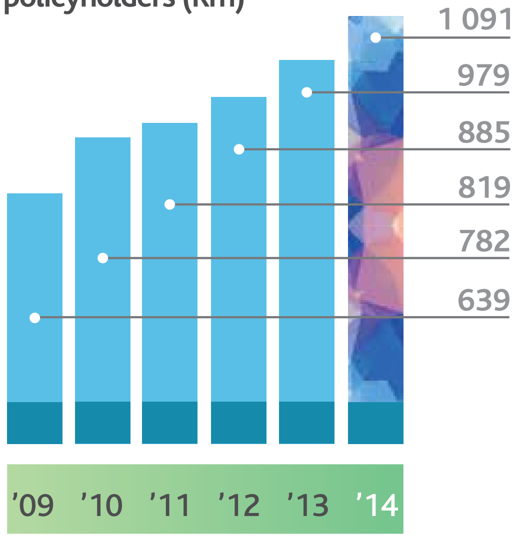
	12 months to Dec 2014 R'000	12 months to Dec 2013 R'000	12 months to Dec 2012 R'000	12 months to Dec 2011 R'000
Gross premiums written	971 180	860 352	776 246	722 787
Gross claims incurred[1]	852 537	705 239	457 401	376 005
Gross salvages received	213 893	96 785	107 876	106 413
Underwriting profit/(loss)	71 085	178 028	203 397	200 853
Management expenses[2]	166 928	160 706	138 508	141 733
As % of gross premiums written	17.2	18.7	17.8	19.6
Investment income (net)	55 140	46 202	42 333	30 962
Income after taxation	118 021	219 169	219 802	178 392
Dividend per share (cents)	3 815	5 624	2 395	2 046
Shareholders' funds	724 410	698 986	641 213	484 863
Net insurance provisions	574 022	504 627	546 598	481 556
Indicative statutory surplus ratio (%)	177.1	216.4	113.2	75.2
Solvency margin (%)	102.9	115.9	114.8	92.5
Staff	309	293	288	284

[1] *Gross claims incurred for 2005 is shown net of salvages.*

[2] *Management expenses exclude claims administration expenses and other operating income.*

177%
indicative CAR

Gross written premium before performance bonuses paid to policyholders (Rm)



The gross written premium reflected is before performance bonuses.

121%
increase in gross salvages received

14%
increase in net insurance provisions

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
722 631	570 874	562 259	491 710	458 119	436 873
501 777	661 129	416 803	386 433	204 748	103 167
105 387	69 955	88 233	201 941	84 205	59 821
118 104	(23 757)	102 263	151 573	176 575	167 572
116 168	97 768	97 644	91 190	88 580	77 901
16.1	17.1	17.4	18.6	19.3	17.8
28 092	33 273	34 764	29 797	30 939	25 672
127 503	14 584	29 301	180 431	237 237	254 244
1 757	–	2 474	11 235	9 907	9 839
360 676	279 722	265 138	277 926	395 148	415 601
453 037	425 214	441 748	301 703	283 428	264 410
61.0	63.7	48.9	73.8	122.9	161.8
73.4	79.7	70.9	84.7	133.6	170.2
281	269	267	267	275	279

MESSAGE FROM THE CHAIRMAN

Board changes

Philip Wessels resigned on 6 August 2014 after serving on the board for eight years, including his very capable leadership of the Finance Oversight, Social Responsibility and Ethics Committee (FOSEC). After more than 27 years of service to the Company, Wilhelm Lategan will be taking early retirement in 2015. Wilhelm has occupied a seat on the board since December 1998, and during this time has proven himself to be a more than worthy custodian of the entire financial function. On behalf of the board may I express my profound appreciation to Wilhelm, and may he enjoy a secure and healthy retirement. Jaco van der Sandt, Finance Director of the holding company Mutual & Federal, joined the board on 25 August 2014 as non-executive director in place of Philip. Jaco has been appointed Chairperson of the Remuneration Committee. Melanie Bosman, a long-serving independent non-executive board member, has taken on the role of Chairperson of FOSEC. On behalf of the board and the staff at CGIC, I would like to record my sincere thanks to Philip for his contribution during his tenure, and extend a warm welcome to Jaco.

Capital management

The solvency capital requirements (SCR) for a trade credit insurer under the new Solvency Assessment and Management (SAM) rules are among the highest in the insurance industry. Trade Credit is viewed as a specialist class, given a portfolio of risks highly correlated to the performance of the economy, with little or no benefit of diversification across other lines of insurance.

Under the expiring solvency rules, CGIC was 177% solvent in 2014. Our projections show that this level of SCR, recalculated under the new SAM rules, will fall to 95% on a pro forma basis. The major shareholders have therefore put forward additional capital support by way of reinsurance, in order to bring the company up to the required solvency level. This was put in place on 1 January 2015 on market-related terms, and complements the catastrophe reinsurance programme purchased in the professional reinsurance market.

Toward the end of the year the Financial Services Board (FSB) indicated that transitional arrangements would not be published and invited insurance companies to meet with the regulator to discuss their plans to achieve SAM objectives. We have accordingly met with the FSB to outline our plans for the company to achieve the required solvency levels, and related matters.

The SAM light parallel run commenced in the second half of 2014, with the full parallel run due from 1 January 2015. SAM remains a standing item on the agenda of FOSEC and the board. An Own Risk and Solvency Assessment (ORSA) policy has been drafted and discussed.

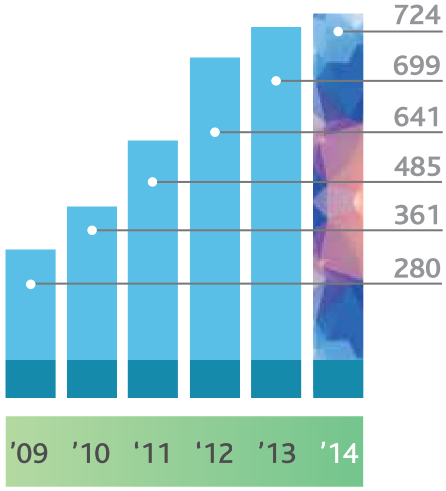
I can report that the company is fully on track to meet all SAM requirements by 1 January 2016, with the unwavering support and commitment of the major shareholders.

Trading environment

Labour relations turbulence (AMCU and NUMSA strikes, with discontent in the public sector looming) in conjunction with infrastructure constraints such as electricity supply, high input costs and poorly functioning municipalities, brought economic growth to near standstill conditions during 2014. Leading indicators, including the RMB/BER index and the Kagiso PMI, persistently tracked below 50 in line with subdued business confidence. We have unfortunately also noted the increasing incidence of fraud, poor governance and ethical breaches as a contributing factor to business failure. In June, S&P cut the SA sovereign rating to BBB- with Fitch warning that "... downward growth revisions have become a persistent pattern, pointing to the economy's susceptibility to shocks and possibly weaker potential growth".

During the period 2011 to 2013 consumer credit extension, particularly unsecured lending, reached dizzying growth rates of up to 40% year-on-year, fuelling a retail boom in non-durable goods. This has all but dried up, with lenders in this space facing strong headwinds. Against this background many of our policyholders experienced tough trading conditions in 2014, especially in the key industries of steel, construction, manufacturing and retail. The high level of claims the company faced, especially in the first six months, emanated mainly from distressed businesses in these sectors.

Shareholders' funds (Rm)



Two highly topical issues are the decline in the oil price, and Eskom load shedding. Export risks and country exposures are being closely monitored, especially in Russia, Angola and Nigeria. The exposure of domestic business to load shedding is mixed with some companies actually benefiting but other SMEs may be pushed over the edge. SEIFSA estimates that steel production could suffer up to a 23% production decline. This is not good news for a sector which has been under siege for some time. Poor retail sales signal a cautious consumer, but we expect some pickup as the effects of reduced inflation and a lower fuel price filter through. Construction sector results remain weak. We are seeing some early signals of recovery in the steel industry with policyholders expecting a better year in 2015.

Financial results

Premium income growth was pleasing at 13% year-on-year, outperforming local inflation and GDP growth. It was pleasing to note that premium growth was reported in all the major business divisions, especially our core Domestic and Export portfolios.

Notwithstanding the positive performance against our revenue and expense targets, the high incidence of claims in the first half (especially additions to reserves) gave rise to an underwriting loss of R46 million to 30 June 2014. The company reinsurance programme is primarily designed to deal with individual loss events of high severity.

Raimund Snyders
Chairman

By contrast an increase in the frequency of lower level claims net to the CGIC retention is more detrimental to company financial performance, as seen during 2014.

I am pleased to report that the financial results in the second half to 31 December 2014 had turned around strongly, to enable the company to produce an underwriting profit of R71 million for the full year.

Salvage recoveries were R214 million (prior year R97 million), showing positive growth of 121%. Net claims after reinsurance were R684 million (prior year R430 million), reflecting adverse claims experience during the year.

The underwriting result achieved was 7% and return on equity was 17%.

During the year, ordinary dividends of R31 633 036 were declared and a final dividend in respect of the 2014 year of R66 789 685 was proposed by the board on 3 February 2015.

Investments and financial position

The investment portfolio has continued to perform strongly despite some volatility in the market. Our philosophy is to remain invested mainly in cash, with an equity portfolio of not more than 50% of NAV invested in blue-chip counters. The investment portfolio was de-risked by the sale of a portion of our equity component, down from 59% of NAV at 31 December 2013 to around 51% of NAV by 31 December 2014. It is postulated that more than 60% of JSE earnings are generated in hard currency by such JSE heavyweights as BAT, BHP Billiton, Naspers and Richemont. The earnings underpin is real and there are strong patches of light in an otherwise torpid local economic scenario.

Investment income was R87 million (prior year R113 million) of which R28 million (prior year R64 million) comprised realised and unrealised gains.

The balance sheet at year-end remains strong, with total assets of R1 947 million (prior year R1 691 million) including shareholders' funds of R724 million (prior year R699 million). The company credit rating was confirmed as "AA" during the year by Global Credit Ratings.

Outlook

Economic expectations for South Africa in 2015 show cautious signs of an uptick, with several of our policyholders expecting improved trading conditions in the year ahead, with low to moderate growth expectations.

The core business of CGIC largely follows the fortunes of the South African economy. Forecasting the future is thus an exercise in predicting and managing a number of economic imponderables which often defeat even the most diligent of forecasters. Early signs are that 2015 will be a better year in the economic environment, given the "known unknowns" such as energy constraints and labour disturbances and other factors in that category. There are always the "unknown unknowns" which may be lurking in the wings. It is impossible to plan for every eventuality other than for CGIC to remain vigilant and pursue prudent underwriting practices, with sustainable pricing, and dependable claims support. The company has a robust capital shield, strong institutional shareholders, committed and engaged management and staff, and an appropriate level of secure reinsurance. This is the best possible defence against the current uncertain environment, and we are well positioned for opportunity.

Acknowledgements

In closing I wish to express my appreciation to our shareholders, reinsurers, clients and intermediaries for your support over the past year. We highly value our business relationship with each one of you, and look forward to nurturing our association and serving your needs further in 2015.

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.

I extend my best wishes for the year ahead to all the management and staff of CGIC knowing you will achieve our business goals through this period of economic uncertainty, with all the opportunity that the current uncertainty presents for the noble purpose of our company.

