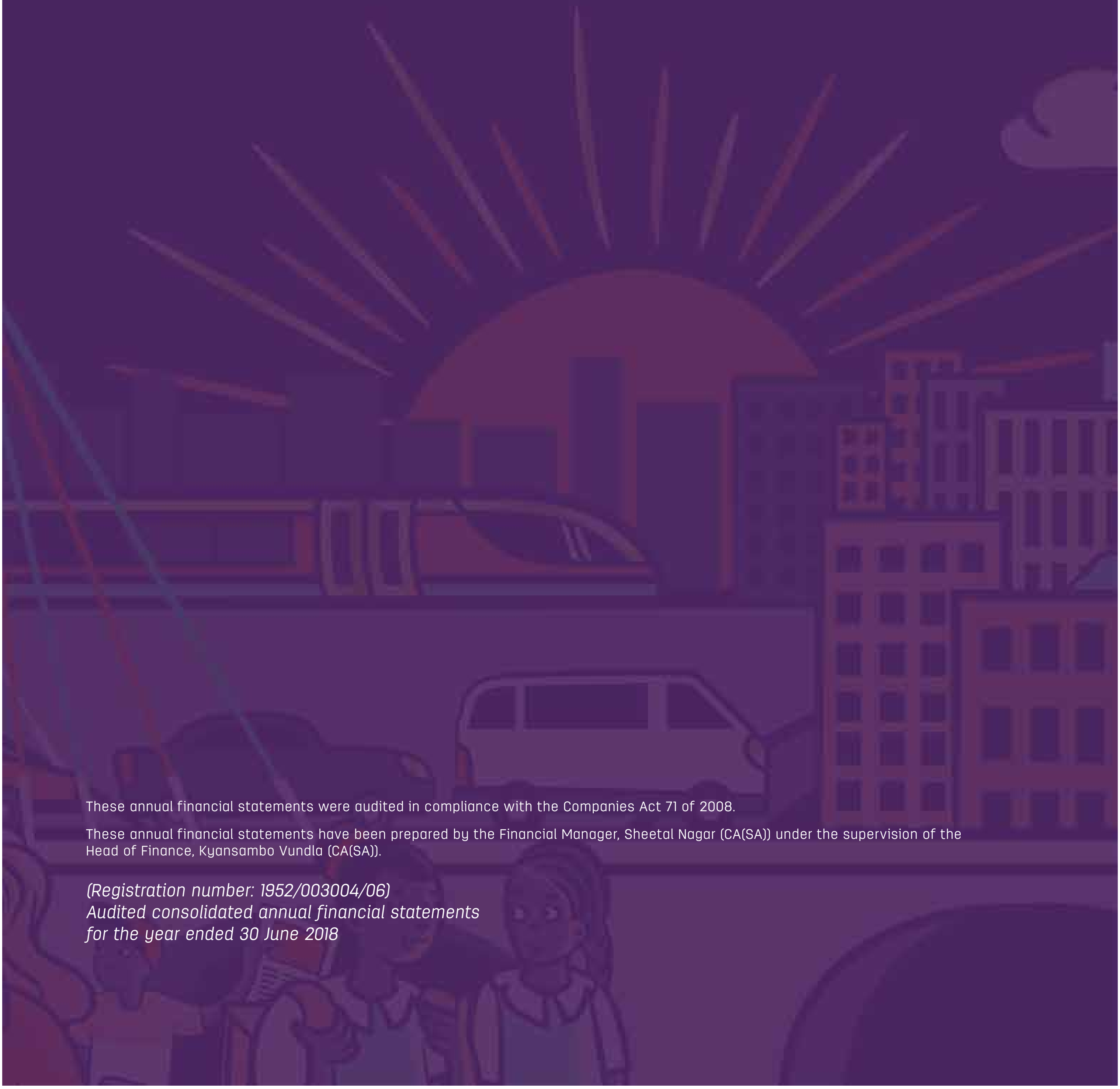
Hollard.

HOLLARD'S FINANCIAL YEAR
JULY 2017-JUNE 2018

2018

THE HOLLARD INSURANCE COMPANY LIMITED



These annual financial statements were audited in compliance with the Companies Act 71 of 2008.

These annual financial statements have been prepared by the Financial Manager, Sheetal Nagar (CA(SA)) under the supervision of the Head of Finance, Kyansambo Vundla (CA(SA)).

(Registration number: 1952/003004/06)
Audited consolidated annual financial statements
for the year ended 30 June 2018

TABLE OF CONTENTS

GROUP SALIENT FEATURES

for the year ended 30 June 2018

	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014 R'000
Statement of profit and loss information					
Gross premium income [1]	**11 179 153**	12 356 647	12 513 741	11 376 501	9 003 297
Net written premium income [2]	**8 517 004**	9 557 362	9 592 782	8 857 186	6 930 218
Investment income [3]	**701 928**	693 567	1 259 554	1 051 336	905 618
Net insurance claims	**4 605 904**	5 241 672	5 428 655	4 877 829	3 932 344
Profit attributable to equity holders of the parent	**266 947**	764 598	1 487 325	746 719	720 976
Statement of financial position information					
Insurance liabilities	**4 841 376**	5 172 590	5 115 347	5 402 403	4 598 553
Equity attributable to equity holders of the parent	**2 911 689**	2 880 729	3 150 169	3 694 967	3 510 974
Total assets	**11 540 928**	12 564 368	12 459 682	11 998 170	10 826 046
Financial assets (i.e. listed investments and unlisted investments)	**2 970 051**	2 784 533	2 675 367	3 425 392	3 644 615
Cash and cash equivalents	**2 219 916**	2 079 388	2 179 384	2 962 959	2 195 306

Trading ratios	%	%	%	%	%
Written premium: Net to gross	**76.2**	77.3	76.7	77.9	77.0
Combined operating ratio [4]	**101.0**	99.4	100.6	100.9	101.7
Solvency ratio [5]	**36.0**	39.2	46.0	57.6	69.1
Actuarial information					
Capital adequacy requirement (CAR)	**2 214 333**	2 304 177	2 229 304	2 086 775	1 724 114
Capital adequacy requirement (CAR) cover	**1.33**	1.26	1.21	1.51	1.72

(1) "Gross premium income" represents the total income arising from insurance contracts only.

(2) "Net written premium income" is gross premium income less reinsurance premium outwards.

(3) "Investment income" includes net investment income and unrealised gains and/or losses on the investment and trading portfolios.

(4) "Combined operating ratio" is calculated and presented at a company level and is defined as the ratio between the sum of net insurance claims, commission and other acquisition costs, marketing and administrative expenses and net premium income.

(5) "Solvency ratio" is the ratio between shareholders' funds and net written premium income. Solvency is calculated and presented at a company level.

DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2018

In terms of the Companies Act of South Africa, the directors are required to maintain adequate accounting records and to prepare annual financial statements that fairly present the financial position at year-end and the results and cash flows for the year of The Hollard Insurance Company Limited ("Hollard" or the "Company") and its subsidiaries (the "Group").

To enable the Board to discharge its responsibilities, management has developed and continues to maintain a system of internal control. The Board has ultimate responsibility for this system of internal controls and reviews the effectiveness of its operations, primarily through the Group 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 that assets are safeguarded and that transactions are executed and recorded in accordance with sound business practices and the Group's written policies and procedures. These controls are implemented by trained and skilled staff, with clearly defined lines of accountability and appropriate segregation of duties. The controls are monitored by management and include a budgeting and reporting system operating within strict deadlines and an appropriate control framework.

As part of the system of internal control, the Group's Internal Audit function conducts inspections, financial and specific audits and co-ordinates audit coverage with the External Auditors.

The External Auditors are responsible for reporting on the Group's and the Company's annual financial statements.

The Group's and Company's annual financial statements are prepared in accordance with International Financial Reporting Standards and incorporate responsible disclosures in line with the accounting policies of the Group. The Group's and Company's annual financial statements are based on appropriate accounting policies consistently applied, except as otherwise stated and supported by reasonable and prudent judgements and estimates.

The Board believes that the Group and Company will be going concerns in the year ahead. For this reason the Board continues to adopt the going-concern basis in preparing the annual financial statements.

These annual financial statements, set out on pages 6 to 68, have been approved by the Board of the Group and Company and are signed on its behalf by:

ADH Enthoven
Chairman

5 December 2018

S Ntombela
Chief Executive Officer

31 October 2018

CERTIFICATION BY COMPANY SECRETARY

In my capacity as Company Secretary, I hereby confirm that the Company has lodged with the Registrar of Companies all such returns as are required of the Company and that such returns are true, correct and up to date.

G Tyusha
Company Secretary

5 December 2018

AUDIT COMMITTEE REPORT

The Committee is composed of three independent non-executive directors. The work of the Committee is specified by its charter, and the provisions of the Short Term Insurance Act, 1998. The Committee has reviewed the Group's and Company's annual financial statements, and recommends them for approval to the Board. The Committee further reviewed the Group's and Company's accounting policies, and the reports of the internal and external audit functions, and of the compliance officer. The Committee met three times during the year, and the Chairman of the Committee reported on the work of the Committee to the Board.

The Committee reviewed the work of the External Auditors, Deloitte & Touche, including the audit plan and budget, independence and recommended to the Board and shareholders the appointment of the auditors.

MR Bower
Chairman: Audit Committee

5 December 2018

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF THE HOLLARD INSURANCE COMPANY LIMITED

Report on the audit of the consolidated and separate financial statements

We have audited the consolidated and separate financial statements of The Hollard Insurance Company Limited (the Group) set out on pages 8 to 67, which comprise the statements of financial position as at 30 June 2018, and the statements of profit or loss and comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 30 June 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – financial statements reissue

Without qualifying our opinion, we draw attention to note 35 to the consolidated and separate financial statements which indicates that the previously issued financial statements for the year ended 30 June 2018, on which we issued an auditor's report dated 31 October 2018, have been revised.

Other information

The directors are responsible for the other information. The other information comprises the Group Salient Features, the Directors' Responsibility Statement and Approval of the Annual Financial Statements, the Directors' Report, the Audit Committees' Report, the Certification by Company Secretary, and the Directorate and Administration as required by the Companies Act of South Africa. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that Deloitte & Touche has been the auditor of The Hollard Insurance Company Limited for 10 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per: Diana Jorge
Partner

5 December 2018

DIRECTORS' REPORT

for the year ended 30 June 2018

The directors have pleasure in presenting the directors' report which forms part of the Group's and Company's annual financial statements for the year ended 30 June 2018.

Nature of business

The Company is a registered insurer and underwrites all classes of short-term insurance business throughout the Republic of South Africa. The activities and details of the interest in subsidiaries, associates and joint venture are listed in notes 36, 37 and 46 on pages 63 to 64 and 66 to 67 of the annual financial statements.

General review

In the year under review the Group achieved net profit attributable to equity holders of the parent of R266 947 000 (2017: R764 598 000), which arose from the Group's operations as follows:

	GROUP	
	2018 R'000	2017 R'000
Net premium income	**8 441 843**	9 447 889
Investment income	**701 928**	693 567
Other income	**192 564**	244 663
Total revenue	**9 336 335**	10 386 119
Net insurance claims	**4 605 904**	5 241 672
Other operating expenses	**4 020 324**	3 934 866
Total expenses	**8 626 228**	9 176 538
Results of operating activities	**710 107**	1 209 581
Share of profit in associates	**50 282**	33 205
Profit before taxation	**760 389**	1 242 786
Taxation	**(453 020)**	(234 907)
Profit for the year	**307 369**	1 007 879
Non-controlling interest	**(40 422)**	(243 281)
Net profit attributable to equity holders of the parents	**266 947**	764 598

Share capital

There was no change in the authorised and issued ordinary share capital of the Company during the year.

Dividends

Dividends on ordinary shares of Rnil (2017: Rnil) and dividends on preference shares of R595 503 000 (2017: R1 158 580 000) were declared by the Company during the year.

Subsidiaries and associates

The Company disposed of 100% of its shareholding in the following subsidiary:

- Comingo Trading (Pty) Ltd

The Company's aggregate share of the profits of subsidiaries and associates for the year amounted to R96 430 150 and R50 281 735 respectively (2017: R397 728 180 and R33 204 653 respectively).

Regulatory

The Financial Sector Regulation Act of 2017 commenced on 1 April 2018 introducing the twin peaks model of regulating financial institutions. The twin peaks model brings about the establishment of the Prudential Authority (PA), hosted within the South African Reserve Bank (SARB) and the Financial Sector Conduct Authority (FSCA). The prudential supervision of insurers will therefore, with effect from 1 April 2018, be performed within the PA. The new regulatory bodies will effectively replace functions previously performed by the FInancial Services Board.

The Insurance Act, No. 18 of 2017, took effect on 1 July 2018. Insurance companies will still report their 30 June 2018 results on the old regulatory regime, however, subsequent reporting has to be made on the Solvency Assessment and Management (SAM) regulatory regime to the PA. The Hollard Insurance Company Limited will report their first set of results on the SAM regulatory regime for the year ending 30 June 2019.

Going concern

The Board believes that the Group and Company will continue to be going concerns in the year ahead. For this reason, the Board has adopted the going-concern basis in preparing the annual financial statements.

Subsequent events
It has been announced that effective from 1 October 2018 Dirk Viljoen will take over the role of Chief Financial Officer in the Company from Willie Lategan. Apart from this, the Board is not aware of any event since the end of the financial year, not otherwise dealt with in these annual financial statements, that would affect the operations of the Group and Company, or the results of these operations.

Directorate
In terms of the requirements of the Memorandum of Incorporation, the following directors retired by rotation, made themselves available for re-election and were re-elected at the Annual General Meeting held on 27 November 2017:
- S Patel and
- NV Simamane

Directors' interest in contracts
During the financial year, no contracts were entered into which directors or officers of the Company had an interest and which significantly affected the business of the Company.

Executive directors
S Ntombela (Group CEO) and WT Lategan (Group CFO) were the only Executive Directors who held office during the year.

Non-Executive directors
NG Kohler, ADH Enthoven, B Ngonyama, MR Bower, R Fihrer, BF Mohale, S Patel, AS Nkosi, SC Gilbert and NV Simamane were in office during the year as Non-executive directors.

Auditors
Deloitte & Touche will continue in office in accordance with section 90 of the Companies Act, No 71 of 2008.

Company Secretary
G Tyusha

Business address
Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

Postal address
P O Box 87419
Houghton
2041

Holding company
The immediate holding company is Hollard Fundco (RF) (Pty) Ltd (100%) and the ultimate holding company is Pickent Investments Limited. Both these companies are incorporated in the Republic of South Africa.

STATEMENTS OF FINANCIAL POSITION
as at 30 June 2018

	Notes	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Assets					
Property and equipment	5	104 361	72 974	104 226	72 838
Investment property	6	28 001	28 000	–	–
Intangible assets	7	154 952	137 537	154 544	137 128
Interest in subsidiaries	8	–	–	51 531	67 933
Interest in associates	9	251 698	261 827	249 910	217 905
Financial assets	10	2 970 051	2 784 533	2 920 231	2 743 399
Reinsurance assets	21	2 752 461	2 993 449	2 752 461	2 993 449
Insurance, loans and other receivables	13	1 971 966	2 013 949	1 970 353	2 007 820
Deferred acquisition costs	22	116 443	143 311	116 443	143 311
Deferred taxation	14	85 196	79 690	85 196	79 690
Current income taxation	35	8	33 244	–	33 235
Cash and cash equivalents	15	2 219 916	2 079 388	2 221 041	2 080 702
Non-current assets held for sale	16	885 875	1 936 466	152 431	585 360
Total assets		11 540 928	12 564 368	10 778 367	11 162 770
Equity and liabilities					
Share capital and premium	17	1 642 601	1 642 601	1 642 601	1 642 601
Contingency reserve		20 499	39 439	–	–
Share option reserve		4 012	4 012	4 012	4 012
Foreign currency translation reserve	19	10 074	(43 360)	–	–
Non-distributable reserves	18	1 356	1 230	–	–
Credit protection reserves		3	3	–	–
Retained earnings		1 233 144	1 236 804	1 204 961	1 581 361
Equity attributable to equity holders of the parent		2 911 689	2 880 729	2 851 574	3 227 974
Non-controlling interest		7 020	286 250	–	–
Total equity		2 918 709	3 166 979	2 851 574	3 227 974
Insurance liabilities	21	4 841 376	5 172 590	4 841 376	5 172 590
Reinsurance liabilities		903 055	890 105	903 055	890 105
Non-current liabilities held for sale	16	653 254	1 448 621	–	–
Borrowings	24	600 653	600 509	600 299	600 156
Employee benefits	25	236 916	235 098	236 916	235 098
Trade and other payables	26	837 708	876 187	806 676	870 266
Deferred taxation	14	234 070	174 250	223 310	166 581
Current income taxation	35	315 187	29	315 161	–
Total liabilities		8 622 219	9 397 389	7 926 793	7 934 796
Total equity and liabilities		11 540 928	12 564 368	10 778 367	11 162 770

STATEMENTS OF PROFIT OR LOSS

for the year ended 30 June 2018

	Notes	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Revenue					
Gross premium income		11 179 153	12 356 647	10 259 310	10 475 094
Reinsurance premiums outwards		(2 662 149)	(2 799 285)	(2 330 438)	(2 229 998)
Net written premium income		8 517 004	9 557 362	7 928 872	8 245 096
Less: Change in unearned premium reserve		(75 161)	(109 473)	(43 268)	(56 062)
Gross amount		14 217	(107 070)	68 912	(36 643)
Reinsurer's share		(89 378)	(2 403)	(112 180)	(19 419)
Net premium income		8 441 843	9 447 889	7 885 604	8 189 034
Interest	27	259 654	285 080	196 104	211 836
Dividends	27	161 869	165 602	195 992	272 340
Rental income		2 808	2 367	–	–
Realised (loss)/profit on disposal of investments	28	(438 287)	(72 263)	477 160	167 861
Unrealised profit/(loss) on revaluation of investments	29	647 600	357 798	(212 129)	36 865
Profit/(loss) on translation of foreign currencies		14 808	(38 477)	21 850	(35 701)
Profit/(loss) on disposal of associates and subsidiaries		53 476	(6 540)	–	–
Investment income		701 928	693 567	678 977	653 201
Other income		192 564	244 663	154 132	157 762
Total revenue		9 336 335	10 386 119	8 718 713	8 999 997
Expenses					
Gross claims and loss adjustment expense		6 440 301	7 386 583	6 110 946	6 678 907
Reinsurer's share		(1 834 397)	(2 144 911)	(1 726 863)	(1 985 077)
Net insurance claims		4 605 904	5 241 672	4 384 083	4 693 830
Commission and other acquisition costs		962 400	1 007 145	894 333	876 289
Interest paid	27	111 534	81 310	107 612	72 997
Marketing and administration expenses		2 946 390	2 846 411	2 685 193	2 571 451
Total expenses		8 626 228	9 176 538	8 071 222	8 214 567
Results of operating activities		710 107	1 209 581	647 492	785 430
Share of profit of associates		50 282	33 205	–	–
Profit before taxation	30	760 389	1 242 786	647 492	785 430
Taxation	31	(453 020)	(234 907)	(428 389)	(139 986)
Profit for the year		307 369	1 007 879	219 103	645 444
Profit for the year attributable to:					
Equity holders of the parent		266 947	764 598		
Non-controlling interest		40 422	243 281		
		307 369	1 007 879		

