



# ETANA

## Insurance

Etana Insurance Company Limited

Audited annual financial statements

30 June 2011

[www.etana.co.za](http://www.etana.co.za)

Registration number: 2001/009647/06

Prepared by: JC Hsieh

Audited annual financial statements of Etana Insurance Company Limited for the year ended 30 June 2011

Prepared by : JC Hsieh  
Date: 19 October 2011

ETANA INSURANCE COMPANY LIMITED  
DIRECTORATE AND ADMINISTRATION  
for the year ended 30 June 2011

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Company registration number: 2001/009647/06

Directorate

PG Cavalieri	Chairman (appointed 10/04/2002)
RC Hallier	Deputy Chairman (appointed 10/04/2002)
N Omar	Managing Director (appointed 01/01/2007)
AR Ebrahim	Director (appointed 01/07/2007)
NV Simamane	Non-executive Director (appointed 01/09/2009)
SL Greybe	Non-executive Director (appointed 29/11/2007)
NG Kohler	Non-executive Director (appointed 29/11/2007)
M Liphosa	Non-executive Director (appointed 01/04/2008)
TBN Ned	Non-executive Director (appointed 01/04/2008)
GJM Carlin	Non-executive Director (appointed 09/07/2009)
TBT Mparutsa ( <i>alternate to NG Kohler</i> )	Non-executive Director (appointed 01/12/2010)
K Maphisa	Non-executive Director (appointed 31/12/2010)
M Lehobye	Non-executive Director (appointed 01/09/2010)
IH Ross	Non-executive Director (resigned 01/12/2010)
KG Nondumo	Non-executive Director (resigned 31/08/2010)

Company Secretary

NL Shirilele

Compliance

Peter Veal

Public Officer

M Mohulatsi

Public Officer - Tax

M Mohulatsi

ETANA INSURANCE COMPANY LIMITED  
DIRECTORATE AND ADMINISTRATION  
for the year ended 30 June 2011

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Registered office and business address	Postal address
Hollard at Arcadia 22 Oxford Road Parktown Johannesburg 2193	P O Box 87419 Houghton 2041

Website

[www.etana.co.za](http://www.etana.co.za)

Nature of business

The Company transacts short-term insurance business.

Auditors

PricewaterhouseCoopers Inc Chartered Accountants (S.A) Private Bag X36 Sunninghill 2157	Nkonki Inc Chartered Accountants (S.A) P.O. Box 1503 Saxonwold 2132
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Registration number

2001/009647/06

ETANA INSURANCE COMPANY LIMITED  
FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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## Commitment statement

The Company's Board of Directors is committed to the implementation of effective structures, policies and practices that improve corporate governance and create sustainable value for the benefit of our shareholders and other stakeholders. The Company fully supports and is committed to complying with the Companies Act, 2008, the Short Term Insurance Act and where practical the King III Report on Corporate Governance, in terms of which shareholders and stakeholders are assured that the Company is being managed ethically and in compliance with legislation and best practices.

Day-to-day responsibility for corporate governance is overseen by management which regularly reports to the various committees of the Board. The Chairman of the Board of Directors and the Chairman of the audit committee play an active role in the corporate governance issues faced by the Company through regular interaction with executive directors, executive management and other interested parties. The Company continually strives to enhance its governance practices by an on-going review of current and emerging trends in corporate governance and by benchmarking systems against local and international best practice. Application of the principles and compliance with the recommendations contained in the Code of Corporate Practices and Conduct as set out in the King III Report are included in this report.

The Board is of the opinion that the Company currently complies with the most significant requirements of the Code of Corporate Practices and Conduct as set out in the King III Report. The Board also understands that governance goes significantly beyond compliance and the Board is of the view that the implementation of governance practices has resulted in a more effective and sustainable business.

## Board of Directors

### Composition of the Board

Etana has a unitary board structure, which forms the focal point of the system of corporate governance of the Company and consists of executive and non-executive directors and independent non-executive directors who collectively share the responsibility for both the direction and control of the Company.

The Board reviews the size and composition of the Board of Etana and is of the opinion that the value of executive knowledge within the Board is well balanced alongside the value of non executive directors' knowledge and experience. Etana will continue to review the composition and effectiveness of the Board to ensure that they remain effective and relevant to the Company.

## Board of Directors (continued)

Etana has a Board that consists of thirteen directors, the details of the directors are provided in the Directors report. These directors bring a wide range of experience, insight and professional skill to the Board.

## Role and function of the Board of Directors

The Board is committed to business integrity, transparency and professionalism in all activities to ensure that Company is managed ethically and responsibly to enhance the value of its business for the benefit of all stakeholders. In order to enhance board leadership and ensure a balance of power and authority, the Board adopts a strong oversight role that provides the necessary checks and balance between the Board and management.

The Board is responsible for corporate governance and the ultimate control of the business of Etana, as well as ensuring that there is a clear strategic direction and that appropriate management structures are in place. Some of these structures, which are described in the corporate governance review, are designed to provide a reasonable level of assurance as to the proper control and conduct of the Etana affairs.

The Board of Directors meets three times a year under the chairmanship of Mr PG Cavaliere; additional meetings are arranged as and when necessary. Nashir Omar, the Managing Director, oversees and manages Etana's daily operations.

## Board Mandate

The Etana Board is responsible to shareholders and other stakeholders and is ultimately accountable for the performance and affairs of the Company. In addition to defining Etana's objectives the Board monitors the following:

- The progress of strategic direction and policy;
- Approving and monitoring budgets;
- Operational performance;
- The approval of major capital expenditure;
- The consideration of significant financial and non-financial matters;
- Risk management;
- Compliance;
- Succession planning;
- The executive management's team activities; and
- Any other matters that may have material impact on the Company's affairs.

### Independence of the Board of Directors

By adhering to a number of key principles, the Board's independence from the daily executive management team is ensured:

- The Etana Board has four independent non-executive directors, namely GJM Carlin, NV Simamane, SL Greybe and K Maphisa, the Board has considered their independence and has held discussions with these directors and is of the opinion that they are independent in their actions, judgment and conducts.
- The roles of Chairman and Managing Director are separate.
- Nine of the twelve directors are non-executive, four of whom are independent.
- The audit committee consists of three independent non executive, and one executive director.
- Non executive director's remuneration is not tied to the Company's financial performance.

### Board Charter

In order to ensure the principles of sound corporate governance are adhered to the Board is finalising and will be adopting a board charter and a delegation of authority which clearly sets out:

1. The composition of the Board.
2. The manner in which the Board will conduct its business.
3. Specific duties and responsibilities of the Board delegated by the Board.

### Committee Charters

The board committee charters which describe the terms of reference of the committees as delegated and approved by the Board are reviewed at least annually, the committee charters are currently under review to align with the King III principles and recommendations.

ETANA INSURANCE COMPANY LIMITED  
 CODE OF CORPORATE GOVERNANCE AND CONDUCT  
 for the year ended 30 June 2011

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The Etana Board of Directors

Director	Executive (E) Non-Executive (N) Independent (I)	Changes during 2011
PG Cavalieri (Chairman)	E	
RC Hallier	E	
N Omar	E	
AR Ebrahim	E	
NV Simamane	I	
SL Greybe	I	
GJM Carlin	I	
M Liphosa	N	
KG Nondumo	N	Resigned on 31 August 2011
I Ross	N	Resigned on 1 December 2010
TBN Ned	N	
NG Kohler	N	
TBT Mparutsa ( <i>alternate to NG Kohler</i> )	N	Appointed on 31 December 2010
K Maphisa	I	Appointed on 31 December 2010
M Lehobye	N	Appointed on 1 September 2010

*Composition of the Board as at 30 June 2011: Four black females, four black males, one white female and four white males.*

Appointment and Re-Election of Directors

The board charter contains a policy detailing the formal and transparent procedures for appointment to the Board. The articles of association of the Company, require that at least one third or, if their number is not a multiple of three, the nearest number thereof of the directors to be rotated and being eligible offer themselves for re-election at an AGM. Implementation of the new Companies Act is in progress therefore the Articles of Association and Memorandum of Association is still in use instead of Memorandum of Incorporation.

Directors Training

An induction programme has been designed and is adjusted to meet the specific requirements of all new directors. The directors are provided with all the necessary documentation to familiarise them with issues affecting the Board.

#### Directors' Training (continued)

In addition, the directors participate in a programme with relevant executives, and undertake site visits to some of the branches and the head office to assist their understanding of the broad dynamics of the business. The company secretariat division manages the formal induction programme.

The Board recognizes that understanding the business is an ongoing process and as such, the Chairman of the Board and the Secretary are in the process of ensuring that an appropriate quarterly programme is in place to update non-executive directors on key new business issues, initiatives and an update on operations and performance.

#### **Directors' Conflict of Interest**

To uphold their independence and integrity, directors disclose all material interests on a regular basis and advise any changes that may give rise to a potential conflict of interest. Directors do not participate in any discussions and decisions on matters in which they may have a conflict of interest.

The non-executive directors have unrestricted access to all company information, records, documents and property. Non-executive directors have access to management and may meet separately with management without the attendance of executive directors.

The directors may at the expense of the Company seek professional advice on matters concerning the affairs of the Company.

#### Divisional Boards

Each divisional board is managed by a Divisional Managing Director supported by an executive committee and support functions that are appropriate to its particular operational needs. The divisions function within the strategy approved by the Board of Etana.

Divisional boards are committees that consist mainly of executives, the divisional boards are strengthened where appropriate by the appointment of expert directors or invitees who may be members of Etana or may be additional external appointments.

## Board Committees

In terms of the board charter the Board is authorized to appoint board committees to attend to specific duties and responsibilities. The board committees are governed by charters which are approved by the Board. The charters are reviewed annually to ensure that they are in line with any changes in legislation as well as principles of good corporate governance.

### Audit, compliance and business risk committee

The committees' primary role is to provide the Board with additional assurance regarding the integrity and effectiveness of the Company's risk management framework and related internal controls, reporting and compliance systems and the operational implementation of corporate governance.

The committee meets three times a year to consider matters relating to:

- The accuracy and integrity of the Company's financial statements;
- Risk management framework;
- Operational implementation of corporate governance;
- Compliance with legal and regulatory requirements;
- Ensuring that the external auditors exhibit sufficient independence and perform to expected standards;
- The performance of the Company's internal audit function and the external audit.

The internal and external auditors are in attendance at each meeting, while representatives of management attend as required. The committee ensures that all matters contained in its charter are dealt with appropriately at each meeting.

ETANA INSURANCE COMPANY LIMITED  
 CODE OF CORPORATE GOVERNANCE AND CONDUCT  
 for the year ended 30 June 2011

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Schedule of the main Board and Audit, Compliance and Risk management Committee attendance

	Board Meetings			Audit, Risk & Compliance		
	22-Jul-10	9-Nov-10	19-May-11	18-Jul-10	03-Nov-10	10-Mar-11
PG Cavalieri	<i>A</i>	√	√	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
AR Ebrahim	√	√	√	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
SL Greybe	√	√	√	√	√	√
RC Hallier	√	√	√	#	#	#
NG Kohler	√	√	<i>A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
M Liphosa	√	√	√	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
TBN Ned	√	√	√	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
KG Nondumo	<i>A</i>	σ	σ	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
N Omar	√	<i>A</i>	√	#	#	#
IH Ross	<i>A</i>	√	σ	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
NV Simamane	<i>A</i>	√	√	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
GJM Carlin	√	√	√	√	√	√
M Lehobye	<i>N/A</i>	<i>A</i>	<i>A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
K Maphisa	<i>N/A</i>	<i>N/A</i>	√	<i>N/A</i>	<i>N/A</i>	√
TBT Mparutsa (alternate to NG Kohler)	<i>A</i>	<i>A</i>	<i>A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>

Where:

√ = *present*

# = *invitee*

*A* = *Apology*

*N/A* = *not a member*

\* = *newly appointed*

σ = *resigned*

Company Secretary

NL Shirilele was appointed company secretary. All directors have unlimited access to the advice and services of the Company Secretariat, whose office is accountable to the Board for ensuring that procedures are complied with and that sound corporate governance and ethical principles are adhered to.

## Compliance

Etana considers compliance with applicable laws, industry regulations, codes and its own ethical standards and internal policies to be an integral part of doing business; the Company's compliance function facilitates the management of compliance through the analysis of statutory and regulatory requirements, and monitoring the implementation and execution thereof.

## Internal Audit

The internal audit department's intention is to serve management and the Board through independent evaluations and examinations of the Company's systems, internal controls, activities and resultant business risks.

The purpose, authority and responsibility of the internal audit department are formally defined in an internal audit charter which is reviewed by the audit committee and approved by the Board. This charter is reviewed on an annual basis.

The internal audit department is designed to respond to management's needs while maintaining an appropriate degree of independence to render impartial and unbiased judgments in performing its services. The scope of the internal audit function includes performing independent evaluations of the adequacy and effectiveness of Company's controls, financial reporting systems and records, business information systems and operations, reporting on the adequacy of these controls and providing additional assurance regarding the safeguarding of assets and financial information.