Raimund Snyders

BOARD OF DIRECTORS

From left to right

1. Melanie Bosman (43)
   Director (non-executive)
   Joined the board 2010

2. Jaco van der Sandt (39)
   Director (non-executive)
   Finance Director:
   Mutual & Federal
   Joined the board 2014

3. Raimund Snyders (50)
   Chairman of the board
   Chief Executive Officer:
   Mutual & Federal
   Joined the board 2013

4. Junior Ngulube (56)
   Director (non-executive)
   CEO: Munich Reinsurance
   Company of Africa
   Joined the board 2008

5. Phuti Tsukudu (61)
   Director (non-executive)
   Managing Director:
   Tsukudu Associates
   Joined the board 2009

6. Machiel Reyneke (57)
   Director (non-executive)
   Non-executive Director:
   Santam Limited
   Joined the board 2003

7. Mac Mia (67)
   Director (non-executive)
   Director of companies
   Joined the board 2013

8. Charles Nortje (54)
   Chief Executive Officer
   Credit Guarantee
   Joined the board 2013

9. Wilhelm Lategan (58)
   Executive Director and
   Chief Financial Officer
   Credit Guarantee
   Joined the board 1998

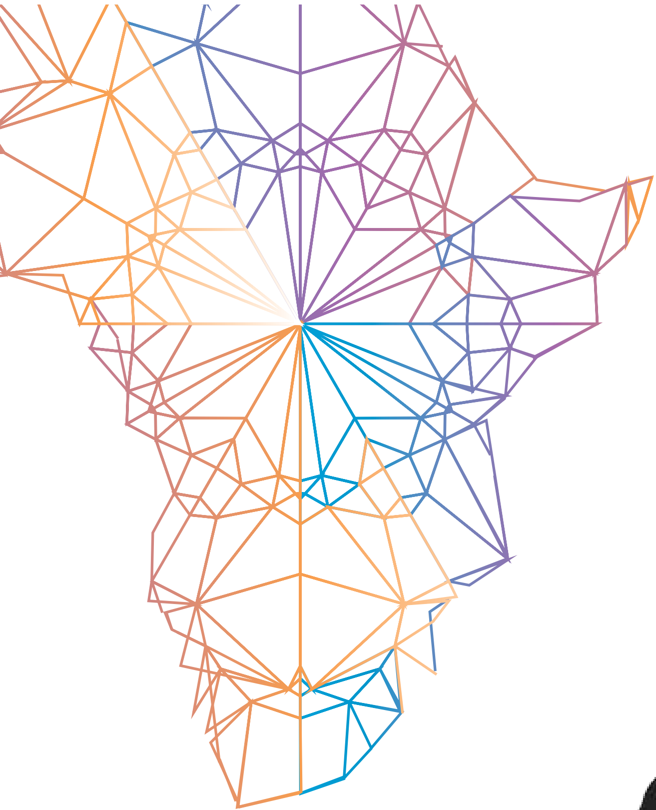
Member of the Finance Oversight, Social Responsibility and Ethics Committee

Member of the Remuneration, Nominations and Transformation Committee

From left to right

1. Charles Nortje (54)
   Chief Executive Officer
2. Gideon Bochedi (44)
   Salvages, Bonds and Surety
3. Roger Munitich (56)
   Sales, Marketing, Research and Development
4. Lisa Pines (46)
   Company Actuary
5. Sandro Vita (60)
   Information Systems
6. Steve Smith (51)
   Chief Risk and Compliance Officer
7. Wilhelm Lategan (58)
   Executive Director and Chief Financial Officer
8. Vincent Nel (40)
   Company Secretary
9. Theo Reddi (53)
   Trade Credit (domestic and export)
10. Mike Gee (53)
    Credit Risk

CHIEF EXECUTIVE OFFICER'S REVIEW



Charles Nortje
Chief Executive Officer

The 2014 financial year could well be described as "a tale of two halves". After a difficult first six months, particularly the March quarter where the company faced high levels of claims, underwriting profitability was restored and strong trading momentum sustained through to year-end. Management actions to restore profitability, helped by a return to more normal levels of adverse events reported, combined to deliver a meaningful profit for the full year. On an operating level, our underwriting processes have been tightened and our credit committees strengthened, to provide stronger assurance of prudent risk assumption. Our core team of revenue producers and client relationship owners is stable, with lock-ins for key people under continuous review.

Premium growth achieved of 13% across the company has substantially outpaced the prior year performance. Return on equity for the year was 17%.

Operational highlights

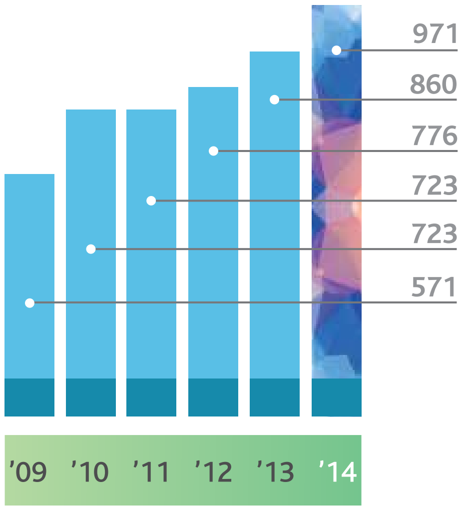
Domestic Trade Credit – Corporate posted a 12% growth in revenue. In the second half, price increases were implemented on most Domestic policies, in order to recognise the elevated credit risk environment across industries in SA, especially business with sustained high loss ratios. This is the first time such a price increase has been applied by CGIC since 2008.

The structure of the trade credit insurance industry in South Africa is rapidly changing with the recent advent in South Africa of new market entrants, which include both local and international players. The long history of the claims paying ability of CGIC stands us in good stead, as our clients seek value beyond the immediate lure of the discounted prices of new competitors seeking to buy market share. Choice is, however, a positive element for the buyers of trade credit insurance, and for the brokers who represent these buyers, and consequently competition is healthy for the market. We thus welcome responsible competition, which stimulates further demand for trade credit insurance and growth in the wider industry.

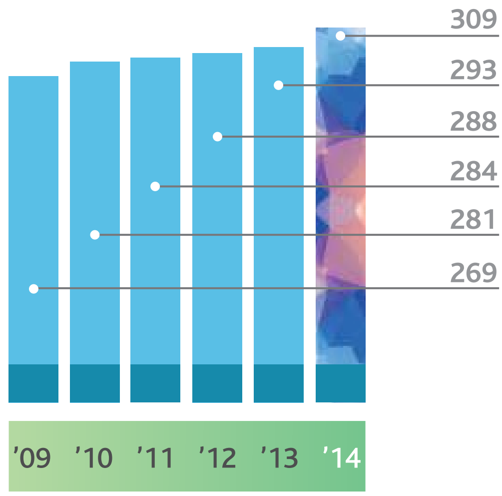
The "sudden collapse" of a buyer on which we carry underwriting risk is more detrimental than a gradual deterioration in credit quality, to which we are traditionally able to downscale our exposure if we have adequate warning. It is concerning that a number of such sudden collapses have arisen through fraud (on the part of buyer management or their shareholders), as compared with poor economic trading conditions, towards which our underwriting processes are more defensive.

Minimum broker commissions were increased in line with the market. This change was very well received by our valued intermediaries, who remain important partners for the company,

Gross written premium (Rm)



Employee headcount



generating over 70% of our business. Late in 2014 the FSB published details of the Retail Distribution Review (RDR), which covers, among other matters, the subject of broker remuneration. CGIC only pays commission to brokers strictly within the legislated maximum commission levels. No other forms of broker remuneration are paid and no services are outsourced to brokers. The impact of the RDR on CGIC and its brokers is thus expected to be low.

Improving our sales capacity in all the major regions was a key focus, with the sales budget for the year under review being significantly exceeded.

Demand for our products and services tends to increase in difficult economic times. The art of success lies in thoughtfully taking on risky, but ultimately profitable business. In 2015 a shortlist of "game changer" sales initiatives will be undertaken including broadening and deepening of our broker distribution network, and further developing our direct sales offering.

Domestic Trade Credit (SME and Commercial) outperformed the prior year on both premium and underwriting profit. The solid performance of this business confirms its potential and affirms our strategy to grow its relative contribution to total CGIC revenue, from the current 10% to around 20% by 2020. The portfolio generates solid annuity income, with low claims volatility.

Our approach has been to simplify our product, removing onerous conditions. In view of the slow court system in South Africa it has become difficult for a small business owner to first obtain a judgment in order to lodge a claim, and consequently our previous product slowly fell out of favour. The new SMEC policy launched for this sector is selling well. This product responds to multiple causes of loss, as compared with a debt judgment as required by the previous policy. In 2015 we expect to encounter reduced margins through increased claims, but our strategy is to overcompensate for this by significantly boosting sales.

Export Trade Credit punched well above its weight. This business focuses on the export turnovers of companies headquartered in South Africa, and has proven to be quite resilient in comparison to our Domestic business. Export contributed 19% of premium income and 74% of total underwriting profit for the year, which was a very pleasing result. Revenue growth exceeded 20%, mainly due to organic growth and currency weakness. New Export Business has, however, been slow. There is little doubt that the manufacturing slowdown in SA, exacerbated by labour unrest and power disruptions, has been a significant influencing factor.

Approximately half of the exports we underwrite move into Africa and the other half into the rest of the world. We have seen a few large claims, but so far the business reflects the gradual return to economic health in the developed world. In Africa, our underwriting stance remains cautious as information flows tend to be less reliable. Several buyer visits are conducted annually to acquaint ourselves first hand with risks domiciled in Africa.

Export turnovers provide CGIC with a natural hedge against domestic currency weakness. The rampant dollar, however, causes instability among export buyers who find themselves financially stretched to meet their payment obligations. New business enquiries have tended to focus on oil-dependent countries such as Russia, Nigeria and Angola, facing difficult times ahead given the steep decline in the oil price. We continuously evaluate our exposure to buyers in these vulnerable economies.

Bonds and Surety grew as we continue to find our feet in this product. We have set aside an IBNR reserve considered appropriate for the long-tail nature of this business. For the time being, we will continue to provide follow capacity in the SA bonding market, rather than lead capacity, on large new business opportunities.

We continue to invest in the team and the expertise required, and a potential acquisition is in an early stage of investigation. As infrastructure spending in SA starts to materialise we will be well positioned to take our own share of this opportunity space.

Salvage recoveries for the year on a net basis (gross recoveries, less reinsurers' share) were R101 million compared with net salvages of R63 million in FY2013, an increase of 61%. A significant milestone was an advance dividend of R89 million secured from the liquidators of the First Strut Group of companies, on the strength of security held by CGIC.

Africa growth strategy

An executive was appointed during the year to drive our growth strategy into Africa. Five priority countries have been identified owing to their relevance to our client base, proximity and our degree of familiarity with numerous buyers operating in those territories.

Our immediate focus is to solidify our network relationships in these geographies, preferably through the representative offices of our shareholders. We have encountered a low level of knowledge regarding trade credit insurance in Africa, with most of the demand focused on bond and surety requirements relating to project work and infrastructure development. Trade credit demand tends to be concentrated in pockets such as the large cellphone network providers. It is, however, a key part of our strategy to diversify the geographic footprint of CGIC outside of South Africa and contribute to the Africa growth strategy.

We are establishing links with the key brokers represented in these territories. Brokers are hungry for new product lines in order to stimulate their own revenues, and trade credit is viewed as a very welcome development.

People

Our staff remain key to our success, and we continue to invest in people development. During the year delegates drawn from new, middle and senior management successfully completed MDP courses presented by the University of Stellenbosch Business School, tailored for the needs of the company. In order to maintain our market-leading position, staff attraction, retention, reward and recognition, as well as ongoing training and development, will continue to receive our best attention.

Outlook for 2015

Our policyholders, particularly in the manufacturing sector, are faced with managing a number of contradictions. Government industrial policy favours localised resource beneficiation over commodity trading. These are, however, energy-intensive processes, while the reality is that we are facing ongoing power disruptions in the country. Industrial development also assumes economic infrastructure and service delivery in the area in which development is taking place. Dysfunctional infrastructure in some places in the country is not able to properly support industrial development. The weaker rand also presents an obvious opportunity for exporters, yet the sector has been slow to respond and take advantage of this opportunity given the infrastructural constraints. Over the past year we unfortunately witnessed how an aggressive labour force vandalised factories and offices and attacked working staff during industrial actions. This type of protest is a dangerous development and goes beyond the noisy filibustering which is an inevitable part of the growing pains of our new democracy. Labour unrest, should it continue, will discourage business from expanding local manufacturing activity and job creation, to help alleviate the persistently high unemployment rate.

