Annual Report 2011

Over 55 years of unsurpassed performance

CREDIT GUARANTEE

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Corporate profile

Credit Guarantee Insurance Corporation of Africa Limited ("CGIC") is a South African underwriting company operating in the field of domestic and export credit insurance. Registered in 1956, it commenced underwriting operations in 1958. Today, Credit Guarantee is the leading trade credit insurer on the African continent. It carries an AA rating for its first time claims paying ability and is ISO 9001:2008 accredited across all aspects of the Company.

Credit Guarantee's largest shareholder is Mutual & Federal Insurance Company Limited, the second biggest short-term insurer in South Africa, itself a subsidiary of the Old Mutual Group. The balance of the shares are held by Santam Limited, Munich Reinsurance Company of Africa Limited and the Industrial Development Corporation of South Africa Limited.

Vision

To retain the position as market leader in our industry through the delivery of the best credit insurance solutions obtainable.

Mission

To our clients:

- Unrivalled, expert credit insurance solutions.

To our employees:

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

To our shareholders:

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

To society:

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

Corporate governance

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Financial highlights

↓ **R343.9 million**
Gross claims paid (Refer note 21)

↑ **75.2%**
Statutory solvency margin

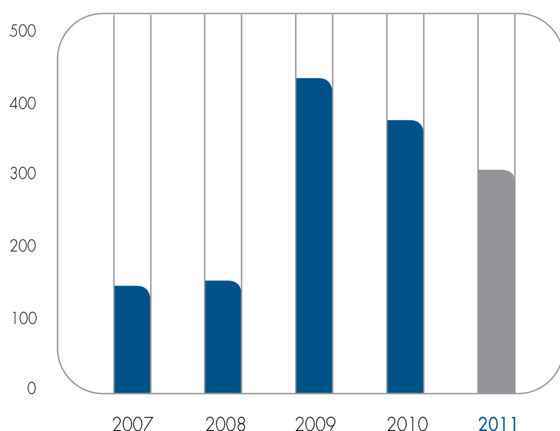
↑ **R484.9 million**
Shareholders' funds

↑ **R178.4 million**
Income after taxation

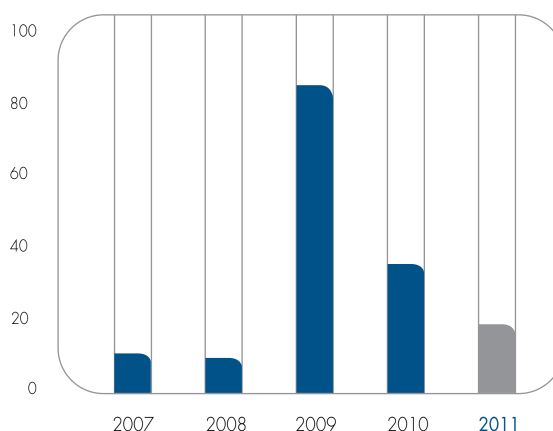
Other highlights

- Credit Guarantee's Double 'A' (AA) credit rating was reaffirmed by Global Credit Rating Company.
- The SABS again conferred the prestigious ISO 9001:2008 quality rating on Credit Guarantee.
- The company is presently rated a Level 3 BBBEE contributor.
- Low/no claims bonuses of R96.0 million were returned to clients.

Commercial claims paid – domestic (Rm)



Commercial claims paid – export (Rm)



Overview

Salient features

	31 Dec 2011 R'000	31 Dec 2010 R'000
Insured turnover	245 905 131	219 531 745
Premiums written		
– Gross	722 787	722 631
– Net	524 238	491 456
Claims paid		
– Gross[1]	404 674	488 887
– Net[1]	315 767	349 176
Management expenses	141 733	116 168
Underwriting result	200 853	118 104
Investment and other income	44 788	56 271
Income after taxation	178 392	127 503
Headline earnings per share (cents/share)	6 732	4 813
Dividend per share		
– Ordinary (cents/share)	2 046	1 757
Total assets	1 365 623	1 282 703
Shareholders' funds	484 863	360 676
Indicative statutory surplus asset ratio (%)*	75.2	61.0
Solvency margin (%)	92.5	73.4

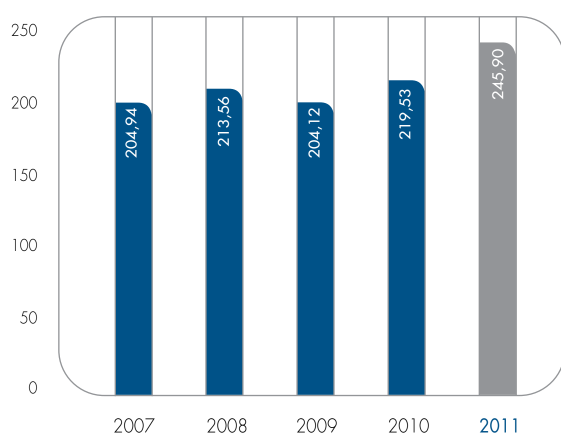
** The minimum percentage prescribed by the Short-Term Insurance Act is 15%.*
[1] Includes claims administration expenses.

Ten-year review

	12 months to Dec 2011 R'000	12 months to Dec 2010 R'000
Insured turnover	245 905 131	219 531 745
Gross premiums written	722 787	722 631
Gross claims paid[1]	404 674	488 887
Gross salvages received	106 413	105 387
Management expenses[2]	141 733	116 168
As % of gross premiums written	19.6	16.1
Underwriting profit/(loss)	200 853	118 104
Dividend and net interest income	30 962	28 092
Income after taxation	178 392	127 503
Dividend per share (cents)	2 046	1 757
Shareholders' funds	484 863	360 676
Net insurance provisions	481 556	453 037
Indicative statutory surplus ratio (%)	75.2	61.0
Solvency margin (%)	92.5	73.4
Staff	284	281

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

Insured turnover (Rbn)



Insured turnover grew appreciably despite prevailing local and global economics.

12 months to Dec 2009 R'000	12 months to Dec 2008 R'000	12 months to Dec 2007 R'000	12 months to Dec 2006 R'000	12 months to Dec 2005 R'000	18 months to Dec 2004 R'000	12 months to June 2003 R'000	12 months to June 2002 R'000
204 117 092	213 554 667	203 934 808	157 292 415	109 274 239	140 208 679	89 082 300	75 815 131
570 874	562 259	491 710	458 119	436 873	678 556	519 342	556 435
594 731	250 838	359 097	211 867	253 406	404 590	398 942	418 592
69 955	88 233	201 941	84 205	59 821	94 467	113 003	80 839
97 768	97 644	91 190	88 580	77 901	114 980	78 101	92 114
17.1	17.4	18.6	19.3	17.8	16.9	15.0	16.6
(23 757)	102 263	151 573	176 575	167 572	136 499	38 972	7 116
33 273	34 764	29 797	30 939	25 672	32 303	26 338	31 823
14 584	29 301	180 431	237 237	254 244	222 904	(44 273)	71 325
–	2 474	11 235	9 907	9 839	3 246	407	372
279 722	265 138	277 926	395 148	415 601	431 052	282 559	350 911
425 214	441 748	301 703	283 428	264 410	281 159	293 563	271 154
63.7	48.9	73.8	122.9	161.8	150.7	100.3	134.2
79.7	70.8	84.7	133.6	170.2	205.3	108.6	141.2
269	267	267	275	279	296	329	384

Message from the chairman

The local economy was hampered by depressed demand from many of the country's trading partners.

Backdrop

Much of the world's economic sentiment in 2011 was shaped by the uncertainty associated with the lingering euro-zone debt crisis while governments struggled to reach agreement on how to circumvent Greek and other sovereign defaults. Globally, stock markets reacted impulsively to each development and currency values fluctuated unpredictably. World growth, particularly in OECD countries, faltered.

While conditions in South Africa were somewhat more robust, the local economy was nonetheless hampered by depressed demand from many of the country's most important international trading partners. Business failures, while down on the figures for the previous year, continued at very high levels and in 2011, approximately 3 600 companies were placed into liquidation. Civil court judgments of just under R1.1 billion were recorded against businesses during the year.

I am pleased to report that, despite these negative factors, Credit Guarantee's results for the year under review have been most satisfactory. The underwriting surplus for the year was R200.9 million compared to R118.1 million in the previous financial year and after-tax earnings were R178.4 million (R127.5 million in 2010).

The company's balance sheet remains very strong with shareholder equity having increased from R360.7 million to R484.9 million and the statutory solvency margin having increased from 61.0% to 75.2%, which is well in excess of the regulatory minimum. The international solvency margin increased from 73.4% to 92.5%.

An ordinary dividend of 2 046 cents per share was paid, distributing R54.2 million to shareholders.

Board of directors

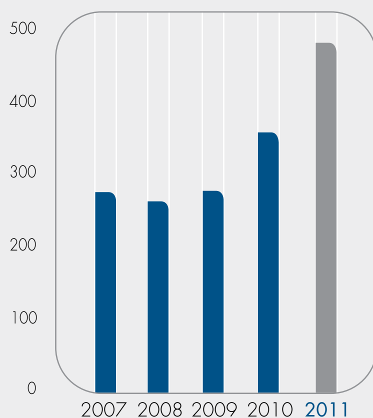
A number of changes have taken place to the board of directors during the past year:

Mr Keith Kennedy retired as a member and chairman of the board. I was appointed to the board and was elected to fill the vacated position of chairman. On behalf of the board, I would like to express my gratitude to Mr Kennedy for his contribution during his tenure as a director and as Credit Guarantee's chairman.

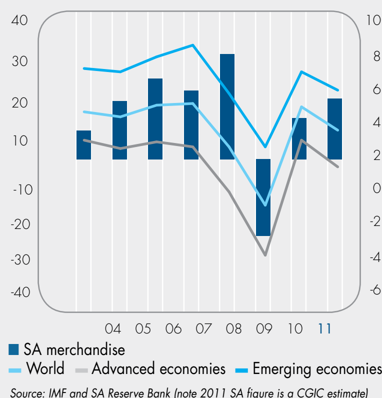
Mr Brian Laird-Smith resigned with effect from 31 December 2011. Mr Laird-Smith served on the board since 2009, during which time he was also a member of the company's Finance Oversight Committee and the Remuneration and Nominations Committee. My thanks go to him for his input over the years he was on the board.

Mr. Dheven Dharmalingam was elected to the board in January 2012 and was appointed to the Finance Oversight Committee and Remuneration and Nominations Committee.

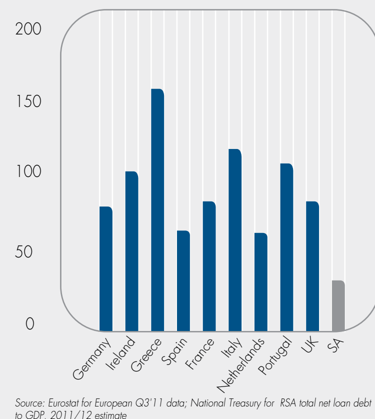
Shareholders' funds (Rm)



World output (GDP%, lhs) vs % change in SA merchandise exports (rhs)



RSA government debt to GDP (%) vs selected European countries (2011)



Mr Dharmalingam's past background and skills bring a further depth of experience to an already-strong board of directors. We look forward to his contribution in coming years.

Prospects for 2012

Credit Guarantee's underwriting fortunes are closely tied to economic conditions both globally and in South Africa.

Ongoing uncertainty about the growth prospects of the global economy and the seemingly unsolvable sovereign debt issues in the euro-zone area make it difficult to predict economic outcomes for the coming year. Some reasons to be positive about the future for South Africa, however, are firstly, that many economic indicators such as liquidations and civil court judgements are pointing to an improved trend for the coming year. Secondly, the country's debt burden is very low compared to many others, which will provide government with room to place a strong focus on future infrastructure development projects. This in turn will do much to bolster economic activity and to offset some of the negative effects associated with the global economic downturn.

We are, therefore, cautiously optimistic about prospects for 2012, but much will depend on whether the euro-debt crisis tips the global economy into a recession or not. It will require a fine balancing act by European leaders between stimulating growth in their economies, while at the same time implementing austerity measures designed to cut spending.

Acknowledgements

Firstly, I would like to express my appreciation to our clients and the specialist insurance broking fraternity for the trust they continue to show in us and for their support over the years. Our aim is to continually improve the level of our client service and we have set ourselves challenging goals in this regard.