Corporate governance best practice requires that the internal audit function reports directly to the audit committee. Such direct reporting is ensured by the audit committee's mandate and practice to:

- evaluate the effectiveness of internal audit;
- review and approve the internal audit charter, internal audit plans;
- review significant internal audit findings and the adequacy of corrective actions taken;
- assess the performance of the internal audit function and the adequacy of available internal audit resources;
- review significant differences of opinion between management and the internal audit function; and
- Consider the appointment, dismissal or reassignment of the head of internal audit.

### Commitment to King III

Etana Insurance aims to apply all material principles of the new King Report on Governance for South Africa (King III). This demands considerable time, effort and resources, but is worthwhile to further enhance Etana's good governance principles, transparency and reputation.

Etana has already committed to or implemented the following realignments and material changes:

- All Etana Limited board and committee charters and governance framework are being reviewed or redrafted to align with King III.
- The Etana Limited Board has re-arranged its agenda to improve attention to broader business concerns of governance and sustainability.
- At least one third of non-executive directors retire by rotation at the annual general meeting in Etana.

### External audit

The external audit provides an independent assessment of systems, risks and financial controls. The external auditors work closely with the internal audit team and have access to all internal audit reports. They attend the meetings of the audit, compliance and risk committee and express their opinion on the annual financial statements. The external auditors provide the Board and the audit committee with their independent observations and suggestions on the Company's internal controls, as well as suggestions for the improvement of the financial reporting and operations of the business.

The external auditors are expected to demonstrate a high level of ethical commitment and ensure that their professional independence is not impaired. During the year under review, PricewaterhouseCoopers Incorporated together with Nkonki Incorporated are currently auditors for the Company.

### Internal Control

The Board of Directors is responsible for the Company's systems of internal control. These systems are designed to provide reasonable but not absolute assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability of its assets and to detect and minimize significant fraud, potential liability, loss and material misstatement while complying with applicable laws and regulations.

The directors review the effectiveness of the systems of internal operational and financial control on an on-going basis and use the finding of both the external and internal auditors to improve these systems. During the year no major breakdowns in internal control have been detected that could have resulted in material losses, contingencies or uncertainties.

### Directors' responsibility

The directors acknowledge their responsibility for the preparation of the annual financial statements, adherence to applicable accounting policies and standards and the presentation of related information that fairly presents the state of affairs and the results of the Company, as well as for the effectiveness of risk management and the internal control environment.

### Going Concern

The directors believe that The Company will continue to be a going concern in the foreseeable future. For this reason the directors have adopted the going concern basis in preparing the financial statements.

**ETANA INSURANCE COMPANY LIMITED**  
**DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF**  
**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2011**

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In terms of the Companies Act of South Africa, the directors are required to maintain adequate accounting records and are responsible for the preparation of annual financial statements that fairly present the financial position as at year-end, the results and cash flows for the year ended 30 June 2011 of Etana Insurance Company Ltd. The financial statements, presented on pages 23 to 88 have been prepared in accordance with International Financial Reporting Standards and the Companies Act of South Africa.

To enable the Board to discharge its responsibilities, management has developed and continues to maintain a system of internal controls. The Board has ultimate responsibility for this system of internal controls and reviews the effectiveness of its operations, primarily through the Company's audit committee and other risk monitoring committees and functions.

The internal controls include risk based systems of accounting and administrative controls, designed to:

- provide reasonable but not absolute assurance as to the reliability of the financial statements;
- adequately safeguard, verify and maintain accountability of the assets;
- prevent and detect misstatement and loss.

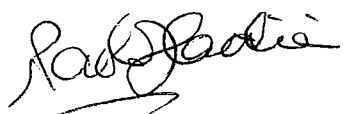
The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.


The going-concern basis has been adopted in preparing the annual financial statements. The directors have no reason to believe that, based on forecast and available cash resources, the Company will not be a going concern in the foreseeable future. These financial statements support the viability of the Company.

The annual financial statements have been audited by independent auditors, PricewaterhouseCoopers and Nkonki who were given unrestricted access to all financial records and related data, including minutes of all meetings of the shareholders, the Board of Directors and committees of the Board. The directors believe that all representations made to the independent auditors during their audit are valid and complete.

The audit report of PricewaterhouseCoopers Inc and Nkonki Inc is presented on page 19.

The annual financial statements were approved by the Board of Directors on 26 October 2011 and are signed on its behalf by:

  
.....  
**PG Cavalieri**  
Chairman

  
.....  
**N Omar**  
Managing director

ETANA INSURANCE COMPANY LIMITED  
COMPANY SECRETARY'S **REPORT**  
for the year ended 30 June 2011

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In my opinion as Company Secretary, I hereby confirm, in terms of the Companies Act, 2008, that for the year ended 30 June 2011, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act, 2008, and that all such returns are true, correct and up to date.



.....  
NL Shirilele  
Company Secretary

ETANA INSURANCE COMPANY LIMITED  
AUDIT COMMITTEE REPORT  
for the year ended 30 June 2011

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## Background

The committee is pleased to present our report for the financial year ended 30 June 2011 as recommended by the King III on Corporate Governance and in line with the South African Companies Act, 2008. The committee's operation is guided by a detailed charter that is in line with the Act and is approved by the Board as and when it is amended. The committee has discharged all its responsibilities as contained in the charter.

## Objective and scope

The overall objectives of the committee are as follows:

- To review the principles, policies and practices adopted in the preparation of the accounts of the Company and to ensure that the annual financial statements and any other formal announcements relating to the financial performance comply with all statutory and regulatory requirements.
- To annually assess the appointment of the auditors and their independence, recommend their appointment and approve their fees.
- To review the work of the external and internal auditors to ensure the adequacy and effectiveness of the Company's financial, operating, compliance and risk management controls.
- To review the management of risk and the monitoring of compliance effectiveness within the Company.
- To perform duties that are attributed to it by the Act and King III.

The committee performed the following activities:

- Received and reviewed reports from both internal and external auditors concerning the effectiveness of the internal control environment, systems and processes.
- Reviewed the reports of both internal and external auditors detailing their concerns arising out of their audits and requested appropriate responses from management resulting in their concerns being addressed.
- Considered the independence and objectivity of the external auditors and ensured that the scope of their additional services provided was not such that they could be seen to have impaired their independence.
- Considered the effectiveness of internal audit, approved the one year operational strategic internal audit plan and monitored adherence of internal audit to its annual plan.

**ETANA INSURANCE COMPANY LIMITED**  
**AUDIT COMMITTEE REPORT**  
**for the year ended 30 June 2011**

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**Objective and scope (continued)**

The audit committee is of the opinion that the objectives of the committee were met during the year under review. Where weaknesses in controls had been identified, management undertook to implement appropriate corrective actions to mitigate the weakness identified.

**Membership**

Membership of the committee comprised solely independent non-executive directors:

- GJM Carlin (chairman)
- SL Greybe
- K Maphisa (appointed 31 December 2010)

**External audit**

The committee has satisfied itself through enquiry that the auditors of Etana are independent as defined by the Act. The committee, in consultation with executive management, agreed to an audit fee for the 2011 financial year. The fee is considered appropriate for the work that could reasonably have been foreseen at that time. Audit fees are disclosed in note 22 to the financial statements.

Meetings were held with the external auditor where management was not present, and no material matters of concern were raised.

**Annual financial statements**

The audit committee has evaluated the annual financial statements for the year ended 30 June 2011 and considers that they comply, in all material aspects, with the requirements of the Act and International Financial Reporting Standards. The committee has therefore recommended the annual financial statements for approval to the Board. The Board has subsequently approved the financial statements which will be open for discussion at the forthcoming annual general meeting.

  
.....  
GJM Carlin

Audit committee chairman



Registered Auditors | Accountants | Consultants

## INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF ETANA INSURANCE COMPANY LIMITED

We have audited the annual financial statements of Etana Insurance Company Limited, which comprise, the statement of financial position as at 30 June 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes and the Directors' report, as set out on pages 20 to 88.

### *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 in the manner required by 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 misstatements, whether due to fraud or error.

### *Auditors Responsibility*

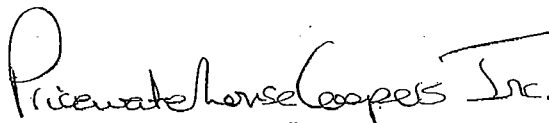
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether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

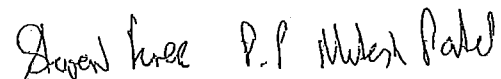
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2011, and of the financial performance and the cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.



PricewaterhouseCoopers Inc.  
Director: G Mtetwa  
Registered Auditor  
Johannesburg  
27 October 2011



Nkonki Inc.  
Partner: M Patel  
Registered Auditor  
Johannesburg  
27 October 2011

PricewaterhouseCoopers Inc, 2 Eglin Road, Sunninghill 2157, Private Bag X36, Sunninghill 2157, South Africa  
Reg. no. 1998/012055/21, T: +27 (11) 797 4000, F: +27 (11) 797 5800,  
[www.pwc.com/za](http://www.pwc.com/za)

Nkonki, 3 Simba Road, cnr Nanyuki Road, Sunninghill, Johannesburg, 2157, P O Box 1503, Saxonwold, 2132,  
T: +27 (11) 517 3000, F: +27 (11) 807 8630,  
[www.nkonki.com](http://www.nkonki.com)

Executive: S P Kana (Chief Executive Officer) T P Blandin de Chalain D J Fölscher G M Khumalo P J Molhibe S Subramoney F Tonelli  
Resident Director In Charge: E R Mackeown  
The Company's principal place of business is at 2 Eglin Road, Sunninghill where a list of directors' names is available for inspection.  
VAT reg.no. 4950174682.

Directors: Mzi Nkonki – CA (SA), Sindo Zilwa – CA (SA)  
Partners: Jita Malungelo – CA (SA), Mitesh Patel – CA (SA),  
Jafta Mabunda – CA (SA), Mvume Sihete – MSC Computer Science (US),  
Brian Mungofa – CA (SA), Nyaral Muzarowetu – CA (SA),  
Peter K Njinu – KPA (K) MBA (Wits), Kumenderi Pillay – CA (SA)

ETANA INSURANCE COMPANY LIMITED  
 DIRECTORS' REPORT  
 for the year ended 30 June 2011

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The directors have pleasure in presenting the Directors' report which forms part of the financial statements of the Company for the year ended 30 June 2011.

**Nature of business**

The Company is a registered insurer and underwrites all classes of short-term insurance business throughout the Republic of South Africa. In certain instances, the Company also underwrites insurance in Sub-Saharan Africa.

**General review**

In the year under review the Company recorded a profit attributable to shareholders of R72 694 871 (2010: R53 885 787) which emanated from the Company's operations as follows:

	2011 R	2010 R
Net premium income	538 173 080	449 843 537
Investment income	52 987 366	38 148 056
Profit/(loss) on revaluation of investments and on translation of foreign currencies	(428 046)	6 074 495
<b>Profit</b>	<b>590 732 400</b>	<b>494 066 088</b>
<b>Expenses</b>	<b>(481 354 595)</b>	<b>(414 252 388)</b>
<b>Results of operating activities</b>	<b>109 377 805</b>	<b>79 813 700</b>
Finance costs	(14 171 185)	(9 176 219)
<b>Profit before tax</b>	<b>95 206 620</b>	<b>70 637 481</b>
Income tax expense	(22 511 749)	(16 751 694)
<b>Profit for the year</b>	<b>72 694 871</b>	<b>53 885 787</b>

ETANA INSURANCE COMPANY LIMITED  
DIRECTORS' REPORT  
for the year ended 30 June 2011

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### Share capital

No changes in the Company's issued ordinary share capital occurred during the year under review.

### Dividends

There were no dividends declared during the current year (2010: RNil)

### Events after the reporting date

The directors are not aware of any event since the end of the financial year, not otherwise dealt with in the financial statements that would materially affect the operations of the Company.

### Directorate

The following executive and non-executive directors were in office throughout the year:

*Executive Directors:*

PG Cavalieri, RC Hallier, AR Ebrahim and N Omar.

*Non-executive Directors:*

SL Greybe; NG Kohler; TBN Ned, GJM Carlin, NV Simamane and M Liphosa.

ETANA INSURANCE COMPANY LIMITED  
DIRECTORS' REPORT  
for the year ended 30 June 2011

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Auditors

It is the intention of the Company to reappoint PricewaterhouseCoopers Incorporated and Nkonki Incorporated as the external auditors.

Company Secretary

NL Shirilele

Business address:

Hollard at Arcadia  
22 Oxford Road  
Parktown  
Johannesburg

Postal address:

P O Box 87419  
Houghton  
2041

Holding Company

The holding company is Etana Holdings (Proprietary) Limited (50.1%) (2010: 50.1%).