Upgrading manufacturing processes and moving upward along the technological curve in order for SA manufacturing to become globally competitive assumes that quality people and a skilled workforce is available. At present we find our education system is underdelivering the required quality of human capital needed. We continue to invest in our people as a priority item.

How our policyholders and their suppliers find their way through these contradictions will to a large measure define their success in the year ahead.

There is always the potential for a "black swan" event to severely disrupt world trade. Black swan events are typified by low probability but high impact, should they occur. It is clear from recent events that terrorism, frequent air disasters, Russian geographic adventures and Nigerian outlaws are but some of the previously unforeseen forces which can exert negative ripple effects on our policyholders.

Other such events may manifest themselves in 2015, so we continue to scan the global horizon carefully.

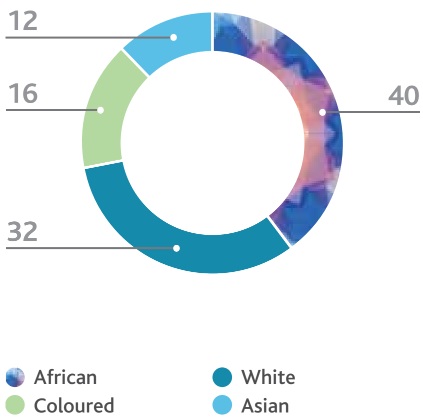
I wish to acknowledge the invaluable support and guidance of the board throughout the past year, and for providing the broader perspective and compass to the senior management team.

To every member of our management and staff, thank you for your commitment over the past year to serving our clients so diligently, as we progress toward our Vision2020.

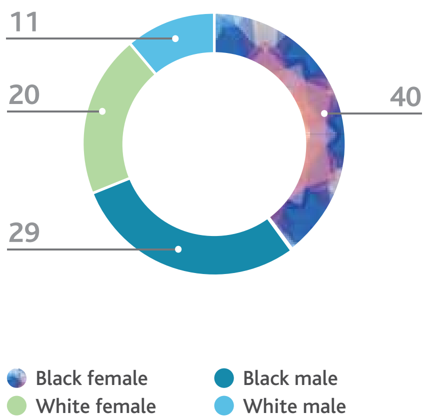
In closing I wish to record a special word of thanks to Wilhelm Lategan for his special contribution and support to me and the senior management team during his long tenure. Wilhelm has served on the CGIC EXCO since 1990 as Financial Director, and has communicated his intention to take early retirement in the first quarter of 2015.

Charles Nortje

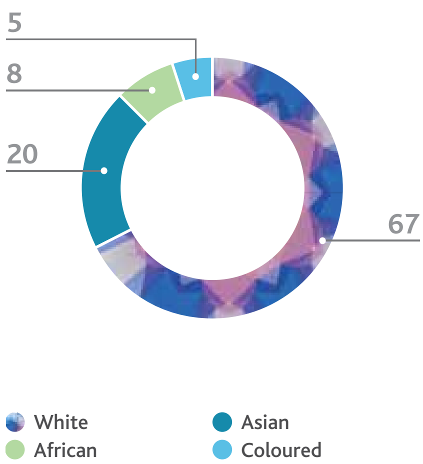
2014 Total staff demographic (%)



Male versus female demographic (%)



Management demographic (%)



Board of directors

The board of directors consists of two executive directors and seven non-executive directors, four of whom represent our 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 chair of the board and the Chief Executive Officer (CEO) do not vest in the same person. The chair is non-executive and this position is put up for election at least every three years.

In terms of the Memorandum of Incorporation, 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), general managers of the various operating divisions, the Company Actuary, and the Company Secretary, meets regularly to deal with the day-to-day decision making in the company.

Finance Oversight, Social Responsibility and Ethics Committee (FOSEC)

The FOSEC complies with the Companies Act No 71 of 2008 and carries out the functions as delegated to it by the Mutual & Federal Insurance Company Limited (M&F) Audit Committee. The Audit Committee retains the responsibility of approving the fees and the appointment of the independent external auditor.

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

The FOSEC meets quarterly and comprises four members, all of whom (including the chair) are non-executive directors. The CEO, CFO, CRO, Company Actuary and Company Secretary represent management.

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

Remuneration, Nominations and Transformation Committee (REMCO)

The REMCO consists of four non-executive directors.

The 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 the REMCO as representatives of management.

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

Internal audit

The purpose of the internal audit function, which reports to the chair of the FOSEC, 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 chair of the FOSEC for consideration and appropriate action.

During the reporting period this function was performed by the group internal audit.

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.

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.

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 number 17691.

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.

Investment Committee

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

The Investment Committee comprises the CEO, the CFO and the Senior Manager: Investments and Economic Services, and meets regularly with the company's outside investment advisers to review the investment portfolio.

A report is prepared quarterly for the board on the performance of the investment portfolio.

Transformation

The CGIC total permanent staff profile at 31 December 2014 comprises 32% white persons and 68% black persons of which 40% are African, 16% are Coloured and 12% Asian.

At top management and senior management level combined, the ratios are less favourable at 67% white, 8% African, 5% Coloured and 20% 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 is constituted and actively engages executive management in meeting our targets.

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 chair of the FOSEC.

Risk Management Committee

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 Whistle Blowers, 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

Heleen Botha
Finance

Integrity is core to our business.

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

Donna Furmidge
Electronics, Timber, Furniture, Paper and Packaging

Adriaan du Preez
Business Analytics

Expert knowledge is fundamental to business practice.

Kenny Khoza
Training

Elize Moulder
Human Capital

Luke Doig
Investments and Economic Services

Justin Jacobs
Africa Desk

Kevin Dyamond
Coastal Sales and Servicing

Veronica Chisanga
SME

Willie Lottering
Operations – IS

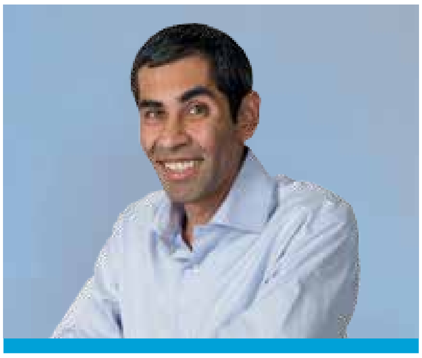
Abdul Vally
Commercial and SME

George Bracey
Domestic Information Services

Martin Levine
Domestic Risk Evaluation

Mel Strydom
Foreign Information Services

Ruwayda Petersen
Clothing, Textiles, Footware, Motor, Advertising, Media, IT, Pharmaceuticals and Chemicals



Moosa Jooma
Export

Rhyna Brand
Bonds and Surety

Vivienne Naudé
System Development – IS

Development of scarce skills is a business imperative.

Rudolph Coetzer
Infrastructure – IS

Amina Ackerman
Compliance

Linda Smith
Research and Development

AUDITED FINANCIAL STATEMENTS

These financial statements have been audited in compliance with section 30 of the South African Companies Act 71 of 2008.

Prepared under supervision of W H Lategan CA(SA).

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 2014 with comparative numbers for the year ended 31 December 2013.

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 assesses, measures and monitors the risks to which the group and the company are exposed to from both an internal and external perspective.

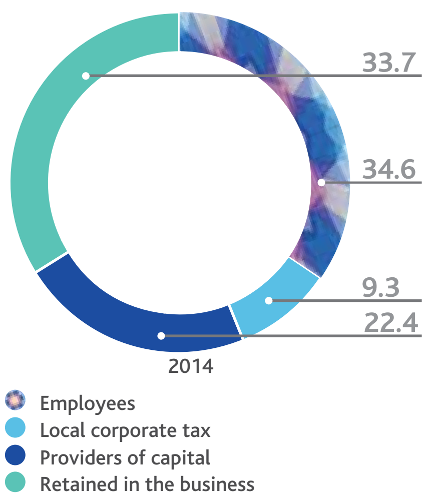
This profile is reviewed immediately once a new risk is identified or an existing risk has changed and been reassessed, as necessary, to consider the appropriate measurement and relevance of the identified risks.

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

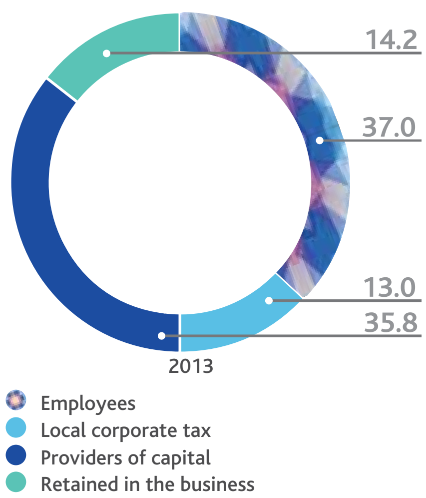
STATEMENT OF CASH VALUE ADDED (UNAUDITED)

	%	Group and company 2014 R'000	2013 R'000	%
Cash value added:				
From normal operations	75.4	340 494	328 698	78.9
From sale of assets and investments	24.6	111 038	87 915	21.1
	100.0	451 532	416 613	100.0
Cash value applied:				
Employees	34.6	156 118	154 408	37.0
Local corporate taxation paid	9.3	42 029	54 011	13.0
Providers of capital	22.4	101 072	148 998	35.8
– Dividend		101 072	148 998	
Retained in the business	33.7	152 313	59 196	14.2
– Purchase of fixed assets and investments		227 487	34 526	
– (Decrease)/increase in cash reserves relating to investments		(116 449)	53 389	
– Increase/(decrease) in cash reserves relating to operations		41 275	(28 719)	
	100.0	451 532	416 613	100.0

Statement of cash value added (unaudited) (%)



Statement of cash value added (unaudited) (%)



APPROVAL OF THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

The statutory report of the directors, the report of the Audit Committee and the consolidated and separate financial statements of Credit Guarantee Insurance Corporation of Africa Limited as identified on pages 27 to 74 were approved by the board of directors on 20 March 2015 and are signed on behalf of the board by:

R Snyders
Chairperson
Authorised director

C D Nortje
Chief Executive Officer
Authorised director

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 2014, and that all such returns are true, correct and up to date.

V Nel
In his capacity of Company Secretary

20 March 2015

STATUTORY REPORT OF THE DIRECTORS

for the year ended 31 December 2014

The directors submit their report and the annual financial statements of the group and the company for the year ended 31 December 2014.

Nature of business

The main business of the company is that of trade credit insurance in both the domestic and export trade credit insurance arena (which is within the meaning of insurance for the purposes of the Short-Term Insurance Act, No 53 of 1998). The company also underwrites bonds and sureties which naturally complements the core business.

Review of operations

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

Dividend

A final dividend amounting to R69 439 018 relating to the 2013 financial year was paid during the current financial year. An interim dividend of R31 633 036 was proposed and paid relating to the 2014 financial year. A final dividend of R66 789 685 for 2014 was proposed by the board on 3 February 2015.

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. The company's parent company is Mutual & Federal and is incorporated in South Africa.

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
P A Wessels	–	6 August 2014
J D van der Sandt	25 August 2014	–

Mr W H Lategan resigned as an executive director of the board on 3 February 2015.

Mr M Mia, Mr R Snyders and Mr P A Wessels retired on 5 May 2014 in terms of the memorandum of incorporation, and were re-elected.

Secretary

Mr W H Lategan resigned as Company Secretary on 5 May 2014 and Mr V Nel was appointed as the Company Secretary in terms of section 41 of the Memorandum of Incorporation on 5 May 2014. The business and postal addresses of Mr V Nel in his capacity as Company Secretary appear on page 76 of this report.

Going concern

The directors have satisfied themselves that the company and group 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.

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 2014, 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.

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 (FOSEC or "the committee") 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 FOSEC comprises four 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 2014 and recommended these financial statements for approval by the board on 3 February 2015. 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 2014 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 has fulfilled its statutory responsibilities as prescribed in section 94(7).

N Dongwana
Chairperson of the Mutual & Federal Audit Committee

20 March 2015

M Bosman
Chairperson of the Credit Guarantee Finance Oversight, Social Responsibility and Ethics Committee

20 March 2015

To the shareholders of Credit Guarantee Insurance Corporation of Africa Limited

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 2014, 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 74.