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2018

	Notes	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Profit for the year		**307 369**	1 007 879	**219 103**	645 444
Other comprehensive income					
Exchange differences on translating foreign operations		**48 524**	(75 940)	**–**	–
Transfer from reserve		**126**	(399)	**–**	–
Unrealised gain on financial assets at fair value through other comprehensive income		**(477 013)**	(157 554)	**–**	–
Other comprehensive loss for the year	20	**(428 363)**	(233 893)	**–**	–
Total other comprehensive income for the year		**(120 994)**	773 986	**219 103**	645 444
Total other comprehensive income attributable to:					
Equity holders of the parent		**123 909**	685 136		
Non-controlling interest		**(244 903)**	88 849		
		(120 994)	773 986		

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2018

GROUP	Issued share capital R'000	Share premium R'000	Contingency reserve R'000	Share option reserve R'000	Foreign currency translation reserve R'000	Credit protection reserves R'000	Non-distri-butable reserves R'000	Retained earnings R'000	Total ordinary share-holders' equity R'000	Non-controlling interest R'000	Total equity R'000
Balance at 1 July 2016	1 586 687	55 914	103 321	4 012	(24 222)	3	9 421	1 415 033	3 150 169	460 547	3 610 716
Profit for the year	–	–	–	–	–	–	–	764 598	764 598	243 280	1 007 878
Other comprehensive (loss)/income	–	–	–	–	(75 941)	–	(399)	(3 121)	(79 461)	(154 432)	(233 893)
Other comprehensive – Transfer	–	–	–	–	–	–	–		–	–	–
Total other comprehensive income	–	–	–	–	(75 941)	–	(399)	761 477	685 137	88 847	773 985
Transfer to contingency reserve	–	–	(572)	–	–	–	–	(9 863)	(10 435)	(3 527)	(13 962)
Transfer to non-controlling interest	–	–		–	10 935	–	–	102 251	113 186	(113 186)	–
Dividends paid on ordinary shares	–	–	–	–	–	–	–	–	–	(30 084)	(30 084)
Dividends paid on A-ordinary shares in Hollard Insurance Company of Namibia Limited	–	–	–	–	–	–	–	–	–	(70 597)	(70 597)
Dividends paid on preference shares	–	–	–	–	–	–	–	(1 158 580)	(1 158 580)	–	(1 158 580)
Disposal of non-current assets held for sale	–	–	(63 310)	–	45 868	–	(7 792)	126 486	101 252	(45 751)	55 501
Balance at 30 June 2017	1 586 687	55 914	39 439	4 012	(43 360)	3	1 230	1 236 804	2 880 729	286 250	3 166 979
Profit for the year	–	–	–	–	–	–	–	266 947	266 947	40 422	307 369
Other comprehensive loss	–	–	–	–	48 524	–	126	(191 688)	(143 038)	(285 325)	(428 363)
Total other comprehensive income	–	–	–	–	48 524	–	126	75 259	123 909	(244 903)	(120 994)
Transfer from contingency reserve	–	–	(18 940)	–	–	–	–	18 940	–	(18 898)	(18 898)
Transfer to non-controlling interest	–	–	–	–	(10 062)	–	–	–	(10 062)	–	(10 062)
Dividends paid on preference shares	–	–	–	–	–	–	–	(595 503)	(595 503)	–	(595 503)
Disposal of non-current assets held for sale	–	–	–	–	14 972	–	–	497 644	512 616	(15 429)	497 187
Balance at 30 June 2018	1 586 687	55 914	20 499	4 012	10 074	3	1 356	1 233 144	2 911 689	7 020	2 918 709

COMPANY	Issued share capital R'000	Share premium R'000	Contingency reserve R'000	Share option reserve R'000	Foreign currency translation reserve R'000	Credit protection reserves R'000	Non-distri-butable reserves R'000	Retained earnings R'000	Total ordinary share-holders' equity R'000
Balance at 1 July 2016	1 586 687	55 914	–	4 012	–	–	–	2 094 497	3 741 110
Profit for the year	–	–	–	–	–	–	–	645 444	645 444
Total other comprehensive income	–	–	–	–	–	–	–	645 444	645 444
Dividends paid on preference shares	–	–	–	–	–	–	–	(1 158 580)	(1 158 580)
Balance at 30 June 2017	1 586 687	55 914	–	4 012	–	–	–	1 581 361	3 227 974
Profit for the year	–	–	–	–	–	–	–	219 103	219 103
Total other comprehensive income	–	–	–	–	–	–	–	219 103	219 103
Dividends paid on preference shares	–	–	–	–	–	–	–	(595 503)	(595 503)
Balance at 30 June 2018	1 586 687	55 914	–	4 012	–	–	–	1 204 961	2 851 574

STATEMENTS OF CASH FLOWS
for the year ended 30 June 2018

	Notes	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Cash flows from operating activities					
Cash receipts from policyholders and other customers		8 483 825	9 494 798	7 923 071	8 236 019
Cash paid to policyholders, suppliers and employees		(8 275 365)	(9 290 980)	(7 710 670)	(8 268 545)
Cash generated from/(utilised by) operations	32	208 460	203 818	212 401	(32 526)
Interest paid	27	(111 534)	(81 310)	(107 612)	(72 997)
Dividends paid	33	(595 503)	(1 243 494)	(595 503)	(1 172 897)
Interest received	27	259 654	285 080	196 104	211 836
Dividends received	34	146 285	282 475	180 408	389 213
Taxation paid	35	(50 312)	(159 716)	(28 769)	(62 929)
Net cash outflow from operating activities		(142 950)	(713 147)	(142 971)	(740 300)
Cash flows from investing activities					
Acquisition of property and equipment		(54 388)	(25 423)	(54 388)	(25 423)
Acquisition of listed and unlisted investments		(166 049)	(344 258)	(166 049)	(344 258)
Acquisition of associate		–	(1 000)	–	(1 000)
Acquisition of intangible assets		(58 896)	(53 202)	(58 896)	(53 202)
Acquisition of bonds		(85 000)	(35 888)	(85 000)	(35 888)
Proceeds on disposal of listed and unlisted investments	38	265 224	393 918	265 224	393 918
Proceeds on disposal of non-current assets held for sale	39	483 527	11 807	483 527	11 807
Proceeds on maturity of bonds		(772)	34 304	(772)	34 304
Decrease in loans to subsidiaries		–	–	(167)	31 686
Increase in loans		(100 312)	35 794	(100 312)	35 794
Net cash inflow from investing activities		283 334	16 052	283 167	47 738
Cash flows from financing activities					
Increase in long-term borrowings		144	597 099	143	600 000
Net cash inflow from financing activities		144	597 099	143	600 000
Cash and cash equivalents					
Net decrease in cash and cash equivalents		140 528	(99 996)	140 339	(92 562)
Cash and cash equivalents at beginning of year		2 079 388	2 179 384	2 080 702	2 173 264
Cash and cash equivalents at end of year	15	2 219 916	2 079 388	2 221 041	2 080 702

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2018

1. Accounting policies

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

1.1 Basis of presentation

These consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these annual financial statements.

These consolidated annual financial statements have been prepared on the historical cost basis, except for investment and owner-occupied property, interest in subsidiaries and associates, the revaluation of investment financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income 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 Group's and Company's estimates and underlying assumptions are reviewed for reasonability on an ongoing basis. Revisions to accounting estimates are recognised in the 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.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the annual financial statements are disclosed in note 2 to these financial statements.

Adoption of new and revised standards

The Group's and Company's accounting policies are consistent with those of the previous financial year except for those instances where new or revised standards and/or interpretations had to be adopted. The Group and Company adopted all of the new and 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 2016. The adoption of these revised standards and interpretations did not have any effect on the Group's and Company's financial performance or position, although they did give rise to additional disclosures including, in some cases, changes to existing accounting policies.

The Group and Company will comply with standards issued but not yet effective for the 2018 financial year, from the respective effective dates. It is expected that the application of these standards will have an impact on the Group's reported results, financial position and cash flow. The adoption of these standards will give rise to additional disclosures including, in some cases, changes to existing accounting policies for the Group and Company. The new and amended IFRS and IFRIC interpretations together with the dates on or after which they became effective, are as follows:

International Financial Reporting Standards and Amendments issued but not yet effective for the financial year ended 30 June 2018

- IFRS 9: *Financial Instruments* – Reissue of a complete standard with all the chapters incorporated (effective from annual periods beginning on or after 1 January 2018). This standard is expected to have an impact on the financial statements.
- IFRS 9: *Financial Instruments* – Amendments regarding prepayment features with negative compensation and modifications of financial liabilities (effective from annual periods beginning on or after 1 January 2019). This standard is expected to have an impact on the financial statements.
- IFRS 10: *Consolidated Financial Statements* – Amendments on sale or contribution of assets between an investor and its associate or joint venture (deferred indefinitely). This standard is expected to have an impact on the financial statements.
- IFRS 15: *Revenue from Contracts with Customers* – Original issue (effective from annual periods beginning on or after 1 January 2019). This standard is expected to have an impact on the financial statements.
- IFRS 15: *Revenue from Contracts with Customers* – Clarifications to IFRS 15 (effective from annual periods beginning on or after 1 January 2018). This standard is expected to have an impact on the financial statements.
- IAS 40: *Investment Property* – Amendment clarifies the requirements on transfers to, or from, investment property (effective from annual periods beginning on or after 1 January 2018). This standard is expected to have an impact on the financial statements.
- IAS 2: *Share-based Payment* – Amendment classification and measurement of share-based payment transactions (effective from annual periods beginning on or after 1 January 2018). This standard is expected to have an impact on the financial statements.
- IAS 28: *Investments in Associates and Joint Ventures* – Amendments regarding long-term interests in associates and joint ventures (effective from annual periods beginning on or after 1 January 2019). This standard is expected to have an impact on the financial statements.
- IAS 28: *Investments in Associates and Joint Ventures* – Amendments on sale or contribution of assets between an investor and its associate or joint venture (deferred indefinitely). This standard is expected to have an impact on the financial statements.
- IAS 28: *Investments in Associates and Joint Ventures* – Amendments resulting from 2014-2016 Annual Improvements Cycle (effective from annual periods beginning on or after 1 January 2018). This standard is expected to have an impact on the financial statements.
- IFRS 17: *Insurance Contracts* – Original issue that replaces IFRS 4: *Insurance Contracts* (effective from annual periods beginning on or after 1 January 2021). This standard is expected to have a material impact on the financial statements.

There are no interpretations of IFRS issued but not yet effective for the financial year ended 30 June 2018.

1. Accounting policies (continued)

1.2 Basis of consolidation

The consolidated annual financial statements incorporate the annual financial statements of the Company, its subsidiaries, associates and joint ventures.

Investments in subsidiaries

Subsidiaries are entities over which the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The results of subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the effective date on which control ceases. Gains and losses on disposal of subsidiaries are accounted for in the comprehensive income.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date in terms of IFRS 3: *Business Combinations*, irrespective of the extent of any non-controlling interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the comprehensive income.

The interest of non-controlling shareholders in the acquiree is initially measured at their proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. Non-controlling interest in the net assets of consolidated subsidiaries are identifiable separately from the Group's equity therein. Non-controlling interest consists of the amount of those interests at the date of the original business combination and their share of changes in equity since the date of the combination. Losses attributable to non-controlling shareholders in excess of their interest in the subsidiary's equity are allocated against the interest of the Group except to the extent that they have a binding obligation and are able to make an additional investment to cover the losses.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Company classifies its investments in subsidiaries at fair value through profit or loss financial instruments in accordance with IAS 39: *Financial Instruments: Recognition and Measurement* due to the fact that it continually manages and evaluates these investments on a fair value basis.

Investments in associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these annual financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated statement of financial position's reserves at cost and adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. Post-acquisition losses of an associate in excess of the Group's interest in that associate, which includes any long-term interest that, in substance, form part of the Group's net investments in associates, are not recognised unless the Group has incurred obligations or made payments on behalf of the associate. Post-acquisition profits are recognised in the comprehensive income.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment on an annual basis. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is immediately recognised in the comprehensive income.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Company classifies its investments in associates at fair value through profit or loss financial instruments in accordance with IAS 39 due to the fact that it continually manages and evaluates these investments on a fair value basis.

Interest in joint arrangements

Joint ventures are entities where control is shared equally with a third party. Under the terms of these arrangements, the strategic, financial and operating policy decisions relating to joint venture activities require the unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these annual financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position's reserves at cost and adjusted for post-acquisition changes in the Group's share of the net assets of the joint ventures, less any impairment in the value of individual investments. Post-acquisition losses of a joint venture in excess of the Group's interest in that joint venture, which includes any long-term interest that, in substance, forms part of the Group's net investments in joint ventures, are not recognised unless the Group has incurred obligations or made payments on behalf of the joint venture. Post-acquisition profits are recognised in the comprehensive income.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment on an annual basis. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is immediately recognised in the comprehensive income.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Joint ventures' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Company classifies its investments in joint ventures at fair value through profit or loss financial instruments in accordance with IAS 39 due to the fact that it continually manages and evaluates these investments on a fair value basis.

Accounting for entities under common control

IFRS does not provide specific guidance on accounting for business combinations under common control. Therefore, an accounting policy would be elected using the principles outlined in IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors*. This approach requires the entity first to consider the requirements in IFRS dealing with similar and related issues. After this assessment, the entity evaluates the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework.

IFRS 3 is not applied to transactions where there is a transfer of a business between Group entities that are ultimately controlled by the same party before and after the transfer. Therefore, the predecessor accounting policy was selected for the accounting of entities under common control. Under this methodology, the assets and liabilities are transferred at their carrying amounts as they were recognised in the seller's financial statements. The excess between the assets and liabilities recognised, and the purchase consideration transferred to the seller, is recognised as an equity transaction directly in the statement of changes in equity.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, joint venture or associate at the acquisition date. Goodwill arising on the acquisition of the subsidiary, joint venture or associate is initially recognised at cost as a separate asset. Goodwill is tested annually for impairment and is carried at cost less any accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination for the purpose of impairment testing. Each of these cash-generating units represents the Group's investment by primary reporting segment.

Cash-generating units to which the goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss for goodwill is not reversed in a subsequent period.

The Group's policy for goodwill arising on acquisition of an associate is described under "Investments in associates" above.

1.3 Foreign currencies

General

Foreign assets and liabilities are initially recorded at the spot rate and translated into South African Rand at the exchange rates ruling at the statement of financial position date. Foreign investment income or loss is translated into South African Rand at the average exchange rate for the year. Gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the comprehensive income.

Functional and presentation currency

The individual annual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated annual financial statements are presented in South African Rand, which is the Company's functional currency and the Group's presentation currency. All financial information presented in South African Rand has been rounded to the nearest thousand (R'000) except when otherwise indicated.

1. Accounting policies (continued)

1.3 Foreign currencies (continued)

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 or losses are recognised in the comprehensive income. Translation differences on non-monetary items are reported as part of the fair value gain or loss.

Group companies

For the purposes of presenting consolidated annual financial statements, the assets and liabilities of the Group's foreign operations are translated from their respective functional currency into the Group's presentation currency at the closing exchange rates ruling at the statement of financial position date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates ruling at the date of the various transactions are used. All translation differences arising from the translation and consolidation of foreign operations are recognised directly in other comprehensive income as a foreign currency translation gain or loss. Such translation differences are recognised in the comprehensive income in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing exchange rate at the statement of financial position date. None of the Group entities has the currency of a hyperinflationary economy.

1.4 Property and equipment

Property and equipment is initially recorded at cost. 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 purchase 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 comprehensive income.

Each category of property and equipment is depreciated on the straight-line basis at rates considered appropriate to reduce its cost to net realisable value over its estimated useful life. The rates used to depreciate each category of property and equipment are as follows:

• Motor vehicles	20%
• Office equipment	10%
• Computer equipment	33%
• Furniture and fittings	10%
• Leasehold improvements	shorter of useful life and lease term

Land is not depreciated.

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

Property

Owner-occupied properties are carried at fair value less subsequent depreciation for buildings. The fair value is determined every three years by external, independent professional valuers. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation increase arising on the revaluation of owner-occupied properties is credited to the revaluation surplus in other comprehensive income.

Decreases that offset previous increases of the same asset are charged against their valuation reserve in other comprehensive income. All other decreases are charged to the comprehensive income. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the comprehensive income and depreciation based on the asset's original cost, net of any related deferred tax, is transferred from the revaluation surplus to other comprehensive income.

1.5 Investment property

Property held either to earn rental income or for capital appreciation, or for both, and which is not occupied by companies in the Group, is classified as investment property. The Group's investment property comprises freehold land and buildings.

Investment property is treated as a long-term investment and is measured initially at cost, including transaction costs. After initial recognition, investment property is measured at open-market fair value and is subject to a valuation by an external, independent professional valuer every three years. If the open-market valuation information cannot be reliably determined, the Group uses alternative valuation methods such as recent prices on active markets. Gains or losses arising from changes in the fair value of investment property are credited or charged directly to the comprehensive income in the year in which they are identified. On disposal of investment property, the difference between the net disposal proceeds and the carrying value is recognised in the comprehensive income.

If an investment property were to become owner-occupied, it would be reclassified as property and equipment and would be fair valued at the date of reclassification.

1.6 Intangible assets

Intangible assets are recognised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, and the cost of the asset can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. The amortisation method for intangible assets is reviewed annually.

Computer software

Acquired computer software packages and licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful life (three to seven years).

Acquired rights over books of business

The acquisition of the books of business is recognised as intangible assets due to the fact that:

- it is probable that the expected future economic benefits attributable to the books of business will flow to the entity;
- the costs of the books of business have been measured reliably;
- these books of business are initially recognised at cost;
- these books of business are, subsequent to initial recognition, carried at cost less accumulated amortisation, fair value adjustments and any impairment losses; and
- these books of business are revalued annually using actuarial valuation models.

1.7 Non-derivative financial instruments

Financial assets

Investments

The Group and Company classify its investments in debt and equity securities into the following categories: financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, held-to-maturity financial assets and loans and other 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 purchase according to the following accounting policies:

i) Financial assets at fair value through profit or 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 in terms of the Group's and Company's long-term investment strategy.