ETANA INSURANCE COMPANY LIMITED  
Statement of financial position  
at 30 June 2011

	Notes	2011 R	2010 R
<b>ASSETS</b>			
Property and equipment	7	7 264 006	4 094 365
Intangible asset	8	3 070 868	4 606 301
Financial assets	9	132 649 367	94 899 161
Loans, receivables and insurance receivables	10	269 617 579	247 243 282
Reinsurance assets	16	883 612 628	757 973 133
Deferred acquisition costs	11	63 079 827	58 618 906
Deferred tax	12	-	136 016
Current tax receivable	25	283 796	283 796
Cash and cash equivalents	13	854 066 144	692 487 399
		<u>2 213 644 215</u>	<u>1 860 342 359</u>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to shareholders		331 210 854	258 515 983
Share capital and premium	14	165 000 000	165 000 000
Contingency reserve	28	61 702 000	53 711 285
Retained earnings		104 508 854	39 804 698
		<u>1 882 433 361</u>	<u>1 601 826 376</u>
Total liabilities		1 882 433 361	1 601 826 376
Deferred tax	12	676 814	-
Borrowings	15	2 908 371	3 250 683
Insurance liabilities	16	1 081 603 784	966 951 661
Reinsurance liabilities	16.1	621 069 864	464 754 503
Employee benefits	18	38 038 247	27 203 262
Trade and other payables	19	138 136 281	139 666 267
		<u>2 213 644 215</u>	<u>1 860 342 359</u>
Total equity and liabilities		<u>2 213 644 215</u>	<u>1 860 342 359</u>

ETANA INSURANCE COMPANY LIMITED  
Statement of comprehensive income  
for the year ended 30 June 2011

	Notes	2011 R	2010 R
<b>Revenue</b>			
Gross premium income		1 636 301 682	1 313 431 405
Insurance premium ceded		(1 105 487 981)	(823 501 186)
Net written premium income		530 813 701	489 930 219
Net change in unearned premium reserve	16.1	7 359 379	(40 086 682)
Gross amount		(43 848 819)	(115 614 766)
Reinsurer's share		51 208 198	75 528 084
Net premium income		538 173 080	449 843 537
Investment income	20	52 987 366	38 148 056
Interest		36 824 837	27 973 376
Dividends		16 162 529	10 174 680
Realised loss on disposal of investments	21	-	(104 684)
Unrealised profit on revaluation of investments	21	3 800 721	4 616 299
Profit/(loss) on translation of foreign currencies		(4 118 109)	1 669 357
Other loss		(110 658)	(106 477)
<b>Total Revenue</b>		<b>590 732 400</b>	<b>494 066 088</b>
<b>Expenses</b>			
Net insurance claims incurred		289 513 661	243 697 019
Gross claims and loss adjustment expenses		815 495 477	880 871 649
Reinsurer's share of claims		(525 981 816)	(637 174 630)
Net fees, commission and other acquisition costs		(43 171 596)	(4 831 621)
Commission paid		255 241 192	209 476 308
Reinsurance commission inwards		(298 412 788)	(214 307 929)
Finance costs	20	14 171 185	9 176 219
Marketing and administration expenses		235 012 530	175 386 990
<b>Total expenses</b>		<b>495 525 780</b>	<b>423 428 607</b>
Profit before tax	22	95 206 620	70 637 481
Income tax expense	23	22 511 749	16 751 694
<b>Profit for the year</b>		<b>72 694 871</b>	<b>53 885 787</b>

Other comprehensive income statement not presented as component values are nil in the current and prior year.

ETANA INSURANCE COMPANY LIMITED  
 STATEMENT OF CHANGES IN EQUITY  
 for the year ended 30 June 2011

	Issued share capital R	Share premium R	Contingency reserve R	Share based payments R	Retained earnings R	Total ordinary shareholders' equity R
Balance at 30 June 2009	60 000	164 940 000	30 290 285	2 645 027	6 694 884	204 630 196
Profit attributable to shareholders	-	-	-	-	53 885 787	53 885 787
Transfer to contingency reserve	-	-	23 421 000	-	(23 421 000)	-
Transfer to retained earnings	-	-	-	(2 645 027)	2 645 027	-
<b>Balance at 30 June 2010</b>	<b>60 000</b>	<b>164 940 000</b>	<b>53 711 285</b>	<b>-</b>	<b>39 804 698</b>	<b>258 515 983</b>
Profit attributable to shareholders	-	-	-	-	72 694 871	72 694 871
Transfer to contingency reserve	-	-	7 990 715	-	(7 990 715)	-
Transfer to retained earnings	-	-	-	-	-	-
<b>Balance at 30 June 2011</b>	<b>60 000</b>	<b>164 940 000</b>	<b>61 702 000</b>	<b>-</b>	<b>104 508 854</b>	<b>331 210 854</b>

ETANA INSURANCE COMPANY LIMITED  
 STATEMENT OF CASH FLOWS  
 for the year ended 30 June 2011

	Notes	2011 R	2010 R
<b>Cash flows from operating activities</b>			
Cash receipts from policyholders and other customers		560 547 377	487 232 235
Cash paid to policyholders, suppliers, employees and changes in working capital		(374 501 774)	(114 161 950)
		<u>186 045 603</u>	<u>373 070 285</u>
Cash generated from operations	24	186 045 603	373 070 285
Interest paid	20	(14 171 185)	(9 176 219)
Interest received	20	35 673 327	27 973 376
Dividends received	20	16 162 529	10 174 680
Taxation paid	25	(21 698 919)	(18 742 930)
		<u>202 011 355</u>	<u>383 299 192</u>
<b>Cash flows from investing activities</b>			
Net acquisition of property and equipment	7	(5 128 899)	(2 048 182)
Disposal of property, plant and equipment		38 601	-
Acquisition of unlisted investments	9	(35 000 000)	(47 750 000)
Decrease in loans to subsidiaries		-	126 157
Proceeds on disposal of listed and unlisted investments	26	-	998 316
		<u>(40 090 298)</u>	<u>(48 673 709)</u>
<b>Cash flows from financing activities</b>			
(Decrease) / Increase in borrowings	15	(342 312)	564 246
		<u>(342 312)</u>	<u>564 246</u>
<b>Cash and cash equivalents</b>			
Net increase in cash and cash equivalents		161 578 745	335 189 729
Available at beginning of the year		692 487 399	357 297 670
		<u>161 578 745</u>	<u>335 189 729</u>
Available at end of the year	13	854 066 144	692 487 399
		<u><u>854 066 144</u></u>	<u><u>692 487 399</u></u>

ETANA INSURANCE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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1 Accounting policies

The principal accounting policies adopted in the preparation of the Company's financial statements are set out below and have been consistently applied to all years presented unless otherwise stated.

1.1 Basis of presentation

The financial statements have been prepared in accordance with the Companies Act of South Africa 2008, International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these statements.

The financial statements have been prepared on the historical cost basis, except for the revaluation of investment financial assets through profit or loss, which are carried at fair value.

*Use of estimates and judgements*

The preparation of financial statements in compliance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, 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 judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Company's estimates and underlying assumptions are reviewed for reasonability on an on-going basis. Revisions to accounting estimates are recognised in the statement of comprehensive income in the year in which the estimates are 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.

*Adoption of new and revised standards*

The Company's accounting policies are consistent with those of the previous financial year, except for those instances where it has adopted new or revised standards and/or interpretations. The Company has not adopted all of the revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRIC of the IASB relevant to its operations that are effective for annual reporting periods beginning on or after 1 January 2011. The adoption of these revised standards and interpretations did not have any effect on the Company's financial performance or position as they did not give rise to additional disclosures including or any changes to existing accounting policies.

ETANA INSURANCE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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1 Accounting policies (continued)

1.1 Basis of presentation (continued)

*Adoption of new and revised standards (continued)*

*Accounting standards and interpretations in issue but not yet effective*

The following IASB standards and IFRIC interpretations have been published and are applicable to accounting periods beginning on or after 1 July 2011. The Company will comply with these standards from the effective date. It is expected that the application of these standards will not have a significant impact on the Company's reported results, financial position or cash flow, but they are expected to give rise to additional disclosures, including in some cases, changes to existing accounting policies.

- IFRS 7 : Financial Instruments: Disclosures (effective 1 July 2011)
- IFRS 9 : Financial Instruments: (effective 1 January 2013)
- IFRS 13 : Fair value measurement (effective 1 January 2013)

The principal effects of the above standards and interpretations on the Company's financial statements in future will be as follows:

- IFRS 7 : Financial Instruments: Disclosures (effective 1 July 2011)  
The amendments are intended to address concerns raised during the financial crisis by the G20, among others, that financial statements did not allow users to understand the on-going risks the entity faced due to derecognised receivables and other financial assets.
- IFRS 9 : Financial Instruments: (effective 1 January 2013)  
The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss.
- IFRS 13 : This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

ETANA INSURANCE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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1 Accounting policies (continued)

1.2 Intangible assets

Intangible assets are stated at cost, less accumulated amortisation and accumulated impairment losses, if any. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense is recognised in statement of comprehensive income on a straight-line basis over the estimated useful lives, and commences when the intangible asset is available for use and ceases at the earlier of the date the asset is classified as held for sale or the date it is derecognised.

1.3 Foreign currencies

The annual financial statements are presented in South African Rand (R), which is the Company's functional and presentation currency.

*Transactions and balances*

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. At each statement of financial position date, assets and liabilities denominated in currencies different to the functional currency are translated into the functional currency at the ruling rate at that date. Foreign exchange gains and losses are recognised in the statement of comprehensive income. Translation differences on non-monetary items are reported as part of the fair value gain or loss.

1.4 Property and equipment

Property and equipment is initially recorded at historical cost less depreciation. Historical costs include all expenditure that is directly attributable to the acquisition of an asset and to bringing it to a working condition for its intended use, including import duties and non-refundable purchases taxes but excluding trade discounts and rebates. Maintenance and repairs expenditure, which neither adds to the value of property and equipment nor significantly prolongs its expected useful life, is recognised directly in the statement of comprehensive income.

ETANA INSURANCE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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1 Accounting policies (continued)

1.4 Property and equipment (continued)

*Equipment*

Equipment is reflected at cost less accumulated depreciation and impairment losses. Depreciation is provided on the straight line basis at rates considered appropriate to reduce the cost to net residual value over the estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. All other repairs and maintenance expenditure is charged to the statement of comprehensive income during the financial period in which it is incurred.

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the asset's proceeds to its carrying amount and are included in the income statement.

*The rates used for depreciation are as follows:*

Motor vehicles	20%
Office equipment	10%
Computer equipment	33%

There have been no changes to useful lives from those applied in the previous financial year.

1.5 Financial assets

*Investments*

The Company classifies its investments at fair value through profit and loss and loans and receivables. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of initial recognition according to the following accounting policies:

ETANA INSURANCE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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1 Accounting policies (continued)

1.5 Financial assets (continued)

*Financial assets at fair value through profit and loss*

A financial asset is classified in this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking, or if so designated by management. Financial assets designated at fair value through profit and loss are those that are managed and where performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company's key management personnel.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and excludes those that the Company intends to sell in the short term or that it may have designated as fair value through profit and loss. Receivables arising from insurance contracts are also classified in this category. Loans and receivables are stated at amortised cost net of write downs for any amounts expected to be irrecoverable.

*Recognition and measurement*

Financial instrument purchases are initially measured at fair value, including transaction costs and are recognised using trade date accounting. The trade date is the date that the Company commits to purchase or sell the asset. Subsequent to initial measurement, financial assets at measured fair value through profit.

Financial instruments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

*Fair value*

The fair value of investments is based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted investments are estimated using applicable cash flow models or price/earning ratios refined to reflect the specific circumstances of each investment. Where the fair value of an investment cannot be measured reliably, the investment is carried at cost less any impairment.

ETANA INSURANCE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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1 Accounting policies (continued)

1.5 Financial assets (continued)

*Gains and losses*

Realised and unrealised gains and losses arising from changes in the fair value of investments classified as fair value through profit or loss are included in the statement of comprehensive income in the period in which they arise.

*Offsetting*

Where a legally enforceable right to offset exists for recognised financial assets and financial liabilities and there is an intention to settle the liability and realise the asset simultaneously or to settle on a net basis, all related financial effects are offset and reported as a net amount in the statement of financial position.

1.6 Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating the corresponding interest expense over the relevant period. The effective interest rate is the rate that discounts future cash payments through the expected life of the financial liability or where appropriate, a shorter period.

In accordance with the definition of a financial liability contained in IAS 32 - financial instruments: Presentation (IAS 32), the Company classifies the following statement of financial position items as financial liabilities stated at amortised cost:

- Borrowings
- Trade and other payables

1.7 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

ETANA INSURANCE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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1 Accounting policies (continued)

1.8 Impairment of assets

1.8.1 Financial assets

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are recognized 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 loss event 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 default or delinquency in payments;
- adverse changes in the payment status of issuers or debtors; and
- economic conditions that correlate with defaults on assets in the Company

All impairment losses are recognised in the statement of comprehensive income as soon as they are identified.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, 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 and the amount of the loss is recognized in the statement of comprehensive income.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

1.8.2 Non-financial assets

Non-financial assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 and value in use.