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 2014, 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 2014, we have read the statutory report of the directors, the report of the Audit Committee and certification by 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 the 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

20 March 2015

STATEMENTS OF FINANCIAL POSITION
at 31 December 2014

		Group		Company	
	Note	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Assets					
Property and equipment	7	71 077	61 046	10 377	9 169
Intangible assets	8	232	108	232	108
Investments in subsidiary	9	–	–	51 378	44 200
Investments	10	650 114	510 958	650 114	510 958
Salvages receivable	11	165 303	98 232	165 303	98 232
Reinsurers' share of insurance contract provisions	11	152 264	125 108	152 264	125 108
Deferred taxation	12	32 055	31 733	32 055	31 733
Post-retirement medical benefit plan assets	15.1	64 622	–	64 622	–
Deposits with cedants		23 766	24 804	23 766	24 804
Other receivables	13	167 561	148 141	167 561	148 141
Reinsurers' balances		5 312	7 041	5 312	7 041
Cash and cash equivalents	14	614 740	684 152	614 740	684 152
Total assets		1 947 046	1 691 323	1 937 724	1 683 646
Liabilities					
Post-retirement medical benefit provision	15.1	65 898	60 247	65 898	60 247
Share-based payment provision	15.2	4 630	7 647	4 630	7 647
Deferred taxation	12	43 760	46 644	34 438	38 967
Reinsurers' share of salvages	11	33 136	19 911	33 136	19 911
Insurance contract provisions	11	858 453	708 056	858 453	708 056
Deposits owing to reinsurers		41 640	38 084	41 640	38 084
Other payables and accruals		71 777	57 262	71 777	57 262
Reinsurers' balances		68 440	16 558	68 440	16 558
Provisions	15.3	34 475	36 565	34 475	36 565
Taxation payable		427	1 363	427	1 363
Total liabilities		1 222 636	992 337	1 213 314	984 660
Equity					
Share capital	16	2 649	2 649	2 649	2 649
Property revaluation reserve	17	48 475	40 000	–	–
Retained income	18	673 286	656 337	721 761	696 337
Total shareholders' equity		724 410	698 986	724 410	698 986
Total liabilities and equity		1 947 046	1 691 323	1 937 724	1 683 646

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2014

		Group		Company	
	Note	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Continuing and discontinued operations					
Gross premiums written	19	971 180	860 352	971 180	860 352
Less: Reinsurance premiums		266 932	257 439	266 932	257 439
Net premiums		704 248	602 913	704 248	602 913
Change in provision for low claims and no-claims bonus		(1 942)	(1 951)	(1 942)	(1 951)
– Gross amount		(2 500)	(2 337)	(2 500)	(2 337)
– Reinsurers' share		558	386	558	386
Change in provision for unearned premiums		(13 105)	2 693	(13 105)	2 693
– Gross amount		(13 680)	1 340	(13 680)	1 340
– Reinsurers' share		575	1 353	575	1 353
Earned premiums net of reinsurance		689 201	603 655	689 201	603 655
Salvage income	22	155 005	82 854	155 005	82 854
– Gross amount		280 964	121 271	280 964	121 271
– Reinsurers' share		(125 959)	(38 417)	(125 959)	(38 417)
Commission income	20	82 483	70 567	82 483	70 567
Investment income		86 512	113 358	93 690	112 061
– Interest and dividends	21.1	58 772	49 137	58 772	49 137
– Realised and unrealised gains on investments	21.2	27 740	64 221	27 740	64 221
– Unrealised profit/(loss) on investment in subsidiary	21.2	–	–	7 178	(1 297)
Foreign exchange gains	24.4	5 306	13 908	5 306	13 908
Other operating income		70 834	67 882	70 834	68 195
Total income		1 089 341	952 224	1 096 519	951 240
Claims incurred	22	(683 502)	(429 887)	(683 502)	(429 887)
– Gross amount		852 537	705 239	852 537	705 239
– Reinsurers' share		(169 035)	(275 352)	(169 035)	(275 352)
Acquisition costs	23	(81 314)	(70 245)	(81 314)	(70 245)
Management expenses	24	(166 928)	(160 706)	(165 333)	(159 424)
Interest paid		(3 632)	(2 935)	(3 632)	(2 935)
Net income before taxation		153 965	288 451	162 738	288 749
Taxation	25	(35 944)	(69 282)	(36 242)	(69 580)
Net income for the year		118 021	219 169	126 496	219 169
Other comprehensive income:					
– Revaluation of property		10 418	–	–	–
– Tax effect of revaluation of property		(1 943)	–	–	–
– 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		126 496	206 771	126 496	206 771
Net income for the year attributable to:					
– Owners of the company		61 985	108 596	66 436	108 596
– Non-controlling interest		56 036	98 175	60 060	98 175
		118 021	206 771	126 496	206 771
Basic earnings per share (cents)	26	4 455	8 273	4 775	8 273
– Continued operations		4 419	8 296	4 739	8 296
– Discontinued operations	26	36	(23)	36	(23)
Headline and diluted earnings per share (cents)	26	4 455	8 277	4 775	8 277
Dividend per share paid in the year (cents)		3 815	5 624	3 815	5 624

	Share capital R'000	Property revaluation reserve R'000	Retained income R'000	Total R'000
Group				
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
Total comprehensive income for the year		8 475	118 021	126 496
Dividends paid#			(101 072)	(101 072)
Balance at 31 December 2014	**2 649**	**48 475**	**673 286**	**724 410**

	Share capital R'000	Retained income R'000	Total R'000
Company			
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
Total comprehensive income for the year		126 496	126 496
Dividends paid#		(101 072)	(101 072)
Balance at 31 December 2014	**2 649**	**721 761**	**724 410**

Refer to note 29.

STATEMENTS OF CASH FLOWS
for the year ended 31 December 2014

	Note	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
Cash received from policyholders and intermediaries		957 233	854 646	957 233	854 646
Cash paid to policyholders, intermediaries, staff, suppliers and reinsurers		(827 184)	(726 735)	(827 184)	(726 735)
Cash generated by operations	27	130 049	127 911	130 049	127 911
Taxation paid	28	(42 029)	(54 011)	(42 029)	(54 011)
Net cash flow from operating activities		88 020	73 900	88 020	73 900
Net additions to equipment and intangible assets		(4 506)	(3 441)	(4 506)	(3 441)
– Purchases		(5 034)	(3 841)	(5 034)	(3 841)
– Proceeds on disposals		528	400	528	400
Listed shares and collective investment scheme purchases	30	(221 925)	(30 685)	(221 925)	(30 685)
Proceeds on sale of shares		110 510	87 515	110 510	87 515
Interest received		40 123	30 019	40 123	30 019
Interest paid		(3 632)	(2 935)	(3 632)	(2 935)
Dividends received		17 308	19 295	17 308	19 295
Net cash flow from investing activities		(62 122)	99 768	(62 122)	99 768
Dividends paid	29	(101 072)	(148 998)	(101 072)	(148 998)
Net cash flow from financing activities		(101 072)	(148 998)	(101 072)	(148 998)
Net (decrease)/increase in cash and cash equivalents		(75 174)	24 670	(75 174)	24 670
Effect of foreign exchange rate movements on cash and cash equivalents		5 762	21 245	5 762	21 245
Cash and cash equivalents at the beginning of the year		684 152	638 237	684 152	638 237
Cash and cash equivalents at the end of the year		614 740	684 152	614 740	684 152

Credit Guarantee Insurance Corporation of Africa Limited (the company) is domiciled in South Africa. The financial statements of the group, domiciled in South Africa, for the year ended 31 December 2014 comprise the consolidation of the financial results of the company and its subsidiary, Galilean Properties Proprietary Limited domiciled in South Africa. The 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 20 March 2015.

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 in the manner required by the Companies Act of South Africa.

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. Where necessary, the accounting policies of the subsidiary are changed to ensure consistency with the policies adopted by the group.

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The operating results of subsidiaries are included from the date that control commences until the date that control ceases.

Investments in subsidiary companies are measured at fair value through profit and loss in the company's financial statements. The fair value is determined with reference to the net asset value of the subsidiary, which is the fair value of the underlying assets. Changes in the fair value are recognised in profit or loss.

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.

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. 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.

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.

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 statutory actuary and an independent external actuary.

Low claims and no-claims bonus

A low claims or no-claims 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 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-claims 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.

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

1.5 Recognition and measurement of insurance contracts (continued)

Reinsurance (continued)

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business and are recognised as an expense in accordance with the pattern of indemnity received, at the undiscounted amounts payable in terms of reinsurance contracts.

Anticipated reinsurance recoveries are disclosed separately as assets. Reinsurance and other recoveries are assessed in a manner similar to the assessment of the 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.

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 (ie 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 statement of comprehensive income, but are deposit accounted in the statement of financial position. The deposit liability recognised in the 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.

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%

The depreciation method, useful lives and residual values, if significant, are reassessed 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 programs, 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 expire;
- where there is a transfer of contractual rights to receive cash flows on the asset 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.

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 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 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).

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.

1.11 Impairment of assets (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 entities, 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.

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.

1.13 Employee benefits (continued)

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 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.

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 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 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 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.

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 the issue of 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.

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 the consolidated statement of comprehensive 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 (ie the discount rate net of medical scheme contribution inflation) of 0.6% per annum is deemed to be a realistically sustainable level.

The plan assets are measured at fair value, based on the underlying components.

Share-based payment scheme

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.

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:

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 2018 with early adoption permitted. The impact of the adoption of IFRS 9 (2010) on the company has not yet been assessed.

IFRS 15 *Revenue from contracts with customers*

This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC 31 *Revenue – Barter of Transactions Involving Advertising Services*. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. This new standard will most likely have a significant impact on the group, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The group is currently in the process of performing a more detailed assessment of the impact of this standard on the group and will provide more information in the year ending 30 December 2015 financial statements. The standard is effective for annual periods beginning on or after 1 January 2017, with early adoption permitted under IFRS.

4. Categorisation of assets and liabilities

4.1 Group 2014

			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	71 077				71 077		71 077
Intangible assets	8	232				232		232
Investments	10	650 114	650 114				650 114	
Salvages receivable	11	165 303				165 303	139 185	26 118
Reinsurers' share of insurance contract provisions	11	152 264				152 264	128 206	24 058
Deferred taxation	12	32 055				32 055	13 604	18 451
Post-retirement medical benefit plan assets	15.1	64 622			64 622			64 622
Deposits with cedants		23 766				23 766	23 766	
Other receivables	13	167 561		140 348		27 213	167 561	
Reinsurers' balances		5 312		5 312			5 312	
Cash and cash equivalents	14	614 740			614 740		614 740	
Total assets		1 947 046	650 114	145 660	679 362	471 910	1 742 488	204 558
Liabilities								
Post-retirement medical benefit provision	15.1	65 898				65 898		65 898
Share-based payment provision	15.2	4 630				4 630	2 712	1 918
Deferred taxation	12	43 760				43 760	34 437	9 323
Reinsurers' share of salvages	11	33 136				33 136	27 901	5 235
Insurance contract provisions	11	858 453				858 453	722 690	135 763
Deposits owing to reinsurers		41 640				41 640	41 640	
Other payables and accruals		71 777			62 697	9 080	71 777	
Reinsurers' balances		68 440			68 440		68 440	
Provisions	15.3	34 475				34 475	34 475	
Taxation payable		427				427	427	
Total liabilities		1 222 636	–	–	131 137	1 091 499	1 004 499	218 137

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

4. Categorisation of assets and liabilities (continued)

4.2 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		125 636		22 505	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	132 677	684 152	363 536	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 and accruals		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.*