Secondly, I would like to thank the members of the board for their dedication and support over the past year. Their counsel and advice has had a material effect on the results of the company. A particular word of thanks goes to Mr Keith Kennedy, who served as chairman of the board from 2008 until 2011.

Lastly, I would like to express my sincere thanks to Mike Truter, his management team, and the staff of Credit Guarantee for their commitment and hard work in the challenging economic climate in which the company operated over the past year.

Peter Todd
Chairman

Board of directors

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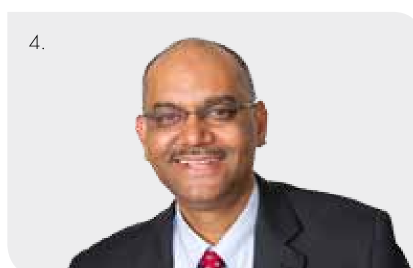

5.

1. Peter Todd (42)
Chairman of the board
Managing director: Mutual & Federal
Joined board 2011

2. Mike Truter (63)
Managing director and chief executive officer
Credit Guarantee
Joined board 1997

3. Wilhelm Lategan (55)
Executive director and chief financial officer
Credit Guarantee
Joined board 1998

4. Dheven Dharmalingam (46)*°
Director (non-executive)
Financial director: Mutual & Federal
Joined board 2012

5. Machiel Reyneke (54)*°
Director (non-executive)
Executive director: Santam Limited
Joined board 2003

* *Member of the Finance Oversight Committee.*
° *Member of the Remuneration and Nominations Committee.*

6.

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6. Junior Ngulube (53)
Director (non-executive)
CEO: Munich Reinsurance Company of Africa
Joined board 2008

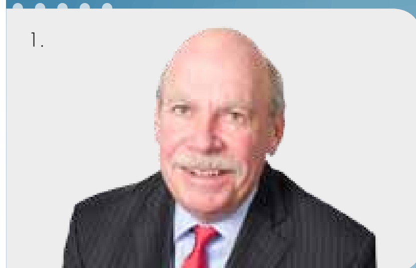
7. Melanie Bosman (40)*
Director (non-executive)
Joined board 2010

8. Phuti Tsukudu (58)*°
Director (non-executive)
Managing director: Tsukudu Associates
Joined board 2009

9. Philip Wessels (53)*°
Director (non-executive)
Chief risk officer: Nedbank Group
Joined board 2007

10. Themba Gamedze (53)*
Director (non-executive)
Member of the Investment Analysts' Society, member of the Minister of Finance's Advisory Council on Pensions
Joined board 2009

Executive management



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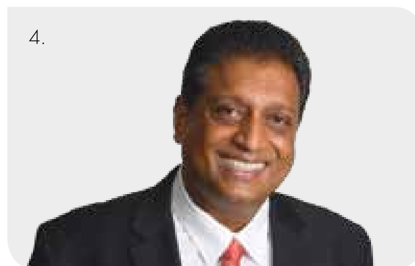

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5.

1. Mike Truter (63)
BCom (Hons) (Econ), AMP (Oxford)
Managing director and chief executive officer

2. Wilhelm Lategan (55)
BCompt (Hons), CA(SA), MBL
Executive director and chief financial officer

3. Johan Schnetler (48)
BCom (Hons), CA(SA)
General manager: Domestic

4. Theo Reddi (50)
BProc, LLB
General manager: Export

5. Gloria Mokoena (41)
BCom (Hons), MBL
General manager: Human Resources

6. Gideon Bochedi (41)
BCom, BTech
General manager: Salvages

7. Sandro Vita (57)
BCom (IS)
General manager: Information Systems

8. Mike Gee (50)
BCom (Hons)
General manager: Support Services

9. Roger Munitich (53)
General manager: Marketing, Research and Development

Managing director's review

2011 – a most satisfactory outcome under the circumstances.

I am pleased to report that Credit Guarantee's results for the 12 months ended 31 December 2011 were very satisfactory, notwithstanding the difficult international and local economic environment in which we operated.

Underwriting activities

Gross premium income, before low-claims bonuses which are returned to clients, grew from R781.9 million in 2010 to R818.8 million in 2011, an increase of 4.7%. After low-claims bonuses, which increased by 62% to R96 million, premium income finished up at R722.8 million, little changed from the prior year.

Gross claims paid were significantly lower at a figure of R343.9 million compared to R439.1 million in 2010 with both the size and frequency of claims having reduced from the previous 12 months. As a result of committed actions which our recovery specialists continue to take, salvages were excellent again at R106.4 million (R105.4 million in 2010).

These factors resulted in an underwriting surplus of R200.8 million compared to R118.1 million in 2010, which is a most satisfactory outcome under the circumstances.

Investment activities

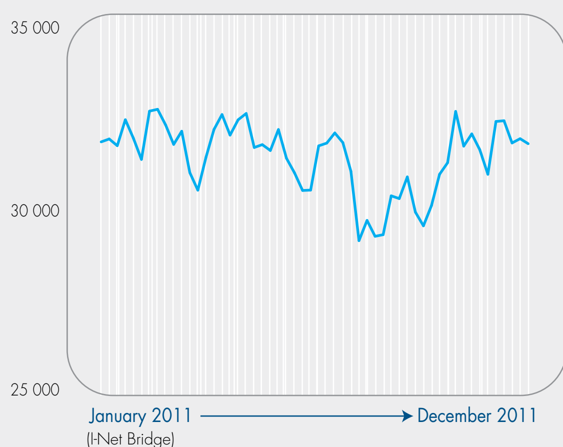
Stock markets continued to display the volatility they had in the previous financial year but, in the end, provided positive returns to the company. Net investment income totalled R30.9 million compared to R28.1 million in 2010 and sundry income (comprising profits on sales of investments; unrealised profits on investments; and foreign exchange differences) amounted to R13.8 million compared to R28.2 million in the previous year.

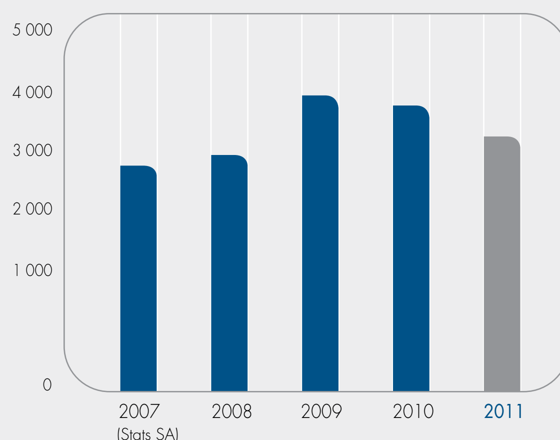
The composition of the company's equity portfolio remains of an exceptionally high quality as can be seen from the schedule on page 72 of this report.

Net income and balance sheet

After-tax income for the year increased from R127.5 million in 2010 to R178.4 million for the year under review.

After paying dividends of R54.2 million (R46.5 million in 2010), retained income stood at R389.8 million at the end of the reporting period (R268.9 million last year). Shareholders' equity increased by R124.2 million from a figure of R360.7 million in 2010 to R484.9 million in December 2011.





The statutory and international solvency ratios stood at 75.2% and 92.5% respectively at year end (61.0% and 73.4% in 2010). Both these ratios remain high in relation to the rest of the market, and significantly above the minimums under the prevailing regulatory solvency requirements.

Along with regulators elsewhere in the world, the South African Financial Services Board is embarking on revised solvency regulations which are expected to be applicable to the insurance industry in 2015. Credit Guarantee's present capitalisation of R484.9 million is more than adequate under the "Interim Measures" which apply under the revised minimum capital regulations until 2014.

Dividends

An interim dividend of R20.2 million was declared and paid in 2011, while the board proposed a "second" interim dividend of R13.6 million in February 2012 and recommended that a final dividend of R26.4 million be payable after the AGM in April 2012.

Ratings

During 2011, Global Credit Rating Company again reaffirmed Credit Guarantee's "AA" rating for its claims-paying ability.

The SABS again re-certified Credit Guarantee as being ISO 9001:2008 compliant during 2011. This prestigious service quality rating is a highly important facet in our competitive advantage.

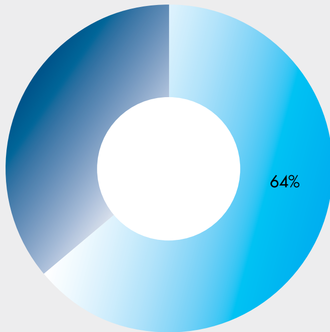
The company again commissioned an independent verification agency to conduct a survey to gauge our level of clients' satisfaction. The result of 88% was gratifying, given the economic cycle. I would like to extend a word of thanks to those clients who gave of their valuable time to participate in these surveys. They are an essential tool to help us continually improve our standards of service.

Corporate social investment

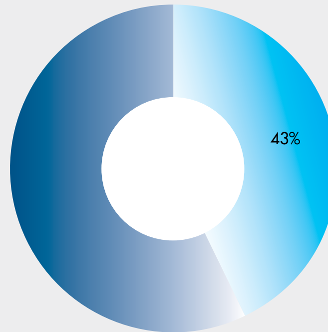
Credit Guarantee's corporate social responsibility programme is managed by a committee made up of an executive director, two executive managers and a number of members of staff. The committee tries to restrict cash donations and attempts to rather direct its budget towards meaningful projects that have an immediate as well as long-term benefit to the communities they serve.

Managing director's review continued

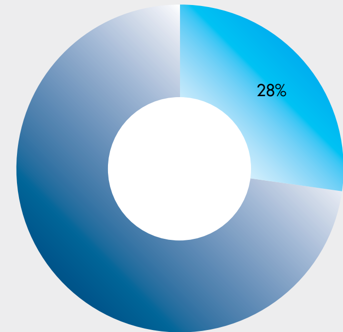
Percentage black staff



Percentage black supervisory



Percentage black managerial



During the year, some of the projects undertaken were the following:

- R128 000 dedicated to renovating and waterproofing the FWC Hospice which cares for terminally ill patients and HIV-positive persons in an underprivileged area.
- R134 000 towards levelling land, purchasing and erecting of a new classroom at Thobeka primary school in Meadowlands, whose learners all come from very poor households. Furnishings, desks and other equipment will follow in 2012.
- R436 000 allocated to bursaries, affording primarily black beneficiaries the opportunity to further their studies.
- R81 000 was utilised at Abraham Kriel Children's Home for orphans and at Footprint Hospice, for beds, mattresses and refurbishment of building infrastructure.

Smaller projects included St George's Football Club, CANSA, and quarterly non-perishable foodstuffs to selected institutions, making up the balance.

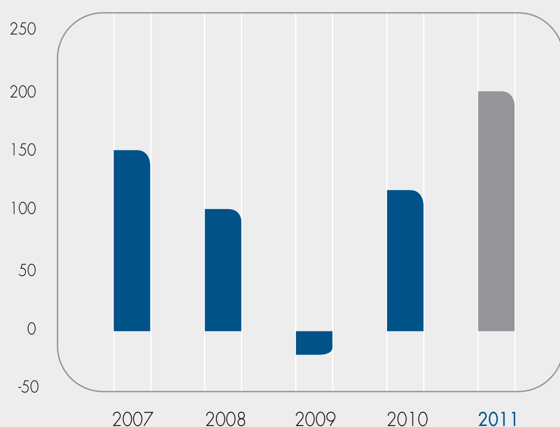
Prospects for 2012

South Africa has weathered the global financial crisis relatively well because of its sound fiscal management and a strong banking system which is in good shape. Credit Guarantee's leading indicator relating to potential future business failures, however, leaves us in the belief that the economy is still not entirely out of the woods yet.

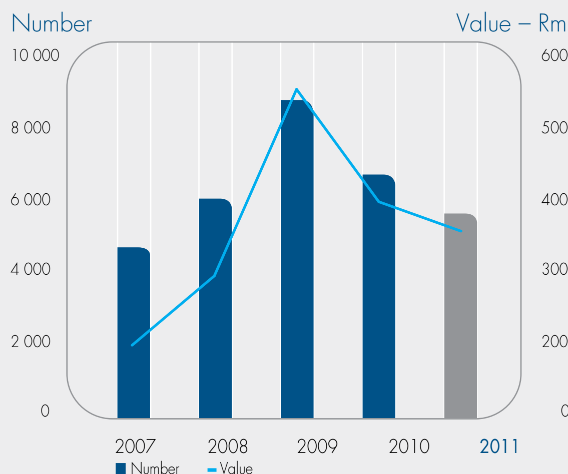
This notwithstanding, prospects for 2012 are that the South African economy will grow at between 2.5% and 3% and that the underwriting environment for domestic risks will improve marginally during the coming year. We are therefore expecting a slightly improved domestic claims scenario for the coming year.