ETANA INSURANCE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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1 Accounting policies (continued)

1.8 Impairment of assets (continued)

1.8.2 Non Financial assets (continued)

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 recognized, the previously recognized impairment loss is reversed and the decrease recognized in the statement of comprehensive income.

1.9 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments of three months or less in money market instruments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are measured at fair value by reference to expected cash flows and current market interest rates.

1.10 Share capital

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

1.11 Insurance contracts

Classification of insurance contracts

The Company issues contracts which transfer insurance risk.

Insurance contracts are those 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. Insurance risk is risk other than financial risk.

Receipts and payments under insurance contracts are accounted for in the statement of comprehensive income in accordance with the requirements of IFRS 4.

1 Accounting policies (continued)

1.11 Insurance contracts (continued)

Recognition and measurement of insurance contracts

*Premiums*

Gross premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period and are disclosed gross of commission to intermediaries and exclude Value Added Tax. Premiums written include adjustments to premiums written in prior periods.

Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received. Reinsurance commissions received are deferred and recognised as income over the term of the reinsurance contract.

*Unearned premium provision*

Premiums are earned from the date the risk attaches, over the indemnity period, based on the pattern of the risk underwritten. Unearned premiums, which represent the proportion of premiums written in the current year which relate to risks that have not expired by the end of the financial year are calculated on a time proportionate basis for even risk contracts and other bases that best represent the unearned risk profile for uneven risk contracts.

*Deferred acquisition costs*

Deferred costs consist of commissions and other variable costs directly connected with acquisition or renewal of insurance contracts. The deferred acquisition costs are amortised over the terms of the policies as premium is earned.

*Claims incurred*

Claims incurred consist of claims and claims handling expenses paid during the financial year, together with the movement in the provision for outstanding claims and are charged to income as incurred.

The provision for outstanding claims comprise the Company's estimate of the undiscounted ultimate cost of settling all claims incurred but unpaid at the statement of financial position date, whether reported or not. Related anticipated reinsurance recoveries are disclosed separately as assets.

ETANA INSURANCE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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1 Accounting policies (continued)

1.11 Insurance contracts (continued)

Recognition and measurement of insurance contracts (continued)

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.

*Unexpired risk provision and liabilities and related assets under liability adequacy test*

Provision is made for unexpired risks where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premium provision in relation to such policies.

Liability adequacy tests are performed at statement of financial position date to ensure the adequacy of the liability raised. Current best estimates of future contractual cash flows, claims handling and administration expenses are used in performing these tests. Any deficiency is charged to income for the year (unexpired risk provision).

*Contingency reserve*

A reserve is held for the full amount of the contingency reserve as required by the regulatory authorities in South Africa. Transfers to and from this reserve are treated as appropriations of retained earnings.

*Reinsurance*

The Company cedes 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, the unearned portion thereof, and claims reimbursed are reflected in the statement of comprehensive income and statement of financial position separately from the gross amounts.

Only those contracts which give rise to a significant transfer of insurance risk are accounted for as reinsurance. Amounts recoverable under such contracts are recognised in the same year as the related claim.

ETANA INSURANCE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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1 Accounting policies (continued)

1.11 Insurance contracts (continued)

Recognition and measurement of insurance contracts (continued)

Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position 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 there is a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Impairment losses are recognized in the statement of comprehensive income.

*Acquisition costs*

Expenses for the acquisition of insurance contracts represent commission paid and are expensed as incurred in line with premium earned.

*Salvage and subrogation reimbursements*

Some insurance contracts permit the Company to sell property acquired in settling a claim. The Company may also have the right to pursue third parties for payment of some or all costs. Estimates of salvage recoveries and subrogation reimbursements are considered as an allowance in the measurement of the liability for claims.

1.12 Revenue

The accounting policy in relation to revenue from insurance contracts is disclosed in note 1.11

*Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

ETANA INSURANCE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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1 Accounting policies (continued)

1.12 Revenue (continued)

*Dividend income*

Dividend income from investments is recognised when the shareholder's right to receive payment has been established. Dividend income is recognised as at the last day of registration in respect of quoted shares and when declared in respect of unquoted shares. Preference share dividends are recognised using the effective interest rate method.

1.13 Employee benefits

*Pension and provident scheme arrangements*

The Company participates in The Hollard Group defined contribution pension and provident funds. Contributions to the funds in respect of present service are charged against income as incurred. Contributions are adjusted periodically to take account of salary increases and any other changing circumstances. The Company has no further obligations once the contributions have been paid.

*Profit-sharing and bonus plans*

The Company operates several bonus and profit share plans for the benefit of employees. A provision is recognised when the Company is contractually obliged to pay the profit share or bonus to its employees or where a past practice has created a constructive obligation to do so.

*Leave pay*

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. Provision is made for the estimated liability of this leave as a result of services rendered by employees up to the statement of financial position date.

*Termination benefits*

Termination benefits are payable when an employee's employment is terminated before the normal retirement date or whenever an employee accepts a voluntary redundancy in exchange for these benefits. The Company recognises termination benefits in the statement of comprehensive income when it is committed to either terminating the employment of current employees according to a detailed, formal plan without possibility of withdrawal or where it is committed to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

ETANA INSURANCE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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1 Accounting policies (continued)

1.13 Employee benefits (continued)

*Other post-employment obligations*

The Company has no obligation for post-retirement medical benefits in respect of pensioners, former employees or current employees.

1.14 Taxation

Income taxation on the profit or loss for the period comprises current and deferred taxation. Income tax is recognised in the 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.

Income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax assets are realised or the deferred income tax liability is settled.

*Current taxation*

Current taxation is the expected taxation payable using taxation rates enacted at statement of financial position date, including any prior year adjustments.

*Deferred taxation*

Deferred taxation is provided at current tax rates, on the comprehensive basis, using the statement of financial position liability method in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised for all taxable temporary timing differences and deferred tax assets are recognised to the extent that it is probable future taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

ETANA INSURANCE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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1 Accounting policies (continued)

1.15 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation of uncertain timing or amount as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. When the effect of discounting is material, provisions are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1.16 Finance leases

Leases of assets 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 asset 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 outstanding balance of the liability. The corresponding lease obligations, net of finance charges, are included in liabilities. The finance cost is charged to the statement of comprehensive income over the lease period according to the effective interest method. The asset acquired under the finance lease is depreciated over the shorter of the useful life of the asset and the lease term, if ownership does not pass at the end of the lease term. Leased assets under finance leases are treated in the same manner as property and equipment.

1.17 Operating leases

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight line basis over the period of the lease. When an operating lease is terminated, any payment required by the lessor by way of a penalty is recognised as an expense in the period in which termination takes place.

ETANA INSURANCE COMPANY LIMITED  
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1 Accounting policies (continued)

1.18 Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2 Critical accounting estimates and judgements

The Company makes certain estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Claims incurred*

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. These estimates rely on the 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 estimates and assumptions are reviewed and updated and the tools with which it monitors and manages risk refined as new information becomes available.

The Company's processes for determining significant reserving assumptions are outlined in note 17.1.

3 Financial risk management

3.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

3 Financial risk management (continued)

3.1 Overview (continued)

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees and brokers understand their roles and obligations. The audit committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

3.1.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations.

Key areas where the Company is exposed to credit risk are:

- amounts due from insurance policyholders;
- amounts due from underwriting agencies;
- amounts due from insurance contract intermediaries and third party recoveries;
- investments, cash and cash equivalents;
- reinsurers' share of insurance liabilities; and
- amounts due from reinsurers and third parties in respect of claims already paid.

*Premium debtors and other receivables*

The Company limits the levels of credit risk that it accepts by placing limits on its exposure to a single counter party or groups of counter parties, product, and to geographical and industry segments. The levels are subject to annual or more frequent reviews. Internal audit also makes regular reviews to assess the degree of compliance with the Company's procedures on credit.

- 3 Financial risk management (continued)
- 3.1 Overview (continued)
- 3.1.1 Credit risk (continued)

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each intermediary and the portfolios that they manage. All insurance business is written through intermediaries. The Company is also protected by guarantees provided by the Intermediary Guarantee Facility for the non-payment of premiums collected by intermediaries. The Company has had a long standing business relationship with the majority of the intermediaries and the credit control function forms an integral part of this relationship.

*Premium debtors and other receivables*

The Company establishes a provision for impairment that represents its estimate of incurred losses in respect of premium debtors and other receivables and investments. The main components of this allowance are specific loss components that relate to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

*Investments*

The Company has a representative on the Hollard Investment Committee that monitors and approves the investment mandates stipulated by the Board. The Company, through the said mandates, limits its exposure to credit risk by mainly investing in liquid securities and with counter parties that have a credit rating of at least A1 from Standard & Poor's and A from Moody's, or, where such ratings are not available, by internal analysis. Given these high credit ratings, management does not expect any significant counter party to fail to meet its obligations.

The Company seeks to avoid concentration of credit risk to groups of counter parties, asset management houses, to business sectors, product types, and geographical segments by diversifying the investment mandate to various asset management houses and enforcing a strict application of mandates based on internal actuarially calculated asset allocation framework. Financial assets are graded and invested according to this framework and the investment committee regularly reviews compliance to that effect. The analysis of credit quality of the Company's assets is disclosed in note 4.1.

3 Financial risk management (continued)

3.1.1 Credit risk (continued)

*Reinsurance*

Reinsurance is used to manage insurance risk. Under the terms of reinsurance agreements, reinsurers agree to reimburse the ceded amount in the event that a gross claim is paid. However, the Company remains liable to its policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently the Company is exposed to credit risk.

The Company has exposure to concentration risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The creditworthiness of reinsurers is considered annually by reviewing their financial strength prior to finalisation of any contract. The Company's largest reinsurance counter party is Munich Re. This exposure is monitored on a regular basis with the forecast to completion monitored for any shortfall in the claims history to verify that the contract is progressing as expected and that no further exposure for the Company will arise.

The Company monitors the financial condition of reinsurers on an on-going basis and reviews its reinsurance arrangements periodically. The Company has a reinsurance committee that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance against those criteria. When selecting a reinsurer the Company considers its security. This is assessed from public rating information and from internal investigations.

3.1.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company is exposed to daily calls on its available cash resources mainly from claims arising from short-term insurance contracts. The investment committee sets limits on the minimum proportion of maturing funds to be available to meet such calls to cover claims at unexpected levels of demand.

3 Financial risk management (continued)

3.1.2 Liquidity risk (continued)

Based on actuarial modelling of historical and future expected trends, the Company has estimated the probable cash outflows associated with general insurance liabilities. The maturity analysis of the gross insurance liabilities is set out in note 4.2. The maturity profile of the related insurance and investment assets is managed by the investment committee and is expected to be similar to the profile of the liabilities. The Company has taken into account that the unearned premium provision, which will be recognised as earned premium in the future, will not lead to claim cash outflows equal to this provision. This has been taken into account in estimating future cash outflows associated with insurance liabilities.

3.1.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices which could affect the Company's income or the value of its holdings of insurance assets and financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

*Currency risk*

The Company is exposed to foreign currency risk for transactions that are denominated in a currency other than rand. This exposure is limited to the operations of the foreign reinsurance inwards treaties that are in run off. The Company does not take forward cover on foreign currency transactions and balances as the net exposure is considered minimal.

*Interest rate risk*

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and liabilities and on the fair value of fixed maturity investments in the Company's investment portfolios. The Company's fixed maturity investments are insignificant and therefore do not give rise to significant interest rate risk.

The majority of interest sensitive investments are short-term therefore the impact is minimal. The Company does not use derivative instruments to manage this risk other than an on-going assessment by the investment committee of market expectations within the South African market to determine an optimal asset allocation in interest sensitive investments.

Insurance liabilities are not directly sensitive to the level of market interest rates, as they are not discounted and contractually non-interest bearing.

3 Financial risk management (continued)

3.1.3 Market risk (continued)

*Other market price risk*

Equity price risk arises from listed, fair value through profit and loss, equity securities. The equity selection and investment analysis process is supported by a well-developed research function utilizing professional advisors.

The Company is assisted by external asset managers in this regard. In accordance with this strategy, the investments are designated at fair value through profit and loss because their performance is actively monitored and they are managed on a fair value basis. The investment committee actively monitors equity assets, listed and unlisted, owned by the Company. Concentrations of specific equity holdings are also monitored.

*Capital management*

For internal management purposes the Company refers to the international basis of solvency (being the ratio of net assets to net premiums). In addition to the international basis, management uses the statutory solvency requirements as prescribed by legislation, to monitor and manage the Company's capital resources.

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by the regulators;
- the Company manages its capital so as to maintain an international solvency ratio of 30 to 40%;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide an adequate return to shareholders by pricing insurance contracts commensurate with the level of risk;
- to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value; and
- to manage its capital structure and make adjustments to it, in the light of changes in economic conditions.

The Company submits quarterly and annual returns to the Financial Services Board in terms of the Short-Term Insurance Act, 1998. It is required at all times to maintain a statutory surplus asset ratio as defined in the Short-Term Insurance Act. In terms of this Act, the Company is required to maintain a contingency reserve of 10% of net written premiums and a solvency margin calculated at 15% of gross written premium less approved reinsurance.