4. Categorisation of assets and liabilities (continued)

4.3 Company 2014

	Note	Total R'000	Financial instrument: At fair value through profit or loss R'000	Financial instrument: Loans and receivables R'000	Financial instrument: At amortised cost R'000	Financial instrument: Non-financial assets/ liabilities R'000	Liquidity classification: Current assets/ liabilities* R'000	Liquidity classification: Non-current assets/ liabilities R'000
Assets								
Property and equipment	7	10 377				10 377		10 377
Intangible assets	8	232				232		232
Investment in subsidiary	9	51 378	51 378					51 378
Investments	10	650 114	650 114				650 114	
Salvages receivable	11	165 303				165 303	139 185	26 118
Reinsurers' share of insurance contract provisions	11	152 264				152 264	128 206	24 058
Deferred taxation	12	32 055				32 055	13 604	18 451
Post-retirement medical benefit plan assets	15.1	64 622			64 622			64 622
Deposits with cedants		23 766				23 766	23 766	
Other receivables	13	167 561		140 348		27 213	167 561	
Reinsurers' balances		5 312		5 312			5 312	
Cash and cash equivalents	14	614 740			614 740		614 740	
Total assets		1 937 724	701 492	145 660	679 362	411 210	1 742 488	195 236
Liabilities								
Post-retirement medical benefit provision	15.1	65 898				65 898		65 898
Share-based payment provision	15.2	4 630				4 630	2 712	1 918
Deferred taxation	12	34 438				34 438	34 438	
Reinsurers' share of salvages	11	33 136				33 136	27 901	5 235
Insurance contract provisions	11	858 453				858 453	722 690	135 763
Deposits owing to reinsurers		41 640				41 640	41 640	
Other payables and accruals		71 777			62 697	9 080	71 777	
Reinsurers' balances		68 440			68 440		68 440	
Provisions	15.3	34 475				34 475	34 475	
Taxation payable		427				427	427	
Total liabilities		1 213 314	–	–	131 137	1 082 177	1 004 500	208 814

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

4. Categorisation of assets and liabilities (continued)

4.4 Company 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	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		125 636		22 505	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	132 677	684 152	311 659	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 and accruals		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.*

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.

Ceded reinsurance contains credit risk and, as such, reinsurance recoverables are reported after deductions for known insolvencies and uncollectable 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 that offer the best security, as they are highly rated by international agencies.

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.

5. Insurance risk management (continued)

Management of risks (continued)

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 requirements 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 are 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.

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.

2014 insurance risk exposure per industry (%)

2013 insurance risk exposure (%)

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.

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 provision is complex, and the company makes use of statistical models that include the development factor (DFM), Bornhuetter-Ferguson and Bootstrap models to calculate the IBNR provision.

5. Insurance risk management (continued)

Claims development (continued)

In terms of IFRS 4 *Insurance Contracts*, 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:

	2014 R'000	2013 R'000	2012 R'000	2011 R'000	2010 R'000
Group and company					
Total provision at the beginning of the period	45 178	40 552	39 823	35 835	50 189
Payments made for the period	(2 066)	(1 558)	(1 957)	(2 780)	(3 309)
Provision at the end of the period	(43 280)	(45 178)	(40 552)	(39 823)	(35 835)
Excludes foreign exchange movements	497	12 618	1 171	10 452	(6 457)
Net decrease/(increase) in provision	329	6 434	(1 515)	3 684	4 588

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 investments 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 R5.2 million, based on current investments in call accounts.

6.1.2 Equity price risk

The company's portfolio of marketable equity securities, which it carries on its 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 2.2% of the group's and company's total assets.

At 31 December 2014, marketable equity securities were recorded at their fair value of R369 million. A hypothetical 10% decline in each stock's price would have decreased income before tax by R37 million. Each additional 10% change in each stock's price would have a similar effect. Refer to Annexure A for an analysis of equity exposure.

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 2014 and 2013, respectively, approximately 6.0% and 7.1% of the total assets of the group were denominated in foreign currencies. Group invested assets denominated in Euro comprised approximately 3.3% of total invested assets at 31 December 2014. A hypothetical 10% reduction in the value of the Euro relative to the Rand would have resulted in an estimated R6.5 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 2.7% of total assets of the group.

6. Financial risk management (continued)

6.1 Market risk (continued)

6.1.3 Foreign exchange risk (continued)

Concentration of assets and liabilities of the group

			R'000		
Currency	Rand	Euro	USD	Other	Total
2014					
Assets					
Property, equipment and intangible assets	71 309				71 309
Investments	650 114				650 114
Deferred taxation	32 055				32 055
Post-retirement medical benefit plan assets	64 622				64 622
Insurance contract provisions receivable	317 567				317 567
Trade and other receivables	171 805	24 207	76	551	196 639
Cash and cash equivalents	522 692	40 448	51 600		614 740
Total assets	1 830 164	64 655	51 676	551	1 947 046
Liabilities					
Post-retirement medical benefit provision	65 898				65 898
Share-based payment liability	4 630				4 630
Deferred taxation	43 760				43 760
Insurance contract provisions payable	848 420	37 704	3 717	1 748	891 589
Accounts payable, accruals and other provisions	204 184	2 209	8 805	1 561	216 759
Total liabilities	1 166 892	39 913	12 522	3 309	1 222 636
Net assets	663 272	24 742	39 154	(2 758)	724 410
Percentage of total	91.6	3.4	5.4	(0.4)	100.0

			R'000		
Currency	Rand	Euro	USD	Other	Total
2013					
Assets					
Equipment and intangible assets	61 154				61 154
Investments	510 958				510 958
Deferred taxation	31 733				31 733
Insurance contract provisions receivable	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 payable	682 900	39 749	3 470	1 848	727 967
Accounts payable, accruals 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

6. Financial risk management (continued)

6.1 Market risk (continued)

6.1.3 Foreign exchange risk (continued)

Concentration of assets and liabilities of the company

Currency	Rand	Euro	USD (R'000)	Other	Total
2014					
Assets					
Equipment and intangible assets	10 609				10 609
Investments in subsidiary	51 378				51 378
Investments	650 114				650 114
Deferred taxation	32 055				32 055
Post-retirement medical benefit plan assets	64 622				64 622
Insurance contract provisions receivable	317 567				317 567
Trade and other receivables	171 805	24 207	76	551	196 639
Cash and cash equivalents	522 692	40 448	51 600		614 740
Total assets	1 820 842	64 655	51 676	551	1 937 724
Liabilities					
Post-retirement medical aid provision	65 898				65 898
Share-based payment liability	4 630				4 630
Deferred taxation	34 438				34 438
Insurance contract provisions payable	848 420	37 704	3 717	1 748	891 589
Accounts payable, accruals and other provisions	204 184	2 209	8 805	1 561	216 759
Total liabilities	1 157 570	39 913	12 522	3 309	1 213 314
Net assets	663 272	24 742	39 154	(2 758)	724 410
Percentage of total	91.6	3.4	5.4	(0.4)	100.0

Currency	Rand	Euro	USD (R'000)	Other	Total
2013					
Assets					
Equipment and intangible assets	9 277				9 277
Investments in subsidiaries	44 200				44 200
Investments	510 958				510 958
Deferred taxation	31 733				31 733
Insurance contract provisions receivable	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 payable	682 900	39 749	3 470	1 848	727 967
Accounts payable, accruals 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

6. Financial risk management (continued)

6.1 Market risk (continued)

6.1.3 Foreign exchange risk (continued)

Concentration of assets and liabilities of the company

Currency	2014 Closing	2013 Closing
Rand/Euro	13.99	14.43
Rand/USD	11.61	10.49

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 homogeneous 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.

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.

	2014 %	2013 %
(As rated by internationally recognised rating agencies)		
AA-	15	16
A+	29	31
A	7	7
A-	47	46
NR* and approved by the board	2	–
	100	100

* *Not rated.*

6. Financial risk management (continued)

6.2 Credit risk (continued)

	2014 R'000	2013 R'000
The group's and company's maximum exposure to credit risk is analysed below:		
Reinsurers' share of net insurance contract provisions*	119 128	105 197
Reinsurers' balances*	5 312	7 041
Deposits held with cedants (unrated)	23 766	24 804
Advances (staff advances – unrated)	42	–
Other receivables (unrated)	26 658	22 505
Insurance-related receivables (unrated)	140 861	125 636
Cash and cash equivalents*	614 740	684 152
	930 507	969 335

* *These balances are designated at international or local rating agency ratings of at least those equivalent to that of South Africa or higher. All cash and cash equivalents are invested in South African banks, with a local credit rating of BBB.*

The company held deposits of R41.6 million (2013: R38.1 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:

	Up to 30 days %	30 – 60 days %	60 – 90 day %	90 + days %	Total %
2013	65	31	3	1	100
2014	66	28	4	2	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.

7. Property and equipment

	Land R'000	Building R'000	Furniture and equipment R'000	Motor vehicles R'000	Computer equipment R'000	Total R'000
Group						
Cost or valuation						
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
Revaluation	–	17 110	–	–	–	17 110
Additions	–	–	1 090	1 848	1 868	4 806
Disposals	–	–	(546)	(949)	(5 120)	(6 615)
Balance at 31 December 2014	**16 060**	**73 319**	**17 305**	**6 578**	**9 995**	**123 257**
Accumulated depreciation						
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)
Revaluation	–	(6 692)	–	–	–	(6 692)
Depreciation	–	(1 595)	(611)	(764)	(1 681)	(4 651)
Disposals	–	–	520	438	5 115	6 073
Balance at 31 December 2014	**–**	**(28 679)**	**(13 515)**	**(2 475)**	**(7 511)**	**(52 180)**
Net book value						
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
Net revaluation	–	10 418	–	–	–	10 418
Net additions	–	–	1 064	1 337	1 863	4 264
Depreciation	–	(1 595)	(611)	(764)	(1 681)	(4 651)
Balance at 31 December 2014	**16 060**	**44 640**	**3 790**	**4 103**	**2 484**	**71 077**

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 was originally purchased in 1983 and revalued on 31 December 2014 by JHI Real Estate Ltd, registered professional valuers (Mr B Nyagah: Registration No 6091/4 and Miss B Itholeng: Registration No 6699/2). The valuation was made on the basis of an open market value. The land and building was revalued to an amount of R60.7 million with a residual value of R21.2 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.

7. Property and equipment (continued)

	Furniture and equipment R'000	Motor vehicles R'000	Computer equipment R'000	Total R'000
Company				
Cost				
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
Additions	1 090	1 848	1 868	4 806
Disposals	(546)	(949)	(5 120)	(6 615)
Balance at 31 December 2014	**17 305**	**6 578**	**9 995**	**33 878**
Accumulated depreciation				
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)
Depreciation	(611)	(764)	(1 681)	(3 056)
Disposals	520	438	5 115	6 073
Balance at 31 December 2014	**(13 515)**	**(2 475)**	**(7 511)**	**(23 501)**
Net book value				
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
Net additions	1 064	1 337	1 863	4 264
Depreciation	(611)	(764)	(1 681)	(3 056)
Balance at 31 December 2014	**3 790**	**4 103**	**2 484**	**10 377**

8. Intangible assets

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Computer software purchased				
Cost	15 345	15 118	15 345	15 118
– Balance at the beginning of the year	15 118	14 959	15 118	14 959
– Current year purchases	227	159	227	159
Amortisation	(15 113)	(15 010)	(15 113)	(15 010)
– Balance at the beginning of the year	(15 010)	(14 691)	(15 010)	(14 691)
– Current year amortisation	(103)	(319)	(103)	(319)
Balance at the end of the year	232	108	232	108

9. Investment in subsidiary

	Company 2014 R'000	Company 2013 R'000
At the beginning of the year at fair value	44 200	45 497
Unrealised gain/(loss) on revaluation	7 178	(1 297)
Directors' valuation	51 378	44 200

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 is 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 2014 R'000	Company 2013 R'000
Total assets	60 700	51 877
Total liabilities	(9 322)	(7 677)
Revenue	298	313
Net profit/(loss) for the year	7 178	(1 297)