Prospects for the international economy are, however, more uncertain and we expect to see continued high numbers of business failures, both in the developed and developing economies of the world. We anticipate that export claims will therefore follow a similar trend.

Underwriting result (Rm)



Overdue advised accounts



This notwithstanding, we believe we can produce a positive underwriting result during 2012.

Acknowledgements

Our staff

I have often stated that Credit Guarantee's most important competitive edge is its committed management and staff who contribute so enthusiastically towards the high standards of service we continually strive to deliver to our clients. As in past years, this has again proved to be the case in 2011.

I would like to thank each and every one of them for their dedication and hard work over the past year.

Our board

I would like to record my thanks to our board of directors for their tireless efforts and wise counsel over the past year. We, as management, are privileged to have a board with depth of knowledge and business acumen, as we do.

It is also appropriate that I extend a special word of thanks to our previous chairman, Keith Kennedy, for his contribution while he was on our board, and to our new chairman, Peter Todd, who so readily took up this position in February 2011.

Our brokers

Our specialist broking community continues to form an integral part of our service delivery strategy. The excellent working relationship we enjoy with these competent intermediaries ensures that our mutual clients receive the best credit insurance solutions possible. Thank you as always for your support.

Our reinsurers

My sincere thanks are also due to our reinsurers for the highly professional advice and underwriting capacity they make available to us. Without this strong backing, we would not be able to provide the market with the quality cover we do.

Our clients

Finally, I would like to thank our clients for their support and for the trust they place in us. You will always remain our most important, and valued, priority!

Mike C Truter
Managing director and CEO

Corporate governance

Board of directors

The board of directors consists of two executive directors and eight non-executive directors, four of whom represent the shareholders of the company, three of whom are independent and one employed by another entity in the group. All directors have been selected for their experience and business acumen.

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

In terms of the articles of association, one third of the non-executive directors retire by rotation and are subject to re-election each year at the company's annual general meeting. The executive directors have service contracts with the company containing notice periods of six calendar months.

The board meets formally a minimum of four times a year to discuss quarterly results, and annually to approve the strategic plan, key policies and budgets for the coming year. Additional meetings are held if and when the need arises.

A number of 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 managing director and comprising the financial director and general managers of the various divisions, meets weekly to deal with the day-to-day running of the company.

Finance Oversight Committee

The Finance Oversight Committee complies with the Companies Act of South Africa, 2008 and continues with its normal audit committee activities while the Mutual & Federal Insurance Company Limited Audit Committee has only the responsibility of approving the appointment of the external auditors and of satisfying themselves that the external auditors are independent.

The Finance Oversight Committee functions within written terms of reference approved by the board of directors. The objective of the committee is to support the board in ensuring that appropriate internal and external controls are in place to identify and manage the risks to which the company is exposed and this includes reviewing the financial controls, systems and reporting.

The committee comprises six members, all of whom (including the chairman) are non-executive directors.

The committee meets at least four times a year. The internal and external auditors of the company attend these meetings and have unrestricted access to the chairman of the committee. The managing director and financial director attend meetings as representatives of management.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee consists of four non-executive directors.

This committee considers nominations for appointment to the board of directors and makes recommendations to the board on remuneration and benefits to be paid to directors and the company's employees. The committee sets the remuneration of the managing director, financial director and the general managers of the company. The managing director and financial director attend meetings as representatives of management.

Internal audit

The purpose of the internal audit function, which reports to the managing director and the chairman of the Finance Oversight Committee, is to assist management and the board in the examination and evaluation of business risks facing the company.

This function operates within written terms of reference and adheres to the standards and code of conduct outlined by the Institute of Internal Auditors of South Africa. Any material control weaknesses which it identifies are brought to the attention of the chairman of the Finance Oversight Committee and, if necessary, the board of directors for consideration and appropriate action.

During the reporting period this function was performed by the internal audit department of Mutual & Federal Insurance Company Limited.

Investment Committee

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

This committee comprises the managing director, the financial director and the senior manager: investments and economic services, and meets monthly with the company's professional investment advisors to review the company's share portfolio.

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

Internal control

The board acknowledges its accountability for the company's internal control systems. Responsibility for the implementation of these systems is delegated to management which has clear levels of responsibility and accountability through the company's mandate system. The board performs a monitoring function over these activities.

The company has implemented ISO 9001:2008 as an additional system to complement its internal controls. In November 2011, the company again passed the SABS surveillance audit.

The company also subscribes to Tip-Offs Anonymous, a Deloitte initiative that enables employees, clients and the marketplace to alert this independent entity, in confidence, about wrongdoings that need to be exposed.

The company has implemented procedures and controls to comply with the provisions of the Financial Advisory and Intermediary Services Act (FAIS) and is an accredited Financial Services Provider (FSP #17691).

Risk management

The Risk Management Committee is under the chairmanship of the financial director and comprises the divisional heads of key departments. It meets regularly to assess risks and to satisfy itself that adequate controls are in place to manage these risks.

Ethics

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

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

Human capital

Human capital is our single most important asset.

With this in mind, Credit Guarantee believes in creating a stimulating working environment, within the framework of the Employment Equity Act and the provisions of the Financial Sector Charter, in which every person who works for the company enjoys equal rights. To this end, we have adopted an employment equity policy which contains agreed targets and numeric goals which are regularly monitored by management.

The board of directors has approved the company's Employment Equity Plan. Annual reports are sent to the Department of Labour as required by the Employment Equity Act.

All requirements prescribed by the Skills Development Act have been met.

The process is driven by an Employment Equity Committee, working hand-in-hand with executive management.

Financial statements

Management is responsible for the preparation of consolidated annual financial statements and related information in a manner that is accurate and represents fairly the group's financial position.

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) based on appropriate accounting policies and any changes to these policies are disclosed fully. The statements are supported by reasonable and prudent judgements and estimates and also give an indication of company expectations for the coming year.

The directors have no reason to doubt that the company's operations will continue as a going concern in the year ahead.

Management reporting

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

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.

Management

1.

2.

3.

4.

5.

6.

1. Ruwayda Peterson
Clothing, Textiles and Footwear, Motor, Advertising & Media

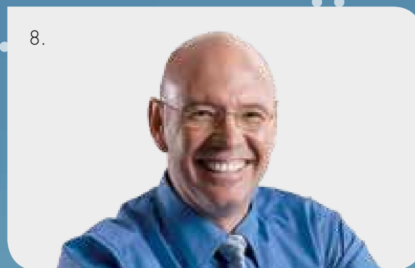
2. Raymond Lellyett
Steel

3. Abdul Cassim
Export Risk Evaluation

4. Donna Furmidge
IT, Pharmaceuticals and Chemicals

5. Adriaan du Preez
Business Builder and E-business

6. Vincent Nel
Finance and Reinsurance



7. Felicitas Mabirimisa
Business Builder, Underwriting

8. Vaughn Hutton
Building and Electrical

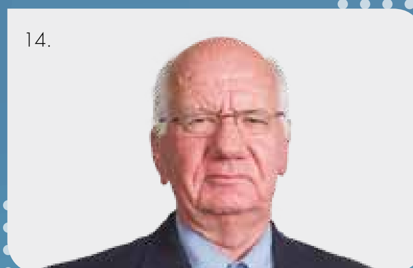
9. Chantelle Davies
Freight, Finance, and Food

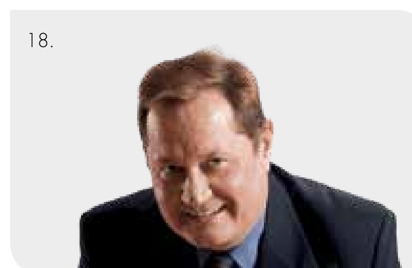
10. Eric Loubser
Human Resources

11. Anne Drynan
Sales and Servicing

12. Veronica Chisanga
Business Builder, Claims

Management continued





13. Moosa Jooma
Export

14. John Thornton
Research and Development

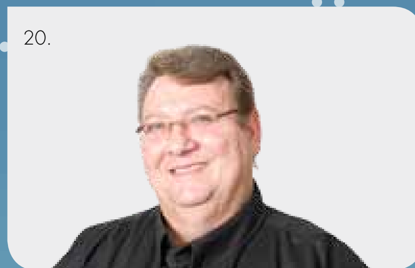
15. Luke Doig
Investments and Economic Services

16. George Bracey
Domestic Information Services

17. Martin Levine
Technical Training

18. Mel Strydom
Foreign Information Services

19.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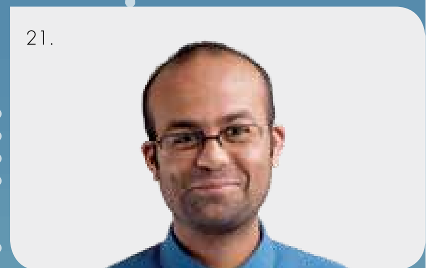
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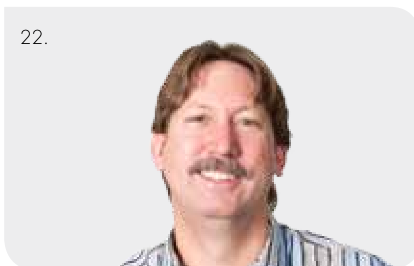
22.

23.

24.

19. Kevin Dyamond
Electronics, Timbers, Furniture, Paper and Packaging

20. Willie Lottering
Operations – IS

21. Abdul Vally
Domestic Risk Evaluation

22. Steve Smith
Compliance

23. Vivienne Naudé
Systems Development – IS

24. Rudolph Coetzer
Infrastructure – IS

Administration

Credit Guarantee Insurance Corporation of Africa Ltd
Reg No 1956/000368/06
Accredited financial services provider # 17691

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

Auditor
KPMG Inc, 85 Empire Road
KPMG Crescent
Parktown, 2193

Bankers
Nedbank Limited
35 Rivonia Road, Sandton

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

Website: www.creditguarantee.co.za
Tel +27 11 889 7000
Fax +27 11 886 1027 or 886 5715
E-mail address: #info@cgic.co.za

Branch Offices

Gauteng
Credit Guarantee House
31 Dover Street, Randburg
PO Box 125, Randburg, 2125
Tel +27 11 889 7000
Fax +27 11 886 1027 or 886 5715

KwaZulu-Natal
Suite 7, 4 The Crescent
Westway Office Park, Westville
PO Box 2756, Westway Office Park, 3635
Tel +27 31 265 0300
Fax +27 31 265 0323

Western Cape
No 1 Thibault Square
1 Long Street, Cape Town
PO Box 6018, Roggebaai, 8012
Tel +27 21 421 7830
Fax +27 21 419 7586

Eastern Cape
First Floor, Mutual Place
cnr Cape Rd & Langenhoven Drive
Greenacres, Port Elizabeth
PO Box 27154, Greenacres, 6057
Tel +27 41 363 4024
Fax +27 41 363 3750

BASTION GRAPHICS

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Prepared under supervision of W H Lategan CA(SA)

Wilhelm Lategan
Executive director and chief financial officer

This set of financial statements covers the results of our group for the 12 months ended 31 December 2011 with comparative figures being for the 12 months ended 31 December 2010.

As our core business is insuring our clients' risk of not being paid for trade-related transactions, it is vital that we follow the soundest risk management and strictest governance standards in our own business. We consider risks reasonably, consistently and explicitly across every facet of the organisation.

The chief financial officer chairs our Risk Management Committee, aided by representatives from the major divisions in Credit Guarantee. A comprehensive risk management profile for Credit Guarantee that identifies, assesses, measures and monitors all risks to which the group is possibly exposed both internally as well as externally is compiled. This profile is reassessed at least annually, but is reviewed immediately when a new risk is identified or an existing one has changed.

More detail is provided in the notes to the financial statements (notes 5 and 6).