Investments which the Group and Company have elected to designate at fair value through profit or loss are investments held for the long term.

For the purpose of these consolidated annual financial statements, "short term" is defined as any period of less than 12 months and "long term" is defined as any period in excess of 12 months.

ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group and the Company have a positive intention and ability to hold to maturity are classified as held-to-maturity investments and are included in non-current assets, except for maturities within 12 months from the statement of financial position date which are classified as current assets. This category also includes all assets that are not designated either at fair value through profit or loss or as fair value through other comprehensive income.

iii) Financial assets at fair value through other comprehensive income

Financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as financial assets at fair value through other comprehensive income and are included in non-current assets unless management has the express intention of holding the investments for less than 12 months from the statement of financial position date or unless they will be sold to raise operating capital, in which case they are included in current assets. Fair value through other comprehensive income investments includes equities.

iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market that are created by the Group or Company in exchange for providing money, goods or services directly to a debtor, other than those that originated with the intention to sell immediately or in the short term designated at fair value through profit or loss. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the overall impairment review of loans and receivables.

Recognition and measurement

Financial instrument purchases are initially measured at fair value and are recognised using trade date accounting. The trade date is the date on which the Group and/or the Company commits to purchase or sell the asset. Subsequent to initial measurement, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are carried at fair value, while the held-to-maturity investments and loans receivables are carried at amortised cost using the effective interest method, less any provision for impairment.

1. Accounting policies (continued)

1.7 Non-derivative financial instruments (continued)

Financial assets (continued)

Recognition and measurement (continued)

A provision for impairment of held-to-maturity investments and loans and receivables is established when there is objective evidence that the Group or Company will not be able to collect all amounts due according to their original terms.

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

Gains or losses

Realised and unrealised gains or losses arising from changes in the fair value of investments classified as at fair value through profit or loss are included in the comprehensive income in the period in which they arise. Unrealised gains or losses arising from changes in the fair value through other comprehensive income investments are recognised in other comprehensive income. When investments classified as fair value through other comprehensive income are sold or impaired, the accumulated fair value adjustments are included in the profit or loss as net realised gains or losses on non-derivative financial instruments.

Fair value

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the comprehensive income.

The fair value of investments is based on quoted bid prices for listed instruments and collective investment schemes are valued using the repurchase price. The use of cash flow models is applied for non-active market instruments. Fair values for unlisted investments are estimated using applicable cash flow models or price/earnings 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.

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.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at cost, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with the interest expense being recognised on an effective yield basis.

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 exactly 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*, the Group and Company classify the following statement of financial position items as financial liabilities:

- Borrowings
- Reinsurance liabilities
- Trade and other payables
- Provision for liabilities arising from a contractual relationship with existing Group and Company staff
- Long-term liabilities, which commonly take the form of loan funding

1.8 Impairment of assets excluding goodwill

The Group and/or the Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets other than those carried at fair value through profit or loss is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss even") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Group and/or 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
- Economic conditions that correlate with defaults on assets in the Group and/or the Company

All impairment losses are recognised in the 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 recognised in the comprehensive income.

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

The Group and/or the Company assesses at each statement of financial position date whether there is objective evidence that a financial asset at fair value through other comprehensive income is impaired, including, in the case of equity investments, a significant or prolonged decline in the fair value of the security below its costs. If any such evidence exists, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value of the investment, is removed from other comprehensive income and recognised in the comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in the comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as 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.

1.9 Cash and cash equivalents

For the purpose of the statement of cash flows, 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 with reference to expected cash flows and current market interest rates.

1.10 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

1.11 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.

1.12 Insurance contracts

Classification of insurance contracts

The Group and/or Company issues contracts which transfer insurance risk or financial risk or, in some cases, both.

Insurance contracts are those contracts under which the Group and/or Company (as insurer) 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 them. Such contracts may also transfer financial risk. As a general guideline, the Group and Company define a significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

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

The Group and/or Company classifies financial guarantee business as insurance contracts.

Management of insurance and financial risk

As is stated above, the Group and/or Company issues contracts that transfer insurance risk or financial risk, or in some instances both. This section summarises these risks and the way in which the Group and/or Company manages them.

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 recognised as income over the term of the reinsurance contract.

1. Accounting policies (continued)

1.12 Insurance contracts (continued)

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 acquisition costs consist of commissions and other variable costs directly connected with acquisition or renewal of insurance contracts. The deferred acquisition costs are amortised on a straight-line basis over the average term of the policies, from one to five years. Deferred acquisition costs are regularly tested for impairment using the liability adequacy test as per IFRS 4. The deferred acquisition cost is not reinstated once written off.

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 comprises the Group's and/or 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.

The majority of the Group's and Company's IBNR is calculated as a percentage of net earned premium as prescribed by Board Notice 169 of 2011. This percentage is a best estimate reserve, which represents the expected value of the unreported claims liabilities. Different percentages are applicable for different classes of business and appropriateness is assessed against the Group's and Company's past claims experience.

The Company's internal actuaries 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 the estimated development factors based on the historical pattern, is used to assess the adequacy of the reserves calculated according to Interim Measure principles. Where the Interim Measure reserves prove to be too low, an additional reserve is raised.

Adjustments to the amounts of claims provisions established in prior years are reflected in the annual 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 tests

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 the 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 recognised in income for the year (unexpired risk provision).

Reinsurance

The Group and/or Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential. Reinsurance arrangements do not relieve the Group and/or Company from its direct obligations to its policyholders. Premiums ceded and claims reimbursed are reflected in the comprehensive income and statement of financial position separately from the gross amounts.

Only those reinsurance 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. Reinsurance contracts that do not transfer significant insurance risk are accounted for as financial assets. 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 Group and/or Company may not recover all amounts due and that there is a reliably measurable impact on the amounts that the Group and/or Company will receive from the reinsurer. Impairment losses are recognised in the comprehensive income.

Salvage and subrogation reimbursements

Some insurance contracts permit the Group and/or Company to sell property acquired in settling a claim. The Group and/or 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.

1.13 Revenue

The accounting policy in relation to revenue from insurance contracts is disclosed in note 1.12.

Interest income and finance cost

Interest income and expenditure for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, are recognised within investment income and finance costs in the comprehensive income using the effective interest method. When a receivable is impaired, the Group and/or Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend income

Dividend income for equities is recognised when the right to receive payment is established, which is the last day to trade in respect of quoted shares and when declared in respect of unquoted shares.

Rental income

Rental income from investment properties is recognised in the comprehensive income on a straight-line basis over the term of each lease.

Premium income

Premiums relating to the insurance business are stated gross and net of outward reinsurance premium and are accounted for by applying the accrual basis when collectability is reasonably assured.

Policyholder benefits

Provision is made for the estimated cost of claims notified but not settled at the end of the financial year using the best information available at the statement of financial position date. Claims payable amounts include related internal and external claims handling costs. Claims incurred prior to the end of the financial year, but not reported until after that date, are brought to account in the valuation of actuarial liabilities. Claims are stated net of reinsurance recoveries.

Commission

Commission payments and receipts are shown gross of reinsurance commissions.

1.14 Employee benefits

Pension and provident scheme arrangements

The Group and Company operate 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 Group and Company have no further obligations once the contributions have been paid.

Profit-sharing and bonus plans

The Group and Company operate several bonus and profit share plans for the benefit of employees. A provision is recognised when the Group and/or 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 Group and Company recognise termination benefits in the comprehensive income when it is demonstrably 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.

Other post-employment obligations

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

1.15 Taxation

Income taxation on the profit or loss for the period comprises current and deferred taxation. Taxable profit differs from profits as reported in the comprehensive income because it excludes items of income or expenses that are taxable or deductible in other years, and it further excludes items that are never taxable nor deductible. Income tax is recognised in the comprehensive income except to the extent that it relates to items recognised directly in other comprehensive income, in which case the related income tax is also recognised in other comprehensive income.

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 asset is realised or the deferred income tax liability is settled.

1. Accounting policies (continued)

1.15 Taxation (continued)

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 that 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.

Dividend withholding tax

Government notice number 1073, issued by National Treasury on 20 December 2011, introduced a withholding tax on dividends into South Africa with effect from 1 April 2012 in lieu of STC. The Company is exempt from paying withholding tax on ordinary share dividends received as it is a company resident in the Republic of South Africa. Accordingly, no withholding tax should be deducted from dividends payable by the issuer to the Company.

1.16 Provisions

Provisions are recognised when the Group and/or 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.

Provisions are not recognised for future operating losses. When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

1.17 Borrowings

Borrowings are recognised initially at cost, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is recognised in the comprehensive income over the period of the borrowing using the effective interest rate method.

1.18 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 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.

1.19 Dividend distribution

Dividend distributions to the Group's and/or Company's shareholders are recognised as a liability in the Group's and/or Company's annual financial statements in the period in which the Board of Directors approves the dividend after performing solvency and liquidity tests.

2. Critical accounting estimates and judgements

The Group and/or Company makes certain estimates and assumptions that affect the reported amounts of assets and liabilities in the annual financial statements.

2.1 Claims incurred

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's and/or 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 Group's and/or Company's estimates and assumptions are reviewed and updated, and the tools with which it monitors and manages risk are refined as new information becomes available.

The Group's and/or Company's processes for determining significant reserving assumptions are outlined in note 21.

2.2 Valuation of unlisted investments

The Group and Company determine the fair value of its unlisted investments using well established valuation techniques. These techniques include discounted cash flow analysis, price earnings ratio and net asset value methodologies. Where the underlying investments of an investment holding company are property or listed investments, the company is valued on the net asset value basis which reflects the fair value of the underlying investments.

Insurance companies are valued on a discounted cash flow basis. In instances where reliable future cash flows cannot be estimated, the valuation is based on a price earnings valuation technique. In the event that no cash flow information is available, the valuation is based on the net asset value of the business.

In using discounted cash flow analyses, the discount rate used is based on the build-up method which incorporates a risk-free rate, an equity risk premium and an unsystematic risk premium.

In using the price earnings valuation technique, the valuation is based on a PE multiple of the current year's normalised earnings. The potential future earnings of the Company, current interest rate cycle, current business environment and management of the Company are considered in determining the earnings factor.

Due to the number and the diversity of investments, the disclosure of a sensitivity analysis has not been prepared as it does not provide the user of the financial statements with a meaningful comparison.

The year-end valuations are approved by the Investment Committee.

3. Financial risk management

Introduction

The Group's and/or Company's principal objectives are to ensure that it will be able to continue as a going concern and to provide value to its shareholders and policyholders through a long-term, sustainable real return on capital as a result of managing its business risks within an appropriate risk framework. The Board of Directors has overall responsibility for establishing, monitoring and communicating the Group's and Company's risk management framework, including defining what constitutes "appropriate" risk and control policies, and for ensuring that sufficient capital is held to support the taking of risk. In order to discharge some of its responsibility, the Board has established the Risk and Compliance Committee, which is responsible for developing and monitoring the Group's and Company's risk management policies. The Committee reports regularly to the Board on its activities.

The Group's and Company's risk management policies were established to identify and analyse the risks it faces, to set appropriate risk limits and controls and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in both market conditions and the Group's and Company's activities. The Group and Company, through its training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees, brokers and partners understand their roles and obligations.

The Group Risk and Compliance Committee oversees the way management monitors compliance with its established risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group and Company. The Audit Committee, Risk and Compliance Committee is assisted in its oversight role by Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to stakeholders in management and to the Group Audit Committee, Risk and Compliance Committee.

3.1 Exposure to risk arising from financial instruments

The Group and Company have exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This section presents information about the Group's and Company's exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk, and the Group's and Company's management of capital. Further quantitative disclosures are included throughout these consolidated annual financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's and Company's risk management framework. The Board has established the Group Risk and Compliance Committee, which is responsible for developing and monitoring the Group's and Company's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

3. Financial risk management (continued)

3.1 Exposure to risk arising from financial instruments (continued)

3.1.1 Credit risk

Credit risk is the risk of financial loss to the Group and Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Key areas where the Group and Company are exposed to credit risk are:

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

Insurance, loans and other receivables

The Group and Company limit the levels of credit risk that it accepts by placing limits on its exposure to a single counterparty or groups of counterparties, products, 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 Group's and Company's procedures on credit.

The Group's and Company's exposure to credit risk is influenced mainly by the individual characteristics of each intermediary and the portfolios that they administer. A significant amount of the Group's and Company's insurance business is written through and administered by intermediaries, the majority of which have been transacting with the Group and Company for most of their existence. The credit control function forms an integral part of the business relationship to the extent that the intermediaries are closely monitored on many levels, including product profitability and return on capital. The Group and Company are also protected by guarantees provided by the intermediary guarantee facility for the non-payment of premiums collected by intermediaries.

The Group and Company provide for impairment in respect of its insurance debtors, loans and other receivables. The main components of this allowance are a specific loss component that relates 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.

Goodwill

Goodwill is allocated by the Group and Company to the cash-generating units (CGU) that represent the business operation from which the goodwill was originally generated. When testing for impairment, the recoverable amount is determined by value in use calculations. These calculations apply discounted cash flow techniques to the projected earning for each CGU.

Investments

The Group and Company have a dedicated Investment Committee that monitors and approves the investment mandates stipulated by the Board. The Group and Company, through the said mandates, limit its exposure to credit risk through diversification and by mainly investing in liquid securities and various counterparties that have a minimum credit rating of A1 from internationally recognised credit rating agencies and A from Moody's or, where such rating is not available, by internal analysis according to strict criteria. Given these high credit rating requirements, management does not expect any counterparty to fail to meet its obligations.

The Group and Company seek to avoid concentration of credit risk to groups of counterparties, asset management houses, business sectors, product types, and geographical segments by diversifying the investment mandate to various asset management houses and enforcing a strict application of mandates. 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 Group's and Company's assets is disclosed in note 4.1 on pages 27 to 29 of the financial statements.

Reinsurance

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

The Group and Company have 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 Group's and Company's largest reinsurance counterparty is Hannover Re. This exposure is monitored on a regular basis for any shortfall in the claims history to verify that the contract is progressing as expected and that no further exposure for the Group and Company will arise.

The Group and Company monitor the financial condition of reinsurers on an ongoing basis and review reinsurance arrangements periodically. The Group and Company have a Reinsurance and Underwriting 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 Group and Company consider 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 Group and/or Company will not be able to meet its financial obligations as they fall due. The Group's and 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 Group's and/or Company's reputation.

The Group and Company are 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.

Based on actuarial modelling of historical and future expected trends, the Group and Company have estimated the probable cash outflows associated with general insurance liabilities. The maturity analysis of the gross insurance liabilities is set out in note 4.2.3 on page 31. The maturity profile of the related insurance and investment assets is expected to be similar to the profile of the liabilities. The Group and Company have 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 will affect the Group's and 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 Group's and Company's return on investment.

Financial assets and liabilities that are utilised to support the Group's and Company's capital base are fully exposed to the relevant elements of market risk. In summary, the key components of market risk are:

a) Currency risk

Currency risk is the risk arising from fair value and/or future cash flows of a financial instrument fluctuating from their expected values as a result of changes in exchange rates. This can arise from either a mismatch between currencies of assets or liabilities or supporting capital or the trading currency of the local entity being different to the Group's and Company's reporting currencies.

The Group and Company are 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 Mozambique foreign subsidiaries, transactions with foreign reinsurers, debt securities and equity investments in foreign companies. These foreign investments were made for the purposes of obtaining favourable international exposure to foreign currency and are monitored by the Investment Committee.

b) Interest rate risk

Interest rate risk is the risk arising from fair value and/or future cash flows of a financial instrument fluctuating from their expected values as a result of changes in market interest rates.

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 rate investments in the Group's and Company's investment portfolios. The Group's and Company's fixed interest rate investments do not give rise to significant interest rate risk. Furthermore, the majority of interest sensitive investments are short term, therefore the impact is minimal. The Group and Company do not use derivative instruments to manage this risk other than an ongoing 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 are contractually non-interest bearing. The sensitivity analysis for interest rate illustrates how changes in the fair values or future cash flows of financial instruments will fluctuate because of changes in the market interest rates at the reporting date.

c) Other market price (or equity) risk

Equity risk is the risk arising from the actual fair value and/or the future cash flows from equities fluctuating from their expected values as a result of changes in market prices and/or dividend amounts.

Equity price risk arises from listed, fair value through profit or loss, equity securities held on behalf of the policyholders and the shareholder. The equity selection and investment analysis process is supported by a well developed research function utilising professional advisors. Within these parameters, investments are managed with the aim of maximising policyholders' returns while limiting risks to acceptable levels within the framework of statutory requirements.

The Group and Company are assisted by external asset managers in this regard. In accordance with this strategy certain investments are designated at fair value through profit or 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 Group and Company, which include some material shareholding in the Group's and Company's strategic partners. Concentrations of specific equity holdings are also monitored.

3. Financial risk management (continued)

3.1 Exposure to risk arising from financial instruments (continued)

3.1.4 Capital management

The Group and Company recognise share capital and premium, non-distributable reserves and retained earnings as capital.

In each country in which the Group operates, the local insurance regulator specifies the minimum amount and type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities. The minimum required capital must be maintained at all times. The Company submits quarterly and annual returns to the Financial Services Board (FSB) in terms of the Short-term Insurance Act of 1998, and is required at all times to maintain a statutory surplus asset ratio as defined in the Act. Interim measures were replaced on 1 July 2018 by new solvency requirements being developed in the FSB's Solvency Assessment and Management initiative. The returns submitted during the year showed that the Company met the minimum capital requirements throughout the year. The operating subsidiaries also met their respective solvency requirements.

In addition to the regulatory capital requirements, the Company calculates its economic capital requirement using an internal stochastic model. This model is used in the assessment of strategic business and investment decisions and in the allocation of capital to various initiatives.

The Group's and Company's objectives when managing capital are to:

- comply with the insurance capital requirements required by the regulators of the insurance markets where the Group and Company operate;
- prepare for the new solvency regime in South Africa in 2017;
- safeguard the Group's and Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and other stakeholders;
- provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk;
- ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value; and
- effectively manage its capital structure and make adjustments to the structure in light of changes in economic conditions.