10. Investments

Financial assets at fair value through profit and loss

10.1 At cost

	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
Balance at the beginning of the year	301 308	290 508	301 308	290 508
Ordinary shares purchased	41 925	30 685	41 925	30 685
Ordinary shares disposed	(33 003)	(19 885)	(33 003)	(19 885)
Preference shares disposed	(21 885)	–	(21 885)	–
Collective investment scheme purchased	180 000	–	180 000	–
Balance at the end of the year	468 345	301 308	468 345	301 308
Preference shares – listed	–	21 885	–	21 885
Ordinary shares – listed	187 345	178 423	187 345	178 423
Collective investment scheme	281 000	101 000	281 000	101 000
	468 345	301 308	468 345	301 308

10.2 At fair value

	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
Balance at the beginning of the year	510 958	503 567	510 958	503 567
Ordinary shares purchased	41 925	30 685	41 925	30 685
Ordinary shares disposed	(91 514)	(87 515)	(91 514)	(87 515)
Preference shares disposed	(18 995)	–	(18 995)	–
Collective investment scheme purchased	180 000	–	180 000	–
Current year net realised gains	55 621	67 630	55 621	67 630
Current year net unrealised losses	(27 881)	(3 409)	(27 881)	(3 409)
Balance at the end of the year	650 114	510 958	650 114	510 958
Preference shares – listed	–	20 018	–	20 018
Ordinary shares – listed	369 114	389 940	369 114	389 940
Collective investment scheme	281 000	101 000	281 000	101 000
	650 114	510 958	650 114	510 958

10. Investments (continued)

10.3 Fair value hierarchy

Group and company	2014 – R'000 Level 1	Level 2	Level 3	Total
Ordinary shares – listed	369 114	–	–	369 114
Collective investment scheme	–	281 000	–	281 000
	369 114	281 000	–	650 114

Group and company	2013 – R'000 Level 1	Level 2	Level 3	Total
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

10.4 Listed ordinary and preference shares at fair value by sector

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Resource	83 068	104 160	83 068	104 160
Financial	82 898	105 638	82 898	105 638
Industrial	203 148	200 160	203 148	200 160
	369 114	409 958	369 114	409 958

10.5 Major equity investments

The company's most significant listed equity investments at 31 December 2014 are set out in Annexure A on page 75.

11. Insurance liabilities and assets

11.1 Insurance contract liabilities net of reinsurance

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Gross	858 453	708 056	858 453	708 056
– Claims reported	428 772	323 750	428 772	323 750
– Claims incurred but not reported	307 892	278 697	307 892	278 697
– Unearned premium provision	54 886	41 206	54 886	41 206
– Low claims and no-claims bonus provision	66 903	64 403	66 903	64 403
Recoverable from reinsurers	(152 264)	(125 108)	(152 264)	(125 108)
– Claims reported	(78 742)	(58 559)	(78 742)	(58 559)
– Claims incurred but not reported	(61 579)	(55 739)	(61 579)	(55 739)
– Unearned premium provision	(2 806)	(2 231)	(2 806)	(2 231)
– Low claims and no-claims bonus provision	(9 137)	(8 579)	(9 137)	(8 579)
Total net insurance contract provisions	706 189	582 948	706 189	582 948

11. Insurance liabilities and assets (continued)

11.2 Salvage receivable and reinsurance liabilities

	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
Gross salvage receivable	165 303	98 232	165 303	98 232
Reinsurers' share of salvage	(33 136)	(19 911)	(33 136)	(19 911)
Total net salvage receivable and reinsurance liabilities	132 167	78 321	132 167	78 321

11.3 Insurance liabilities net of reinsurance and salvages

	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
Claims reported and claims incurred but not reported (net of salvages)	464 176	409 828	464 176	409 828
– Claims reported	350 030	265 191	350 030	265 191
– Claims incurred but not reported	246 313	222 958	246 313	222 958
– Salvages	(132 167)	(78 321)	(132 167)	(78 321)
Unearned premium provision	52 080	38 975	52 080	38 975
Low claims and no-claims bonus provision	57 766	55 824	57 766	55 824
Total net insurance liabilities	574 022	504 627	574 022	504 627

11.4 Analysis of movements in unearned premium and low and no-claims bonus provision

Group and company	2014 – R'000 Gross	2014 – R'000 Reinsured	2014 – R'000 Net	2013 – R'000 Gross	2013 – R'000 Reinsured	2013 – R'000 Net
Net unearned premium provision	41 206	(2 231)	38 975	42 546	(878)	41 668
Low claims and no-claims bonus provision	64 403	(8 579)	55 824	62 066	(8 193)	53 873
Balance at the beginning of the year	105 609	(10 810)	94 799	104 612	(9 071)	95 541
Provision utilised during the year	(119 572)	23 129	(96 443)	(118 193)	22 862	(95 331)
Provision raised during the year	135 752	(24 262)	111 490	119 190	(24 601)	94 589
Balance at the end of the year	121 789	(11 943)	109 846	105 609	(10 810)	94 799
Net unearned premium provision	54 886	(2 806)	52 080	41 206	(2 231)	38 975
Low claims and no-claims bonus provision	66 903	(9 137)	57 766	64 403	(8 579)	55 824

11.5 Analysis of movements in outstanding claims (net of salvages)

Group and company	2014 – R'000 Gross	2014 – R'000 Reinsured	2014 – R'000 Net	2013 – R'000 Gross	2013 – R'000 Reinsured	2013 – R'000 Net
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
Balance at the beginning of the year	504 215	(94 387)	409 828	554 656	(103 599)	451 057
Claims paid net of salvage	(433 390)	30 278	(403 112)	(578 198)	246 147	(332 051)
– Relating to prior years	(245 691)	13 369	(232 321)	(336 304)	105 190	(231 114)
– Relating to the current year	(187 699)	16 909	(170 791)	(241 894)	140 957	(100 937)
Increase in outstanding claim provisions	500 039	(43 076)	456 963	515 139	(236 935)	278 204
Foreign currency translation	497	–	497	12 618	–	12 618
Balance at the end of the year	571 361	(107 185)	464 176	504 215	(94 387)	409 828
Claims reported	293 427	(51 611)	241 816	244 255	(42 442)	201 813
Incurred but not reported	277 934	(55 574)	222 360	259 960	(51 945)	208 015

11. Insurance liabilities and assets (continued)

11.6 Estimated maturity profile of gross insurance liabilities

Group and company	0 – 6 months R'000	6 months – 1 year R'000	1 year – 2 years R'000	2 years and on R'000	Total R'000
2014					
Claims incurred but not reported net of salvages	194 554	83 380	–	–	277 934
Outstanding claims net of salvages	36 317	154 266	77 133	25 711	293 427
Unearned premium and low claims and no-claims bonus provisions	47 272	67 716	4 063	2 738	121 789
	278 143	305 362	81 196	28 449	693 150
2013					
Claims incurred but not reported net of salvages	181 972	77 988	–	–	259 960
Outstanding claims net of salvages	42 566	135 829	55 379	10 481	244 255
Unearned premium and low claims and no-claims bonus provisions	35 092	65 455	2 548	2 514	105 609
	259 630	279 272	57 927	12 995	609 824

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 are 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 meeting attended by senior management of the different Operating, Actuarial and Finance divisions. This estimate is done independently of the result of any other projection methods.

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 (eg 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 2013 and 2014 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 71.2% (2013: 78.0%) on the domestic portfolio and 59.2% (2013: 40.2%) on the commercial export portfolio as at 31 December 2014.

The current underwriting year's loss ratio on the domestic portfolio can be attributed to the number of large reported and paid claim events during the first quarter of 2014 with reported claims in the second half stabilising. IBNR reserves were calculated applying consistent actuarial methodologies to that of the prior year.

The expected increase in the loss ratio on the export portfolio can be attributed to a single large case reserve in this 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 2014 financial year is provided below:

2014 Group and company	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	44 120	8 224
Decrease of 10% in the net ultimate loss ratio resulting in a net increase in the underwriting result	(44 120)	(8 225)

2013 Group and company	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)

12. Deferred taxation

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Balance at the beginning 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)
Charged to profit or loss	(5 149)	12 576	(4 851)	12 874
Credited to other comprehensive income	1 943	(4 821)	–	(4 821)
Balance at the end of the year	11 705	14 911	2 383	7 234
– Deferred tax liabilities	43 760	46 644	34 438	38 967
– Deferred tax asset	(32 055)	(31 733)	(32 055)	(31 733)
Analysis of major temporary differences:				
Share-based payment provision	(1 296)	(2 141)	(1 296)	(2 141)
Low claims and no-claims bonuses and other provisions	(12 195)	(12 621)	(12 195)	(12 621)
Post-retirement medical benefit provision	(18 451)	(16 869)	(18 451)	(16 869)
Unrealised gains on investment (capital gains tax)	33 791	38 288	33 791	38 288
Property revaluation	9 323	7 677	–	–
Other	533	577	534	577
	11 705	14 911	2 383	7 234

13. Other receivables

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Premium debtors net of provision for doubtful debt	140 348	125 636	140 348	125 636
Legal fees related to claims	11 423	11 323	11 423	11 323
Prepayments	4 687	5 666	4 687	5 666
Accrued interest and dividends	4 907	3 566	4 907	3 566
Staff advances	42	–	42	–
Other	6 154	1 950	6 154	1 950
	167 561	148 141	167 561	148 141

The above receivables are due within one year and are neither past due nor impaired.

14. Cash and cash equivalents

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Cash at bank and in hand	97 740	113 152	97 740	113 152
Call and fixed deposits	517 000	571 000	517 000	571 000
	614 740	684 152	614 740	684 152

Call and fixed deposits exclude accrued interest which is included in other receivables at R4.5 million (2013: R3.3 million). Included in the above are cash balances denominated in foreign currency of R92.0 million (2013: R94.1 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:

	2014	2013
Average interest rate earned (%)	5.64	5.01
Year-end interest rate (%)	6.13	5.00

15. Provisions

15.1 Post-retirement medical aid benefit

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Balance at the beginning of the year	60 247	39 700	60 247	39 700
Provisions raised during the year	5 651	20 547	5 651	20 547
Gross liability	65 898	60 247	65 898	60 247
Transfer of fund assets	(64 622)	–	(64 622)	–
Net liability at the end of the year	1 276	60 247	1 276	60 247

* *Refer to note 33.2 for further information*

15.2 Share-based payment provision

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Balance at the beginning of the year	7 647	9 569	7 647	9 569
Paid during the current year	(5 052)	(10 372)	(5 052)	(10 372)
Reversal of provision on forfeited shares	(217)	(22)	(217)	(22)
Provisions raised during the year	2 252	8 472	2 252	8 472
Balance at the end of the year	4 630	7 647	4 630	7 647

* *Refer to note 24.3 for further information.*

15. Provisions (continued)

15.3 Other provisions

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Bonus provision:				
Balance at the beginning of the year	36 565	34 553	36 565	34 553
Utilisation of provision	(30 841)	(30 046)	(30 841)	(30 046)
Provisions raised during the year	28 546	32 054	28 546	32 054
Interest on deferred bonus	205	4	205	4
Balance at the end of the year	34 475	36 565	34 475	36 565

16. Share capital

16.1 Authorised share capital

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
3 000 000 ordinary shares of R1 each	3 000	3 000	3 000	3 000

16.2 Issued share capital

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
2 649 333 shares of R1 each	2 649	2 649	2 649	2 649

17. Non-distributable reserves

17.1 Property revaluation reserve

	Company	
	2014 R'000	2013 R'000
Balance at the beginning of the year	40 000	40 000
Net revaluation	10 418	–
Deferred tax on revaluation	(1 943)	–
Balance at the end of the year	48 475	40 000

18. Distributable reserve

18.1 Retained income

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
The retained income balance represents the amount available for dividend distribution to the shareholders of the company prior to any withholding tax liabilities	673 286	656 337	721 761	696 337

19. Gross written premium

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Premiums written	1 090 752	978 545	1 090 752	978 545
Less: Low claims and no-claims bonus payments	(119 572)	(118 193)	(119 572)	(118 193)
	971 180	860 352	971 180	860 352

20. Commission income

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Reinsurance commission income	82 483	70 567	82 483	70 567
	82 483	70 567	82 483	70 567

21. Investment income

21.1 Interest and dividends

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Interest earned on:				
– Reinsurance inwards reserves	279	301	279	301
– Collective investment scheme	727	856	727	856
– Cash and cash equivalents	40 370	28 437	40 370	28 437
Total interest income	41 376	29 594	41 376	29 594
Dividend income				
Received and accrued relating to:				
– Equity securities	13 263	14 939	13 263	14 939
– Collective investment scheme	4 133	4 604	4 133	4 604
Total dividends and interest income	58 772	49 137	58 772	49 137

21.2 Realised and unrealised gains on investments

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Return on investments	27 740	64 221	27 740	64 221
– Realised profit on investments	4 010	17 195	4 010	17 195
– Component of realised surplus recognised in prior years	51 611	50 435	51 611	50 435
– Unrealised loss on investments – current year fair value changes	(27 881)	(3 409)	(27 881)	(3 409)
Unrealised profit/(loss) on revaluation of property held in subsidiary	–	–	7 178	(1 297)
Total realised and unrealised gains on investments recognised in profit or loss	27 740	64 221	34 918	62 924

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 are net of investment costs.