Statement of cash value added

	%	Group 2011 R'000	2010 R'000	%
Cash value added:				
From normal operations	95.3	372 387	401 955	99.7
From sale of assets and investments	4.7	18 503	1 296	0.3
	100.0	390 890	403 251	100.0
Cash value applied:				
Employees	37.5	146 826	119 989	29.8
Local corporate taxation paid	18.0	70 262	44 819	11.1
Providers of capital	13.9	54 205	46 549	11.5
– Dividends		54 205	46 549	
Retained in the business	30.6	119 597	191 894	47.6
– Purchases of fixed assets and investments		69 281	116 947	
– Increase in cash reserves		50 316	74 947	
	100.0	390 890	403 251	100.0

Approval of the annual financial statements

The statutory report of directors, the report of the finance oversight committee and the annual financial statements set out on pages 25 to 72 were approved by the board of directors on 23 March 2012 and are signed on behalf of the board by:

P G Todd
Chairman

M C Truter
Managing director and CEO
23 March 2012

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 2011, and that all such returns are true, correct and up to date.

W H Lategan
Company secretary
23 March 2012

Independent auditor's report

To the shareholders of Credit Guarantee Insurance Corporation of Africa Limited

Report on the financial statements

We have audited the consolidated annual financial statements of Credit Guarantee Insurance Corporation of Africa Limited, which comprise the consolidated statement of financial position at 31 December 2011 and the consolidated 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, and the directors' report, as set out on pages 25 to 72.

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 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 financial position of Credit Guarantee Insurance Corporation of Africa Limited at 31 December 2011 and its consolidated financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

KPMG Inc.
Registered Auditor

Jaco van der Sandt
Chartered Accountant (SA)
Registered Auditor
Director
23 March 2012

Statutory report of the directors

Your directors submit their report and the audited annual financial statements of the group for the year ended 31 December 2011.

Nature of business

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

Review of operations

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

Dividend

A final dividend amounting to R33 990 942 relating to 2010 was paid during the current financial year. An interim dividend of R20 214 411 was proposed and paid relating to the 2011 financial year. A second interim dividend of R13 644 065 and a final dividend of R26 360 863 was proposed by the board on 23 February 2012.

Share capital and the holding company

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

Directors

The names of the directors of the company as at the date of this report appear on pages 6 and 7. Since the last report the following changes have taken place:

	Resigned	Appointed
K N Kennedy	31 January 2011	
P G Todd		1 February 2011
B Laird-Smith	31 December 2011	

Mr P G Todd, Mr P A Wessels and Ms M Bosman retired on 19 April 2011 in terms of the articles of association, and were re-elected.

Secretary

Mr W H Lategan is the company secretary. His business and postal addresses appear on inside back cover.

Going concern

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

Corporate governance

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

Directors' responsibilities in relation to the annual financial statements

The company's directors are responsible for the preparation and fair presentation of the consolidated annual financial statements, comprising the consolidated statement of financial position at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

The directors' responsibilities include designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

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

Report of the finance oversight committee for the year ended 31 December 2011

The Finance Oversight Committee is a sub-committee of the board of directors. In the execution of its duties during the past financial year, the committee has:

- reviewed the procedures for identifying business risks and controlling their impact on Credit Guarantee Insurance Corporation of Africa Ltd and its subsidiary (Credit Guarantee);
- reviewed the Credit Guarantee policies and procedures for detecting and preventing fraud;
- reviewed the operational effectiveness of Credit Guarantee's policies, systems and procedures;
- considered whether the independence, objectives, organisation, staffing plans, financial budgets, audit plans and standing of the internal audit function provide adequate support to enable the committee to meet its objectives;
- reviewed the results of the work performed by the internal audit function on financial reporting, corporate governance, internal control and any significant investigations and management's response;
- reviewed the controls over financial and certain operational risks;
- reviewed any other relevant matters referred to it by the board of directors;
- reviewed the quality of financial information;
- reviewed the financial statements taken as a whole to ensure they present a balanced and understandable assessment of the position, performance and future viability of Credit Guarantee;
- reviewed the external auditor's report;
- discussed problems and reservations arising from the external audit, and any matters the external auditor wished to discuss (in the absence, where requested by the committee, of executive directors and any other person who is not a member of the committee);
- reviewed the external auditor's management letter and management's response; and
- reviewed the credibility, independence and objectivity of the external auditor.

Where weaknesses were identified in the internal controls, corrective action has been taken to eliminate or reduce the concomitant risks. Accordingly, in our opinion, the internal controls of Credit Guarantee are effective to ensure that the group's assets were safeguarded, proper accounting records were maintained and resources were utilised efficiently. Following our review of the annual financial statements for the year ended 31 December 2011 we are of the opinion that, in all material respects, they comply with the relevant provisions of the Companies Act, 2008 of South Africa and International Financial Reporting Standards and their interpretations issued by IFRIC, and that they fairly present the results of operations, cash flows and the financial position of Credit Guarantee. We have therefore recommended that the annual financial statements as submitted be approved by the board of directors of Credit Guarantee.

On behalf of the Finance Oversight Committee

P A Wessels
Chairperson
23 March 2012

Consolidated statement of financial position

	Notes	Group 2011 R'000	2010 R'000
Assets			
Property and equipment	7	63 590	65 413
Intangible assets	8	1 250	369
Investments	9	439 576	378 917
Salvages receivable	10	70 198	94 144
Reinsurers' share of insurance contract provisions	10	115 437	143 820
Deferred taxation	11	38 462	31 675
Deposits with cedants		20 580	18 689
Taxation receivable		–	1 447
Other receivables	12	130 838	119 676
Reinsurers' balances		724	11 382
Cash and cash equivalents	13	484 968	416 670
Total assets		1 365 623	1 282 202
Liabilities			
Post-retirement medical benefit provision	14.1	38 200	31 405
Share-based payment provision	14.2	9 790	8 650
Deferred taxation	11	35 838	34 428
Reinsurers' share of salvages	10	15 395	24 844
Insurance contract provisions	10	651 796	666 157
Deposits owing to reinsurers		29 786	55 877
Other payables		38 968	47 546
Reinsurers' balances		29 411	27 414
Provisions	14.3	30 659	25 205
Taxation payable		917	–
Total liabilities		880 760	921 526
Equity			
Share capital	15	2 649	2 649
Other reserves:			
– Contingency reserve	16	52 424	49 146
– Property revaluation reserve	16	40 000	40 000
Retained income	17	389 790	268 881
Total shareholders' equity		484 863	360 676
Total liabilities and equity		1 365 623	1 282 202

Consolidated statement of comprehensive income

	Notes	Group 2011 R'000	Group 2010 R'000
Continuing and discontinued operations			
Gross premiums written	18	722 787	722 631
Less: reinsurance premiums		198 549	231 175
Net premiums		524 238	491 456
Change in provision for low claims and no-claim bonus		(10 076)	(13 320)
– Gross amount		(9 248)	(16 615)
– Reinsurers' share		(828)	3 295
Change in provision for unearned premiums		4 003	(9 710)
– Gross amount		4 637	(8 751)
– Reinsurers' share		(634)	(959)
Earned premiums net of reinsurance		518 165	468 426
Salvage income	21	57 610	62 072
– Gross amount		82 467	97 227
– Reinsurers' share		(24 857)	(35 155)
Commission income	19	61 081	59 360
Investment income		48 907	60 518
– Interest and dividends	20.1	35 081	32 339
– Realised and unrealised gains on investments	20.2	11 645	29 142
– Realised and unrealised gains/(losses) on foreign investments	20.2	2 181	(963)
Foreign exchange gains	23.4	10 595	–
Other operating income		61 397	56 839
Total income		757 755	707 215
Claims incurred	21	(314 019)	(358 657)
– Gross amount		(376 005)	(501 777)
– Reinsurers' share		61 986	143 120
Acquisition costs	22	(52 243)	(46 947)
Management expenses	23	(141 733)	(116 168)
Foreign exchange losses	23.4	–	(6 821)
Interest paid		(4 119)	(4 247)
Net income before taxation		245 641	174 375
Taxation	24	(67 249)	(46 872)
Net income for the year		178 392	127 503
Total comprehensive income for the period		178 392	127 503
Net income for the year attributable to:			
– Owners of the company		93 683	66 958
– Non-controlling interest		84 709	60 545
		178 392	127 503
Total comprehensive income attributable to:			
– Owners of the company		93 683	66 958
– Non-controlling interest		84 709	60 545
		178 392	127 503
Basic earnings per share (cents)	25	6 733	4 813
– Continued operations	25	6 702	4 906
– Discontinued operations		31	(93)
Headline and diluted earnings per share (cents)	25	6 732	4 816
Dividend per share paid in the year (cents)		2 046	1 757

Consolidated statement of changes in equity

Group	Share capital R'000	Contingency reserve R'000	Property revaluation reserve R'000	Retained income R'000	Total R'000
Balance at 31 December 2009	2 649	35 089	40 000	201 984	279 722
Transfer from contingency reserve		14 057		(14 057)	–
Net income for the year				127 503	127 503
Dividends paid				(46 549)	(46 549)
Balance at 31 December 2010	2 649	49 146	40 000	268 881	360 676
Transfer to contingency reserve		3 278		(3 278)	–
Net income for the year				178 392	178 392
Dividends paid				(54 205)	(54 205)
Balance at 31 December 2011	2 649	52 424	40 000	389 790	484 863

Consolidated statement of cash flows

	Notes	Group 2011 R'000	Group 2010 R'000
Cash received from policyholders and intermediaries		711 739	712 891
Cash paid to policyholders, intermediaries, staff, suppliers and reinsurers		(516 994)	(456 101)
Cash generated by operations	26	194 745	256 790
Taxation paid	27	(70 262)	(44 819)
Net cash flow from operating activities		124 483	211 971
Net additions to property, equipment and intangible assets		(4 333)	(3 206)
– Purchases		(4 677)	(3 362)
– Proceeds on disposals		344	156
Listed share purchases	29	(64 948)	(12 585)
Collective investment scheme purchases	29	–	(101 000)
Proceeds on sale of shares		18 159	1 140
Interest received		19 797	18 302
Interest paid		(4 119)	(4 246)
Dividends received		15 482	11 120
Net cash flow from investing activities		(19 962)	(90 475)
Dividends paid	28	(54 205)	(46 549)
Net cash flow from financing activities		(54 205)	(46 549)
Net increase in cash and cash equivalents		50 316	74 947
Effect of foreign exchange rate movements on cash and cash equivalents		17 982	(9 974)
Cash and cash equivalents at the beginning of the year		416 670	351 697
Cash and cash equivalents at the end of the year		484 968	416 670

Notes to the financial statements

Credit Guarantee Insurance Corporation of Africa Limited ("the company") is domiciled in South Africa. The consolidated financial statements of the group for the year ended 31 December 2011 comprise the company and its subsidiary, Galilean Properties (Proprietary) Limited (together referred to as "the group"). These financial statements were authorised for issue by the directors on 23 March 2012.

1 Accounting policies

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

1.1 Statement of compliance

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

1.2 Basis of preparation

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

The preparation of financial statements in conformity with IFRSs 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 IFRSs 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 Consolidated financial statements

The consolidated financial statements include the assets and liabilities of the company and its subsidiary.

Subsidiary company

The subsidiary company is an entity controlled by the company. Control exists because the company has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commenced.

This document contains the consolidated annual financial statements of the group. Separate financial statements for the company are presented at the company's annual general meeting.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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 under which 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. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business. The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received.

Unearned premium provision

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

Claims incurred

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

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

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 an independent actuary.

Low claims and no-claim bonus

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

Salvage reimbursements

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

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

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

Deferred acquisition costs

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

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.5 Recognition and measurement of insurance contracts (continued)

Contingency reserve

A reserve is provided for in equity for the full amount of the contingency reserve in terms of the Short-Term Insurance Act, No. 53 of 1998. Transfers to and from this reserve are treated as appropriations of retained income.

1.6 Recognition and measurement of investment contracts

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

1.7 Foreign currency translation

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

1.8 Property and equipment

Land and buildings held for use for administrative purposes are stated at revalued amounts, determined from market-based evidence from appraisals undertaken by professional valuers, less any subsequent 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.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the consolidated statement of comprehensive income to the extent of the decrease previously charged. A decrease in the carrying amount arising on 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 a previous revaluation of that asset. Land is not depreciated. Depreciation on revalued buildings to residual value is charged to income. Buildings are depreciated over a period of 20 years. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained income.