4. Risk management

4.1 Credit risk

a) Exposure to credit risk

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

	Carrying value in statement of financial position		Net credit exposure	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
GROUP				
Financial assets				
Investments in associates	241 556	251 686	–	–
Loans to associates	10 142	10 141	10 142	10 141
Listed investments (financial assets at fair value through profit and loss)	868 724	747 931	–	–
Unlisted investments (financial assets at fair value through profit and loss)	1 962 694	1 984 285	763 161	807 531
Financial assets – held-to-maturity	138 633	52 317	138 633	52 317
Loans – interest bearing	39 700	28 776	39 700	28 776
Loans – non-interest bearing	129 221	112 278	129 221	112 278
Other loans and receivables	425 897	324 604	424 283	324 604
Cash and cash equivalents	2 219 916	2 079 388	2 219 916	2 079 388
Non-current assets held for sale	885 875	1 936 466	–	–
Insurance assets				
Insurance receivables	1 377 148	1 548 291	1 377 148	1 548 291
Deferred acquisition costs	116 443	143 311	–	–
Reinsurance assets	2 752 461	2 993 449	2 752 461	2 993 449
Total	11 168 410	12 212 923	7 854 665	7 956 775
COMPANY				
Financial assets				
Investments in subsidiaries	49 867	41 241	–	–
Loans to subsidiaries	1 664	26 692	1 664	26 692
Investments in associates	239 768	207 764	–	–
Loans to associates	10 142	10 141	10 142	10 141
Listed investments (financial assets at fair value through profit and loss)	818 904	706 797	–	–
Unlisted investments (financial assets at fair value through profit and loss)	1 962 694	1 984 285	763 161	807 531
Financial assets – held-to-maturity	138 633	52 317	138 633	52 317
Loans – interest bearing	39 700	28 776	39 700	28 776
Loans – non-interest bearing	129 221	112 278	129 221	112 278
Other loans and receivables	424 283	318 475	424 283	318 475
Cash and cash equivalents	2 221 041	2 080 702	2 221 041	2 080 702
Non-current assets held for sale	152 431	585 360	–	–
Insurance assets				
Insurance receivables	1 377 148	1 548 291	1 377 148	1 548 291
Deferred acquisition costs	116 443	143 311	–	–
Reinsurance assets	2 752 461	2 993 449	2 752 461	2 993 449
Total	10 434 400	10 839 879	7 857 454	7 978 652

4. Risk management (continued)

4.1 Credit risk (continued)

b) Credit rating

The following table provides information regarding the Group's and Company's aggregated credit quality of financial and insurance assets that are neither past due nor impaired at the reporting date.

	AA+ R'000	AA R'000	AA- R'000	A+ R'000	A R'000	A- R'000	BBB+ R'000	BBB- R'000	BBB R'000	BB+ R'000	BB R'000	Not rated R'000	Total R'000
GROUP													
2018													
Loans to associates	–	–	–	–	–	–	–	–	–	–	–	10 142	10 142
Financial assets held-to-maturity	–	–	–	25 117	–	–	–	42 614	20 507	–	–	50 395	138 633
Unlisted investments	–	–	–	–	–	–	–	–	–	–	–	763 161	763 161
Other loans and receivables	–	–	–	–	–	–	–	–	–	–	–	593 205	593 205
Cash and cash equivalents	–	–	–	–	–	–	–	248 607	–	1 726 038	–	245 271	2 219 916
Insurance assets													
Insurance receivables	–	–	–	–	–	–	–	14 896	–	8 017	–	1 354 235	1 377 148
Reinsurance assets	15 910	–	665 748	408 219	15 366	909 217	13 511	46 656	–	2 972	–	674 864	2 752 463
Total	15 910	–	665 748	433 336	15 366	909 217	13 511	352 773	20 507	1 737 027	–	3 691 273	7 854 668
2017													
Loans to associates	–	–	–	–	–	–	–	–	–	–	–	10 141	10 141
Financial assets held-to-maturity	–	–	–	–	–	–	–	2 025	–	–	–	50 292	52 317
Unlisted investments	–	–	–	–	–	–	–	–	–	–	–	807 531	807 531
Other loans and receivables	–	–	–	–	–	–	–	–	–	–	–	465 658	465 658
Cash and cash equivalents	–	–	–	–	20 363	–	–	376 249	–	1 477 762	–	205 014	2 079 388
Insurance assets													
Insurance receivables	–	–	–	–	–	–	–	–	–	–	–	1 548 291	1 548 291
Reinsurance assets	–	7 053	936 358	84 981	14 828	21 517	940 424	–	–	807	–	987 481	2 993 449
Total	–	7 053	936 358	84 981	35 191	21 517	940 424	378 274	–	1 478 569	–	4 074 408	7 956 775
COMPANY													
2018													
Loans to subsidiaries	–	–	–	–	–	–	–	–	–	–	–	1 664	1 664
Loans to associates	–	–	–	–	–	–	–	–	–	–	–	10 142	10 142
Financial assets held-to-maturity	–	–	–	25 117	–	–	–	42 614	20 507	–	–	50 395	138 633
Unlisted investments	–	–	–	–	–	–	–	–	–	–	–	763 161	763 161
Other loans and receivables	–	–	–	–	–	–	–	–	–	–	–	593 205	593 205
Cash and cash equivalents	–	–	–	–	–	–	–	248 607	–	1 726 038	–	246 396	2 221 041
Insurance assets													
Insurance receivables	–	–	–	–	–	–	–	14 896	–	8 017	–	1 354 235	1 377 148
Reinsurance assets	15 910	–	665 748	408 219	15 366	909 217	13 511	46 656	–	2 972	–	674 864	2 752 463
Total	15 910	–	665 748	433 336	15 366	909 217	13 511	352 773	20 507	1 737 027	–	3 694 062	7 857 457
2017													
Loans to subsidiaries	–	–	–	–	–	–	–	–	–	–	–	26 691	26 691
Loans to associates	–	–	–	–	–	–	–	–	–	–	–	10 141	10 141
Financial assets held-to-maturity	–	–	–	–	–	–	–	2 025	–	–	–	50 292	52 316
Unlisted investments	–	–	–	–	–	–	–	–	–	–	–	807 531	807 531
Other loans and receivables	–	–	–	–	–	–	–	–	–	–	–	459 531	459 531
Cash and cash equivalents	–	–	–	–	20 363	–	–	376 249	–	1 477 762	–	206 328	2 080 702
Insurance assets													
Insurance receivables	–	–	–	–	–	–	–	–	–	–	–	1 548 291	1 548 291
Reinsurance assets	–	7 053	936 358	84 981	14 828	21 517	940 424	–	–	807	–	987 481	2 993 449
Total	–	7 053	936 358	84 981	35 191	21 517	940 424	378 274	–	1 478 569	–	4 096 285	7 978 653

c) Financial and insurance assets that are neither past due nor impaired

The analysis of financial instruments that were neither past due nor impaired and/or individually impaired at the reporting date was as follows:

	GROUP				COMPANY			
	Neither past due nor impaired R'000	Past due but not impaired R'000	Individually impaired R'000	Gross carrying amount R'000	Neither past due nor impaired R'000	Past due but not impaired R'000	Individually impaired R'000	Gross carrying amount R'000
2018								
Loans to subsidiaries	**–**	**–**	**–**	**–**	**1 664**	**–**	**37 957**	**39 621**
Loans to associates	**10 141**	**–**	**2 714**	**12 855**	**10 141**	**–**	**2 714**	**12 855**
Financial assets held-to-maturity	**138 633**	**–**	**–**	**138 633**	**138 633**	**–**	**–**	**138 633**
Unlisted investments	**1 962 694**	**–**	**–**	**1 962 694**	**1 962 694**	**–**	**–**	**1 962 694**
Other loans and receivables	**594 820**	**1 225**	**34 776**	**630 821**	**593 205**	**1 225**	**34 776**	**629 206**
Cash and cash equivalents	**2 219 916**	**–**	**–**	**2 219 916**	**2 221 041**	**–**	**–**	**2 221 041**
Financial assets	**4 926 204**	**1 225**	**37 490**	**4 964 919**	**4 927 378**	**1 225**	**75 447**	**5 004 050**
Insurance receivables	**1 249 249**	**127 899**		**1 377 148**	**1 249 249**	**127 899**	**–**	**1 377 148**
Reinsurance assets	**2 747 163**	**5 298**	**–**	**2 752 461**	**2 747 163**	**5 298**	**–**	**2 752 461**
Insurance assets	**3 996 412**	**133 197**	**–**	**4 129 609**	**3 996 412**	**133 197**	**–**	**4 129 609**
2017								
Loans to subsidiaries	–	–	–	–	–	–	26 691	26 691
Loans to associates	10 141	–	2 714	12 855	10 141	–	2 714	12 855
Financial assets held-to-maturity	52 317	–	–	52 317	52 317	–	–	52 317
Unlisted investments	1 984 285	–	–	1 984 285	1 984 286	–	–	1 984 286
Other loans and receivables	365 720	99 926	(33)	465 613	359 637	99 926	(33)	459 530
Cash and cash equivalents	2 079 388	–	–	2 079 388	2 080 702	–	–	2 080 702
Financial assets	4 491 851	99 926	2 681	4 594 458	4 487 083	99 926	29 372	4 616 381
Insurance receivables	1 516 428	17 410	14 453	1 548 291	1 516 428	17 410	14 453	1 548 291
Reinsurance assets	2 965 968	27 481	–	2 993 449	2 965 968	27 481	–	2 993 449
Insurance assets	4 482 396	44 891	14 453	4 541 740	4 482 396	44 891	14 453	4 541 740

d) Age analysis of other loans and receivables and premium debtors that are past due but not impaired

	GROUP					COMPANY				
	<30 days R'000	31 to 60 days R'000	61 to 90 days R'000	More than 90 days R'000	Total past due but not impaired R'000	<30 days R'000	31 to 60 days R'000	61 to 90 days R'000	More than 90 days R'000	Total past due but not impaired R'000
2018										
Other loans and receivables	**20**	**20**	**20**	**1 165**	**1 225**	**20**	**20**	**20**	**1 165**	**1 225**
Insurance receivables	**–**	**56 147**	**7 838**	**63 914**	**127 899**	**–**	**56 147**	**7 838**	**63 914**	**127 899**
Reinsurance assets	**–**	**–**	**4 992**	**305**	**5 297**	**–**	**–**	**4 992**	**305**	**5 297**
Total	**20**	**56 167**	**12 850**	**65 384**	**134 421**	**20**	**56 167**	**12 850**	**65 384**	**134 421**
2017										
Other loans and receivables	–	4 425	735	94 766	99 926	–	4 425	735	94 766	99 926
Insurance receivables	–	–	–	17 410	17 410	–	–	–	17 410	17 410
Reinsurance assets	–	–	–	27 481	27 481	–	–	–	27 481	27 481
Total	–	4 425	735	139 657	144 817	–	4 425	735	139 657	144 817

The Group and Company record impairment allowances for loans and receivables in a separate impairment allowance account. The movement in the allowance for impairment in respect of loans and receivables and premium debtors for the Group and Company during the year was as follows:

	GROUP		COMPANY	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
Balance at beginning of year	**148 179**	91 213	**142 990**	86 024
– Collective impairment loss recognised	**(402)**	(562)	**(402)**	(562)
– Collective impairment loss reversed	**16 109**	57 528	**16 109**	57 528
Balance at end of year	**163 886**	148 179	**158 697**	142 990

4. Risk management (continued)

4.2 Liquidity risk

4.2.1 Maturity profile on financial and insurance assets

The following tables detail the Group's and Company's contractual maturities of financial and insurance assets, including interest payments:

	Carrying amount R'000	Total contractual cash flows R'000	0 – 12 months R'000	1 – 2 years R'000	2 – 5 years R'000
GROUP					
2018					
Loans to associates	10 142	12 855	12 855	–	–
Financial assets at fair value through profit or loss	2 831 418	2 831 418	2 831 418	–	–
Financial assets at fair value through other comprehensive income	–	–	–	–	–
Held-to-maturity assets	138 633	138 633	–	–	138 633
Reinsurance assets	2 752 461	2 752 461	2 752 461	–	–
Insurance, loans and other receivables	1 971 966	1 971 966	1 971 966	–	–
Deferred acquisition costs	116 443	116 443	116 443	–	–
Cash and cash equivalents	2 219 916	2 219 916	2 219 916	–	–
	10 040 979	10 043 692	9 905 059	–	138 633
2017					
Loans to associates	10 141	12 854	12 854	–	–
Financial assets at fair value through profit or loss	2 732 216	3 317 855	3 317 855	–	–
Held-to-maturity assets	52 317	52 317	–	–	52 317
Reinsurance assets	2 993 449	3 039 457	3 039 457	–	–
Insurance, loans and other receivables	2 013 949	324 560	324 560	–	–
Deferred acquisition costs	143 311	143 311	143 311	–	–
Cash and cash equivalents	2 079 388	2 080 943	2 080 943	–	–
	10 024 771	8 971 297	8 918 980	–	52 317
COMPANY					
2018					
Loans to subsidiaries	1 664	39 621	39 621	–	–
Loans to associates	10 142	12 855	12 855	–	–
Financial assets at fair value through profit or loss	2 781 598	2 781 598	2 781 598	–	–
Held-to-maturity assets	138 633	138 633	–	–	138 633
Reinsurance assets	2 752 461	2 752 461	2 752 461	–	–
Insurance, loans and other receivables	1 970 353	1 970 353	1 970 353	–	–
Deferred acquisition costs	116 443	116 443	116 443	–	–
Cash and cash equivalents	2 221 041	2 221 041	2 221 041	–	–
	9 992 335	10 033 005	9 894 372	–	138 633
2017					
Loans to subsidiaries	26 692	39 451	39 451	–	–
Loans to associates	10 141	12 855	12 855	–	–
Financial assets at fair value through profit or loss	2 691 082	2 690 571	2 690 571	–	–
Held-to-maturity assets	52 317	52 317	–	–	52 317
Reinsurance assets	2 993 449	3 039 457	3 039 457	–	–
Insurance, loans and other receivables	2 007 820	2 007 820	2 007 820	–	–
Deferred acquisition costs	143 311	143 311	143 311	–	–
Cash and cash equivalents	2 080 702	2 080 702	2 080 702	–	–
	10 005 514	10 066 484	10 014 167	–	52 317

4.2.2 Maturity profile of financial liabilities

The following tables detail the Group's and Company's contractual maturities of financial liabilities, including interest payments:

	Carrying amount R'000	Total contractual cash flows R'000	0 – 12 months R'000	1 – 2 years R'000
GROUP				
2018				
Non-derivative financial liabilities				
Trade and other payables and employee benefits	**1 074 623**	**1 074 623**	**1 074 623**	**–**
2017				
Non-derivative financial liabilities				
Trade and other payables and employee benefits	1 111 285	783 663	781 140	2 523
COMPANY				
2018				
Non-derivative financial liabilities				
Trade and other payables and employee benefits	**1 043 593**	**1 043 593**	**1 043 593**	**–**
2017				
Non-derivative financial liabilities				
Trade and other payables and employee benefits	1 105 364	796 270	793 747	2 523

4.2.3 Maturity profile of insurance liabilities

The following table details the Group's and Company's probable contractual cash outflows associated with insurance liabilities:

	GROUP				COMPANY			
	Probable cash outflows R'000	Maturity within a year R'000	Maturity between 2 and 5 years R'000	Maturity more than 5 years R'000	Probable cash outflows R'000	Maturity within a year R'000	Maturity between 2 and 5 years R'000	Maturity more than 5 years R'000
2018								
Claims reported and loss adjustment expenses	**2 383 751**	**1 905 590**	**460 698**	**17 463**	**2 383 751**	**1 905 590**	**460 698**	**17 463**
Claims incurred but not yet reported	**701 675**	**560 925**	**135 610**	**5 140**	**701 675**	**560 925**	**135 610**	**5 140**
Unearned premium provision	**1 684 032**	**1 630 557**	**53 475**	**–**	**1 684 032**	**1 630 557**	**53 475**	**–**
Cash back reserve	**71 918**	**36 882**	**35 036**	**–**	**71 918**	**36 882**	**35 036**	**–**
Reinsurance liabilities	**903 055**	**903 055**	**–**	**–**	**903 055**	**903 055**	**–**	**–**
Total	**5 744 431**	**5 037 009**	**684 819**	**22 603**	**5 744 431**	**5 037 009**	**684 819**	**22 603**
2017								
Claims reported and loss adjustment expenses	2 629 385	2 131 388	484 183	13 814	2 629 385	2 131 388	484 183	13 814
Claims incurred but not yet reported	719 527	583 250	132 496	3 780	719 527	583 250	132 496	3 780
Unearned premium provision	1 783 781	1 451 477	332 304	–	1 783 781	1 451 477	332 304	–
Cash back reserve	39 897	16 216	23 682	–	39 897	16 216	23 682	–
Reinsurance liabilities	890 105	890 105	–	–	890 105	890 105	–	–
Total	6 062 695	5 072 436	972 665	17 594	6 062 695	5 072 436	972 665	17 594

4. Risk management (continued)

4.3 Market risk

4.3.1 Sensitivity analysis

The Group's and Company's primary market exposure is to interest rate, equity price and currency risk.

Currency risk

The following exchange rates applied during the year:

	2018		2017	
	Average rate	**Reporting date spot rate**	Average rate	Reporting date spot rate
GROUP				
Botswana Pula	**1.2617**	**1.1960**	1.2721	1.2596
Namibian Dollar	**1.0000**	**1.0000**	1.0000	1.0000
Mozambique Metical	**0.2143**	**0.2332**	0.1912	0.2140
COMPANY				
British Pound	**17.2870**	**18.1643**	17.2425	16.9913
US Dollar	**12.8256**	**13.7493**	13.5936	13.0517

A 10% strengthening/devaluation in the relevant foreign currencies against the ZAR at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as for prior year.

	Profit/(loss)		Equity	
	10% increase R'000	**10% decrease R'000**	**10% increase R'000**	**10% decrease R'000**
GROUP				
2018				
US Dollar	**17 335**	**(17 335)**	**17 335**	**(17 335)**
British Pound	**3 696**	**(3 696)**	**3 696**	**(3 696)**
Total	**21 031**	**(21 031)**	**21 031**	**(21 031)**
2017				
US Dollar	16 013	(16 013)	16 013	(16 013)
British Pound	3 465	(3 465)	3 465	(3 465)
Total	19 478	(19 478)	19 478	(19 478)
COMPANY				
2018				
US Dollar	**17 335**	**(17 335)**	**17 335**	**(17 335)**
British Pound	**3 696**	**(3 696)**	**3 696**	**(3 696)**
Total	**21 031**	**(21 031)**	**21 031**	**(21 031)**
2017				
US Dollar	16 013	(16 013)	16 013	(16 013)
British Pound	3 465	(3 465)	3 465	(3 465)
Total	19 478	(19 478)	19 478	(19 478)

There is no currency fluctuation effect on the Namibian Dollar.