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4 Risk management

4.1 Credit risk

*Exposure to credit risk*

The carrying amount of insurance and financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying value in balance sheet		Net credit exposure	
	2011	2010	2011	2010
	R	R	R	R
<b>Financial assets</b>				
Staff loans and trade receivables	47 829 897	34 201 083	47 829 897	34 201 083
Cash and cash equivalents	854 066 144	692 487 399	854 066 144	692 487 399
<b>Debt securities</b>				
Unlisted	11 848 630	10 697 120	11 848 630	10 697 120
<b>Equity securities</b>				
Listed	38 050 737	36 452 041	38 050 737	36 452 041
Unlisted	82 750 000	47 750 000	82 750 000	47 750 000
<b>Insurance assets</b>				
Premium debtors	221 787 682	208 959 785	221 787 682	208 959 785
Future profit commissions	-	4 082 414	-	4 082 414
Reinsurance assets	883 612 628	757 973 133	883 612 628	757 973 133
<b>Total</b>	<b>2 139 945 718</b>	<b>1 792 602 975</b>	<b>2 139 945 718</b>	<b>1 792 602 975</b>

The Company held deposits of R377 441 153 (2010: R258 518 295) as security for reinsurers' share of insurance contract provisions at the balance sheet date. There are no financial assets that are past due or impaired as at 30 June 2011.

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 NOTES TO THE FINANCIAL STATEMENTS  
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4 Risk management (continued)

4.1 Credit risk (continued)

*Exposure to credit risk* (continued)

The following table provides information regarding the aggregated credit risk exposure for insurance and financial assets using domestic ratings with external agencies as at 30 June 2010:

	AAA R	AA R	A R	Not rated R	Carrying value R
2011					
<b>Financial assets</b>					
Trade and loan receivables	-	-	-	47 829 897	47 829 897
Cash and cash equivalents	-	824 846 631	-	29 219 513	854 066 144
<b>Debt securities</b>					
Unlisted	-	-	-	11 848 630	11 848 630
<b>Equity securities</b>					
Listed	5 460 065	15 727 105	4 143 300	12 720 267	38 050 737
Unlisted	-	-	-	82 750 000	82 750 000
<b>Insurance assets</b>					
Premium debtors	-	-	-	221 787 682	221 787 682
Future profit commissions	-	-	-	-	-
Reinsurance assets	9 358 496	220 614 817	460 763 129	192 876 186	883 612 628
<b>Total</b>	<b>14 818 561</b>	<b>1 061 188 553</b>	<b>464 906 429</b>	<b>599 032 175</b>	<b>2 139 945 718</b>
2010					
<b>Financial assets</b>					
Trade and loan receivables	-	-	-	34 201 083	34 201 083
Cash and cash equivalents	-	610 102 226	52 023 363	30 361 810	692 487 399
<b>Debt securities</b>					
Unlisted	-	-	-	10 697 120	10 697 120
<b>Equity securities</b>					
Listed	5 564 065	16 154 250	3 950 500	10 783 226	36 452 041
Unlisted	-	-	-	47 750 000	47 750 000
<b>Insurance assets</b>					
Premium debtors	-	-	-	208 959 785	208 959 785
Future profit commissions	-	-	-	4 082 414	4 082 414
Reinsurance assets	19 097 374	128 922 949	419 487 430	190 465 380	757 973 133
<b>Total</b>	<b>24 661 439</b>	<b>755 179 425</b>	<b>475 461 293</b>	<b>537 300 818</b>	<b>1 792 602 975</b>

ETANA INSURANCE COMPANY LIMITED  
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4 Risk management (continued)

4.1 Credit risk (continued)

The assets analysed above are based on external credit ratings obtained from various reputable external rating agencies. The rating scales are based on long-term investment horizons under the following broad investment grade definitions:

- AAA The financial instrument is judged to be of the highest quality, with minimal credit risk and indicates the best quality issuers that are reliable and stable.
- AA The financial instrument is judged to be of high quality and is subject to very low credit risk and indicates quality issuers.
- A The financial instrument is considered upper - medium grade and is subject to low credit risk although certain economic situations can more readily affect the issuers' financial soundness adversely than those rated AAA or AA.

Age analysis of other loans and receivables and premium debtors.

	Less than 30 days R	31 to 60 days R	61 days and over R	Total R
<b>2011</b>				
Premium debtors	94 821 016	109 086 668	17 879 998	221 787 682
Loan receivable from Hollard Insurance Company Ltd	-	-	-	-
Interest bearing loan receivable	-	-	10 944 889	10 944 889
	<u>94 821 016</u>	<u>109 086 668</u>	<u>28 824 887</u>	<u>232 732 571</u>
<b>2010</b>				
Premium debtors	80 184 730	130 016 325	(1 241 270)	208 959 785
Loan receivable from Hollard Insurance Company Ltd	-	-	-	13 217 782
Interest bearing loan receivable	-	-	-	10 649 639
	<u>80 184 730</u>	<u>130 016 325</u>	<u>(1 241 270)</u>	<u>232 827 206</u>

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4 Risk management (continued)

4.2 Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Within a year R	2011 2 to 5 years R	Carrying amount R	Within a year R	2010 2 to 5 years R	Carrying amount R
<b>Financial liabilities:</b>						
Trade and other payables	92 362 424	45 773 857	138 136 281	95 949 310	43 716 957	139 666 267
<b>Insurance liabilities:</b>						
Claims reported and loss adjustment expenses	529 859 701	-	529 859 701	479 660 629	-	479 660 629
Claims incurred but not yet reported	81 815 000	-	81 815 000	65 671 688	-	65 671 688
Unearned premium reserve	468 175 421	-	468 175 421	419 865 682	-	419 865 682
Experience account balance	1 753 662	-	1 753 662	1 753 662	-	1 753 662
	1 081 603 784	-	1 081 603 784	966 951 661	-	966 951 661
<b>Total</b>	<b>1 173 966 208</b>	<b>45 773 857</b>	<b>1 219 740 065</b>	<b>1 062 900 971</b>	<b>43 716 957</b>	<b>1 106 617 928</b>

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4 Risk management (continued)

4.3 Market risk

4.3.1 Currency risk

The Company has some receivables and outstanding claims reserves denominated in foreign currencies, predominantly US Dollars. The amounts are not significant and therefore an analysis of balances and sensitivities has not been provided.

4.3.2 Interest rate risk

Sensitivity analysis - interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of financial instruments will fluctuate because of changes in the market interest rate at the reporting date. The sensitivity analysis is solely associated with financial instruments.

The Company's fixed rate instruments are not exposed to interest rate risk.

The Company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 100 basis points in all yield curves of financial assets and liabilities. These particular exposures illustrate the Company's overall exposure to interest rate sensitivities included in the Company's risk management framework policies and its impact on the Company's profit or loss.

	2011 Carrying amount R	2010 Carrying amount R
Variable rate instruments		
<i>Financial assets</i>		
Hedge funds investments	11 848 630	10 697 120
	<u>11 848 630</u>	<u>10 697 120</u>

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4 Risk management (continued)

4.3.2 Interest rate risk (continued)

	Profit/(loss)		Equity	
	1% increase R	1% decrease R	1% increase R	1% decrease R
2011				
Hedge funds investments	727 776	490 804	727 776	490 804
Net cash flow sensitivity	<u>727 776</u>	<u>490 804</u>	<u>727 776</u>	<u>490 804</u>
2010				
Hedge funds investments	(435 370)	(649 310)	(435 370)	(649 310)
Net cash flow sensitivity	<u>(435 370)</u>	<u>(649 310)</u>	<u>(435 370)</u>	<u>(649 310)</u>

4.3.3 Equity risk

Sensitivity analysis - equity risk

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Management monitors movements of financial assets and equity price risk movements on a monthly basis by assessing the expected changes in the different portfolios due to parallel movements of a 10% increase or decrease in the various share prices.

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4 Risk management (continued)

4.3.3 Equity risk (continued)

Description of equity investments

	2011 Carrying amount R	2010 Carrying amount R
Preference shares – listed	25 330 470	25 668 815
Unit trusts – listed	12 720 267	10 783 226
	<u>38 050 737</u>	<u>36 452 041</u>

	Profit/(loss)		Equity	
	10% increase R	10% decrease R	10% increase R	10% decrease R
2011				
Preference shares	(140 902)	(2 700 415)	(140 902)	(2 700 415)
Unit trusts	3 081 088	537 035	3 081 088	537 035
	<u>2 940 186</u>	<u>(2 163 380)</u>	<u>2 940 186</u>	<u>(2 163 380)</u>

## 5.1 Exposure to insurance risk

The Company underwrites risks that natural persons, corporates or other entities wish to transfer to an insurer. Such risks may relate to property, accident, personal accident, motor, liability, engineering, marine and other perils which may arise from an insured event. As such the Company is exposed to uncertainty surrounding the timing, frequency and severity of claims under insurance contracts. The principal risk is that the frequency and/or severity of claims are greater than expected. Insurance events are by their nature random and the actual size and number of events in any one year may vary from those estimated and experienced in prior periods.

The Company underwrites primarily short-tailed risks, that is, insurance under which claims are typically settled within one year of the occurrence of the events giving rise to the claims. Risks that are long-tail in nature represent an insignificant portion of the Company's insurance portfolio. Consequently, whilst the Company may experience variations in its claims patterns from one year to the next, the Company's exposure at any time to insurance contracts issued more than one year before is limited. The product features of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts in the Company are described below:

### *Property*

Provide indemnity for loss or damage to immovable and movable property caused by perils such as fire, lightning, explosion, weather, water, earthquake and malicious damage. These contracts may also include business interruption policies which insure the loss of profits incurred by a business as a result of loss or damage to the insured property by these perils.

### *Accident*

Provide indemnity for loss of or damage to mainly movable property for losses caused by crime, certain accidental damage such as damage to goods in transit or accidental damage to glass. Included under the accident classes are legal liabilities an insured may incur as a result of accidental damage to third party property or accidental death or injury to a third party caused by the negligence of the insured.

### *Personal accident*

Provide compensation arising out of the death, permanent or temporary total disability of the insured, the family of the insured or the employees of a business. This cover is restricted to certain accidents and does not provide the wider benefits available from the life insurance industry.

5.1 Exposure to insurance risk (continued)

*Motor*

Provide indemnity for loss of or damage to the insured motor vehicle. The cover is normally on an all risks basis providing a wide scope of cover. However the insured may select restricted forms of cover such as fire and theft only. Legal liabilities arising out of the use or ownership of the motor vehicle following an accident for damage to third party property or death or injury to a third party are also covered in this class.

*Engineering*

Provide indemnity for losses sustained through the use of machinery and equipment or the erection of buildings and structures. Risks covered by this type of contract include machinery breakdown, business interruption and loss or damage to plant and equipment.

*Marine*

Provide indemnity for both cargo and hull classes of business. Cargo covers physical loss of or damage to cargo. Hull covers accidental loss or damage to commercial vessels or small craft.

*Liability*

Provide indemnity for actual or alleged breach of professional duty arising out of the insured's activities, indemnify directors and officers of a Company against court determined compensation and legal defence costs, provide indemnity for the insured against damages consequent to a personal injury or property damage.

*Agriculture*

Provides indemnity for losses sustained through the use of farmers assets in the agriculture sector excluding crop insurance.

The Company markets these products to personal and commercial policyholders through intermediaries.

5.2 Limiting exposure to insurance risk

The Company limits its exposure to insurance risk through setting clearly defined underwriting strategies and limits, application of appropriate risk assessment techniques and centralised management of re-insurance.

The Company's underwriting strategy ensures diversification of insurance risk in terms of type and amount of risk covered, geographical location and type of industry covered.

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5.2 Limiting exposure to insurance risk (continued)

The strategy also aims to develop a sufficiently large population of risks to reduce the variability of the expected outcome. The underwriting strategy is detailed in underwriting authorities which set the limits for underwriters in terms of line size, class of business, geographical location and industry to enforce appropriate risk selection within the portfolio. Management conducts and periodic internal audits ensure that underwriters operate within these limits.

Analysis of the Company's risk profiles shows that the Company underwrites a well diversified portfolio of risks and that the Company's business has a low correlation factor between the types of insurance products and classes it underwrites. Using gross written premium as an indicator, the table below illustrates the Company's distribution of risks underwritten across various classes of business:

	2011	2010
	R	R
Gross written premium per class of business		
Motor	472 037 133	322 597 416
Property	732 621 713	677 917 987
Liability	150 072 610	117 877 893
Contract/Engineering	144 412 467	103 206 472
Transportation	124 791 517	81 330 854
Accident/Health	6 406 000	5 535 252
Guarantee	5 960 242	4 965 531
	<hr/>	<hr/>
Total	1 636 301 682	1 313 431 405
	<hr/> <hr/>	<hr/> <hr/>

On-going review and analysis of underwriting information enables the Company to monitor its risks and take timely corrective action. The ability to adjust premiums allows the Company to mitigate the risk of underwriting losses by addressing adverse loss ratios in terms of different classes of business and different portfolios or clients. The risk of fraudulent claims is reduced by internal controls embedded in claims handling processes and specific techniques developed to proactively detect fraudulent claims.