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

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

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

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

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

1.9 Intangible assets

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

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

1.10 Financial instruments

Recognition

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.

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.

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 which are 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

Premiums and other receivables are stated at amortised cost less impairment losses.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

Insurance and other payables

Reinsurance and other payables are stated at amortised cost.

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).

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.10 Financial instruments (continued)

Fair value hedges

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

Offset

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

1.11 Impairment of assets

Financial assets carried at amortised cost

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

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

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 asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's 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. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, or value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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 equity, 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 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 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.

Secondary tax on companies ("STC") is charged to the consolidated statement of comprehensive income when the related dividend is declared. Unused STC credits are recognised as a deferred tax asset when it is probable that it will be realised.

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.

Bonus plans

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.13 Employee benefits (continued)

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 30 September 1999, 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.

Where the company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

1.15 Revenue recognition

Interest income

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

Dividend income

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

Fee income

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

1.16 Dividends payable

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

1.17 Leases

Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Finance leases

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

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

1.18 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.

1.19 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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.20 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to issue of the equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

1.21 Capital management

The company is required to maintain a statutory surplus asset ratio of 15% as defined by the Short-Term Insurance Act, No. 53 of 1998. The company meets this requirement.

1.22 Segmental reporting

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

2 Accounting estimates and judgements

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

Policyholder claims and benefits

The company's estimates of reported and unreported losses, adjusted by estimated salvages and resulting provisions, and related reinsurance recoverables are continually reviewed and updated. Adjustments resulting from this review are reflected in income. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events. The company's process for determining significant reserving assumptions is outlined in note 10.

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 8% 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 6% per annum compounded. Although rates may fluctuate widely in the short term, a net discount rate (i.e. the discount rate net of medical scheme contribution inflation) of 2% per annum is deemed to be a realistically sustainable level.

3 New and amended standards and interpretations not yet adopted

The standards and interpretations which are not yet effective for the 31 December 2011 year end or that have not been applied in preparing these consolidated financial statements are:

IAS1 Presentation of Financial Statements: The amendments relate to the presentation of items of other comprehensive income and are effective from 1 July 2012. The amendments are not expected to have a significant impact on the consolidated financial statements.

IAS12 Deferred Tax: The amendments address the deferred tax implication on the recovery of underlying assets and are effective from 1 January 2012. The amendments are not expected to have a significant impact on the consolidated financial statements.

IAS 19 Employee Benefits: The amendments deal with the recognition of the net liability or asset of employee benefits and removes the previously allowed option to defer the recognition. The amendments are effective from 1 January 2014 and are not expected to have a significant impact on the consolidated financial statements.

IAS 32 Financial Instruments Presentation: The amendments relate to offsetting of financial assets and liabilities. The amendments are effective from 1 January 2014 and are not expected to have a significant impact on the consolidated financial statements.

IFRS7 Financial Instruments Disclosure: The amendments to IFRS 9 have resulted in the amendments to this statement and provide the requirements for the additional disclosure on the transition from IAS 39. The amendments are effective from 1 January 2013 and are not expected to have a significant impact on the consolidated financial statements.

IFRS 9 Financial Instruments: The amendments deal with the classification and measurement of financial assets and also provides relieve on restating comparative information. The amendments are effective from 1 January 2015 and are not expected to have a significant impact on the consolidated financial statements.

IFRS 10 Consolidated Financial Statements: The new standard replaces the requirements and guidance in IAS 27 relating to consolidated financial statements. It also replaces SIC 12. The new statement includes among other aspects the application of the control concept as well as the exemption from preparing consolidated financial statements. The new statement is effective from 1 January 2013 and is not expected to have a significant impact on the consolidated financial statements.

IFRS 12 Disclosure of Interest in Other Entities: The new standard replaces the disclosure requirements in IAS 27, IAS 28 and IAS 31 but excludes the disclosure required for separate financial statements under IAS 27. The new statement is effective from 1 January 2013 and is not expected to have a significant impact on the consolidated financial statements.

IFRS 13 Fair Value Measurement: The new standard aims to provide a single set of requirements for the fair value of all financial instruments across all accounting standards as well as enhance the disclosure around fair value measurement. The new statement is effective from 1 January 2013 and is not expected to have a significant impact on the consolidated financial statements.

Notes to the financial statements (continued)

4.1 Categorisation of assets and liabilities (2011)

			Financial instrument			Liquidity classification	
	Notes	Total R'000	At fair value through profit or loss R'000	Loans and receivables R'000	Non-financial assets/ liabilities R'000	Current assets/ liabilities R'000	Non-current assets/ liabilities R'000
Assets							
Property and equipment	7	63 590			63 590		63 590
Intangible assets	8	1 250			1 250		1 250
Investments	9	439 576	439 576				439 576
Salvages receivable	10	70 198			70 198	53 876	16 322
Reinsurers' share of insurance contract provisions	10	115 437			115 437	88 596	26 841
Deferred taxation	11	38 462			38 462	38 462	
Deposits with cedants		20 580			20 580	20 580	
Other receivables	12	130 838		12 026	118 812	130 838	
Reinsurers' balances		724			724	724	
Cash and cash equivalents	13	484 968	484 968			484 968	
Total assets		1 365 623	924 544	12 026	429 053	818 044	547 579
Liabilities							
Post-retirement medical benefit provision	14.1	38 200			38 200		38 200
Share-based payment provision	14.2	9 790			9 790	6 227	3 563
Deferred taxation	11	35 838			35 838	35 838	
Reinsurers' share of salvages		15 395			15 395	11 815	3 580
Insurance contract provisions	10	651 796			651 796	500 244	151 552
Deposits owing to reinsurers		29 786			29 786	29 786	
Other payables		38 968		33 043	5 925	38 968	
Reinsurers' balances		29 411			29 411	29 411	
Other provisions	14.3	30 659			30 659	30 659	
Taxation payable		917			917	917	
Total liabilities		880 760		33 043	847 717	683 865	196 895

4.2 Categorisation of assets and liabilities (2010)

	Notes	Total R'000	Financial instrument: At fair value through profit or loss R'000	Financial instrument: Loans and receivables R'000	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	65 413			65 413		65 413
Intangible assets	8	369			369		369
Investments	9	378 917	378 917				378 917
Salvages receivable	10	94 144			94 144	72 150	21 994
Reinsurers' share of insurance contract provisions	10	143 820			143 820	110 220	33 600
Deferred taxation	11	31 675			31 675	31 675	
Deposits with cedants		18 689			18 689	18 689	
Taxation receivable		1 447			1 447	1 447	
Other receivables	12	119 676		13 781	105 895	119 676	
Reinsurers' balances		11 382			11 382	11 382	
Cash and cash equivalents	13	416 670	416 670			416 670	
Total assets		1 282 202	795 587	13 781	472 834	781 909	500 293
Liabilities							
Post-retirement medical benefit provision	14.1	31 405			31 405		31 405
Share-based payment provision	14.2	8 650			8 650	7 174	1 476
Deferred taxation	11	34 428			34 428	34 428	
Reinsurers' share of salvages		24 844			24 844	19 040	5 804
Insurance contract provisions	10	666 157			666 157	510 526	155 631
Deposits owing to reinsurers		55 877			55 877	55 877	
Other payables		47 546		42 614	4 932	47 546	
Reinsurers' balances		27 414			27 414	27 414	
Other provisions	14.3	25 205			25 205	25 205	
Total liabilities		921 526		42 614	878 912	727 210	194 316

Notes to the financial statements (continued)

5 Insurance risk management

Risk management objectives and policies for mitigating risk

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

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

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

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

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

Underwriting strategy

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

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

Reinsurance strategy

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

Ceded reinsurance contains credit risk and as such, reinsurance recoverables are reported after deductions for known insolvencies and 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 who 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:

5 Insurance risk management (continued)

Nature of risk covered

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

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

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

Management of risks

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

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

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

Concentrations 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.

Notes to the financial statements (continued)

5 Insurance risk management (continued)

Concentrations of insurance risk (continued)

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 players 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 on page 45 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 is complex, and the company makes use of statistical models like the development factor ("DFM"), Cape Cod, Bornhuetter-Ferguson and Bootstrap to calculate the IBNR.

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

	2011 R'000	2010 R'000	2009 R'000	2008 R'000	2007 R'000
Total reserves at the beginning of the period	**35 835**	50 189	87 126	86 429	92 025
Payments made for the period	**(2 780)**	(3 309)	(7 116)	(16 279)	(12 366)
Reserves as at the end of the period	**(39 823)**	(35 835)	(50 189)	(87 126)	(86 429)
Exclude foreign exchange movements	**10 452**	(6 457)	(13 087)	24 440	7 119
Net release in reserves	**3 684**	4 588	16 734	7 464	349

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 on 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 company's fixed interest borrowings are insignificant and therefore do not give rise to interest rate risk.

6.1.2 Equity price risk

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

At 31 December 2011, marketable equity securities were recorded at their fair value of R338.6 million. A hypothetical 10% decline in each stock's price would have decreased income before tax by R33.9 million. Refer to Annexure A for an analysis of equity exposure. Each additional 10% change in each stock's price would have a similar effect.

6.1.3 Foreign exchange risk

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

The company maintains onshore Euro and USD accounts, as well as offshore premium and claim reserves 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 2011 and 2010, respectively, approximately 6.4% and 7.6% of total assets were denominated in foreign currencies. Invested assets denominated in Euro comprised approximately 3.6% of total invested assets at 31 December 2011. A hypothetical 10% reduction in the value of the Euro relative to the Rand would have resulted in an estimated R4.9 million reduction in the value of these assets, although there would be a similar offsetting change in the value of the related insurance provisions. No other individual foreign currency accounts for more than 3% of total assets.

Notes to the financial statements (continued)

6 Financial risk management (continued)

Concentration of assets and liabilities – 2011

	R'000				
	Rand	Euro	USD	Other	Total
Assets					
Property, equipment and intangible assets	64 840	–	–	–	64 840
Investments	439 576	–	–	–	439 576
Deferred taxation	38 462	–	–	–	38 462
Reinsurers' share of insurance provisions	185 635	–	–	–	185 635
Trade and other receivables	131 324	19 985	237	596	152 142
Cash and cash equivalents	418 306	28 950	37 712	–	484 968
Total assets	1 278 143	48 935	37 949	596	1 365 623
Liabilities					
Post-retirement medical aid provision	38 200	–	–	–	38 200
Share-based payment liability	9 790	–	–	–	9 790
Deferred taxation	35 838	–	–	–	35 838
Insurance contract provisions	627 481	34 769	3 489	1 452	667 191
Accounts payable and other provisions	124 374	2 228	1 701	1 438	129 741
Total liabilities	835 683	36 997	5 190	2 890	880 760
Net assets	442 460	11 938	32 759	(2 294)	484 863
Percentage of total	91.3	2.5	6.8	(0.6)	100.0

Concentration of assets and liabilities – 2010

	R'000				
	Rand	Euro	USD	Other	Total
Assets					
Property, equipment and intangible assets	65 782	–	–	–	65 782
Investments	370 899	–	8 018	–	378 917
Deferred taxation	31 675	–	–	–	31 675
Reinsurers' share of insurance provisions	237 964	–	–	–	237 964
Trade and other receivables	131 938	18 471	219	566	151 194
Cash and cash equivalents	345 925	31 959	38 786	–	416 670
Total assets	1 184 183	50 430	47 023	566	1 282 202
Liabilities					
Post-retirement medical aid provision	31 405	–	–	–	31 405
Share-based payment liability	8 650	–	–	–	8 650
Deferred taxation	34 428	–	–	–	34 428
Insurance contract provisions	655 389	31 611	3 497	504	691 001
Accounts payable and other provisions	150 371	1 895	2 597	1 179	156 042
Total liabilities	880 243	33 506	6 094	1 683	921 526
Net assets	303 940	16 924	40 929	(1 117)	360 676
Percentage of total	84.3	4.7	11.3	(0.3)	100.0

6 Financial risk management (continued)

6.1 Market risk (continued)

Currency	2011 closing	2010 closing
Rand/Euro	10.41	8.81
Rand/USD	8.03	6.63

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

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

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

6.2 Credit risk

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

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

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

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

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

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

Notes to the financial statements (continued)

6 Financial risk management (continued)

6.2 Credit risk (continued)

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

	2011 %	2010 %
(Rated by Standard & Poor's)		
AA-	25	52
A+	47	25
A	13	11
A-	15	12
	100	100

The company's maximum exposure to credit risk is analysed below:	2011 R'000	2010 R'000
Reinsurers' share of net insurance contract provisions*	100 042	118 976
Reinsurers' balances*	724	11 382
Deposits held with cedants	20 580	18 689
Loans and advances (staff loans)	5	6
Other receivables	12 021	13 775
Government securities	–	1 046
Insurance-related receivables	118 812	105 895
Cash and cash equivalents	484 968	416 670
	737 152	686 439

These balances have been designated as Investment grade AAA to BBB according to rating agencies.