Interest rate risk

At the reporting date the interest rate profile of the Group's and Company's interest-bearing financial instruments was:

	2018 Carrying amount R'000	2017 Carrying amount R'000
GROUP		
Variable rate instruments		
Financial assets		
Cash and cash equivalents	**2 219 916**	2 079 388
COMPANY		
Variable rate instruments		
Financial assets		
Cash and cash equivalents	**2 221 041**	2 080 702

Sensitivity analysis for variable rate instruments of the Group and Company

The Group's and Company's investments in long-term debt and fixed income securities are exposed to fluctuations in interest rates. Exposure to interest rate risk is monitored through several measures that include scenario testing and stress testing using measures such as duration.

The Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model.

A change of 200 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as for prior year.

	Profit/(loss)		**Equity**	
	2% increase R'000	**2% decrease R'000**	**2% increase R'000**	**2% decrease R'000**
GROUP				
2018				
Cash and cash equivalents	**44 398**	**(44 398)**	**44 398**	**(44 398)**
Net cash flow sensitivity	**44 398**	**(44 398)**	**44 398**	**(44 398)**
2017				
Cash and cash equivalents	41 588	(41 588)	41 588	(41 588)
Net cash flow sensitivity	41 588	(41 588)	41 588	(41 588)
COMPANY				
2018				
Cash and cash equivalents	**44 421**	**(44 421)**	**44 421**	**(44 421)**
Net cash flow sensitivity	**44 421**	**(44 421)**	**44 421**	**(44 421)**
2017				
Cash and cash equivalents	41 614	(41 614)	41 614	(41 614)
Net cash flow sensitivity	41 614	(41 614)	41 614	(41 614)

4. Risk management (continued)

4.3 Market risk (continued)

4.3.1 Sensitivity analysis (continued)

Equity price risk

The Group's and Company's exposure to equity price risk at the reporting date was as follows:

GROUP	2018			2017		
Description of equity investments	Carrying amount R'000	Listed/ unlisted	Relevant stock exchange	Carrying amount R'000	Listed/ unlisted	Relevant stock exchange
Ordinary shares	745 214	Listed	JSE	616 872	Listed	JSE
Preference shares	123 510	Listed	JSE	131 058	Listed	JSE
Total	**868 724**			747 930		

All of the Group's listed equity investments are listed on the JSE Limited. For such investments a 5% increase in equity price at reporting date would increase equity and profit or loss by amounts as shown below. A 5% decrease in equity price should have had the equal but opposite effect. The analysis is performed on the same basis as for the prior year.

	Profit/(loss)		Equity	
	5% increase R'000	5% decrease R'000	5% increase R'000	5% decrease R'000
2018				
Ordinary shares – Listed	31 899	(31 899)	31 899	(31 899)
Preference shares – Listed	6 175	(6 175)	6 175	(6 175)
Total	**38 074**	**(38 074)**	**38 074**	**(38 074)**
2017				
Ordinary shares – Listed	29 109	(29 109)	29 109	(29 109)
Preference shares – Listed	6 553	(6 553)	6 553	(6 553)
Total	35 662	(35 662)	35 662	(35 662)

COMPANY	2018			2017		
Description of equity investments	Carrying amount R'000	Listed/ unlisted	Relevant stock exchange	Carrying amount R'000	Listed/ unlisted	Relevant stock exchange
Ordinary shares	695 394	Listed	JSE	575 738	Listed	JSE
Preference shares	123 510	Listed	JSE	131 058	Listed	JSE
Total	**818 904**			706 796		

All of the Company's listed equity investments are listed on the JSE Limited. For such investments a 5% increase in equity price at reporting date would increase equity and profit or loss by amounts as shown below. A 5% decrease in equity price would have had the equal but opposite effect. The analysis is performed on the same basis as for prior year.

	Profit/(loss)		Equity	
	5% increase R'000	5% decrease R'000	5% increase R'000	5% decrease R'000
2018				
Ordinary shares – Listed	31 899	(31 899)	31 899	(31 899)
Preference shares – Listed	6 119	(6 119)	6 119	(6 119)
	38 018	**(38 018)**	**38 018**	**(38 018)**
2017				
Ordinary shares – Listed	29 067	(29 067)	29 067	(29 067)
Preference shares – Listed	6 533	(6 533)	6 533	(6 533)
	35 600	(35 600)	35 600	(35 600)

4.4 Comprehensive income note

a) Financial income and expenditure

The Group and Company generated the following income and/or incurred the following expenditure in respect of financial instruments during the reporting period, all of which were recognised in profit or loss:

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Interest income on financial assets measured at amortised cost	142 727	180 061	140 692	174 708
Interest income on held-to-maturity assets	24 171	9 295	–	–
Net income on financial assets designated at fair value through profit or loss	92 756	95 724	55 412	37 128
Financial income	259 654	285 080	196 104	211 836
Interest expense on financial liabilities measured at amortised cost	111 534	81 310	107 612	72 997
Financial expense	111 534	81 310	107 612	72 997
Net financial income	148 120	203 770	88 492	138 839
The above financial income and expense items include the following in respect of financial assets/liabilities not at fair value through profit or loss:				
Total interest income	166 898	189 356	140 692	174 708
Total interest expense	(111 534)	(81 310)	(107 612)	(72 997)
Total	55 364	108 046	33 080	101 711
b) Impairment losses				
The amount of the impairment loss for each class of financial asset during the reporting period was as follows:				
Impairment of other loans and receivables				
– Impairment recognised	(20 708)	(508)	(20 708)	(508)
Impairment of premium debtors				
– Impairment write-back	16 109	57 528	16 109	57 528
Total	(4 599)	57 020	(4 599)	57 020

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2018

		GROUP		COMPANY	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
5.	**Property and equipment**				
	Cost				
	Office equipment	227 912	190 177	227 531	189 794
	Motor vehicles	8 400	8 787	8 381	8 768
	Leasehold improvements	19 278	16 677	19 278	16 677
	Total property and equipment cost	255 590	215 641	255 190	215 239
	Accumulated depreciation				
	Office equipment	132 690	123 589	132 433	123 332
	Motor vehicles	6 638	6 098	6 630	6 089
	Leasehold improvements	11 901	12 980	11 901	12 980
	Total accumulated depreciation	151 229	142 667	150 964	142 401
	Net carrying amount				
	Office equipment	95 222	66 588	95 098	66 462
	Motor vehicles	1 762	2 689	1 751	2 679
	Leasehold improvements	7 377	3 697	7 377	3 697
		104 361	72 974	104 226	72 838
	Reconciliation of movement on net carrying amount:				
	Net carrying amount at beginning of year	72 974	64 338	72 838	64 203
	Additions	54 388	25 418	54 388	25 418
	Office equipment	48 686	21 472	48 686	21 472
	Leasehold improvements	5 702	3 946	5 702	3 946
	Write-off	(1 321)	(1 326)	(1 320)	(1 326)
	Depreciation for the year	(21 680)	(15 456)	(21 680)	(15 457)
	Office equipment	(18 796)	(11 904)	(18 796)	(11 905)
	Motor vehicles	(863)	(1 358)	(863)	(1 358)
	Leasehold improvements	(2 021)	(2 194)	(2 021)	(2 194)
	Net carrying amount at end of year	104 361	72 974	104 226	72 838
6.	**Investment property**				
	Fair value at beginning of year	28 000	58 587	–	–
	Additions	1	–	–	–
	Revaluation reserves	–	14 801	–	–
	Reclassification	–	72	–	–
	Disposal of subsidiary	–	(45 460)	–	–
	Fair value at end of year	28 001	28 000	–	–

Investment properties consist of:

- freehold property;
- sectional title located at stand 306 Ferreiras Dorp Township, Province of Gauteng, measuring 1 162 square metres; and
- sectional title located at stand 317 Ferreiras Dorp Township, Province of Gauteng, measuring 1 012 square metres.

The properties are carried at market value as last determined by an independent registered valuator.

Investment properties are not mortgaged as security for any liabilities.

Direct operating expenses incurred on the investment property amount to R2 525 504 (2017: R4 053 047), repairs and maintenance incurred amounts to Rnil (2017: Rnil).

7. Intangible assets

	GROUP		COMPANY	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
Intangible assets at fair value				
Cost				
Goodwill	**8 256**	8 257	**7 848**	7 848
Acquired rights over books of business	**25 378**	17 317	**25 378**	17 317
Computer software	**255 391**	199 199	**255 391**	199 199
Total	**289 025**	224 773	**288 617**	224 364
Accumulated amortisation, impairment and fair value adjustments				
Acquired rights over books of business	**23 896**	15 432	**23 896**	15 432
Computer software	**110 177**	71 804	**110 177**	71 804
Total	**134 073**	87 236	**134 073**	87 236
Net carrying amount				
Goodwill	**8 256**	8 257	**7 848**	7 848
Acquired rights over books of business	**1 482**	1 885	**1 482**	1 885
Computer software	**145 214**	127 395	**145 214**	127 395
Total	**154 952**	137 537	**154 544**	137 128
Reconciliation of movement on net carrying amount:				
Net carrying amount at beginning of year	**137 537**	113 894	**137 128**	113 248
Additions	**58 896**	53 202	**58 896**	53 202
Computer software	**58 896**	53 202	**58 896**	53 202
Disposal of a subsidiary	**–**	(832)	**–**	–
Write-off	**(1 227)**	(138)	**(1 226)**	(138)
Impairment, amortisation charge	**(48 315)**	(29 184)	**(48 315)**	(29 184)
Acquired rights over books of business	**(8 464)**	(2 959)	**(8 464)**	(2 959)
Computer software	**(39 851)**	(26 225)	**(39 851)**	(26 225)
Revaluation	**8 061**	–	**8 061**	–
Net carrying value at end of year	**154 952**	137 537	**154 544**	137 128

The Group tests goodwill annually for impairment, or more frequently if there are indicators that goodwill might be impaired. As at 30 June 2018, no impairment was raised relating to the investment in a subsidiary (2017: Rnil).

The Group and Company hold acquired rights over books of business. These rights are carried at cost.

	COMPANY 2018 R'000	COMPANY 2017 R'000
8. Interest in subsidiaries		
Interest in subsidiaries comprises:		
Shares at fair value through profit or loss	49 867	41 241
Loans to subsidiaries	39 621	39 451
	89 488	80 692
Impairment on loans	(37 957)	(12 759)
Non-current	51 531	67 933
Loans bear interest at the following rates:		
JIBAR	1 664	26 692
	1 664	26 692
The loans have the following terms of repayment:		
No fixed repayment terms	1 664	26 692
	1 664	26 692

The balance of loans are unsecured.

Details of subsidiaries are provided in note 46 on page 66 of these annual financial statements.

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
9. Interest in associates				
Interest in associates comprises:				
Shares at fair value through profit or loss	–	–	239 768	207 764
Shares at equity accounted carrying value	67 630	92 630	–	–
Group share of post-acquisition profits	173 926	159 056	–	–
Carrying value of associates	241 556	251 686	239 768	207 764
Loans to associates	10 142	10 141	10 142	10 141
	251 698	261 827	249 910	217 905
Loans bear interest at the following rates:				
Interest free	10 142	10 141	10 142	10 141
	10 142	10 141	10 142	10 141

All loans are secured by property of the associate to the extent of R10 142 000.

The loans have no fixed terms of repayment.

Details of associates are provided in note 46 on page 67 of these annual financial statements.

The financial position and performance of the Group's significant associates are categorised by nature of business as follows:

	Underwriting managers R'000	Property holdings R'000	Total R'000
Analysis of associates for 30 June 2018			
Total assets	803 015	24 969	827 984
Total liabilities	90 261	176	90 437
Net assets	712 754	24 793	737 547
Net profit before taxation	177 877	–	177 877
Taxation	(49 806)	–	(49 806)
Net profit after taxation	128 071	–	128 071
Group share of post-acquisition profits	49 948	–	49 948
Carrying amount of interest in associates	274 328	–	274 328
Loans to associates	–	10 142	10 142
Fair valuation of associates (at Company level)	239 768	–	239 768

Losses incurred by associates are capped to the original investment amount. The carrying amount of our interest in the associates will therefore never be negative. Losses incurred on property holdings have been capped and are currently standing at a cumulative amount of R2 194 738 (2017 : R2 194 738).

	Underwriting managers R'000	Property holdings R'000	Total R'000
Analysis of associates for 30 June 2017			
Total assets	803 015	24 969	827 984
Total liabilities	90 261	176	90 437
Net assets	712 754	24 793	737 547
Net profit before taxation	106 154	(19)	106 135
Taxation	(24 053)	–	(24 053)
Net profit after taxation	82 101	(19)	82 082
Group share of post-acquisition profits	32 758	(8)	32 750
Carrying amount of interest in associates	224 380	–	224 380
Loans to associates	–	10 142	10 142
Fair valuation of associates (at Company level)	207 764	–	207 764

Details of associates are provided in note 46 on page 67 of these annual financial statements.

10. Financial assets

	GROUP		COMPANY	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
Financial assets held-to-maturity	**138 633**	52 317	**138 633**	52 317
Financial assets at fair value through profit or loss	**2 831 418**	2 732 216	**2 781 598**	2 691 082
	2 970 051	2 784 533	**2 920 231**	2 743 399
Current	**2 831 419**	2 732 216	**2 781 598**	2 691 082
Non-current	**138 633**	52 317	**138 633**	52 317
	2 970 051	2 784 533	**2 920 231**	2 743 399
Financial assets at fair value through profit or loss				
Listed investments	**868 724**	747 931	**818 904**	706 797
Unlisted investments	**1 962 694**	1 984 285	**1 962 694**	1 984 285
Held-to-maturity	**138 633**	52 317	**138 633**	52 317
	2 970 051	2 784 533	**2 920 231**	2 743 399

10. Financial assets (continued)

An analysis of the Group and Company's financial assets by market sector and maturity spread is provided below.

10.1 Listed investments:

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
At market value	868 724	747 931	818 904	706 797
Analysis of spread of listed investments by market sector	%	%	%	%
Automobiles and parts	0.06	0.06	0.06	0.06
Banks	11.76	14.09	12.48	14.91
Basic resources	0.41	0.25	0.44	0.27
Chemicals	–	0.11	–	0.11
Food and beverage	2.76	3.63	2.93	3.85
Financial services	0.32	0.37	0.34	0.39
Healthcare	0.07	0.09	0.08	0.10
Industrial goods and services	0.19	0.19	0.21	0.21
Insurance	83.31	79.83	82.29	78.65
Media	0.44	0.34	0.47	0.36
Personal and household goods	0.34	0.29	0.36	0.31
Real estate	0.15	0.20	0.16	0.20
Technology	–	0.07	–	0.08
Retail	0.08	0.28	0.09	0.30
Travel and leisure	0.10	0.20	0.10	0.20
	100.00	100.00	100.00	100.00

10.2 Unlisted investments

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
At fair value	1 962 694	1 984 285	1 962 694	1 984 285
	%	%	%	%
Linked policies	51	47	51	47
Private equity investments	39	41	39	41
Unit trusts	10	12	10	12
	100	100	100	100
Total listed and unlisted investments at fair value	2 831 418	2 732 216	2 781 598	2 691 082

10.3 Debt securities (Bonds)

	GROUP		COMPANY	
	R'000	% maturity spread	R'000	% maturity spread
Analysis of debt securities by maturity spread for 2018				
2 – 5 years	138 633	100	138 633	100
Analysis of debt securities by maturity spread for 2017				
2 – 5 years	52 317	100	52 317	100

All bonds reported above are listed on the Johannesburg Stock Exchange.

11. Categories and classes of financial and insurance assets and financial and insurance liabilities

	Fair value through profit or loss R'000	At amortised cost investments R'000	Loans and receivables R'000	Financial assets at fair value through other compre-hensive income R'000	Total financial instruments R'000	Insurance contract assets and liabilities R'000	Other assets and liabilities R'000	Total per statement of financial position R'000	Fair value of financial instruments R'000
GROUP									
2018									
Assets									
Investments in associates	–	–	–	–	–	–	241 556	241 556	241 556
Loans to associates	–	–	10 142	–	10 142	–	–	10 142	10 142
Financial assets	2 970 050	–	–	–	2 970 050	–	–	2 970 050	2 970 050
Preference shares and debt instruments	1 228 617	–	–	–	1 228 617	–	–	1 228 617	1 228 617
Equities	745 725	–	–	–	745 725	–	–	745 725	745 725
Linked policies	995 708	–	–	–	995 708	–	–	995 708	995 708
Reinsurance assets	–	–	–	–	–	2 752 461	–	2 752 461	2 752 461
Insurance, loans and other receivables	–	–	278 689	–	278 689	1 377 148	316 130	1 971 967	1 971 967
Deferred acquisition costs	–	–	–	–	–	116 443	–	116 443	116 443
Cash and cash equivalents	–	–	2 219 916	–	2 219 916	–	–	2 219 916	2 219 916
Non-current assets held for sale	885 875	–	–	–	885 875	–	–	885 875	885 875
	3 855 925	–	2 508 747	–	6 364 672	4 246 052	557 686	11 168 410	11 168 410
Liabilities									
Borrowings	–	–	600 653	–	600 653	–	–	600 653	600 653
Insurance liabilities	–	–	–	–	–	4 841 376	–	4 841 376	4 841 376
Reinsurance liabilities	–	–	–	–	–	903 055	–	903 055	903 055
Employee benefits	–	–	–	–	–	–	236 916	236 916	236 916
Trade and other payables	–	–	–	–	–	–	837 708	837 708	837 708
	–	–	600 653	–	600 653	5 744 431	1 074 624	7 419 708	7 419 708
2017									
Assets									
Investments in associates	–	–	–	–	–	–	251 686	251 686	251 686
Loans to associates	–	–	10 141	–	10 141	–	–	10 141	10 141
Financial assets	2 784 532	–	–	–	2 784 532	–	–	2 784 532	2 784 532
Preference shares and debt instruments	1 239 913	–	–	–	1 239 913	–	–	1 239 913	1 239 913
Equities	617 383	–	–	–	617 383	–	–	617 383	617 383
Linked policies	927 236	–	–	–	927 236	–	–	927 236	927 236
Reinsurance assets	–	–	–	–	–	2 993 449	–	2 993 449	2 993 449
Insurance, loans and other receivables	–	–	216 771	–	216 771	1 548 291	248 887	2 013 948	2 013 948
Deferred acquisition costs	–	–	–	–	–	143 311	–	143 311	143 311
Cash and cash equivalents	–	–	2 079 388	–	2 079 388	–	–	2 079 388	2 079 388
Non-current assets held for sale	1 936 466	–	–	–	1 936 466	–	–	1 936 466	1 936 466
	4 720 998	–	2 306 300	–	7 027 298	4 685 051	500 573	12 212 922	12 212 922
Liabilities									
Borrowings	–	–	600 509	–	600 509	–	–	600 509	600 509
Insurance liabilities	–	–	–	–	–	5 172 590	–	5 172 590	5 172 590
Reinsurance liabilities	–	–	–	–	–	890 105	–	890 105	890 105
Employee benefits	–	–	–	–	–	–	235 098	235 098	235 098
Trade and other payables	–	–	–	–	–	–	876 187	876 187	876 187
	–	–	600 509	–	600 509	6 062 695	1 111 285	7 774 489	7 774 489