5.2 Limiting exposure to insurance risk (continued)

*Underwriting and Reinsurance operating procedures*

The Company has implemented an integrated risk management framework to manage risk in accordance with the Company's risk appetite. Company reinsurance is managed by The Reinsurance and Underwriting Committee (RUCOM). The objectives and responsibilities of the committee as set out and approved by the Board of Directors are outlined below. The main objective of RUCOM is to provide a policy framework that ensures that risk assumption and risk/retention practice is in line with prudent risk/reward parameters set by the Company. Specifically RUCOM makes recommendations to the Board as to the risk retention policy of the Company; communicates policy to the business units for adoption in line with their business operations; reviews underwriting standards, methodologies and processes employed by each business unit for both facultative and treaty reinsurance arrangements and reviews the reinsurance programme for cost efficiency, compliance with risk assumption criteria and security.

*Reinsurance strategy*

The Company obtains third-party reinsurance cover to reduce risks from single events or accumulation of risk which could have a significant impact on earnings for the current year or the Company's capital. This cover is placed on the local and international reinsurance markets.

Dynamic Financial Analysis (DFA) is performed each year prior to renewal. DFA informs the decision making regarding risk retention and reinsurance purchase. Etana's insurance risk and return position is tested against a wide range of reinsurance alternatives including viability of proportional and non proportional alternatives.

The Company uses state of-the-art catastrophe modelling tools to assess its exposure to low-frequency high-severity risks, the most common of these risks relates to natural catastrophes such as earthquakes, floods and windstorm. The Company's most significant aggregate exposure will arise from storm/floods. Where the Company is at risk in case of the occurrence of an event that could threaten its solvency, catastrophe reinsurance is in place to reduce the threat associated with such an event.

*Risk retention parameters*

Etana is in the business of assuming that level of risk, which is deemed prudent in relation to the risk/reward and the Company's absolute capacity in terms of shareholders funds and free reserves. Predetermined criteria are observed at all times other than where specific written permission has been obtained from the Chairman of the Underwriting Committee acting on the authority of the majority of the members of such committee.

5.2 Limiting exposure to insurance risk (continued)

*Counterparty Risk*

Currently only S&P A rated re-insurers are utilised unless express permission is sought from the risk management committee.

*Treaty placing process*

The treaty placing process is the responsibility of the Risk Management Division of The Hollard Insurance Company.

The development of claims liabilities provides an indicator of the Company's ability to estimate the ultimate value of claims. The majority of the Company's insurance contracts are classified as short tailed. The short settlement period for this type of business allows the Company to achieve a high degree of certainty about the estimated costs of claims. The longer time required to assess the emergence of a long tail claim makes the estimation process more uncertain for these types of claims. The Company's limited exposure to long tailed business is in the personal accident, third party motor liability and some engineering and marine classes. Independent actuarial valuations are used to estimate the Company's potential liability for this type of exposure.

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6 Balance sheet analysis

	Fair value through profit and loss financial assets R	Loans and receivables R	Insurance contract assets and liabilities R	Financial liabilities measured at amortised cost R	Non-financial assets and liabilities R	Total R
2011						
ASSETS						
Property and equipment	-	-	-	-	7 264 006	7 264 006
Intangible asset	-	-	-	-	3 070 868	3 070 868
Financial assets	132 649 367	-	-	-	-	132 649 367
- listed - preference shares	25 330 470	-	-	-	-	25 330 470
- listed – unit trust	12 720 267	-	-	-	-	12 720 267
- unlisted – preference shares	82 750 000	-	-	-	-	82 750 000
- unlisted – debentures	11 848 630	-	-	-	-	11 848 630
Loans, receivables and insurance receivables	-	269 617 579	-	-	-	269 617 579
Deferred tax asset	-	-	-	-	-	-
Reinsurance assets	-	-	883 612 628	-	-	883 612 628
Current income tax	-	-	-	-	283 796	283 796
Deferred acquisition costs	-	-	63 079 827	-	-	63 079 827
Cash and cash equivalents	-	854 066 144	-	-	-	854 066 144
Total assets	<u>132 649 367</u>	<u>1 123 683 723</u>	<u>946 692 455</u>	<u>-</u>	<u>10 754 686</u>	<u>2 213 644 215</u>

ETANA INSURANCE COMPANY LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
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6 Balance sheet analysis (continued)

	Fair value through profit and loss financial assets R	Loans and receivables R	Insurance contract assets and liabilities R	Financial liabilities measured at amortised cost R	Non-financial assets and liabilities R	Total R
2011 (continued)						
<b>EQUITY AND LIABILITIES</b>						
Capital and reserves						
Share capital and premium	-	-	-	-	165 000 000	165 000 000
Contingency reserve	-	-	-	-	61 702 000	61 702 000
Retained earning	-	-	-	-	104 508 854	104 508 854
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>331 210 854</b>	<b>331 210 854</b>
<b>Liabilities</b>						
Insurance liabilities	-	-	1 081 603 784	-	-	1 081 603 784
Deferred tax	-	-	-	-	676 814	676 814
Borrowings	-	-	-	2 908 371	-	2 908 371
Reinsurance liabilities	-	-	621 069 864	-	-	621 069 864
Employee benefits	-	-	-	-	38 038 247	38 038 247
Trade and other payables	-	-	-	138 136 281	-	138 136 281
Current income tax	-	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>1 702 673 648</b>	<b>141 044 652</b>	<b>38 715 061</b>	<b>1 882 433 361</b>
<b>Total equity and liabilities</b>	<b>-</b>	<b>-</b>	<b>1 702 673 648</b>	<b>141 044 652</b>	<b>369 925 915</b>	<b>2 213 644 215</b>

ETANA INSURANCE COMPANY LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
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6 Balance sheet analysis (continued)

	Fair value through profit and loss financial assets R	Loans and receivables R	Insurance contract assets and liabilities R	Financial liabilities measured at amortised cost R	Non-financial assets and liabilities R	Total R
2010						
ASSETS						
Property and equipment	-	-	-	-	4 094 365	4 094 365
Intangible asset	-	-	-	-	4 606 301	4 606 301
Financial assets	94 899 161	-	-	-	-	-
- listed - preference shares	25 668 815	-	-	-	-	25 668 815
- listed – unit trust	10 783 226	-	-	-	-	10 783 226
- unlisted – preference shares	47 750 000	-	-	-	-	47 750 000
- unlisted – debentures	10 697 120	-	-	-	-	10 697 120
Loans, receivables and insurance receivables	-	247 243 282	-	-	-	247 243 282
Deferred tax asset	-	-	757 973 133	-	136 016	136 016
Reinsurance assets	-	-	58 618 906	-	-	58 618 906
Deferred acquisition costs	-	-	-	-	-	-
Cash and cash equivalents	-	692 487 399	-	-	-	692 487 399
Total assets	94 899 161	939 730 681	816 592 039	-	9 120 478	1 860 342 359

ETANA INSURANCE COMPANY LIMITED  
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6 Balance sheet analysis (continued)

	Fair value through profit and loss financial assets R	Loans and receivables R	Insurance contract assets and liabilities R	Financial liabilities measured at amortised cost R	Non-financial assets and liabilities R	Total R
2010 (continued)						
<b>EQUITY AND LIABILITIES</b>						
<b>Capital and reserves</b>						
Share capital and premium	-	-	-	-	165 000 000	165 000 000
Contingency reserve	-	-	-	-	53 711 285	53 711 285
Retained earnings	-	-	-	-	39 804 698	39 804 698
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>258 515 983</b>	<b>258 515 983</b>
<b>Liabilities</b>						
Insurance liabilities	-	-	966 951 661	-	-	966 951 661
Deferred tax asset	-	-	-	-	-	-
Borrowings	-	-	-	3 250 683	-	3 250 683
Reinsurance liabilities	-	-	464 754 503	-	-	464 754 503
Employee benefits	-	-	-	-	27 203 262	27 203 262
Trade and other payables	-	-	-	139 666 267	-	139 666 267
Current income tax	-	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>1 431 706 164</b>	<b>142 916 950</b>	<b>27 203 262</b>	<b>1 601 826 376</b>
<b>Total equity and liabilities</b>	<b>-</b>	<b>-</b>	<b>1 431 706 164</b>	<b>142 916 950</b>	<b>285 719 243</b>	<b>1 860 342 359</b>

ETANA INSURANCE COMPANY LIMITED  
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	2011 R	2010 R
7 Property and equipment		
Cost:		
Office equipment	4 545 841	828 267
Motor vehicles - owned	532 202	132 787
Motor vehicles – leased	5 504 465	4 519 351
	<u>10 582 508</u>	<u>5 480 405</u>
Accumulated depreciation:		
Office equipment	917 686	131 114
Motor vehicles - owned	163 240	101 805
Motor vehicles – leased	2 237 576	1 153 121
	<u>3 318 502</u>	<u>1 386 040</u>
Net carrying value:		
Office equipment	3 628 155	697 153
Motor vehicles - owned	368 962	30 982
Motor vehicles – leased	3 266 889	3 366 230
	<u>7 264 006</u>	<u>4 094 365</u>
Net carrying value at beginning of year	4 094 365	2 951 672
Office equipment	697 153	184 402
Motor vehicles	3 397 212	2 767 270
Additions	5 128 899	2 048 182
Office equipment	3 744 370	587 071
Motor vehicles	1 384 529	1 461 111
Disposals	(23 566)	-
Office equipment	(23 566)	-
Motor vehicles	-	-
Depreciation for the year	(1 935 692)	(905 489)
Office equipment	(789 801)	(74 320)
Motor vehicles	(1 145 891)	(831 169)
Net carrying value at end of year	<u>7 264 006</u>	<u>4 094 365</u>

The leased assets are pledged as security for the lease commitments.

ETANA INSURANCE COMPANY LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
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	2011 R	2010 R
8 Intangible asset		
Cost		
Future profit commission	7 677 168	7 677 168
	<hr/>	<hr/>
Accumulated amortisation and impairment		
Future profit commission	(4 606 300)	(3 070 867)
	<hr/>	<hr/>
Net carrying value at end of year		
Future profit commission	3 070 868	4 606 301
	<hr/>	<hr/>
Reconciliation of movement on net carrying value		
Carrying value at beginning of year	4 606 301	6 141 734
Amortisation charge	(1 535 433)	(1 535 433)
Future profit commission	<span style="border: 1px solid black;">(1 535 433)</span>	<span style="border: 1px solid black;">(1 535 433)</span>
	<hr/>	<hr/>
Net carrying value at end of year	3 070 868	4 606 301
	<hr/> <hr/>	<hr/> <hr/>

ETANA INSURANCE COMPANY LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year ended 30 June 2011

	2011 R	2010 R
9 Financial assets		
Fair value through profit and loss	132 649 367	94 899 161
Listed shares and unit trusts at fair value	38 050 737	36 452 041
Unlisted investments at fair value	94 598 630	58 447 120
	132 649 367	94 899 161
	%	%
Listed investments analysed by market sector:		
Oil and gas	3.5	2.7
Basic resources	7.1	6.5
Industrial goods and services	3.8	3.0
Personal and household goods	8.7	7.9
Healthcare	0.7	0.6
Consumer services	0.9	0.9
Telecommunications	1.9	1.6
Financial services	71.6	74.3
Technology	0.4	1.1
Other	1.4	1.4
	100	100
Unlisted investments comprise:		
Debentures	13	18
Preference shares	87	77
	100	100

Investments in hedge funds are managed by Capricorn Asset Management. The investment is structured in the form of shares and variable rate debentures but the underlying assets are listed equities and bonds. Fair value of these instruments is determined by reference to the market prices of the underlying listed assets at 30 June 2011 as reported by the asset managers. Scrip is held by custodians independent of the asset managers and so credit risk is limited to such an extent that its separate valuation is not considered feasible. All the above investments are current.

A register of investments is available for inspection at the registered office of the Company.

ETANA INSURANCE COMPANY LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
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9.1 Financial assets (continued)

Determination of fair value and fair values hierarchy	Level 1	Level 2	Level 3	Total fair value
2011				
Financial assets carried at fair value through profit and loss				
Listed preference shares	25 330 470	-	-	25 330 470
Hedge funds	-	-	11 848 630	11 848 630
Unit trusts	-	12 720 267	-	12 720 267
Unlisted preference shares	-	-	82 750 000	82 750 000
	<u>25 330 470</u>	<u>12 720 267</u>	<u>94 598 630</u>	<u>132 649 367</u>
2010				
Financial assets carried at fair value through profit and loss				
Listed preference shares	25 668 815	-	-	25 668 815
Hedge funds	-	-	10 697 120	10 697 120
Unit trusts	-	10 783 226	-	10 783 226
Unlisted preference shares	-	-	47 750 000	47 750 000
	<u>25 668 815</u>	<u>10 783 226</u>	<u>58 447 120</u>	<u>94 899 161</u>

ETANA INSURANCE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011

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9.1 Financial assets (continued)

Determination of fair value and fair values hierarchy (continued)

Level 1 – Values are determined using readily and regularly available quoted prices in an active market for identical assets or liabilities. These prices would primarily originate from the Johannesburg Stock Exchange, the Bond Exchange of South Africa or an international stock or bond exchange.