The company held deposits of R29.8 million (2010: R55.9 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 binder and treaty reinsurance receivables) that are past due but not impaired is presented below:

	Up to 30 days	30 – 60 days	60 – 90 days	90+ days	Total
2010	63%	32%	3%	2%	100%
2011	**64%**	**32%**	**2%**	**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	Buildings R'000	Furniture and equipment R'000	Motor vehicles R'000	Computer equipment R'000	Total R'000
Cost						
Balance at 31 December 2009	16 060	56 209	14 973	3 837	10 655	101 734
Additions	–	–	621	1 304	778	2 703
Disposals	–	–	(389)	(554)	(639)	(1 582)
Balance at 31 December 2010	16 060	56 209	15 205	4 587	10 794	102 855
Additions	–	–	746	810	787	2 343
Disposals	–	–	(27)	(744)	(16)	(787)
Balance at 31 December 2011	**16 060**	**56 209**	**15 924**	**4 653**	**11 565**	**104 411**
Accumulated depreciation						
Balance at 31 December 2009	–	(14 008)	(10 903)	(1 598)	(8 435)	(34 944)
Depreciation	–	(1 595)	(880)	(425)	(944)	(3 844)
Disposals	–	–	389	332	625	1 346
Balance at 31 December 2010	–	(15 603)	(11 394)	(1 691)	(8 754)	(37 442)
Depreciation	–	(1 595)	(879)	(507)	(871)	(3 852)
Disposals	–	–	22	447	4	473
Balance at 31 December 2011	**–**	**(17 198)**	**(12 251)**	**(1 751)**	**(9 621)**	**(40 821)**
Net book value						
Balance at 31 December 2009	16 060	42 201	4 070	2 239	2 220	66 790
Net additions	–	–	621	1 082	764	2 467
Depreciation	–	(1 595)	(880)	(425)	(944)	(3 844)
Balance at 31 December 2010	16 060	40 606	3 811	2 896	2 040	65 413
Net additions	–	–	741	513	775	2 029
Depreciation	–	(1 595)	(879)	(507)	(871)	(3 852)
Balance at 31 December 2011	**16 060**	**39 011**	**3 673**	**2 902**	**1 944**	**63 590**

The land and buildings consist of 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 CGIC. The land and buildings were purchased in 1983 and last revalued at 1 December 2011 by JHI Real Estate Ltd, a registered professional valuer. Valuations were made on the basis of open market value. The land and buildings were revalued to an amount of R55.0 million with a residual value of R18.5 million. The revaluation surplus net of applicable deferred income taxes was credited to a property revaluation reserve in shareholders' equity. Had the cost model been applied, the carrying amount of land and buildings would have been R0.7 million and R10.1 million, respectively.

Notes to the financial statements (continued)

	2011 R'000	2010 R'000
8 Intangible assets		
Computer software purchased		
Cost	14 561	13 982
– Balance at the beginning of the year	13 982	13 384
– Current year purchases	2 334	659
– Current year disposals	(1 755)	(61)
Amortisation	13 311	13 613
– Balance at the beginning of the year	13 613	12 653
– Current year amortisation	1 453	1 021
– Amortisation on disposals	(1 755)	(61)
Balance at the end of the year	1 250	369
9 Investments		
Financial assets as at fair value through profit or loss:		
9.1 At cost		
Preference shares – listed	21 885	21 885
Ordinary shares – listed	154 824	96 168
Collective investment scheme	101 000	101 000
Foreign currency investment	–	10 191
Government securities	–	1 184
	277 709	230 428
9.2 At fair value		
Listed preference shares	20 727	20 511
Listed ordinary shares	317 849	248 342
Collective investment scheme	101 000	101 000
Foreign currency investment	–	8 018
Government securities	–	1 046
	439 576	378 917

During the year, non-current government securities which represented R1 000 000 nominal value R155 bonds, matured and were redeemed. The foreign currency investment was denominated in USD and was liquidated during the year.

9 Investments (continued)

9.3 Fair value hierarchy

	2011 – R'000			
	Level 1	Level 2	Level 3	Total
Preference shares – listed	20 727	–	–	20 727
Ordinary shares – listed	317 849	–	–	317 849
Collective investment scheme	–	101 000	–	101 000
	338 576	101 000	–	439 576

	2010 – R'000			
	Level 1	Level 2	Level 3	Total
Preference shares – listed	20 511	–	–	20 511
Ordinary shares – listed	248 342	–	–	248 342
Collective investment scheme	–	101 000	–	101 000
Foreign currency investment	8 018	–	–	8 018
Government securities	1 046	–	–	1 046
	277 917	101 000	–	378 917

	2011 R'000	2010 R'000
9.4 Listed ordinary and preference shares at fair value by sector		
Resources	122 979	96 118
Financial	74 668	65 887
Industrial	140 929	106 848
	338 576	268 853

9.5 Major equity investments

The company's most significant listed equity investments at 31 December 2011 are set out in Annexure A on page 72.

	2011 R'000	2010 R'000
10 Insurance liabilities and assets		
10.1 Insurance contract provisions		
Gross	651 796	666 157
– Claims reported	295 318	335 979
– Claims incurred but not reported	260 051	237 607
– Unearned premiums	39 307	43 944
– Low claims and no-claim bonus	56 888	47 640
– Deferred reinsurance commission income	232	987
Recoverable from reinsurers	115 437	143 820
– Claims reported	55 288	75 104
– Claims incurred but not reported	52 297	59 402
– Unearned premiums	343	977
– Low claims and no-claim bonus	7 509	8 337
Total net insurance contract provisions	536 359	522 337

Notes to the financial statements (continued)

	2011 R'000	2010 R'000
10 Insurance liabilities and assets (continued)		
10.2 Salvages receivable and reinsurance liabilities		
Gross salvages receivable	70 198	94 144
Reinsurers' share of salvages	(15 395)	(24 844)
Total net salvage receivables and reinsurance liabilities	54 803	69 300
10.3 Net insurance liabilities		
Claims reported and claims incurred but not reported (net of salvages)	392 981	369 780
– Claims reported	240 030	260 875
– Claims incurred but not reported	207 754	178 205
– Salvages	(54 803)	(69 300)
Unearned premiums reserve	38 964	42 967
Low claims and no-claim bonus	49 379	39 303
Deferred reinsurance commission income	232	987
Total net insurance liabilities	481 556	453 037

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

	2011 – R'000			2010 – R'000		
	Gross	Reinsured	Net	Gross	Reinsured	Net
Claims reported	260 723	(55 209)	205 514	252 614	(49 563)	203 051
Incurred but not reported	218 719	(54 453)	164 266	212 235	(51 153)	161 082
Balance at the beginning of the year	479 442	(109 662)	369 780	464 849	(100 716)	364 133
Current year claims paid net of salvage	(237 506)	54 601	(182 905)	(333 714)	99 019	(234 695)
Increase in outstanding claims reserves	232 783	(37 129)	195 654	354 764	(107 965)	246 799
Foreign currency translations	10 452	–	10 452	(6 457)	–	(6 457)
Balance at the end of the year	485 171	(92 190)	392 981	479 442	(109 662)	369 780
Claims reported	244 702	(44 189)	200 513	260 723	(55 209)	205 514
Incurred but not reported	240 469	(48 001)	192 468	218 719	(54 453)	164 266

10 Insurance liabilities and assets (continued)

10.5 Estimated maturity profile of gross insurance liabilities

	0 – 6m R'000	6m – 1y R'000	1y – 2y R'000	2y and on R'000	Total R'000
2011					
Claims incurred but not reported	192 063	48 406	–	–	240 469
Outstanding claims	38 310	139 249	53 220	13 923	244 702
Deferred reinsurance commission income	224	8	–	–	232
Unearned premium reserve and low claims and no-claim bonus	30 558	64 249	1 388	–	96 195
	261 155	251 912	54 608	13 923	581 598
2010					
Claims incurred but not reported	184 516	34 203	–	–	218 719
Outstanding claims	24 362	152 618	68 702	15 041	260 723
Deferred reinsurance commission income	385	370	232	–	987
Unearned premium reserve and low claims and no-claim bonus	21 405	69 226	953	–	91 584
	230 668	256 417	69 887	15 041	572 013

10.6 Assumptions and sensitivities for calculating insurance contract provisions

Process used to determine the assumptions

The company makes use of the following stochastic methods to calculate the IBNR provisions. The models used to calculate the IBNR are the:

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

These methods assume that there has been a stable pattern of claims in the past and that the pattern will continue into the future.

The results of the model were consistent with the current methodology and were also reviewed by independent actuaries who found the results to be 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, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

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

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

Credit insurance has a very close relationship with the economic conditions. It is therefore essential that the economic indicators form the base when a final decision on the loss ratio is made. Important economic indicators considered are:

- Interest rate;
- Liquidations;
- Insolvencies;
- Inflation index;
- Commodity prices (e.g. steel, oil); and
- Exchange rate.

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

Notes to the financial statements (continued)

10 Insurance liabilities and assets (continued)

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

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 2010 and 2011 underwriting years.

Changes in assumptions and sensitivities to changes in key variables

The decrease in the current underwriting year's loss ratio on the domestic portfolio can be attributed mainly to the following:

- The improvement in the economic trading environment during the reporting period, resulting in a likely growth in Gross Domestic Product ("GDP") of 3.2% for 2011.
- The decrease in the year-to-date liquidations as at November 2011 of 11.8% and a decrease in insolvencies of 32.2% as at October 2011.
- The three-decade-low prime lending rate of 9% led to improved personal finances and was reflected in an improvement in real retail sales with an increase of 5.4% year to date October 2011.
- The quantity and value of advised claims decreased 16% and 10.5% respectively compared to 2010.

The loss ratio on the export portfolio remains high, despite there being an improvement from the prior year due to the following:

- The strength of the ZAR negatively impacted export volumes and values in the early part of the reporting period while global trade flows were negatively impacted by the protracted Eurozone crisis, the S&P downgrade of US debt and slowing growth in emerging markets.
- Despite a recovery in payment default levels in 2010, these remained at historically high levels in 2011 and as such have not yet retreated to levels experienced before the financial crisis of 2007 to 2009.
- The ongoing sovereign debt crisis in Europe has continued to adversely affect business confidence and hence demand, further exacerbated by continuing high levels of unemployment.

For the above-mentioned reasons the reserving committee has decided to provide for a net gross ultimate loss ratio of 55.8% (2010: 66.4%) on the domestic portfolio and 59.9% (2010: 58.6%) on the commercial export portfolio as at 31 December 2011.

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the company's estimation process. Management believes that the liability for claims included in the consolidated statement of financial position is adequate. The liability has further been reviewed by an independent actuary, and was found to be adequate.