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2018

11. Categories and classes of financial and insurance assets and financial and insurance liabilities (continued)

	Fair value through profit or loss R'000	At amortised cost investments R'000	Loans and receivables R'000	Financial assets at fair value through other comprehensive income R'000	Total financial instruments R'000	Insurance contract assets and liabilities R'000	Other assets and liabilities R'000	Total per statement of financial position R'000	Fair value of financial instruments R'000
COMPANY									
2018									
Assets									
Investments in subsidiaries	49 867	–	–	–	49 867	–	–	49 867	49 867
Loans to subsidiaries	–	–	1 664	–	1 664	–	–	1 664	1 664
Investments in associates	239 768	–	–	–	239 768	–	–	239 768	239 768
Loans to associates	–	–	10 142	–	10 142	–	–	10 142	10 142
Financial assets	2 920 231	–	–	–	2 920 231	–	–	2 920 231	2 920 231
Preference shares and debt instruments	1 228 617	–	–	–	1 228 617	–	–	1 228 617	1 228 617
Equities	695 906	–	–	–	695 906	–	–	695 906	695 906
Linked policies	995 708	–	–	–	995 708	–	–	995 708	995 708
Reinsurance assets	–	–	–	–	–	2 752 461	–	2 752 461	2 752 461
Insurance, loans and other receivables	–	–	278 688	–	278 688	1 377 148	314 517	1 970 352	1 970 352
Deferred acquisition costs	–	–	–	–	–	116 443	–	116 443	116 443
Cash and cash equivalents	–	–	2 221 041	–	2 221 041	–	–	2 221 041	2 221 041
Non-current assets held for sale	152 431	–	–	–	152 431	–	–	152 431	152 431
	3 362 297	–	2 511 535	–	5 873 832	4 246 052	314 517	10 434 400	10 434 400
Liabilities									
Borrowings	–	–	600 299	–	600 299	–	–	600 299	600 299
Insurance liabilities	–	–	–	–	–	4 841 376	–	4 841 376	4 841 376
Reinsurance liabilities	–	–	–	–	–	903 055	–	903 055	903 055
Employee benefits	–	–	–	–	–	–	236 916	236 916	236 916
Trade and other payables	–	–	–	–	–	–	806 676	806 676	806 676
	–	–	600 299	–	600 299	5 744 431	1 043 592	7 388 322	7 388 322
2017									
Assets									
Investments in subsidiaries	41 241	–	–	–	41 241	–	–	41 241	41 241
Loans to subsidiaries	–	–	26 692	–	26 692	–	–	26 692	26 692
Investments in associates	207 764	–	–	–	207 764	–	–	207 764	207 764
Loans to associates	–	–	10 141	–	10 141	–	–	10 141	10 141
Financial assets	2 743 398	–	–	–	2 743 398	–	–	2 743 398	2 743 398
Preference shares and debt instruments	1 239 913	–	–	–	1 239 913	–	–	1 239 913	1 239 913
Equities	576 249	–	–	–	576 249	–	–	576 249	576 249
Linked policies	927 236	–	–	–	927 236	–	–	927 236	927 236
Reinsurance assets	–	–	–	–	–	2 993 449	–	2 993 449	2 993 449
Insurance, loans and other receivables	–	–	216 772	–	216 772	1 548 291	242 758	2 007 820	2 007 820
Deferred acquisition costs	–	–	–	–	–	143 311	–	143 311	143 311
Cash and cash equivalents	–	–	2 080 702	–	2 080 702	–	–	2 080 702	2 080 702
Non-current assets held for sale	585 360	–	–	–	585 360	–	–	585 360	585 360
	3 577 763	–	2 334 307	–	5 912 070	4 685 051	242 758	10 839 877	10 839 877
Liabilities									
Borrowings	–	–	600 156	–	600 156	–	–	600 156	600 156
Insurance liabilities	–	–	–	–	–	5 172 590	–	5 172 590	5 172 590
Reinsurance liabilities	–	–	–	–	–	890 105	–	890 105	890 105
Employee benefits	–	–	–	–	–	–	235 098	235 098	235 098
Trade and other payables	–	–	–	–	–	–	870 266	870 266	870 266
	–	–	600 156	–	600 156	6 062 695	1 105 364	7 768 215	7 768 215

12. Determination of fair value and fair value hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total fair value R'000
GROUP				
2018				
Financial assets carried at fair value through profit or loss				
Listed ordinary shares	745 213	–	–	745 213
Listed preference shares	123 510	–	–	123 510
Unlisted ordinary shares*	–	–	511	511
Unlisted preference shares*	–	–	763 161	763 161
Linked policies	–	995 708	–	995 708
Unit trusts	–	203 313	–	203 313
Bonds	–	138 633	–	138 633
	868 723	1 337 654	763 672	2 970 049
2017				
Financial assets carried at fair value through profit or loss				
Listed ordinary shares	616 872	–	–	616 872
Listed preference shares	131 058	–	–	131 058
Unlisted ordinary shares*	–	–	511	511
Unlisted preference shares*	–	–	807 531	807 531
Linked policies	–	927 236	–	927 236
Unit trusts	–	249 008	–	249 008
Bonds	–	52 317	–	52 317
	747 930	1 228 561	808 042	2 784 533
COMPANY				
2018				
Financial assets carried at fair value through profit or loss				
Interest in associates	–	–	239 768	239 768
Interest in subsidiaries	–	–	49 867	49 867
Listed ordinary shares	695 394	–	–	695 394
Listed preference shares	123 510	–	–	123 510
Unlisted ordinary shares*	–	–	511	511
Unlisted preference shares*	–	–	763 161	763 161
Unit trusts	–	203 313	–	203 313
Linked policies	–	995 708	–	995 708
Bonds	–	138 633	–	138 633
	818 904	1 337 654	1 053 307	3 209 865
2017				
Financial assets carried at fair value through profit or loss				
Interest in associates	–	–	207 764	207 764
Interest in subsidiaries	–	–	41 241	41 241
Listed ordinary shares	575 738	–	–	575 738
Listed preference shares	131 058	–	–	131 058
Unlisted ordinary shares*	–	–	511	511
Unlisted preference shares*	–	–	807 531	807 531
Unit trusts	–	249 007	–	249 007
Linked policies	–	927 236	–	927 236
Bonds	–	52 317	–	52 317
	706 797	1 228 560	1 057 047	2 992 403

** These investments do not meet the definition of related parties.*

12. Determination of fair value and fair value hierarchy (continued)

Included in the Level 1 category are financial assets that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the Level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices for observable current market transactions of assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

Included in the Level 3 category are financial assets measured using non-market observable inputs. Non-market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor based on available market data. The main asset classes in this category are unlisted equity investments and limited partnerships. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group and Company. Therefore, unobservable inputs reflect the Group's and Company's own assumptions about the inputs that market participants would use in pricing the asset and liability. These inputs are developed based on the best information available, which might include the Group's and Company's own data.

Reconciliation of movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	At 1 July 2017 R'000	Total gains/ (losses) in profit or loss statement R'000	Total gains/ (losses) recorded in other comprehensive income R'000	Purchases R'000	Interest, dividends and management fees R'000	Sales R'000	Foreign exchange R'000	Transfer (to)/from other category R'000	At 30 June 2018 R'000	Total gains/ (losses) for the period included in profit or loss for assets held at 30 June 2017 R'000
GROUP										
2018										
Financial assets at fair value through profit or loss										
Unlisted ordinary shares	511	–	–	–	–	–	–	–	511	–
Unlisted preference shares	807 531	(7 847)	–	89 946	101 105	(227 573)	–	–	763 162	(7 847)
Total financial instruments	808 042	(7 847)	–	89 946	101 105	(227 573)	–	–	763 673	(7 847)
COMPANY										
2018										
Financial assets at fair value through profit or loss										
Investment in associates	207 764	32 004	–	–	–	–	–		239 768	32 004
Investment in subsidiaries	41 241	8 626	–	–	–	–	–	–	49 867	8 626
Unlisted ordinary shares	511	–	–	–	–	–	–	–	511	–
Unlisted preference shares	807 531	(7 847)	–	89 946	101 105	(227 573)	–	–	763 162	(7 847)
Total financial instruments	1 057 047	32 783	–	89 946	101 105	(227 573)	–	–	1 053 308	32 783

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

	At 1 July 2016 R'000	Total gains/ (losses) in profit or loss statement R'000	Total gains/ (losses) recorded in other comprehensive income R'000	Purchases R'000	Interest, dividends and management fees R'000	Sales R'000	Foreign exchange R'000	Transfer (to)/from other category R'000	At 30 June 2017 R'000	Total gains/ (losses) for the period included in profit or loss for assets held at 30 June 2016 R'000
GROUP										
2017										
Financial assets at fair value through profit or loss										
Unlisted ordinary shares	63	(52)	–	500	10 500	(10 500)	–	–	511	(52)
Unlisted preference shares	716 119	94 043	–	171 207	105 306	(279 144)	–	–	807 531	94 043
Total financial instruments	716 182	93 991	–	171 707	115 806	(289 644)	–	–	808 042	93 991
COMPANY										
2017										
Financial assets at fair value through profit or loss										
Investment in associates	178 182	53 582	–	1 000	–	–	–	(25 000)	207 764	53 582
Investment in subsidiaries	41 220	21	–	–	–	–	–	–	41 241	21
Unlisted ordinary shares	63	(52)	–	500	10 500	(10 500)	–	–	511	(52)
Unlisted preference shares	716 119	94 043	–	171 207	105 306	(279 144)	–	–	807 531	94 043
Total financial instruments	935 584	147 594	–	172 707	115 806	(289 644)	–	(25 000)	1 057 047	147 594

Sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions

The following table shows the sensitivity of the fair value of financial assets:

	GROUP			COMPANY		
	Carrying amount R'000	2% effect of reasonably possible alternative assumptions (+) R'000	2% effect of reasonably possible alternative assumptions (-) R'000	Carrying amount R'000	2% effect of reasonably possible alternative assumptions (+) R'000	2% effect of reasonably possible alternative assumptions (-) R'000
2018						
Financial assets carried at fair value through profit or loss						
Interest in associates	–	–	–	239 768	226 735	253 866
Interest in subsidiaries	–	–	–	49 867	49 867	49 867
Unlisted ordinary shares	511	–	–	511	–	–
Unlisted preference shares	763 162	761 547	758 089	763 162	761 547	758 089
Total financial instruments at fair value	763 673	761 547	758 089	1 053 308	1 038 149	1 061 822

12. Determination of fair value and fair value hierarchy (continued)

Sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions (continued)

	GROUP			COMPANY		
	Carrying amount R'000	2% effect of reasonably possible alternative assumptions (+) R'000	2% effect of reasonably possible alternative assumptions (-) R'000	Carrying amount R'000	2% effect of reasonably possible alternative assumptions (+) R'000	2% effect of reasonably possible alternative assumptions (-) R'000
2017						
Financial assets carried at fair value through profit or loss						
Interest in associates	–	–	–	207 764	227 879	189 754
Interest in subsidiaries	–	–	–	41 241	41 241	41 241
Unlisted ordinary shares	511	–	–	511	–	–
Unlisted preference shares	807 531	812 879	802 519	807 531	812 879	802 519
Total financial instruments at fair value	808 042	812 879	802 519	1 057 047	1 081 999	1 033 514

The Group and Company determine the fair value of its unlisted investments using well established valuation techniques. These techniques include discounted cash flow analysis, price earnings ratio and net asset value methodologies. Where the underlying investments of an investment holding company are property or listed investments, the Company is valued on the net asset value basis which reflects the fair value of the underlying investments.

Companies are valued on a price earnings ratio method or on a discounted cash flow basis. A build-up method was used to construct the discount rate, incorporating all the appropriate risk components as well as a risk-free rate of 6.32% (after tax RSA R186 bond rate). The following appropriate risk components are incorporated in the discount rates and earnings factors used:

- Risk class exposure of the entity
- Established history
- Dependency on management
- Impact of owner-managed business

In applying the price earnings valuation technique, the current profit of the Company is multiplied by an earnings factor. The potential future earnings of the Company, current interest rate cycle, current business environment and management of the Company are considered in determining the earnings factor.

In using discounted cash flow analyses the best estimate of future cash flows of a particular company are used. The current interest rate cycle, risk-free rate and any other relevant economic or business factors are considered in determining the discount rate.

The above sensitivity analysis in the positive scenario assumes a 2% decrease in the discount rate and a 2% increase in projected free cash flows. The converse applies to the negative analysis where discount rates were increased by 2% and cash flows were decreased by 2%.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
13. Insurance, loans and other receivables				
Insurance receivables	1 377 148	1 548 291	1 377 148	1 548 291
Other receivables	316 130	248 887	314 517	242 758
Total insurance and other receivables	1 693 278	1 797 178	1 691 665	1 791 049
Originated at amortised cost				
Loans bearing interest				
– Loans to staff	10 220	14 689	10 220	14 689
– Loans to other	29 480	14 088	29 480	14 088
Interest-free loans				
– Loans to other	129 221	112 278	129 221	112 278
Total loans	168 921	141 055	168 921	141 055
Receivable from Group companies	144 543	89 785	144 543	89 785
Impairment provision	(34 776)	(14 069)	(34 776)	(14 069)
Total loans receivable from Group companies	109 767	75 716	109 767	75 716
Total insurance, loans and other receivables	1 971 966	2 013 949	1 970 353	2 007 820
The interest rates charged on the secured and unsecured loans comprise:				
Prime less 1.5%	945	882	945	882
Prime less 3%	5 812	–	5 812	–
80% of prime	8 212	7 972	8 212	7 972
Prime plus 1%	1 467	1 314	1 467	1 314
Prime plus 2%	2 541	2 394	2 541	2 394
Prime plus 6%	8 866	–	8 866	
Interest at 7%	1 637	1 527	1 637	1 527
Interest at 6.5%	1 946	3 524	1 946	3 524
South African Revenue Service (SARS) rate	8 274	11 164	8 274	11 164
Interest-free loans	129 221	112 278	129 221	112 278
	168 921	141 055	168 921	141 055
The loans have the following terms of repayment:				
No fixed repayment terms	11 445	2 825	11 445	2 825
On specified date	15 272	8 807	15 272	8 807
90 days notice period	142 204	129 423	142 204	129 423
	168 921	141 055	168 921	141 055

Certain loans are secured by assets of the counterparty to the extent of R5 812 154 (2017: R4 590 054) and the balance of the loans are unsecured.

Loans are carried at amortised cost using the effective interest method and are reviewed for impairment at the end of the financial year. Insurance, trade and other receivables are widespread and have been adjusted for impairments where required.

Loans to subsidiaries and associates are deemed to be part of the investment and therefore included in notes 8 and 9 on pages 38 and 39 of these annual financial statements.

14. Deferred taxation

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Deferred income tax assets				
– Deferred income tax to be recovered after 12 months	–	–	–	–
– Deferred income tax to be recovered within 12 months	85 196	79 690	85 196	79 690
Balance at end of year	85 196	79 690	85 196	79 690
Balance at beginning of year	79 690	78 170	79 690	77 889
Movements during the year attributable to:				
Unutilised tax losses	62	1 597	62	1 597
Provisions	5 444	2 804	5 444	204
Disposal of subsidiary	–	(2 881)	–	–
Balance at end of year	85 196	79 690	85 196	79 690
Balance comprises:				
Unutilised tax losses	9 325	10 984	9 325	10 984
Provisions	75 871	68 706	75 871	68 706
	85 196	79 690	85 196	79 690
Deferred income tax liabilities				
– Deferred income tax to be recovered after 12 months	234 070	174 250	223 310	166 581
Balance at end of year	234 070	174 250	223 310	166 581
Balance at beginning of year	174 250	136 408	166 581	129 368
Movements during the year attributable to:				
Unrealised gains on assets at fair value through profit or loss	59 820	37 842	56 729	37 213
Balance at end of year	234 070	174 250	223 310	166 581
Balance comprises:				
Unrealised gains on assets at fair value through profit or loss	234 070	174 250	223 310	166 581

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000

15. Cash and cash equivalents

Cash on call	1 640 247	1 460 146	1 640 247	1 460 146
Cash at bank	511 479	446 724	512 761	448 195
Cash on deposit	68 118	172 447	67 961	172 290
Cash on hand	72	71	72	71
	2 219 916	2 079 388	2 221 041	2 080 702

16. Non-current assets and liabilities held for sale

The Group and Company hold the following assets as held for sale:				
Investment in subsidiary: Hollard Insurance Company of Namibia Limited	–	1 213 707	–	442 921
Investment in subsidiary: Hollard Mocambique Companhia de Seguros, S.A.R.L.	885 875	722 759	152 431	117 439
Investment in subsidiary: ITOO Special Risk (Pty) Ltd	–	–	–	25 000
	885 875	1 936 466	152 431	585 360
The Group and Company hold the following liabilities as held for sale:				
Investment in subsidiary: Hollard Insurance Company of Namibia Limited	–	851 364	–	–
Investment in subsidiary: Hollard Mocambique Companhia de Seguros, S.A.R.L.	653 254	597 257	–	–
	653 254	1 448 621	–	–

The investments are expected to be sold within the next 12 months and are carried at the lower of carrying value or fair value less cost to sell.

During the year, the Company disposed of its 65% shareholding in Hollard Namibia (Pty) Ltd for a consideration of R458 526 671. The Company generated a profit on disposal of R453 526 671 whereas the Group generated a profit on disposal of R15 605 671.

17. Share capital and premium

Authorised				
6 000 000 ordinary shares	12 000	12 000	12 000	12 000
3 000 000 class A redeemable convertible preference shares of R1 each	3 000	3 000	3 000	3 000
2 999 999 class B redeemable convertible preference shares of R1 each	3 000	3 000	3 000	3 000
	18 000	18 000	18 000	18 000
Issued and fully paid				
4 914 999 ordinary shares	1 580 687	1 580 687	1 580 687	1 580 687
3 000 000 class A redeemable convertible preference shares of R1 each	3 000	3 000	3 000	3 000
2 999 999 class B redeemable convertible preference shares of R1 each	3 000	3 000	3 000	3 000
	1 586 687	1 586 687	1 586 687	1 586 687
Share premium	55 914	55 914	55 914	55 914
Issued share capital	1 642 601	1 642 601	1 642 601	1 642 601

The class A and B preference shares receive dividends at the discretion of the Board of Directors. The class A preference shares have voting rights equal to one vote for one share.