Level 2 – Values are determined using valuation techniques or models, based on assumptions supported by observable market prices or rates either directly (that is, as prices) or indirectly (that is, derived from prices) prevailing at the balance sheet date. The valuation techniques or models are periodically reviewed and the outputs validated.

Level 3 – Values are estimated indirectly using valuation techniques or models for which one or more of the significant inputs are reasonable assumptions (that is unobservable inputs), based on market conditions.

ETANA INSURANCE COMPANY LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
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9 Financial assets (continued)

Reconciliation of movements in financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing recorded amount of financial assets which are recorded as level 3 investments per the fair value hierarchy.

	At 1 July R	Gains/(loss) in statement of comprehensive income R	Purchases R	Sales R	At 30 June R
Financial assets carried at fair value through profit and loss					
2011					
Hedge funds	10 697 120	1 151 510	-	-	11 848 630
Unlisted preference shares	47 750 000	-	35 000 000	-	82 750 000
<b>Total financial instruments</b>	<b>58 447 120</b>	<b>1 151 510</b>	<b>35 000 000</b>	<b>-</b>	<b>94 598 630</b>
2010					
Hedge funds	9 722 410	974 710	-	-	10 697 120
Unlisted preference shares	-	-	47 750 000	-	47 750 000
<b>Total financial instruments</b>	<b>9 722 410</b>	<b>974 710</b>	<b>47 750 000</b>	<b>-</b>	<b>58 447 120</b>

ETANA INSURANCE COMPANY LIMITED  
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	2011 R	2010 R
10 Loans, receivables and insurance receivables		
<i>Interest bearing loans to executive directors</i>		
Balance at the beginning of the year	549 624	810 698
Loans advanced and interest charged during the year	634 826	449 826
Loan repayments received during the year	(586 467)	(710 900)
	<u>597 983</u>	<u>549 624</u>
Loans bearing interest		
- related parties in the group	-	13 217 782
- loans to staff	603 074	-
- loan to third parties	10 944 889	10 649 639
	<u>12 145 946</u>	<u>24 417 045</u>
Total loans receivables		
Insurance receivables	221 787 682	208 959 785
Gross insurance receivable	223 571 357	210 743 460
Provision for write down of debtors	(1 783 675)	(1 783 675)
Profit commission due	-	4 082 414
Trade and other receivables	35 683 951	9 784 038
	<u>269 617 579</u>	<u>247 243 282</u>
Current portion	261 830 080	241 102 672
Non-current portion	7 787 499	6 140 610
	<u>269 617 579</u>	<u>247 243 282</u>
Loans and receivables at amortised cost	<u>269 617 579</u>	<u>247 243 282</u>

The carrying amount of these assets approximates their fair values.

ETANA INSURANCE COMPANY LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year ended 30 June 2011

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10 Loans, receivables and insurance receivables (continued)

Details of loans to third parties

Etana granted a capital sum of R10 000 000 to Izwe Loans (Pty) Ltd at the prescribed interest rate and the loan is secured over the debtors books of Izwe Loans (Pty) Ltd. The borrower is entitled at any time to repay any portion of the capital outstanding, otherwise on the expiry period of 12 months from date of signature.

Details of individual loans to directors:

Advances made - R.C. Hallier R293 531 (2010:R449 826), P. Cavalieri R300 000 (2010:nil)  
 Repayments made - R.C. Hallier R281 700 (2010: R409 700), P. Cavalieri R301 200 (2010 : nil)

The loans are given on commercial terms and conditions. The related interest income in 2011 is charged at a rate of 7% (2010: 8%).

	Gross R	Reinsurance R	Net R
11	Deferred acquisition costs		
	2011		
	Deferred acquisition costs		
	Arising during the year		
	63 079 827	55 130 922	7 948 905
	<hr/>	<hr/>	<hr/>
	2010		
	Deferred acquisition costs		
	Arising during the year		
	58 618 906	46 728 919	11 889 987
	<hr/>	<hr/>	<hr/>
12	Deferred tax		
	Deferred income tax		
	- Deferred income tax to be recovered after more than 12 months		
		(676 814)	136 016
	- Deferred income tax to be recovered within 12 months		
		-	-
		<hr/>	<hr/>
	Balance at end of year		
		(676 814)	136 016
		<hr/> <hr/>	<hr/> <hr/>

ETANA INSURANCE COMPANY LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
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	2011 R	2010 R
Deferred tax (liability) / asset		
Balance at beginning of year	136 016	782 297
Movements during the year attributable to:		
Unrealised gain on assets at fair value through profit or loss	(812 830)	(646 281)
Balance at end of year	<u>(676 814)</u>	<u>136 016</u>
<b>Balance comprises:</b>		
Unrealised gain on assets at fair value through profit or loss	(676 814)	(144 713)
Unrealised loss on future profit commissions	-	280 729
	<u>(676 814)</u>	<u>136 016</u>

13 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and short term deposits with a maturity of less than three months. The effective interest rate on short - term bank deposits with duration of three months is 7.5% (2010: 7.5%).

The effective interest rate on current accounts at the balance sheet date was 6.0% (2010: 6%).

	2011 R	2010 R
Cash on call	754 655 740	548 789 125
Cash at bank	99 383 365	143 679 024
Cash on hand	27 040	19 250
	<u>854 066 144</u>	<u>692 487 399</u>
Fair value of cash and cash equivalents	<u>854 066 144</u>	<u>692 487 399</u>

ETANA INSURANCE COMPANY LIMITED  
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	2011 R	2010 R
14	Share capital and premium	
	Share capital	
	Authorised and issued	
	60 000 ordinary shares of R1 each	
	(2010: 60 000 ordinary shares of R1 each)	
	60 000	60 000
	Share premium	
	164 940 000	164 940 000
	<u>165 000 000</u>	<u>165 000 000</u>
15	Borrowings	
	Secured	
	Instalment sale agreement liabilities	
	2 908 371	3 250 683
	Non current portion	
	1 468 877	2 142 078
	2 908 371	3 250 683
	(1 439 494)	(1 108 605)
	Future minimum lease payments	
	Not later than 1 year	
	1 609 258	1 342 609
	Later than 1 year and not later than 5 years	
	1 545 667	2 323 631
	<u>3 154 925</u>	<u>3 666 240</u>
	(246 554)	(415 557)
	<u>2 908 371</u>	<u>3 250 683</u>

Lease liabilities are paid over 48 months at effective interest rates ranging from 8.5% to 9.5% and are secured by motor vehicles with a carrying value of R3 266 889 (2010: R3 366 230). Total instalments paid during the year amounted to R1 327 430 (2010 : R904 786)

ETANA INSURANCE COMPANY LIMITED  
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	2011 R	2010 R
16 Insurance liabilities and reinsurance assets		
<b>Gross</b>		
Claims reported and loss adjustment expenses	529 859 701	479 660 629
IBNR	81 815 000	65 671 688
UPR	468 175 421	419 865 682
Experience account balances	1 753 662	1 753 662
<b>Total gross insurance liabilities</b>	<u>1 081 603 784</u>	<u>966 951 661</u>
<b>Recoverable from reinsurers</b>		
Claims reported and loss adjustment expenses	389 809 635	385 232 952
IBNR	55 274 153	41 175 592
UPR	347 278 296	287 668 094
Reinsurance recoveries	91 250 544	43 896 495
<b>Total reinsurer's share insurance liabilities</b>	<u>883 612 628</u>	<u>757 973 133</u>
<b>Net</b>		
Claims reported and loss adjustment expenses	140 050 066	94 427 677
IBNR	26 540 847	24 496 096
UPR	120 897 125	132 197 588
Reinsurance recoveries	(91 250 544)	(43 896 495)
Experience account balances	1 753 662	1 753 662
<b>Total insurance liabilities – net</b>	<u>197 991 156</u>	<u>208 978 528</u>

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16.1 Movement in insurance liabilities and reinsurance assets

	Gross R	Reinsurance R	Net R
a) Outstanding claims			
2011			
Balance at beginning of year	479 660 629	385 232 952	94 427 677
Cash paid	(227 087 437)	(177 591 820)	(49 495 617)
Increase in liabilities			
- arising from current year claims	278 371 335	187 273 981	91 097 354
- arising from prior year claims	(1 084 826)	(5 105 478)	4 020 652
Balance at end of year	<u>529 859 701</u>	<u>389 809 635</u>	<u>140 050 066</u>
2010			
Balance at beginning of year	290 716 592	222 980 884	67 735 708
Cash paid	(167 005 559)	(131 805 277)	(35 200 282)
Increase in liabilities			
- arising from current year claims	343 061 392	281 932 938	61 128 454
- arising from prior year claims	12 888 204	12 124 407	763 797
Balance at end of year	<u>479 660 629</u>	<u>385 232 952</u>	<u>94 427 677</u>
b) Claims incurred but not yet reported			
2011			
Balance at beginning of year	65 671 688	41 175 592	24 496 096
Movements for the year	16 143 312	14 098 561	2 044 751
Balance at end of year	<u>81 815 000</u>	<u>55 274 153</u>	<u>26 540 847</u>
2010			
Arising through portfolio transfer	47 342 688	33 771 604	13 571 084
Movements for the year	18 329 000	7 403 988	10 925 012
Balance at end of year	<u>65 671 688</u>	<u>41 175 592</u>	<u>24 496 096</u>

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16.1 Movement in insurance liabilities and reinsurance assets (continued)

	Gross R	Reinsurance R	Net R
c) Provision for unearned premium			
2011			
Balance at beginning of year	419 865 682	287 668 095	132 197 587
Movements for the year	48 309 739	59 610 201	(11 300 462)
	<u>468 175 421</u>	<u>347 278 296</u>	<u>120 897 125</u>
2010			
Arising through portfolio transfer	295 782 007	205 613 390	90 168 617
Movements for the year	124 083 675	82 054 705	42 028 970
	<u>419 865 682</u>	<u>287 668 095</u>	<u>132 197 587</u>
d) Experience account balances			
2011			
Balance at beginning of year	1 753 662	-	1 753 662
Movements for the year	-	-	-
	<u>1 753 662</u>	<u>-</u>	<u>1 753 662</u>
2010			
Arising through portfolio transfer	1 753 662	-	1 753 662
Movements for the year	-	-	-
	<u>1 753 662</u>	<u>-</u>	<u>1 753 662</u>

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16.1	Movement in insurance liabilities and reinsurance assets (continued)		
	Gross R	Reinsurance R	Net R
<b>Total</b>			
<b>2011</b>			
Balance at beginning of year	966 951 661	757 973 135	208 978 526
Balances due from reinsurers	-	91 250 544	(91 250 544)
Cash paid	(227 087 437)	(177 591 820)	(49 495 617)
Movements for the year	64 453 051	73 708 762	(9 255 711)
Balance at end of year	<u>804 317 275</u>	<u>745 340 621</u>	<u>58 976 654</u>
<b>2010</b>			
Arising through portfolio transfer	635 594 949	462 365 879	173 229 070
Balances due from reinsurers	-	43 896 494	(43 896 494)
Cash paid	(167 005 559)	(131 805 277)	(35 200 282)
Movements for the year	498 362 271	383 516 037	114 846 234
Balance at end of year	<u>966 951 661</u>	<u>757 973 133</u>	<u>208 978 528</u>
<b>e) Deferred acquisition costs</b>			
<b>2011</b>			
Balance at beginning of year	58 618 906	46 728 919	11 889 987
Movements for the year	4 460 921	8 402 003	(3 941 082)
Balances due to reinsurers	63 079 827	55 130 922	7 948 905
	-	565 938 942	(565 938 942)
Balance at end of year	<u>63 079 827</u>	<u>621 069 864</u>	<u>(557 990 037)</u>
<b>2010</b>			
Arising through portfolio transfer	50 149 998	40 202 299	9 947 699
Movements for the year	8 468 908	6 526 620	1 942 288
Balances due to reinsurers	58 618 906	46 728 919	11 889 987
	-	418 025 584	(418 025 584)
Balance at end of year	<u>58 618 906</u>	<u>464 754 503</u>	<u>(406 135 597)</u>

16.1 Movement in insurance liabilities and reinsurance assets (continued)

Process used to determine significant assumptions

Insurance risks are unpredictable and the Company recognises that it is impossible to forecast with absolute certainty, future claims payable under existing insurance contracts. Over time the Company has developed a methodology that is aimed at establishing insurance provisions that have a reasonable likelihood of being adequate to settle all its insurance obligations.

*Claim provisions*

The Company's outstanding claims provisions include notified claims as well as incurred but not yet reported claims and due to the short tail nature of the business it is not considered necessary to discount any of the claims provisions.