22. Claims incurred net of reinsurance and salvages

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Gross claims incurred	852 537	705 239	852 537	705 239
– Gross claims paid	718 817	743 812	718 817	743 812
– Change in provision for outstanding claims	133 720	(38 573)	133 720	(38 573)
Reinsurers' share of claims incurred	(169 035)	(275 352)	(169 035)	(275 352)
– Claims paid	(143 012)	(279 982)	(143 012)	(279 982)
– Change in provision for outstanding claims	(26 023)	4 630	(26 023)	4 630
	683 502	429 887	683 502	429 887
Salvages	(280 964)	(121 271)	(280 964)	(121 271)
– Gross salvages received	(213 893)	(96 785)	(213 893)	(96 785)
– Change in asset raised for outstanding salvages	(67 071)	(24 486)	(67 071)	(24 486)
Reinsurers' share of salvages	125 959	38 417	125 959	38 417
– Salvages received	112 734	33 835	112 734	33 835
– Change in liability raised for outstanding salvages	13 225	4 582	13 225	4 582
	(155 005)	(82 854)	(155 005)	(82 854)
Net claims incurred	528 497	347 033	528 497	347 033
Claims paid include:				
– Payment to policyholders	647 283	674 983	647 283	674 983
– Claims administration expenses	71 534	68 829	71 534	68 829
	718 817	743 812	718 817	743 812

23. Acquisition costs

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Brokerage paid	81 314	70 245	81 314	70 245

24. Management expenses

24.1 Management and claims administration expenses include:

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Staff costs	163 803	166 187	163 803	166 187
– Salaries	108 043	99 402	108 043	99 402
– Employer's contribution to retirement fund	12 206	11 385	12 206	11 385
– Post-retirement medical aid provision	5 651	3 328	5 651	3 328
– Share-based payment provision	2 034	8 451	2 034	8 451
– Other	35 868	43 621	35 868	43 621
Audit fees	1 994	1 880	1 994	1 880
– Current year	1 994	1 880	1 994	1 880
Depreciation and amortisation	4 754	4 818	3 159	3 223
– Land and buildings	1 595	1 595	–	–
– Furniture and equipment	611	658	611	658
– Motor vehicles	764	675	764	675
– Computer equipment	1 681	1 571	1 681	1 571
– Computer software	103	319	103	319
Loss on sale of equipment	14	104	14	104
Repairs and maintenance of equipment	1 899	1 375	1 899	1 375
Rentals under operating leases	1 227	1 133	1 227	1 133
– Office equipment	197	224	197	224
– Property	1 030	909	1 030	909
Executive directors' remuneration	10 955	18 571	10 955	18 571
Non-executive directors' remuneration	3 070	3 116	3 070	3 116

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

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
2014						
C D Nortje*	–	2 595	3 340	305	18	6 258
W H Lategan*	–	1 966	2 062	231	438	4 697
R Snyders	545	2 413	556	278	8	3 800
– Paid by company^	545	–	–	–	–	545
– Paid by other companies#	–	2 413	556	278	8	3 255
J D van der Sandt	171	2 140	614	59	–	2 984
– Paid by company^	171	–	–	–	–	171
– Paid by other companies#	–	2140	614	59	–	2 813
J J Ngulube^	248	–	–	–	–	248
P A Wessels^+	327	–	–	–	–	327
M J Reyneke^	502	–	–	–	–	502
P Tsukudu	810	–	–	–	–	810
– Paid by company^	471	–	–	–	–	471
– Paid by other companies#	339	–	–	–	–	339
M Mia	940					940
– Paid by company^	397	–	–	–	–	397
– Paid by other companies#	543	–	–	–	–	543
M Bosman	409	–	–	–	–	409
	3 952	9 114	6 572	873	464	20 975

* *Executive director.*
^ *Remuneration paid to the company by whom the director is employed, and not the individual.*
# *Refers to payments made by other South African group companies.*
+ *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.*

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
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
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	9 986	8 986	1 767	16 830	40 910

* *Executive director.*
^ *Remuneration paid to the company by whom the director is employed, and not the individual.*
\# *Refers to payments made by other South African group companies.*
\+ *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.*
† *Retired executive director (retired 31 July 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				
Outstanding share options at 31 December 2013		6 275 181		
– Share options issued during 2013	01/08/2013	6 275 181	1.00	31/10/2017
Share options issued during the current financial year	01/01/2014	1 189 414	1.00	31/03/2018
Outstanding options at 31 December 2014		7 464 595		
M C Truter				
Outstanding share options at 31 December 2013		1 297 676		
– Share options issued during 2013	01/01/2013	1 297 676	1.00	31/03/2017
– Share options exercised during 2014		(1 297 676)		
Outstanding options at 31 December 2014		–		
W H Lategan				
Outstanding share options at 31 December 2013		1 315 856		
– 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 issued during 2013	01/01/2013	465 779	1.00	31/03/2017
Share options exercised during 2014		(410 665)		
Share options issued during current financial year	01/01/2014	540 675	1.00	31/03/2018
Outstanding options at 31 December 2014		1 445 866		

24.4 Foreign exchange

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Foreign exchange gains	5 306	13 908	5 306	13 908
– Realised	2 270	2 120	2 270	2 120
– Unrealised	3 036	11 788	3 036	11 788

25. Taxation

25.1 South African and foreign

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Current year	41 537	56 706	41 537	56 706
– Current taxation	31 165	44 094	31 165	44 094
– Capital gains taxation	10 372	12 612	10 372	12 612
Prior years	(444)	–	(444)	–
– Current taxation	(444)	–	(444)	–
Current year deferred tax	(5 149)	12 576	(4 851)	12 874
Taxation charge recognised in the income statement for the year	35 944	69 282	36 242	69 580
Current deferred tax recognised in other comprehensive income for the year	1 943	(4 821)	–	(4 821)
Tax charge for the year	37 887	64 461	36 242	64 759

25.2 Reconciliation of tax

	Group		Company	
	2014 %	2013 %	2014 %	2013 %
Effective rate	23.3	23.8	22.3	23.9
Revaluation of property	0.2	–	–	–
Investment gains at capital gains tax rates	(2.2)	0.1	(1.0)	–
Non-taxable income	6.6	4.3	6.6	4.3
Disallowed expenditure	(0.2)	(0.2)	(0.2)	(0.2)
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)

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Basic earnings per share is calculated on a net income of R118 021 000 for the group and R126 496 000 for the company (2013: R219 169 000 group and company) and a weighted average number of shares in issue during the period of 2 649 333 (2013: 2 649 333)	4 455	8 273	4 775	8 273

26.2 Headline and diluted earnings per share (cents)

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Headline and diluted earnings per share is calculated on a weighted average number of shares in issue during the period of 2 649 333 (2013: 2 649 333)	4 455	8 277	4 775	8 277
Reconciliation of headline earnings:				
– Net income	118 021	219 169	126 496	219 169
– Loss on the sale of equipment	14	104	14	104
Headline earnings	118 035	219 273	126 510	219 273

26.3 Earnings per share on discontinued operations (cents)

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
The profit/(loss) per share on discontinued operations for the group and company is calculated on a net profit of R949 000 (2013: loss of R603 000) and a weighted average number of shares in issue during the period of 2 649 333 (2013: 2 649 333)	36	(23)	36	(23)

27. Cash generated by operations

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Net income before taxation	153 965	288 451	162 738	288 749
Adjusted for:				
Depreciation and amortisation of equipment	4 754	4 818	3 159	3 223
Increase in provisions for bad debt	447	215	447	215
Increase in accruals	871	583	871	583
Unrealised foreign exchange loss	(3 533)	(24 406)	(3 533)	(24 406)
Unrealised loss on investments	27 881	3 409	20 703	4 706
Profit on sale of investments, property and equipment	(55 606)	(67 526)	(55 606)	(67 526)
Investment income	(55 140)	(46 202)	(55 140)	(46 202)
Increase/(decrease) in insurance provisions	69 394	(41 971)	69 394	(41 971)
Operating profit before working capital changes	143 033	117 371	143 033	117 371
Changes in working capital	(12 984)	10 540	(12 984)	10 540
– Decrease/(increase) in net agents' and reinsurers' balances	559	(3 244)	559	(3 244)
– Increase in other receivables	(18 080)	(7 324)	(18 080)	(7 324)
– Increase in balances due to and deposits with reinsurers	55 438	4 033	55 438	4 033
– Increase in other payables and provisions	8 070	13 837	8 070	13 837
– (Decrease)/increase in net post-retirement medical benefit provision	(58 971)	3 238	(58 971)	3 238
	130 049	127 911	130 049	127 911

28. Taxation paid

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Amounts unpaid/(overpaid) at the beginning of the year	1 363	(1 332)	1 363	(1 332)
Charge to profit or loss	35 944	69 282	36 242	69 580
Deferred tax movement	5 149	(12 576)	4 851	(12 874)
Amount unpaid at the end of the year	(427)	(1 363)	(427)	(1 363)
Total taxation paid	42 029	54 011	42 029	54 011

29. Dividends paid

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Dividends declared and paid	101 072	148 998	101 072	148 998
	101 072	148 998	101 072	148 998

A final dividend amounting to R69 439 018 relating to the 2013 financial year was paid during the current financial year. An interim dividend of R31 633 036 was proposed and paid relating to the 2013 financial year. A final dividend of R66 789 685 for 2014 was proposed by the board on 3 February 2015.

30. Total listed share and collective scheme purchases

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Net increase in cost of investments	167 037	10 800	167 037	10 800
Cost of investments sold	54 888	19 885	54 888	19 885
Total acquisitions	221 925	30 685	221 925	30 685

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	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
The results of both divisions are as follows:				
Gross premiums	532	2 198	532	2 198
Less: Reinsurance premiums	195	1 904	195	1 904
Net premiums earned	337	294	337	294
Less: Insurance expenditure	(123)	(87)	(123)	(87)
– Net claims incurred	554	450	554	450
– Net reserves movement	(2 395)	(7 992)	(2 395)	(7 992)
– Commission received	(528)	(712)	(528)	(712)
– Management expenses	1 663	1 438	1 663	1 438
– Foreign exchange losses	583	6 729	583	6 729
Underwriting result	460	381	460	381
Profit before taxation	460	381	460	381
Taxation	489	(984)	489	(984)
Net accumulated profit/(loss) for the year	949	(603)	949	(603)
Cash flows				
Net (loss)/profit after taxation	949	(603)	949	(603)
Adjusted for:				
Unrealised foreign exchange (profit)/losses	(2 208)	3 134	(2 208)	3 134
Insurance provisions	(2 395)	(7 992)	(2 395)	(7 992)
Net cash flows from operating activities	(3 654)	5 461	(3 654)	5 461
Carrying amounts of the assets and liabilities of Reinsurance Inwards division:				
Assets	71 879	74 166	71 879	74 166
– Deposits with cedants	24 834	25 377	24 834	25 377
– Cash and cash equivalents	47 045	48 789	47 045	48 789
Equity				
Liabilities	47 045	48 789	47 045	48 789
– Insurance contract provisions	43 280	45 178	43 280	45 178
– Reinsurance balances	3 765	3 611	3 765	3 611

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.