	GROUP 2018 R'000	GROUP 2017 R'000
18. Non-distributable reserves		
Non-distributable reserves consist of:		
Revaluation reserve	1 356	1 230
Movements for the year were as follows:		
Balance at beginning of year	1 230	9 422
Transfer to non-controlling interest	126	(400)
Disposals	–	(7 792)
Balance at end of year	1 356	1 230
19. Foreign currency translation reserve		
Balance at beginning of year	(43 360)	(24 222)
Exchange differences (net of non-controlling interest) on translation of foreign operations	48 524	(75 941)
Disposal of non-current asset held for sale	14 972	45 868
Transfer to non-controlling interest	(10 062)	10 935
Balance at end of year	10 074	(43 360)

20. Components of other comprehensive income

	GROUP 2018 Gross amount R'000	Non-controlling interest R'000	Tax expense R'000	Net of tax R'000
Exchange differences on translating foreign operations	48 524	(10 062)	–	38 462
Transfer from reserve	126	–	–	126
Unrealised gain on financial assets at fair value through other comprehensive income	(477 013)	(285 325)	–	(762 338)
	(428 363)	(295 387)	–	(723 750)

	GROUP 2017 Gross amount R'000	Non-controlling interest R'000	Tax expense R'000	Net of tax R'000
Exchange differences on translating foreign operations	(75 941)	10 935	–	(65 006)
Transfer from reserve	(399)	–	–	(399)
Unrealised gain on financial assets at fair value through other comprehensive income	(157 554)	(154 432)	–	(311 986)
	(233 894)	(143 497)	–	(377 391)

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000

21. Insurance liabilities and reinsurance assets

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Gross				
Claims reported and loss adjustment expenses	2 383 751	2 629 385	2 383 751	2 629 385
Claims incurred but not yet reported	701 675	719 527	701 675	719 527
Unearned premium provision	1 684 032	1 783 781	1 684 032	1 783 781
Cash back reserve	71 918	39 897	71 918	39 897
Total gross insurance liabilities	**4 841 376**	5 172 590	**4 841 376**	5 172 590
Recoverable from reinsurers				
Claims reported and loss adjustment expenses	1 382 791	1 511 577	1 382 791	1 511 577
Claims incurred but not yet reported	165 858	177 171	165 858	177 171
Unearned premium provision	402 619	518 297	402 619	518 297
Reinsurance recoveries	801 193	786 404	801 193	786 404
Total reinsurers' share of insurance liabilities	**2 752 461**	2 993 449	**2 752 461**	2 993 449
Net				
Claims reported and loss adjustment expenses	1 000 960	1 117 808	1 000 960	1 117 808
Claims incurred but not yet reported	535 817	542 356	535 817	542 356
Unearned premium provision	1 281 413	1 265 484	1 281 413	1 265 484
Cash back reserve	71 918	39 897	71 918	39 897
Reinsurance recoveries	(801 193)	(786 404)	(801 193)	(786 404)
Total insurance liabilities – net	**2 088 915**	2 179 141	**2 088 915**	2 179 141

Movement in insurance liabilities and reinsurance assets

	2018			2017		
	Gross R'000	Reinsurance asset R'000	Net R'000	Gross R'000	Reinsurance asset R'000	Net R'000
a) Claims reported and loss adjustment expenses						
GROUP						
Balance at beginning of year	2 629 385	1 511 577	1 117 808	2 596 916	1 467 774	1 129 142
Claims paid	(6 356 580)	(1 860 518)	(4 496 062)	(6 646 438)	(1 951 105)	(4 695 333)
Claims raised	6 110 946	1 731 732	4 379 214	6 678 907	1 994 908	4 683 999
Balance at end of year	**2 383 751**	**1 382 791**	**1 000 960**	2 629 385	1 511 577	1 117 808
COMPANY						
Balance at beginning of year	2 629 385	1 511 577	1 117 808	2 596 916	1 467 774	1 129 142
Claims paid	(6 356 580)	(1 860 518)	(4 496 062)	(6 646 438)	(1 951 105)	(4 695 333)
Claims raised	6 110 946	1 731 732	4 379 214	6 678 907	1 994 908	4 683 999
Balance at end of year	**2 383 751**	**1 382 791**	**1 000 960**	2 629 385	1 511 576	1 117 809

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2018

21. Insurance liabilities and reinsurance assets (continued)

	2018			2017		
	Gross R'000	Reinsurance asset R'000	Net R'000	Gross R'000	Reinsurance asset R'000	Net R'000
b) Claims incurred but not yet reported						
GROUP						
Balance at beginning of year	719 527	177 171	542 356	704 740	190 782	513 960
Movements for the year	(17 852)	(11 313)	(6 539)	14 785	(13 611)	28 396
Balance at end of year	701 675	165 858	535 817	719 527	177 171	542 356
COMPANY						
Balance at beginning of year	719 527	177 171	542 356	704 742	190 782	513 960
Movements for the year	(17 852)	(11 313)	(6 539)	14 785	(13 611)	28 396
Balance at end of year	701 675	165 858	535 817	719 527	177 171	542 356
c) Unearned premium provision						
GROUP						
Balance at beginning of year	1 783 781	518 297	1 265 484	1 781 121	559 899	1 221 222
Movements for the year	(99 749)	(115 678)	15 929	2 660	(41 602)	44 262
Balance at end of year	1 684 032	402 619	1 281 413	1 783 781	518 297	1 265 484
COMPANY						
Balance at beginning of year	1 783 781	518 297	1 265 484	1 781 121	559 899	1 221 222
Movements for the year	(99 749)	(115 678)	15 929	2 660	(41 602)	44 262
Balance at end of year	1 684 032	402 619	1 281 413	1 783 782	518 297	1 265 484
d) Cash back reserve						
GROUP						
Balance at beginning of year	39 897	–	39 897	32 568	–	32 568
Movements for the year	32 021	–	32 021	7 329	–	7 329
Balance at end of year	71 918	–	71 918	39 897	–	39 897
COMPANY						
Balance at beginning of year	39 897	–	39 897	32 568	–	32 568
Movements for the year	32 021	–	32 021	7 329	–	7 329
Balance at end of year	71 918	–	71 918	39 897	–	39 897
e) Reinsurance recoveries						
GROUP						
Balance at beginning of year	–	786 404	(786 404)	–	388 443	(388 443)
Movements for the year	–	14 789	(14 789)	–	397 961	(397 961)
Balance at end of year	–	801 193	(801 193)	–	786 404	(786 404)
COMPANY						
Balance at beginning of year	–	786 404	(786 404)	–	388 443	(388 443)
Movements for the year	–	14 789	(14 789)	–	397 961	(397 961)
Balance at end of year	–	801 193	(801 193)	–	786 404	(786 404)
Total						
GROUP						
Balance at beginning of year	5 172 590	2 993 449	2 179 141	5 115 347	2 606 898	2 508 448
Claims paid	(6 356 580)	(1 860 518)	(4 496 062)	(6 646 438)	(1 951 105)	(4 695 333)
Movements for the year	(85 580)	(126 991)	41 411	24 774	(55 213)	79 987
Claims raised	6 110 946	1 731 732	4 379 214	6 678 907	1 994 908	4 683 999
Reinsurance recoveries	–	14 789	(14 789)	–	397 961	(397 961)
Balance at end of year	4 841 376	2 752 461	2 088 915	5 172 590	2 993 449	2 179 140
COMPANY						
Balance at beginning of year	5 172 590	2 993 449	2 179 141	5 115 347	2 606 898	2 508 449
Claims paid	(6 356 580)	(1 860 518)	(4 496 062)	(6 646 438)	(1 951 105)	(4 695 333)
Movements for the year	(85 580)	(126 991)	41 411	24 774	(55 213)	79 987
Claims raised	6 110 946	1 731 732	4 379 214	6 678 907	1 994 908	4 683 999
Reinsurance recoveries	–	14 789	(14 789)	–	397 961	(397 961)
Balance at end of year	4 841 376	2 752 461	2 088 915	5 172 590	2 993 449	2 179 140

Insurance risk

Exposure to insurance risk

The Group and Company underwrite risks that natural persons, corporate or other entities wish to transfer to an insurer. Such risks may relate to property, accident, personal accident, motor, liability, engineering, marine, credit and other perils which may arise from an insured event. As such the Group and Company are 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 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 Group and Company underwrite 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 Group's and Company's insurance portfolio. Consequently, while the Group and Company may experience variations in its claims patterns from one year to the next, the Group's and 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 Group and Company are described below:

Property

Provide/provides 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/provides 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 accidental 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 by the insured.

Personal accident

Provide/provides 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.

Motor

Provide/provides 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. Warranty and maintenance cover on insured vehicles are incorporated in this class of business.

Engineering

Provide/provides 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/provides 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.

Liability

Provide/provides 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 compensation and legal defence costs, provide indemnity for the insured against damages consequent to a personal injury or property damage.

The Group and Company distribute these products across personal and commercial policyholders using traditional methods of distribution through intermediaries and direct sales, as well as through strategic partnerships with niche underwriting managers, retailers, banks and motor dealers. These non-traditional distribution arrangements include profit participation measures to promote good risk management amongst the insurers and originators of the business. The Group and Company also provide primary risk policies, which are contracts structured to provide entry-level insurance cover for corporate entities.

Limiting exposure to insurance risk

The Group and Company limit its exposure to insurance risk through setting clearly defined underwriting strategy and limits, application of appropriate risk assessment techniques, and centralised management of reinsurance.

The Group's and 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. The underwriting 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. The underwriting mandates are applicable to both internal underwriters and partners. Management review and periodic internal audits ensure that underwriters operate within these limits.

21. Insurance liabilities and reinsurance assets (continued)

Insurance risk (continued)

Limiting exposure to insurance risk (continued)

Analysis of the Group's and Company's risk profiles shows that the Group and Company underwrite a well diversified portfolio of risks and that the Group's and 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 Group's and Company's distribution of risks underwritten across classes of business:

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Gross written premium per class of business				
Property	**3 577 005**	4 038 271	**3 471 431**	3 725 859
Transportation	**409 099**	404 591	**393 424**	376 387
Motor	**5 025 304**	5 293 742	**4 840 600**	4 792 742
Accident/health	**499 846**	560 676	**282 666**	352 458
Guarantee	**63 467**	132 547	**61 785**	104 146
Liability	**542 277**	449 591	**520 480**	409 984
Contract/engineering	**608 505**	632 594	**529 381**	473 776
Life	**163 924**	416 647	**–**	–
Miscellaneous	**289 726**	427 988	**159 543**	239 742
Total	**11 179 153**	12 356 647	**10 259 310**	10 475 094

The Group and Company underwrite insurance contracts across South Africa as well as Mozambique. Using gross written premium as an indicator, the table below illustrates the Group's geographical diversification.

	GROUP	
	2018 R'000	2017 R'000
South Africa	**10 259 310**	10 475 094
Foreign	**919 843**	1 881 553
Total	**11 179 153**	12 356 647

Ongoing review and analysis of underwriting information enables the Group and Company to monitor its risks and take timely corrective action. The ability to adjust premiums allows the Group and 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.

Underwriting and reinsurance operating procedures

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

Reinsurance strategy

The Group and Company obtain 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 market.

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

The Group and Company use 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 Group's most significant aggregate exposure would arise from an earthquake. Where the Group and Company are 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

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

Counterparty risk

Currently only internationally recognised credit rating agencies "A" rated reinsurers are utilised unless express permission is sought from the RCOM.

Treaty placing process

The treaty placing process is the responsibility of the Reinsurance Department, accountable to the Group Chief Underwriting Officer. The Group Chief Underwriting Officer reports directly to the CEO and is accountable to the Board via the RCOM.

The development of claims liabilities provides an indicator of the Group's and Company's ability to estimate the ultimate value of claims. The majority of the Group's and Company's insurance contracts are classified as short tailed. The shorter settlement period for this type of business allows the Group and Company to achieve a higher 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 type of claims. The Group's and Company's limited exposure to long-tailed business is in the personal accident, third-party motor liability, specialised liability and some engineering and marine classes. Actuarial valuations of the required technical provisions for these classes are performed regularly.

Process used to determine significant assumptions

Insurance risks are unpredictable and the Group and Company recognise that it is impossible to forecast with absolute certainty the future claims payable under existing insurance contracts. Actuarial valuations are performed on pockets of the business to ensure that the technical provisions are adequate.

Claim provisions

The Group's and 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

Claims provisions are based on previous claims expenditure, knowledge of events, terms and conditions of the relevant policies and interpretation of circumstances.

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 Group and Company employ staff experienced in claims handling and rigorously apply standardised policies and procedures around claims assessment. In addition, the Group and Company utilise 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 Group's and Company's IBNR is calculated as a percentage of net earned premium as prescribed by Board Notice 169 of 2011. This percentage is a best estimate reserve, which represents the expected value of the unreported claims liabilities. Different percentages are applicable for different classes of business and appropriateness is assessed against the Group's and Company's past claims experience.

The Company's internal actuaries 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 the estimated development factors based on the historical pattern, is used to assess the adequacy of the reserves calculated according to Interim Measure principles. Where the Interim Measure reserves prove to be too low an additional reserve is raised which is agreed with the FSB (dispensation).

When testing the appropriateness of the reserves, 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.

Unearned premium provisions

The Group and Company raise provisions for unearned premiums on a basis which reflects the underlying risk profile of the insurance contracts. The majority of the Group's and 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 as prescribed in Board Notice 169 of 2011. The provisions for unearned premiums are initially determined on a gross level and thereafter the reinsurance impact is recognised.

Assumptions

Very few assumptions are used in determining the technical provisions because the majority of the reserves are calculated according to Board Notice 169 of 2011. Where THIC has dispensation to use an alternative method to calculate reserves, the main assumption is that the past experience will be indicative of future experience.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2018

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
22. Deferred acquisition costs (DAC)				
Deferred commission and acquisition costs net of reinsurance	116 443	143 311	116 443	143 311
Current	116 443	143 311	116 443	143 311
Reconciliation of changes in acquisition costs				
Balance at beginning of year	143 311	144 297	143 311	144 297
Acquisition costs deferred during the year	99 988	124 804	99 988	124 804
Acquisition costs expensed during the year	(126 856)	(125 790)	(126 856)	(125 790)
Balance at end of financial year	116 443	143 311	116 443	143 311

23. Claims development tables

The presentation of the claims development tables for the Company is based on the actual date of the event that caused the claim (accident year basis).

The claims development tables represent the development of actual claims paid.

		Claims paid in respect of:							
Reporting year	Total R'000	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 and earlier R'000
GROUP									
Gross									
Actual claims costs									
2018	6 348 576	4 466 795	1 676 791	138 797	28 185	5 155	11 108	21 745	–
2017	6 649 542	–	4 791 745	1 673 813	100 593	26 144	54 483	(1 464)	4 228
2016	6 003 249	–	–	3 994 269	1 739 521	187 651	51 445	16 986	13 377
2015	5 241 627	–	–	–	4 017 569	1 127 986	63 532	23 764	8 776
2014	4 249 765	–	–	–	–	3 513 019	646 968	67 017	22 761
2013	3 208 605	–	–	–	–	–	2 620 643	518 605	69 357
2012	3 048 362	–	–	–	–	–	–	2 440 139	608 223
2011	3 036 839	–	–	–	–	–	–	–	3 036 839
2010	2 912 078	–	–	–	–	–	–	–	2 912 078
2009	2 585 923	–	–	–	–	–	–	–	2 585 923
Cumulative payments to date	43 284 566	4 466 795	6 468 536	5 806 879	5 885 868	4 859 955	3 448 179	3 086 792	9 261 562
Net									
Actual claims costs									
2018	4 561 878	3 422 536	1 050 394	71 579	11 136	151	5 191	891	–
2017	4 704 484	–	3 504 387	1 084 856	69 899	23 567	17 845	1 583	2 347
2016	4 620 333	–	–	3 582 355	939 705	65 565	18 238	7 879	6 591
2015	4 282 180	–	–	–	3 423 731	811 316	26 658	10 810	9 665
2014	3 436 912	–	–	–	–	2 874 337	519 442	30 883	12 250
2013	2 753 103	–	–	–	–	–	2 130 371	383 075	239 657
2012	2 629 894	–	–	–	–	–	–	2 033 226	596 668
2011	2 619 606	–	–	–	–	–	–	–	2 619 606
2010	2 490 920	–	–	–	–	–	–	–	2 490 920
2009	2 198 161	–	–	–	–	–	–	–	2 198 161
Cumulative payments to date	34 297 471	3 422 536	4 554 781	4 738 790	4 444 471	3 774 936	2 717 745	2 468 347	8 175 865

	GROUP		COMPANY	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
24. Borrowings				
Current borrowings				
Unsecured				
Non-interest bearing borrowings				
These loans have no fixed terms of repayment.	**232**	232	**–**	–
Total	**232**	232	**–**	–
Non-current borrowings				
Unsecured				
Interest bearing loan	**600 299**	600 156	**600 299**	600 156
The loan bears interest at 3-month JIBAR + 215bps and is serviced quarterly. The loan is repayable on the tenth anniversary of the advance date (12 August 2016).				
Interest bearing loan	**354**	353	**–**	–
The loan bears interest at prime less 1% and is repayable over 48 months.				
Total	**600 653**	600 509	**600 299**	600 156
25. Employee benefits				
At beginning of year	**235 098**	241 679	**235 098**	241 679
Charged to profit and loss	**1 818**	(6 581)	**1 818**	(6 581)
– additional provisions raised during the year	**122 339**	176 204	**122 339**	176 204
– leave pay provision utilised during the year	**(8 584)**	(7 590)	**(8 584)**	(7 590)
– incentive bonus utilised during the year	**(111 937)**	(175 195)	**(111 937)**	(175 195)
Balance at end of year	**236 916**	235 098	**236 916**	235 098

Analysis of provisions

Current

Leave pay

In terms of the Group's and Company's policy, employees are entitled to accumulate a maximum of 25 days' leave and the leave pay provision is calculated on that basis. Any leave accumulated over this number is forfeited by the employees concerned. While all employees are encouraged to take their full annual leave, they are entitled to encash a maximum of five days' leave (taxed) in a leave cycle. When employees who have leave due to them cease their employment with the Group, all accumulated and accrued leave is paid to them at the current total cost to company rate as part of their final salary payment, limited to a maximum number of 25 days.

The Group's and Company's provision for leave pay amounted to R30 433 000 and R30 433 000 respectively at the statement of financial position date (2017: R28 615 000 and R28 615 000 respectively).

Incentive scheme

In terms of the Group's and Company's policy, selected employees, at the discretion of the directors, receive an incentive bonus. This bonus relates to employee, corporate and business unit performance and is subject to approval by the Remuneration Committee.