*Notified claims*

Each notified claim is assessed on a separate, case by case basis with due regard to the specific circumstances, information available from the insured and loss adjuster and past experience with similar claims. The Company employs staff experienced in claims handling and rigorously applies standardised policies and procedures around claims assessment. In addition the Company utilises the services of specialised administrators to perform the claims assessment process for some of its business.

The ultimate cost of the reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Estimates are reviewed regularly and updated if new information becomes available.

*Claims incurred but not yet reported (IBNR)*

The majority of the Company's IBNR is calculated as a percentage of premiums written. This percentage is a best estimate reserve, which represents the expected value of the unreported claims liabilities.

The Company utilises the services of internal actuaries, employed by The Hollard Insurance Company, who, in conjunction with an independent external actuarial firm review the adequacy of the Company's claims provisions. The chain ladder method which involves the analysis of historical claims development factors and the selection of estimated development factors based on the historical pattern is used for the majority of the Company's business to calculate a best estimate outstanding claims liability which is then compared to the outstanding claims liability raised by the operation. The actuaries report did not highlight any areas of inadequate provisioning.

16.1 Movement in insurance liabilities and reinsurance assets (continued)

*Claims incurred but not yet reported (IBNR) (continued)*

The provision for notified claims and IBNR are initially estimated at a gross level. A separate calculation is then carried out to determine the estimated reinsurance recoveries.

There were no losses following the application of the liability adequacy test.

*Unearned premium provisions*

The Company raises provisions for unearned premiums on a basis which reflects the underlying risk profile of the insurance contracts. The majority of the Company's insurance contracts have an even risk profile and the unearned premium provisions, raised at the commencement of the contract are released evenly over the period of insurance using a time proportionate basis. The unearned premium is released on a basis consistent with the increasing, decreasing or uneven profile of the contracts for the remainder of the portfolio.

The provisions for unearned premiums are initially determined on a gross level and thereafter the re-insurance impact is recognised.

*Assumptions*

The assumption which has the greatest effect on the measurement of insurance contract provisions is the percentage applied to written premium to determine the IBNR provision. The larger the IBNR percentages applied the longer the expected period between the date of loss and the claims reporting date and/or the estimated claims.

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	2008 R'000	2009 R'000	2010 R'000	2011 R'000	Total R'000
17 Claims development tables					
Insurance claims – all classes – gross					
Accident year					
<i>Estimate of ultimate claims costs</i>					
At end of accident year	331 018	583 023	915 326	882 398	2 711 765
One year later	265 866	578 300	852 794	-	-
Two years later	236 134	581 224	-	-	-
Three years later	228 986	-	-	-	-
Current estimate of cumulative claims	228 986	581 224	852 794	882 398	2 545 402
Cumulative payments to date	(193 580)	(519 532)	(698 403)	(522 212)	(1 933 727)
Liability recognised in the statement of financial position	35 406	61 692	154 571	360 186	611 675
Insurance claims – all classes – net					
Accident year					
<i>Estimate of ultimate claims costs</i>					
At end of accident year	186 797	180 318	256 504	309 989	933 608
One year later	162 941	175 895	238 574	-	-
Two years later	154 558	177 142	-	-	-
Three years later	150 765	-	-	-	-
Current estimate of cumulative claims	150 765	177 142	238 574	309 989	876 470
Cumulative payments to date	(139 744)	(160 876)	(216 908)	(192 351)	(709 879)
Liability recognised in the statement of financial position	11 021	16 266	21 666	117 638	166 591

The development of insurance claims liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of the table illustrates how the Company's estimate of total claims outstanding for each accident year has changed at successive year ends. The bottom half of the table reconciles the cumulative claims to the amount in the statement of financial position.

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	2011 R	2010 R
18 Employee benefits		
At the beginning of the year	27 203 262	16 378 061
Charged to the statement of comprehensive income	10 834 985	10 825 201
Additional provisions	28 669 951	22 569 300
Utilised during the current year	(17 834 966)	(11 744 099)
At end of year	38 038 247	27 203 262
Analysis of employee benefits		
Leave pay liability	7 250 811	5 272 320
Incentive provision	30 787 436	21 930 942
	38 038 247	27 203 262

*Leave pay*

In terms of the Company policy, employees are entitled to accumulate a maximum of 25 days leave and the leave pay liability is calculated on that basis. Any leave accumulated over this number is forfeited by the employees concerned.

*Incentive scheme*

In terms of the Company policy, selected employees, at the discretion of the directors receive an incentive bonus. This bonus relates to employee, business unit and company performance is subject to approval by the remuneration committee.

*Equity compensation scheme*

The compensation scheme has been fully paid by Hollard. The value as at 30/06/2011 is Rnil

ETANA INSURANCE COMPANY LIMITED  
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	2011 R	2010 R
19 Trade and other payables		
Trade creditors	6 909 464	11 792 683
Collateral deposits	45 773 857	43 716 958
Sundry creditors	10 185 736	16 795 299
Accrued expense	15 774 122	5 326 132
Salary control – Hollard	10 478 365	6 092 221
Other	5 660 520	15 059 355
Trade and other creditors	<u>94 782 064</u>	<u>98 782 648</u>
Value added tax payable	42 527 230	40 883 619
Loan from group company	826 987	-
All balances are current	<u>138 136 281</u>	<u>139 666 267</u>
Fair value of trade and other payables	<u>138 136 281</u>	<u>139 666 267</u>
20 Investment returns		
Dividend income		
Listed investments		
- Preference shares	1 802 087	2 199 308
Unlisted investments		
- Preference shares	10 520 060	4 945 967
- Unit trusts	3 840 382	3 029 405
Dividends received	<u>16 162 529</u>	<u>10 174 680</u>
Interest income		
Interest on call and term deposits	34 046 048	26 027 098
Interest received – treaty reserves	-	129 357
Sundry interest income	1 627 279	938 110
Realised interest on investments	-	878 811
Unrealised interest on investments	<u>35 673 327</u>	<u>27 973 376</u>
	1 151 510	-
	<u>36 824 837</u>	<u>27 973 376</u>

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	2011 R	2010 R
20		
Investment returns (continued)		
Interest paid		
Interest paid – collateral deposit	(2 422 792)	(1 132 263)
Interest paid – treaty reserves	(10 580 856)	(6 312 973)
Interest paid – general	(1 167 537)	(1 730 983)
	<u>(14 171 185)</u>	<u>(9 176 219)</u>
Net interest	22 653 652	18 797 157
21		
Net fair value losses on assets at fair value through profit or loss		
Listed investments		
Ordinary shares	-	27 663
Preference shares	(338 345)	333 315
Unit trusts	4 139 066	3 929 437
Unlisted investments		
Hedge funds	-	221 200
	<u>3 800 721</u>	<u>4 511 615</u>
22		
Profit before taxation		
Profit before taxation is arrived at after charging:		
Directors emoluments:		
Executive Directors		
Salary	6 139 260	5 431 977
Bonus and performance payments	4 430 108	2 925 735
Pension/Provident fund contributions	961 805	883 394
Other benefits (estimated monetary value)	277 434	446 268
Non-executive Directors		
Directors and Board committee fees	407 000	440 000
	<u>12 215 607</u>	<u>10 127 374</u>

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 NOTES TO THE FINANCIAL STATEMENTS  
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22 Profit before taxation (continued)

Depreciation	(1 935 692)	905 489
Office equipment	(789 801)	74 320
Motor vehicles	(1 145 891)	831 169
Expenses for the acquisition of insurance contracts	(43 171 596)	(4 831 621)
Commission	(43 171 596)	(4 831 621)
Amortisation of intangible assets	1 535 433	1 535 433
Agri insurance book	2 778 511	-
Operating lease rentals	11 296 965	7 584 331
Staff costs (including executive directors)	145 686 799	104 872 870
Number of employees at year-end	360	260

23 Taxation

SA normal taxation		
- current year	21 698 919	16 105 413
Deferred taxation		
- current year	812 830	646 281
	<u>22 511 749</u>	<u>16 751 694</u>

ETANA INSURANCE COMPANY LIMITED  
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	2011 R	2010 R
23	Taxation (continued)	
	%	%
	28.00	28.00
	Tax effect of:	
	Permanent differences	
	(4.21)	(0.87)
	(0.53)	(3.16)
	(1.11)	(1.83)
	0.51	0.17
	22.66	22.31
	22.66	22.31
24	Reconciliation of income before taxation to cash generated from operations:	
	95 206 620	70 637 481
	Adjustments for:	
	1 935 692	905 488
	1 535 433	1 535 433
	(7 359 381)	40 086 682
	(15 034)	-
	-	(343 340)
	(38 816 181)	(28 971 836)
	(1 598 696)	(2 275 172)
	-	(221 200)
	50 888 453	81 353 536
	135 157 150	291 716 749
	(22 374 297)	(38 146 614)
	47 667 140	37 616 981
	100 559 309	205 016 334
	9 304 998	87 230 048
	186 045 603	373 070 285
	186 045 603	373 070 285

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	2011 R	2010 R
25 Taxation paid		
Amounts due at beginning of year	283 796	(2 353 721)
Current tax charged to the statement of comprehensive income	(21 698 919)	(16 105 413)
Amounts due / (receivable) at end of year	(283 796)	(283 796)
	<u>(21 698 919)</u>	<u>(18 742 930)</u>

26 Proceeds on disposal of investments		
Proceeds on disposal of listed investments	-	998 316
Proceeds on disposal	-	998 316
	<u>-</u>	<u>998 316</u>

27 Capital expenditure

The following capital expenditure budget has been approved by the Board for the coming financial year ending 30 June 2012.

	2011 R	2010 R
Furniture, office equipment and computer hard and software	664 280	1 886 667
	<u>664 280</u>	<u>1 886 667</u>

None of this expenditure has been contracted for, and it will be funded from internal sources.

28 Contingency reserve

A contingency reserve is maintained at 10% of the net written premium, as required by the provisions of the Short-Term Insurance Act of 1998. Transfers to this reserve are reflected in the statement of changes in equity, and are indicated in the statement of financial position as part of reserves under "Equity".

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29 Commitments and contingencies

Operating lease commitment

The Company leases various office premises under operating lease agreements which have varying terms, escalation clauses and renewal rights.

	2011 R	2010 R
Future aggregate minimum lease payments		
Not later than one year	10 454 753	4 895 190
Later than one year and not later than five years	15 215 369	10 762 188
	<u>25 670 122</u>	<u>15 657 378</u>

The lease payments will be recognised as an expense on a straight line basis over the terms of the leases.

30 Staff pension and provident fund

The Company participates in a defined contribution pension and provident fund. The Hollard Employees Pension Fund with 100 (2010: 84) employees and The Hollard Employees Provident Fund with 227 (2010: 154) employees of the Company being members of the fund. Both of these funds are controlled by a board of trustees and are governed by the Pension Funds Act of 1965.

31 Related party transactions

Related party entities	Relationship
The Hollard Insurance Company Ltd	Shareholder
Fidelity Guarantee Acceptances (Pty) Ltd	Wholly owned subsidiary
Zimisele Underwriting Managers (Pty) Ltd	Wholly owned subsidiary
Etana Holdings (Pty) Ltd	Shareholder
High Growth Investments (Pty) Ltd	Indirect shareholder
I-Too Investments (Pty) Ltd	Indirect shareholder

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	2011 R	2010 R
31 Related party transactions (continued)		
All material transactions are concluded at arm's length. The following transactions were carried out with related parties during the year:		
<b>Management fees:</b>		
Paid to The Hollard Insurance Company Ltd	(12 279 509)	(12 395 425)
	<u>                    </u>	<u>                    </u>
Net management fees (paid)	(12 279 509)	(12 395 425)
 <b>Rent paid:</b>		
Paid to The Hollard Insurance Company Ltd	6 666 807	5 277 106
	<u>                    </u>	<u>                    </u>
<b>Receivables from related parties</b>		
The Hollard Insurance Company Ltd	-	13 217 782
	<u>                    </u>	<u>                    </u>
	-	13 217 782
	<u>                    </u>	<u>                    </u>
<b>Payables to related parties</b>		
The Hollard Insurance Company Ltd	826 987	6 092 221
	<u>                    </u>	<u>                    </u>
<b>Quota share treaty</b>		
Premium paid to Hollard Insurance Company Ltd	378 907 367	240 945 235
Claims recovered from Hollard Insurance Company Ltd	(212 495 191)	(155 514 049)
Profit commission paid by Hollard Insurance Company Ltd	(159 713 471)	(81 305 070)
	<u>                    </u>	<u>                    </u>
Net cost of reinsurance	6 698 705	4 126 116
	<u>                    </u>	<u>                    </u>
In 2011, 50% of the net motor and property were ceded to Hollard through a quota share treaty. In 2010 65% of the net motor and fire portfolios were ceded to Hollard through a quota share treaty.		
<b>Key management compensation</b>		
Salaries, bonuses and other short-term employee benefits	7 268 489	16 039 488
	<u>                    </u>	<u>                    </u>
(Key management refers to executive committee members excluding executive directors.)		