32.1 Transactions with related parties

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Mutual & Federal Insurance Company Limited (parent)	(58 281)	(80 360)	(58 281)	(80 360)
– Premiums paid for insurance cover and internal audit	(1 616)	(1 396)	(1 616)	(1 396)
– Net payments to reinsurance activities	(2 862)	–	(2 862)	–
– Directors' fees paid	(716)	(704)	(716)	(704)
– Dividends paid	(53 087)	(78 260)	(53 087)	(78 260)
Nedbank Limited (fellow subsidiary)	17 150	6 211	17 150	6 211
– Interest received	17 853	7 090	17 853	7 090
– Directors' fees paid	(327)	(524)	(327)	(524)
– Bank charges paid	(376)	(355)	(376)	(355)
Santam Limited (investor)	(35 155)	(47 099)	(35 155)	(47 099)
– Premium on underwriting agreement	2 124	3 380	2 124	3 380
– Net payments to reinsurance activities	(2 862)	–	(2 862)	–
– Directors' fees paid	(502)	(482)	(502)	(482)
– Dividends paid	(33 915)	(49 997)	(33 915)	(49 997)
Munich Reinsurance Company of Africa Limited (investor)	(30 902)	6 780	(30 902)	6 780
– Net payments (to)/from reinsurance activities	(23 474)	17 603	(23 474)	17 603
– Directors' fees paid	(248)	(239)	(248)	(239)
– Dividends paid	(7 180)	(10 584)	(7 180)	(10 584)
Galilean Properties Proprietary Limited			–	–
– Management fee			297	313
– Property expenses			(297)	(313)

32.2 Year-end balances with related parties

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Payable to related parties	(15 535)	(2 473)	(15 535)	(2 473)
Mutual & Federal Insurance Company Limited (parent)	(1 080)	(731)	(1 080)	(731)
Santam Limited (investor)	(265)	(58)	(265)	(58)
Munich Reinsurance Company of Africa Limited (investor)	(14 190)	(1 684)	(14 190)	(1 684)
Receivable from related parties	359 358	299 148	359 358	299 148
Nedbank Limited (included in cash and cash equivalents)*	295 736	299 148	295 736	299 148
Old Mutual Life Assurance Company (South Africa) Limited	64 622	–	64 622	–

** Includes an amount of R180 million relating to a money market fund product which is reinvested with major banking corporations in South Africa. All related parties are incorporated in South Africa.*

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

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Directors (refer to note 24.2)	10 955	18 571	10 955	18 571
General managers	23 446	19 369	23 446	19 369

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 in the process of being transferred to an umbrella fund and the transfer is expected to be finalised during 2015.

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	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Amounts recognised in profit or loss:				
Current service cost	350	326	350	326
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	37 197	27 305	37 197	27 305
– Past service liabilities	37 083	26 457	37 083	26 457
– Contingency reserve	114	848	114	848
Fair value of plan assets, inclusive of the value of utilised services	32 355	29 729	32 355	29 729
Surplus in plan assets	4 842	2 424	4 842	2 424
Movement in present value of defined benefit obligation in current period:				
At the beginning of the year	26 457	22 295	26 457	22 295
Contributions from plan members	350	326	350	326
Actuarial increase in liability	10 276	3 836	10 276	3 836
At the end of the year	37 083	26 457	37 083	26 457
Movement in plan assets in current period:				
At the beginning of the year	29 729	24 226	29 729	24 226
Contributions paid into the plan	350	326	350	326
Actuarial increase in plan assets	2 276	5 177	2 276	5 177
At the end of the year	32 355	29 729	32 355	29 729

33.2 Post-retirement medical aid 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 as at 31 December 2013. 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 was recognised in the statement of comprehensive income.

On 12 December 2014, assets were transferred to Old Mutual Life Assurance Company (South Africa) Limited under an annuity policy, specifically set out to meet the employer's post-retirement medical aid obligation towards its current and future continuation members.

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Change in liability:				
Opening balance	60 247	39 700	60 247	39 700
Current service costs	1 356	1 167	1 356	1 167
Interest costs	4 295	3 666	4 295	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)
Closing balance	65 898	60 247	65 898	60 247
Change in asset:				
Opening balance	–	–	–	–
Transfer to fund	64 622	–	64 622	–
Closing balance	64 622	–	64 622	–
Net liability	1 276	60 247	1 276	60 247
Recognised in the income statement:				
Service costs	1 356	1 167	1 356	1 167
Interest costs	4 295	3 666	4 295	3 666
Benefit payments	–	(1 505)	–	(1 505)
	5 651	3 328	5 651	3 328
Recognised in other comprehensive income:				
Actuarial increase in liability	–	17 219	–	17 219
Key assumptions:				
Discount rate (%)	9.2	9.2	9.2	9.2
Medical aid inflation (%)	8.6	8.6	8.6	8.6
Sensitivity analysis:				
1% increase in rate of medical inflation				
– Increase in obligation	9 227	11 680	9 227	11 680
– Increase in obligation (%)	19.6	18.1	19.6	18.1
1% decrease in rate of medical inflation				
– Decrease in obligation	(6 506)	(9 371)	(6 506)	(9 371)
– Decrease in obligation (%)	(15.6)	(14.5)	(15.6)	(14.5)
1% decrease in discount rate				
– Increase in obligation	12 044	12 044	12 044	12 044
– Increase in obligation (%)	18.7	18.7	18.7	18.7
1% increase in discount rate				
– Decrease in obligation	(9 474)	(9 474)	(9 474)	(9 474)
– Decrease in obligation (%)	(14.7)	(14.7)	(14.7)	(14.7)

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 2014 amounted to R6 002 239 (2013: R9 799 022) and a provision of R4 629 851 (2013: R7 647 045) was made in the financial statements for the growth in value during 2014.

	Group and company			
	2014		2013	
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	27 679 095	135.4	25 123 497	142.8
Allocated during the year	12 332 947	101.4	15 353 487	113.2
Exercised during the year	(8 072 605)	162.6	(12 646 113)	182.0
Forfeited during the year	(780 597)	120.0	(151 776)	114.5
Balance at the end of the year	31 158 840	119.3	27 679 095	135.4

Exercise prices for outstanding share options range from R1.07 to R1.88.

34. Operating lease commitments

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
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	2 127	2 309	2 127	2 309
Not later than one year	797	613	797	613
Between one and five years	1 330	1 696	1 330	1 696

35. Contingent liabilities

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Letters of guarantees issued in favour of:				
– SA Post Office	30	30	30	30
– Redefine Properties Proprietary Limited	72	72	72	72
– First Strut RF Limited – advanced liquidation dividend*	101 497		101 497	
	101 599	102	101 599	102

* A bank guarantee has been issued in favour of the liquidators of First Strut RF Limited following the receipt of a pre-liquidation dividend by the company. The bank guarantee expires within two years and is renewable in the event that the final liquidation distribution account has not been finalised. The company has retained the pre-liquidation dividend in a call account.

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.

36. Solvency ratios

		Company	
		2014 %	2013 %
	The solvency ratios have been calculated on two bases:		
36.1	The indicative capital adequacy requirement (CAR) cover representing the capital adequacy requirement over total domestic assets (as defined by the Short-Term Insurance Act, No 53 of 1998, under BN 169 of 2011)	177	216
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)	103	116

37. Reconciliation of income as reflected in the statement of comprehensive income to underwriting result

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Gross premiums	971 180	860 352	971 180	860 352
Less: Reinsurance premiums	266 932	257 439	266 932	257 439
Net premiums written	704 248	602 913	704 248	602 913
Provision for unearned premiums, low claims and no-claims bonus	(15 046)	742	(15 046)	742
Net premiums earned	689 202	603 655	689 202	603 655
Less	618 117	425 627	616 522	424 032
– Claims net of reinsurance and salvages	528 497	347 033	528 497	347 033
– Net commission	(1 169)	(322)	(1 169)	(322)
– Expenses	166 928	160 706	165 333	159 424
– Other operating income	(70 833)	(67 882)	(70 833)	(68 195)
– Foreign exchange gains	(5 306)	(13 908)	(5 306)	(13 908)
Underwriting result	71 085	178 028	72 680	179 623
Investment income	55 140	46 202	55 140	46 202
– Dividends	17 396	19 543	17 396	19 543
– Net interest received	37 745	26 659	37 745	26 659
Sundry income	27 740	64 221	34 918	62 924
– Profit on sale of investments	55 621	67 630	55 621	67 630
– Unrealised loss on investments	(27 881)	(3 409)	(27 881)	(3 409)
– Unrealised profit/(loss) on investments in subsidiary	–	–	7 178	(1 297)
Profit before taxation	153 965	288 451	162 738	288 749
Taxation	35 944	69 282	36 242	69 580
– Income tax and deferred tax	35 944	69 282	36 242	69 580
Net income for the year	118 021	219 169	126 496	219 169

38. Nature of business

The main business of the company is that of trade credit insurance in both the domestic and export trade credit insurance arena (which is within the meaning of insurance for the purposes of the Short-Term Insurance Act, No 53 of 1998). The company also underwrites bonds and sureties which naturally complements the core business.

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 requires further disclosure or adjustment to the group annual financial statements and annual financial statements.

ANNEXURE A: SHARE PORTFOLIO

for the year ended 31 December 2014

Group and company	Shares held		Total cost		Market value	
Ordinary shares and preference shares	**2014 Number**	2013 Number	**2014 R'000**	2013 R'000	**2014 R'000**	2013 R'000
ABSA preference shares	–	5 000	–	5 000	–	4 383
Anglo American plc	65 000	65 000	16 527	16 527	13 997	14 876
BHP Billiton plc	103 000	103 000	7 180	7 180	25 614	33 290
Bidvest Group Limited	50 000	70 000	5 626	6 731	15 194	18 784
British American Tobacco plc	63 500	91 000	10 715	9 430	40 132	50 972
Discovery Limited	120 000	120 000	9 810	9 810	13 201	10 092
Exxaro Resources Limited	50 000	86 000	4 433	7 000	5 165	12 596
FirstRand B preference shares	–	90 000	–	9 180	–	8 748
FirstRand Limited	460 000	460 000	9 325	9 325	23 216	16 367
Growthpoint Limited	–	600 000	–	14 962		14 568
MTN Group Limited	166 500	116 000	27 084	15 643	36 790	25 174
Naspers Limited	24 500	14 500	21 700	8 666	37 120	15 838
Royal Bafokeng Platinum Limited	150 000	208 000	9 411	13 262	7 907	12 272
RMB Holdings Limited	–	158 000	–	4 100	–	7 639
RM Insurance Holdings Limited	530 000	530 000	7 157	7 157	21 656	14 548
SAB Miller plc	70 000	92 000	4 786	6 088	42 377	48 956
Sasol Limited	70 500	60 500	25 492	11 203	30 386	31 127
Shoprite Holdings Limited	37 000	37 000	6 709	6 709	6 216	6 028
Spar Group Limited	80 000	118 000	2 304	3 176	12 837	15 522
Standard Bank Group Limited	173 115	173 115	11 588	11 588	24 825	22 404
Standard Bank preference shares	–	72 000	–	7 705	–	6 888
Vodacom Group Limited	98 000	142 000	7 498	9 866	12 481	18 886
Total			**187 345**	200 308	**369 114**	409 958

ADMINISTRATION

Credit Guarantee Insurance Corporation of Africa Limited
Reg No 1956/000368/06
Financial services provider number 17691

Secretary
V Nel
Credit Guarantee House
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KPMG Crescent
Parktown, 2193

Bankers
Nedbank Limited
35 Rivonia Road, Sandton

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Branch code: 198 405

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BASTION GRAPHICS

CREDIT
GUARANTEE

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Reg No 1956/000368/06
Financial services provider No 17691

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