The review included an estimation of reserves at the 75th percentile (the 75th percentile indicates a reserve which will be sufficient 75% of the time). This estimation is required in terms of the Financial Services Board ("FSB") draft regulations on Financial Condition Reporting ("FCR") as considered in the new Solvency Assessment and Management ("SAM") project. The FSB also includes prescribed margins in terms of their prescribed model, and the company's liability was found to be adequate should the prescribed margins or the 75th percentile be applied. It must however be recognised that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

The sensitivity of the insured liability estimates for the 2011 underwriting year is provided below:

	Domestic portfolio R'000	Export portfolio R'000
Increase of 10% in the net ultimate loss ratio	55 589	8 715
Decrease of 10% in the net ultimate loss ratio	(55 624)	(8 796)

	2011 R'000	2010 R'000
11 Deferred taxation		
Balance at the beginning of the year	2 753	(524)
Deferred tax liabilities	34 428	29 843
Deferred tax assets	(31 675)	(30 367)
Credited/(charged) to profit or loss	5 377	(3 277)
Balance at the end of the year	(2 624)	2 753
Deferred tax liabilities	35 838	34 428
Deferred tax assets	(38 462)	(31 675)
Analysis of major temporary differences		
Share-based payment provision	(2 741)	(2 422)
Low claims and no-claim bonuses and other provisions	(24 070)	(19 443)
Post-retirement medical benefit provision	(10 696)	(8 793)
Deferred reinsurance commission income	(65)	(277)
Unrealised gains on investments (capital gains tax rate)	22 735	21 591
Property revaluation	12 396	12 396
Other	(183)	(299)
	(2 624)	2 753
12 Other receivables		
Premium debtors	118 812	105 895
Staff loans	5	6
Other	12 021	13 775
	130 838	119 676
The above receivables are due within one year.		
13 Cash and cash equivalents		
Cash at bank and in hand	65 968	69 670
Call and fixed deposits	419 000	347 000
	484 968	416 670

Call and fixed deposits excludes accrued interest which is included in other receivables of R1 946 698 (2010: 2 166 751).

Included in the above are cash balances denominated in foreign currency of R66.7 million (2010: R70.7 million). The company holds these balances to cover insurance liabilities also denominated in foreign currencies. (Refer to note 6.1.3.)

Notes to the financial statements (continued)

	2011 R'000	2010 R'000
14 Provisions		
14.1 Post-retirement medical benefit		
Balance at the beginning of the year	31 405	29 405
Provisions raised during the year	6 795	2 000
Balance at the end of the year	38 200	31 405
14.2 Share-based payment provision		
Balance at the beginning of the year	8 650	13 600
Payment made	(10 807)	(5 506)
Provision raised during the year	11 947	556
Balance at the end of the year	9 790	8 650
14.3 Other provisions		
Bonus provision:		
Balance at the beginning of the year	25 205	4 000
Utilisation of provision	(25 205)	(4 000)
Provisions raised during the year	30 659	25 205
Balance at the end of the year	30 659	25 205

The leave pay accrual previously included in provisions has been reclassified as part of other payables for both the current and the comparative reporting period.

	2011 R'000	2010 R'000
15 Share capital		
15.1 Authorised		
3 000 000 ordinary shares of R1 each	3 000	3 000
15.2 Issued		
2 649 333 shares of R1 each	2 649	2 649
16 Non-distributable reserves		
Contingency reserve:		
Balance at the beginning of the year	49 146	35 089
Reserve created	3 278	14 057
Balance at the end of the year	52 424	49 146
Property revaluation reserve:		
Balance at the beginning of the year	40 000	40 000
Balance at the end of the year	40 000	40 000
17 Distributable reserve		
Retained income:		
The retained income balance represents the amount available for dividend distribution to the shareholders of the company prior to any withholding tax liabilities.	389 790	268 881

	2011 R'000	2010 R'000
18 Gross premiums written		
Premiums written	818 801	781 957
Less low claims and no-claim bonus payments	(96 014)	(59 326)
	722 787	722 631
19 Commission income		
Reinsurance commission	60 326	58 507
Movement in deferred reinsurance commission income	755	853
	61 081	59 360
20 Investment returns		
20.1 Interest and dividends		
Interest earned on:	1 006	1 201
– Government securities	87	217
– Reinsurance inwards reserves	274	338
– Collective investment scheme	645	646
Cash and cash equivalents	18 571	19 243
Total interest income	19 577	20 444
Dividend income		
Received and accrued relating to:		
– Equity securities	11 511	8 281
– Collective investment scheme	3 993	3 614
Total dividend and interest income	35 081	32 339
20.2 Realised and unrealised gains on investment		
Return on investments:	11 645	29 142
– Realised loss on investments	(1 808)	(206)
– Component of realised surplus recognised in prior years	2 250	–
– Unrealised surplus on investments – current year fair value changes	11 203	29 348
Realised gains on foreign currency investment	2 181	–
Unrealised losses on foreign currency investment	–	(963)
Total fair value and foreign exchange gains recognised in income	13 826	28 179

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.

Notes to the financial statements (continued)

	2011 R'000	2010 R'000
21 Claims incurred net of reinsurance and salvages		
Gross claims incurred	376 005	501 777
Gross claims paid	404 674	488 887
Change in provision for outstanding claims	(28 669)	12 890
Reinsurers' share of claims incurred	(61 986)	(143 120)
Claims paid	(88 907)	(139 711)
Change in provision for outstanding claims	26 921	(3 409)
	314 019	358 657
Salvages	(82 467)	(97 227)
Gross salvages received	(106 413)	(105 387)
Change in asset raised for outstanding salvages	23 946	8 160
Reinsurers' share of salvages	24 857	35 155
Salvages received	34 306	40 692
Change in asset raised for outstanding salvages	(9 449)	(5 537)
	(57 610)	(62 072)
Net claims incurred	256 409	296 585
Claims paid include:		
Payments to policyholders	343 919	439 101
Claims administration expenses	60 755	49 786
	404 674	488 887
22 Acquisition costs		
Brokerage paid	52 243	46 947

	2011 R'000	2010 R'000
23 Management expenses		
23.1 Management and claims administration expenses include:		
Staff costs	146 826	119 989
Salaries	85 593	78 763
Employer's contribution to retirement fund	9 702	8 988
Post-retirement medical aid provision	6 795	2 000
Share-based payment provision	11 947	556
Other	32 789	29 682
Audit fees	1 728	1 582
– Current year	1 736	1 582
– Previous year overprovision	(8)	–
Depreciation and amortisation	5 305	4 864
– Land and buildings	1 595	1 595
– Furniture and equipment	879	880
– Motor vehicles	507	425
– Computer equipment	871	944
– Computer software	1 453	1 020
(Profit)/loss on sale of equipment	(30)	81
Repairs and maintenance of property and equipment	1 279	1 092
Rentals under operating leases	1 016	838
– Office equipment	212	209
– Property	804	629
Executive directors' remuneration	14 841	9 482
Non-executive directors' remuneration	2 363	1 499

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

Notes to the financial statements (continued)

23 Management expenses (continued)

23.2 Directors and prescribed officers emoluments

	Fees R'000	Basic salary R'000	Bonus R'000	Pension contribution R'000	Other R'000	Total R'000
2011						
M C Truter*	–	2 496	3 869	293	3 230	9 888
W H Lategan*	–	1 493	1 867	175	1 418	4 953
Prescribed officer 1	–	946	946	111	58	2 061
Prescribed officer 2	–	688	688	81	273	1 730
Prescribed officer 3	–	1 040	1 040	122	680	2 882
Prescribed officer 4	–	1 056	1 056	124	537	2 773
Prescribed officer 5	–	968	968	114	–	2 050
Prescribed officer 6	–	890	890	105	29	1 914
Prescribed officer 7	–	1 137	1 137	134	681	3 089
Prescribed officer 8	–	890	890	105	240	2 125
P G Todd	275	2 024	1 000	236	33	3 568
Paid by company#	275	–	–	–	–	275
Paid by other SA group companies	–	2 024	1 000	236	33	3 293
K N Kennedy	25	191	9 801	22	3	10 042
Paid by company#	25	–	–	–	–	25
Paid by other SA group companies	–	191	9 801	22	3	10 017
J J Ngulube#	285	–	–	–	–	285
P A Wessels#°	330	–	–	–	–	330
B R Laird-Smith#°	375	–	–	–	–	375
M J Reyneke#	308	–	–	–	–	308
P Tsukudu	556					556
Paid by company#	285	–	–	–	–	285
Paid by other SA group companies	271	–	–	–	–	271
T B Gamedze	240	–	–	–	–	240
M Bosman	240	–	–	–	–	240
	2 634	13 819	24 152	1 622	7 182	49 409
2010						
M C Truter*	–	2 322	3 599	273	–	6 194
W H Lategan*	–	1 389	1 736	163	–	3 288
Prescribed officer 1	–	880	880	103	386	2 249
Prescribed officer 2	–	1 097	1 097	129	416	2 739
Prescribed officer 3	–	968	968	113	5	2 054
Prescribed officer 4	–	960	960	113	–	2 033
Prescribed officer 5	–	880	880	103	279	2 142
Prescribed officer 6	–	787	787	93	220	1 887
Prescribed officer 7	–	1 057	1 057	125	–	2 239
Prescribed officer 8	–	787	787	93	135	1 802
K N Kennedy	200	2 279	7 429	267	44	10 219
Paid by company#	200	–	–	–	–	200
Paid by other SA group companies	–	2 279	7 429	267	44	10 019
J J Ngulube#	190	–	–	–	–	190
P A Wessels#°	220	–	–	–	–	220
B R Laird-Smith#°	250	–	–	–	–	250
M J Reyneke#	205	–	–	–	–	205
P Tsukudu	414					414
Paid by company#	190	–	–	–	–	190
Paid by other SA group companies	224	–	–	–	–	224
T B Gamedze	160	–	–	–	–	160
M Bosman	84	–	–	–	–	84
	1 723	13 406	20 180	1 575	1 485	38 369

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

** Executive director.*

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

23 Management expenses (continued)

23.3 Executive directors' notional share options

	Date of issue	Number	Strike price (R)	Exercisable before
M C Truter:				
Outstanding share options at 31 December 2010		2 859 726		
– Share options issued during 2008	1/1/2008	810 057	1.00	2012/03/31
– Share options issued during 2009	1/1/2009	985 419	1.00	2013/03/31
– Share options issued during 2010	1/1/2010	1 064 250	1.00	2014/03/31
Share options issued during current financial year	1/1/2011	1 144 132	1.00	2015/03/31
Outstanding options at 31 December 2011		4 003 858		
W H Lategan:				
Outstanding share options at 31 December 2010		1 048 658		
– Share options issued during 2008	1/1/2008	312 995	1.00	2012/03/31
– Share options issued during 2009	1/1/2009	353 684	1.00	2013/03/31
– Share options issued during 2010	1/1/2010	381 979	1.00	2014/03/31
Share options issued during current financial year	1/1/2011	410 665	1.00	2015/03/31
Outstanding options at 31 December 2011		1 459 323		

	2011 R'000	2010 R'000
23.4 Foreign exchange		
Foreign exchange gains/(losses)	10 595	(6 821)
– Realised	(651)	(3 240)
– Unrealised	11 246	(3 581)

Notes to the financial statements (continued)

	2011 R'000	2010 R'000
24 Taxation		
24.1 South African and foreign		
Current	68 010	40 507
– Income taxation	68 072	40 533
– Capital gains taxation	(62)	(26)
Prior years	609	–
– Income taxation	609	–
Deferred	(5 377)	3 277
Dividend tax	4 007	3 088
Taxation charge for the year	67 249	46 872
24.2 Reconciliation of tax rate		
Effective rate	27.4%	26.9%
Investment gains at capital gains tax rates	0.6%	2.1%
Non-taxable income	1.8%	1.9%
Disallowed expenditure	(0.2%)	(0.9%)
Dividend tax (including deferred tax credits)	(1.6%)	(2.0%)
Standard rate	28.0%	28.0%
25 Earnings per share		
25.1 Basic earnings per share (cents)		
Basic earnings per share is calculated on a net income of R178 392 000 (2010: R127 503 000) and the weighted average number of shares in issue during the period of 2 649 333 (2010: 2 649 333)		
	6 733	4 813
25.2 Headline and diluted earnings per share (cents)		
Headline and diluted earnings per share is calculated on a net income of R178 362 000 (2010: R127 584 000) and the weighted average number of shares in issue during the period of 2 649 333 (2010: 2 649 333)	6 732	4 816
Reconciliation of headline earnings		
Net income	178 392	127 503
(Profit)/loss on the sale of equipment	(30)	81
Headline earnings	178 362	127 584
25.3 Earnings per share on discontinued operations (cents)		
Earnings per share on discontinued operations is calculated on a net profit of R809 000 (2010: net loss of R2 470 000) and the weighted average number of shares in issue during the period of 2 649 333 (2010: 2 649 333)	31	(93)

	2011 R'000	2010 R'000
26 Cash generated by operations		
Reconciliation of net income before taxation to cash generated by operations	245 641	174 375
Adjusted for:		
Depreciation and amortisation of property and equipment	5 305	4 864
Provision for bad debts	377	177
Increase in accruals	1 174	721
Unrealised foreign exchange losses	(21 698)	10 035
Unrealised profit on investments	(11 203)	(28 385)
(Profit)/loss on sale of investments, property and equipment	(2 652)	287
Investment income	(30 962)	(28 092)
Increase in insurance provisions	28 519	27 822
Operating profit before working capital changes	214 501	161 804
Changes in working capital:	(19 756)	94 987
– Decrease in net agents' and reinsurers' balances	12 480	45 967
– Increase in other receivables	(11 779)	(12 117)
– (Decrease)/increase in deposits with reinsurers	(24 095)	27 798
– Increase in other payables and provisions	3 638	33 339
	194 745	256 791
27 Taxation paid		
Amounts overpaid at the beginning of the year	(1 447)	(223)
Charge to profit or loss	67 249	46 872
Deferred tax movement	5 377	(3 277)
Amount (unpaid)/overpaid at the end of the year	(917)	1 447
Total taxation paid	70 262	44 819
28 Dividends paid		
Amounts unpaid at the beginning of the year	–	–
Dividends declared and paid	54 205	46 549
Total dividends paid	54 205	46 549
29 Total listed share and collective scheme purchases		
Net increase in cost of investments	57 657	112 711
Cost of investments sold	7 291	1 188
Share movements arising from corporate actions	–	(314)
Total acquisitions	64 948	113 585

Notes to the financial statements (continued)

30 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. The results of both divisions are as follows:

	2011 R'000	2010 R'000
Gross premiums	11 384	13 139
Less: Reinsurance premiums	11 018	12 476
Net premiums earned	366	663
Less: insurance expenditure:	(1 888)	1 785
– Net claims incurred	1 057	1 339
– Net reserve movement	(6 464)	(7 897)
– Commission received	(2 527)	(2 362)
– Management expenses	835	3 884
– Foreign exchange losses	5 211	6 821
Underwriting result	2 254	(1 122)
Interest received	274	339
Profit/(loss) profit before taxation	2 528	(783)
Taxation	(1 748)	(1 691)
Profit/(loss) after taxation	780	(2 474)
Transfer from contingency reserve	29	4
Net accumulated profit/(loss) for the year	809	(2 470)
Cash flows		
Net profit/(loss) after taxation	809	(2 470)
Adjusted for:		
Unrealised foreign exchange losses	3 714	3 688
Insurance provisions	(6 464)	(7 897)
Net cash flows from operating activities	(1 941)	(6 679)
Carrying amounts of the assets and liabilities of reinsurance inward division:		
Assets	87 297	89 434
Deposits with cedants	20 636	18 689
Cash and cash equivalents	66 661	70 745
Equity		
Contingency reserve	(37)	(66)
Liabilities	43 721	39 241
Insurance contract provisions	40 055	36 822
Reinsurance balances	3 666	2 419

31 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.

	2011 R'000	2010 R'000
31.1 Transactions with related parties		
Mutual & Federal Insurance Company Limited (parent)	**(29 291)**	(25 173)
Premium paid for insurance cover and internal audit	(820)	(724)
Directors fees paid	(675)	(450)
Dividends paid	(28 471)	(24 449)
Nedbank Limited (fellow subsidiary)	**4 502**	4 222
Interest received	5 016	4 592
Directors fees paid	(330)	(220)
Bank charges paid	(514)	(370)
Santam Limited (associate)	**(15 515)**	(12 965)
Underwriting agreement	2 674	2 655
Directors fees paid	(308)	(205)
Dividend paid	(18 189)	(15 620)
Munich Reinsurance Company of Africa Limited	**(21 985)**	(16 333)
Net payments from reinsurance activities	(18 134)	(13 026)
Directors fees paid	(285)	(190)
Dividend paid	(3 851)	(3 307)
31.2 Year-end balances with related parties		
Payable to related parties	**(3 761)**	(5 402)
Mutual & Federal Insurance Company Limited	(385)	(360)
Munich Reinsurance Company of Africa Limited	(3 376)	(5 042)
Receivable from related parties		
Nedbank Limited (included in cash and cash equivalents)	143 166	150 175
31.3 Doubtful debts		
There was neither a provision for doubtful debts, nor any bad debt written off during the year, that relates to related parties.		
31.4 Remuneration of key management personnel		
Directors (refer to note 23.2)	14 841	9 482
Other prescribed officers	18 624	17 145

Notes to the financial statements (continued)

32 Employee benefits

32.1 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.

32.1.1 Defined benefit pension plans

The most recent actuarial valuation of the present value of the defined benefit obligation was carried out at 31 December 2008. 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.

Management are in the process of reviewing the transfer of this fund and as a result the valuation due to take place on 31 December 2011 has been postponed to early 2012.

Key assumptions	Valuation at 2009 (%)
Discount rate	8.0
Consumer price inflation	4.8
Expected return on plan assets	8.0
Rate of compensation increase	5.8
Pension increase – discount rate	4.1

The overall expected rate of return on assets is 8.0%. The rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The expected return on assets was calculated by applying the expected return of 9.0% for 2008 to the market value of assets as at 1 January 2008.

	2011 R'000	2010 R'000
Amounts recognised in profit or loss:		
Current service cost	596	516
The charge for the year of R596 000 (2010: R516 000) has been included in staff costs.		
Actuarial gains and losses are recognised in profit or loss as identified and no portion is deferred.		
The actual return on plan assets as at 31 December 2008 was a loss of R1 843 000.		
The present value of the obligation and the fair value of the plan assets are:		
Present value of defined benefit obligations	30 240	29 644
– Past service liabilities	16 258	15 662
– Contingency reserves	13 982	13 982
Fair value of plan assets, inclusive of the value of utilised services	31 912	31 316
Surplus in plan assets	1 672	1 672
Movement in present value of defined benefit obligation in current period:		
At the beginning of the year	15 662	15 146
Contribution from plan members	596	516
At the end of the year	16 258	15 662
Movement in plan assets in current period:		
At the beginning of the year	31 316	30 800
Contributions paid into the plan	596	516
At the end of the year	31 912	31 316

32 Employee benefits (continued)

32.2 Post-retirement medical benefit

The company has an obligation to provide post-retirement medical aid benefits to eligible employees. Employees are eligible if they joined the company on or before 30 September 1999 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 valuation was done on 31 December 2011. The next valuation will be done on 31 December 2014.

The cost of medical aid has been a substantial driver in the significant increase in the 2011 valuation and, based on this valuation, the liability has been increased by R6 795 000 in the current financial year.

	2011 R'000	2010 R'000
Present value of unfunded defined benefit obligation included in the consolidated statement of financial position:		
Opening balance	31 405	29 405
Service costs	1 156	1 017
Interest costs	3 341	2 699
Actuarial loss/(gain)	3 374	(775)
Other	(1 076)	(941)
Closing balance	38 200	31 405
Amounts recognised in the consolidated statement of comprehensive income:		
Service costs	1 156	1 017
Interest costs	3 341	2 699
Actuarial loss/(gain)	3 374	(775)
Other	(1 076)	(941)
	6 795	2 000
Key assumptions:		
Discount rate (%)	9.0	9.5
Medical aid inflation	6.9	8.0
Sensitivity analysis:		
1% increase in rate of medical inflation		
– Increase in defined benefit obligation	6 685	6 202
– Increase in defined benefit obligation (%)	17.5	18.8
1% decrease in rate of medical inflation		
– Decrease in defined benefit obligation	5 309	4291
– Decrease in defined benefit obligation (%)	(13.9)	(14.4)

Notes to the financial statements (continued)

32 Employee benefits (continued)

32.3 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 value of notional options granted as at 31 December 2011 amounted to R12 655 590 (2010: R29 908 523) and a provision of R9 790 000 (2010: R8 650 000) was made in the financial statements for the growth in value during 2011.

	2011 R'000	2010 R'000
33 Operating lease commitments		
The company leases certain of its office buildings and office equipment in terms of operating leases. The company does not have an option to acquire the assets at termination of the lease. There are escalation clauses imposed on the property leases, but none on the office equipment.		
Total future minimum lease payments under non-cancellable operating leases	1 891	2 503
Not later than one year	673	612
Between one and five years	1 218	1 891
34 Contingent liabilities		
Collateral security provided to employees in terms of the company's Housing Assistance Scheme	70	82
Letters of guarantees issued in favour of:		
– SA Post Office	30	30
– Eclipse Networks (Pty) Ltd	20 000	–
– Truzen 6 Trust	56	–
	20 156	112

Nedbank have 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.

	2011 %	2010 %
35 Solvency ratios		
The solvency ratios have been calculated on two bases:		
35.1 The indicative statutory surplus asset ratio representing net insurance assets as a percentage of net premium income (gross premium income less reinsurances as defined by the Short-Term Insurance Act, No. 53 of 1998)	75.2	61.0
35.2 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)	92.5	73.4

	2011 R'000	2010 R'000
36 Reconciliation of income as reflected in the consolidated statement of comprehensive income to underwriting result		
Gross premiums written	722 787	722 631
Less: Reinsurance premiums	198 549	231 175
Net premiums written	524 238	491 456
Provision for unearned premiums, low claims and no-claims bonus	(6 073)	(23 030)
Net premiums earned	518 165	468 426
Less:	317 312	350 322
– Claims net of reinsurance and salvages	256 409	296 585
– Net commission	(8 838)	(12 413)
– Expenses	141 733	116 168
– Other operating income	(61 397)	(56 839)
– Foreign exchange losses/(gains)	(10 595)	6 821
Underwriting result	200 853	118 104
Investment income	30 962	28 092
– Dividends	15 504	11 895
– Net interest received	15 458	16 197
Sundry income	13 826	28 179
– Profit/(loss) on sale of investments	442	(206)
– Unrealised profit on investments	11 203	29 348
– Unrealised gains/(losses) on foreign currency investment	2 181	(963)
Profit before taxation	245 641	174 375
Taxation	67 249	46 872
– Income tax and deferred tax	63 242	43 784
– STC	4 007	3 088
Net income for the year	178 392	127 503

Annexure A: Share portfolio

Ordinary shares and preference shares	Shares held 2011	Shares held 2010	Total cost 2011 R'000	Total cost 2010 R'000	Market value 2011 R'000	Market value 2010 R'000
ABSA preference shares	5 000	5 000	5 000	5 000	4 455	4 340
Anglo American plc	113 000	74 000	18 011	4 803	33 448	25 382
BHP Billiton plc	139 000	122 500	7 472	3 089	32 568	32 518
Bidvest Group Ltd	67 430	67 430	6 271	6 271	10 357	10 570
British American Tobacco plc	100 000	75 386	8 640	2 214	38 314	19 336
Exxaro Resources Ltd	115 000	115 000	8 281	8 281	19 257	15 668
FirstRand B preference shares	90 000	90 000	9 180	9 180	9 000	9 000
FirstRand Ltd	420 000	–	8 313	–	8 711	–
Investec Ltd	144 000	144 000	7 256	7 256	6 304	8 075
Investec plc	134 500	134 500	6 008	6 008	5 723	7 383
MTN Group Ltd	115 500	51 000	14 483	6 146	16 574	6 822
Pick n Pay Stores Ltd	310 000	310 000	4 322	4 322	14 424	14 911
Pretoria Portland Cement Ltd	–	188 096	–	3 231	–	6 517
Reinet Inv SCA	300 000	300 000	777	777	4 230	3 495
Royal Bafokeng Platinum Ltd	258 000	77 500	16 432	4 999	14 190	5 154
RMB Holdings Ltd	158 000	158 000	4 100	6 009	4 313	6 083
RM Insurance Holdings Ltd	450 000	–	5 191	–	5 985	–
SABMiller plc	115 000	115 000	7 145	7 145	32 555	27 086
Sasol Ltd	61 000	50 500	6 843	3 118	23 516	17 397
Spar Group Ltd	140 000	140 000	3 235	3 235	15 203	13 658
Standard Bank Group Ltd	189 115	189 115	12 171	12 172	18 675	20 339
Standard Bank preference shares	72 000	72 000	7 705	7 705	7 272	7 171
Telkom SA Ltd	–	60 000	–	3 060	–	2 250
Vodacom Group Ltd	152 500	74 500	9 873	4 032	13 502	5 698
Total			176 709	118 053	338 576	268 853

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