The Group's and Company's provision for staff incentives amounted to R206 483 000 and R206 483 000 respectively at the statement of financial position date (2017: R206 483 000 and R206 483 000 respectively).

	Group 2018 R'000	Group 2017 R'000	Company 2018 R'000	Company 2017 R'000
26. Trade and other payables				
Trade and other creditors	735 976	754 035	739 447	748 815
Group company payables	67 720	103 043	33 436	102 559
Other liabilities	34 012	19 109	33 793	18 892
Total	837 708	876 187	806 676	870 266
All balances are current.				
27. Interest received and dividend income				
Interest received				
Financial assets measured at amortised cost	142 727	180 061	140 692	174 708
Interest on call and term deposits	118 454	163 296	116 451	162 136
Sundry interest income	24 273	16 765	24 241	12 572
Financial assets at fair value through profit or loss	92 756	95 724	55 412	37 128
Interest received on investments	24 236	74 095	24 236	17 402
Sundry interest income (on bank accounts, etc.)	68 520	21 629	31 176	19 726
Financial assets held-to-maturity	24 171	9 295	–	–
Total interest received	259 654	285 080	196 104	211 836
Dividends received				
Financial assets at fair value through profit or loss				
Ordinary shares – dividends received				
– Quoted shares	41 403	35 071	41 403	35 028
– Unquoted shares	2 938	–	38 411	28 419
Preference shares – dividends received				
– Quoted shares	12 314	12 439	12 314	12 439
– Unquoted shares	101 105	105 306	101 105	105 306
Unit trusts – dividends received				
– Unquoted shares	4 109	10 231	2 759	2 101
Dividend income fund – dividends received				
– Unquoted funds	–	2 555	–	–
Dividends from subsidiaries	–	–	–	89 047
Total dividends received	161 869	165 602	195 992	272 340
Total interest and dividend income	421 523	450 682	392 096	484 176
Interest paid				
Interest paid – collateral deposit	29	–	29	–
Interest paid – treaty reserves	26 924	18 257	26 924	18 257
Interest paid – general	62 796	62 426	58 875	54 113
Interest paid – SARS	21 785	627	21 784	627
Total interest paid	111 534	81 310	107 612	72 997
28. Realised profits/(losses) on disposal of investments and other financial assets				
Listed investments	536	(491)	536	(491)
Unlisted investments, subsidiaries and associates	(903)	(6 639)	(903)	(6 641)
Non-current assets held for sale	(437 920)	(65 133)	477 527	174 993
	(438 287)	(72 263)	477 160	167 861
Net realised (loss)/profit on fair value through profit or loss financial assets	(438 287)	(72 263)	477 160	167 861
29. Unrealised profits/(losses) on revaluation of investments and other financial assets				
Listed investments	120 494	48 259	109 275	37 758
Unlisted investments, subsidiaries and associates	527 106	69 413	(321 404)	(893)
	647 600	117 672	(212 129)	36 865
Net unrealised profit on fair value through profit or loss assets	647 600	357 798	(212 129)	36 865
	647 600	357 798	(212 129)	36 865

30. Profit before taxation

	2018 Company R'000	2018 Rest of Group R'000	2018 Total R'000	2017 Company R'000	2017 Rest of Group R'000	2017 Total R'000
Profit before taxation is determined after charging:						
Directors' and prescribed officers' emoluments						
Executive Directors						
Director A						
Basic salary	634	634	1 268	1 740	1 740	3 480
Bonus and performance-related payments	7 884	7 884	15 768	6 472	6 472	12 944
Estimated monetary value of other benefits	144	144	288	137	137	274
Pension/provident fund contributions	73	73	146	252	252	504
	8 735	8 735	17 470	8 601	8 601	17 202
Director B						
Basic salary	1 836	1 836	3 672	–	–	–
Bonus and performance-related payments	2 425	2 425	4 850	–	–	–
Estimated monetary value of other benefits	73	73	146	–	–	–
Pension/provident fund contributions	206	206	412	–	–	–
	4 540	4 540	9 080	–	–	–
Director C						
Basic salary	–	–	–	1 660	–	1 660
Bonus and performance-related payments	–	–	–	5 393	–	5 393
Estimated monetary value of other benefits	–	–	–	212	–	212
Pension/provident fund contributions	–	–	–	261	–	261
	–	–	–	7 526	–	7 526
Director D						
Basic salary	1 960	1 960	3 920	1 662	1 662	3 324
Bonus and performance-related payments	6 085	6 085	12 170	4 663	4 663	9 326
Estimated monetary value of other benefits	157	157	314	79	79	158
Pension/provident fund contributions	227	227	454	189	189	378
	8 429	8 429	16 858	6 593	6 593	13 186
Director E						
Basic salary	–	–	–	–	2 451	2 451
Bonus and performance-related payments	–	–	–	–	14 867	14 867
Estimated monetary value of other benefits	–	–	–	–	504	504
Pension/provident fund contributions	–	–	–	–	408	408
	–	–	–	–	18 230	18 230
Non-Executive Directors						
Director A	286	286	572	217	217	434
Director B	285	285	570	182	182	364
Director C	404	404	808	241	241	482
Director D	610	610	1 220	273	546	819
Director E	270	270	540	212	212	424
Director F	415	415	830	217	217	434
Director G	572	572	1 144	217	217	434
Director H	253	253	506	62	62	124
	3 095	3 095	6 190	1 621	1 894	3 515

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2018

30. Profit before taxation (continued)

	2018 Company R'000	2018 Rest of Group R'000	2018 Total R'000	2017 Company R'000	2017 Rest of Group R'000	2017 Total R'000
Prescribed officers						
Prescribed officer A						
Basic salary	311	2 801	3 112	901	1 352	2 253
Bonus and performance-related payments	741	6 673	7 414	2 373	3 560	5 933
Estimated monetary value of other benefits	66	590	656	208	312	520
Pension/provident fund contributions	41	365	406	155	232	387
	1 159	10 429	11 588	3 637	5 456	9 093
Prescribed officer B						
Basic salary	528	59	587	1 708	427	2 135
Bonus and performance-related payments	15 342	1 705	17 047	4 315	1 079	5 394
Estimated monetary value of other benefits	152	17	169	216	54	270
Pension/provident fund contributions	66	7	73	269	67	336
	16 088	1 788	17 876	6 508	1 627	8 135
Prescribed officer C						
Basic salary	838	93	931	2 215	246	2 461
Bonus and performance-related payments	–	–	–	4 164	463	4 627
Estimated monetary value of other benefits	103	11	114	256	29	285
Pension/provident fund contributions	102	11	113	341	38	379
	1 043	115	1 158	6 976	776	7 752
Prescribed officer D						
Basic salary	612	612	1 224	284	2 553	2 837
Bonus and performance-related payments	808	808	1 616	540	4 855	5 395
Estimated monetary value of other benefits	24	24	48	7	60	67
Pension/provident fund contributions	69	69	138	31	282	313
	1 513	1 513	3 026	862	7 750	8 612
Prescribed officer E						
Basic salary	859	95	954	2 270	252	2 522
Bonus and performance-related payments	–	–	–	3 861	429	4 290
Estimated monetary value of other benefits	72	8	80	175	19	194
Pension/provident fund contributions	102	11	113	341	38	379
	1 033	114	1 147	6 647	738	7 385
Prescribed officer F						
Basic salary	1 698	189	1 887	1 862	798	2 660
Bonus and performance-related payments	4 789	532	5 321	2 395	1 026	3 421
Estimated monetary value of other benefits	150	17	167	91	39	130
Pension/provident fund contributions	196	22	218	210	90	300
	6 833	760	7 593	4 558	1 953	6 511
Prescribed officer G						
Basic salary	806	806	1 612	–	–	–
Bonus and performance-related payments	750	750	1 500	–	–	–
Estimated monetary value of other benefits	71	71	142	–	–	–
Pension/provident fund contributions	68	68	136	–	–	–
	1 695	1 695	3 390	–	–	–
Total directors' and prescribed officers' emoluments	54 163	41 213	95 376	53 529	53 618	107 147

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Auditor's remuneration				
Audit fees	11 579	10 112	9 847	7 310
Prior year under provision	–	82	–	–
Other services	–	80	–	–
	11 579	10 274	9 847	7 310
Depreciation				
Office equipment	18 796	11 905	18 796	11 905
Motor vehicles	863	1 358	863	1 358
Leasehold improvements	2 021	2 194	2 021	2 194
	21 680	15 457	21 680	15 457
Revaluation of intangibles	8 061	–	8 061	–
Expenses for the acquisition of insurance contracts				
Commission	962 400	1 007 144	894 333	876 289
Impairment losses on financial assets				
– Impairment loss on loans to associates, subsidiaries and other	–	–	63 190	9 242
– Impairment write-back on unlisted investment	(861)	(4 060)	(861)	(4 060)
Other expenditure				
Amortisation of intangible assets	48 315	29 184	48 316	29 185
Write back of intangible asset	1 227	138	1 226	–
Write-off/(write back) of premium debtors	–	(274)	–	–
Write back of property and equipment	1 321	1 326	1 320	1 326
Administration fees paid	896 179	918 529	896 179	913 175
Movement in net provision for claims reported and loss adjustment expenses	(116 848)	(11 334)	(116 848)	(11 334)
Professional fees	92 763	81 938	92 763	81 938
Operating lease rentals – building	37 274	40 647	37 274	34 490
Operating lease rentals – computer	13 350	17 291	13 350	17 291
Research and development	3	79	3	79

31. Taxation

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
South African normal taxation:				
– Current year	162 249	202 411	201 918	95 062
– Prior year	264 150	9 746	174 616	9 495
Deferred taxation:				
– Current year	22 778	22 774	50 923	35 412
– Prior year	–	(41)	302	–
Withholding tax and foreign tax	3 843	17	630	17
	453 020	234 907	428 389	139 986
All taxation is payable in respect of continuing operations.				
Tax rate reconciliation:	%	%	%	%
Tax calculated at standard rate of South African tax on earnings	28.0	28.0	28.0	28.0
Normal taxation – prior year	39.4	0.8	27.0	1.2
Deferred taxation – prior year	0.0	–	0.0	–
Permanent differences				
– Exempt income dividends not taxable	(6.9)	(6.1)	(8.3)	(9.6)
– Unrealised gains not taxable	8.1	1.1	9.1	3.4
– Other non-taxable income/non-deductible expenses	7.2	(4.9)	10.2	(5.2)
Effective rate	75.7	18.90	66.2	17.82

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
32. Reconciliation of profit before taxation to cash generated from operations				
Profit before taxation	760 389	1 242 786	647 492	785 430
Adjustments for:				
Depreciation	21 680	15 457	21 680	15 457
Write-off of property and equipment	1 320	1 326	1 320	1 326
Write-off of loans	402	–	402	–
Intangible asset amortisation	48 316	29 185	48 316	29 185
Write-off of intangible asset	1 226	138	1 226	138
Loss/(profit) on disposal of investments	367	7 130	367	7 130
Profit/(loss) on foreign currency translation difference	(14 808)	38 477	–	35 701
Loss/(profit) on disposal of subsidiaries	–	(6 538)	–	–
Net interest and dividend income	(309 989)	(369 372)	(284 484)	(411 179)
Unrealised loss/(gain) on revaluation of listed investments	(109 275)	134 425	(109 275)	(37 758)
Unrealised gain on revaluation of unlisted investments	(73 580)	(119 679)	(65 202)	(119 679)
Unrealised gain on revaluation of bonds	(544)	(63)	(544)	(63)
Unrealised gain on revaluation of associates	–	(140 617)	(32 005)	(53 582)
Unrealised gain on revaluation of subsidiaries	–	–	(8 627)	(18)
Unrealised gain on intangible assets	(8 061)	–	(8 061)	–
Profit on disposal of non-current assets held for sale	(53 476)	(65 133)	–	(174 993)
Unrealised loss on revaluation of non-current assets held for sale	39 458	–	(50 598)	349 231
Impairment allowances on loans	63 190	57 528	63 190	57 528
Impairment allowances on premium debtors	(3 278)	–	(3 278)	
Revaluation of investment property	–	(14 801)	–	–
Share of profits in associates	(50 282)	(33 205)	–	–
Operating cash flows before working capital changes	**313 055**	**772 983**	**221 919**	**479 793**
Working capital changes	(104 595)	(569 165)	(9 517)	(512 319)
Increase in insurance receivables, loans and other receivables	145 590	(163 122)	102 663	(163 050)
Increase/(decrease) in insurance liabilities	(331 215)	57 244	(331 214)	57 243
Increase in reinsurance assets	240 988	(422 252)	240 988	(422 252)
Decrease in deferred acquisition costs	26 869	986	26 868	986
(Decrease)/increase in reinsurance liabilities	12 950	(60 509)	12 950	(60 509)
Decrease in non current assets held for sale	(163 116)	(86 087)	–	–
Increase/(decrease) in trade and other accounts payable and employee benefits	(36 661)	104 575	(61 772)	75 263
Cash generated from operations	**208 460**	**203 818**	**212 401**	**(32 526)**
33. Dividends paid				
Amounts due at beginning of year	–	(14 317)	–	(14 317)
Amounts declared for the year	(595 503)	(1 158 580)	(595 503)	(1 158 580)
Amounts declared to non-controlling interest	–	(70 597)	–	–
Amounts due at end of year	–	–	–	–
Cash amounts paid	**(595 503)**	**(1 243 494)**	**(595 503)**	**(1 172 897)**
34. Dividends received				
Amounts due at beginning of year	29 924	114 082	29 924	114 082
Dividends received per profit and loss statement	161 869	165 602	195 992	272 340
Impairment of accrued dividends per profit and loss statement	860	32 715	860	32 715
Amounts due at end of year	(46 368)	(29 924)	(46 368)	(29 924)
Cash amounts received	**146 285**	**282 475**	**180 408**	**389 213**

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000

35. Taxation paid

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Amounts due at beginning of year	(61 345)	16 727	(53 656)	23 401
Amounts charged to profit and loss statement	(453 020)	(234 907)	(428 389)	(139 986)
Disposal of subsidiary	–	(2 881)	–	–
Amounts due at end of year	464 053	61 345	453 276	53 656
Cash amounts paid	**(50 312)**	(159 716)	**(28 769)**	(62 929)
Amounts due at end of year comprised as follows:				
Deferred income tax asset	(85 196)	(79 690)	(85 196)	(79 690)
Deferred income tax liability	234 070	174 250	223 311	166 581
Current taxation asset	(8)	(33 244)	–	(33 235)
Current taxation liability*	315 161	29	315 161	–
	464 053	61 345	453 276	53 656

** Please note that subsequent to the previously issued financial statements (issued on 31 October 2018), we have updated the current taxation liability.*

36. Business combinations

36.1 Summary of business combinations – 30 June 2018

Disposal of investments in subsidiary:

	Comingo Trading (Pty) Ltd	Total
Loans and other receivables	100	100
Trade and other payables	(100)	(100)
Proceeds on disposal of subsidiary	100	100
Net cash outflow arising on disposal:		
– Cash and cash equivalents	–	–
Cash and cash equivalents disposed of	100	100

36.1.1 Disposal of 100% shareholding in the Comingo Trading (Pty) Ltd

On 30 June 2018, the Group disposed of 100% of its investments in Comingo Trading (Pty) Ltd. At the date of disposal, the fair value of the investment in the Company was Rnil and the net asset value was Rnil. The Company generated R100 gain on disposal whereas the Group generated no gain or loss on disposal.

36.2 Summary of business combinations – 30 June 2017

Disposal of investments in subsidiary:

	Quisisana (Pty) Ltd R'000	Total R'000
Investment property	45 460	45 460
Loans and other receivables	2	2
Cash and cash equivalents disposed of	70	70
Deferred taxation	(2 881)	(2 881)
Trade and other payables	(36 112)	(36 112)
Loss generated on disposal of subsidiary	(6 539)	(6 539)
Proceeds on disposal of subsidiary	–	–
Net cash outflow arising on disposal:		
– Cash and cash equivalents	70	70
Cash and cash equivalents disposed of	70	70

36. Business combinations (continued)

36.2 Summary of business combinations – 30 June 2017 (continued)

36.2.1 Disposal of 100% shareholding in the Quisisana (Pty) Ltd

On 30 June 2017, the Group disposed of 100% of its investments in Quisisana (Pty) Ltd. At the date of disposal, the fair value of the investment in the Company was Rnil and the net asset value was R6 539 000. The Company generated no gain or loss on disposal whereas the Group generated a loss on disposal of R6 539 000.

37. Investments in associates

37.1 Summary of movement in the fair value of the Group's investments in associates – 30 June 2017

37.1.1 Acquisition of investments in associates as at 30 June 2017

Acquisition of ITOO Special Risk Limited

On 28 February 2017, the Group acquired a 30% shareholding in ITOO Special Risk Limited for a consideration of R1 000 000. At the date of acquisition, the carrying value of the investment in the Company was Rnil.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
38. Proceeds on disposal of investments				
Proceeds on disposal of listed investments	59 369	54 206	59 369	54 206
Proceeds on disposal of unlisted investments	205 855	339 712	205 855	339 712
	265 224	393 918	265 224	393 918
39. Proceeds on disposal of non-current assets and liabilities held for sale				
Fair value of assets sold	537 003	76 940	483 527	186 800
Profit/(loss) on disposal	(53 476)	(65 133)	–	(174 993)
	483 527	11 807	483 527	11 807
40. Capital expenditure				
The following capital expenditure budget has been approved by the Board for the financial year ending 30 June 2018				
Furniture, office equipment and computer hardware and software			129 000	27 759
			129 000	27 759

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

41. Commitments and contingencies

Operating lease commitment

The Hollard Life Assurance Company Limited entered into a 10-year lease agreement with Hollard Life Properties (Pty) Ltd to sub-lease the Arcadia premises with effect from 1 July 2016. The lease runs to 30 June 2026. With effect from 1 July 2009 the lease agreement between The Hollard Life Assurance Company Limited and Hollard Life Properties (Pty) Ltd to sub-lease the Arcadia (Phase 1) premises was restructured. Part of the restructuring resulted in a sub-lease agreement between The Hollard Life Assurance Company Limited and The Hollard Insurance Company Limited for the same period.

	COMPANY	
	2018 R'000	2017 R'000
The payments recognised as an expense for the year amount to	37 274	34 490

42. Contingent liability

The Hollard Insurance Company, in the ordinary course of business, enters into transactions which expose the Company to tax, legal and business risks. Provisions are made for known liabilities which are expected to materialise. Possible obligations and known liabilities where no reliable estimate can be made, or where it is considered improbable that an outflow would result, are noted as a contingent liability. This is in accordance with IAS 37: *Provisions, contingent liabilities and contingent assets.*

43. Staff pension and provident fund

The Company has a defined contribution pension fund, the Hollard Employees Pension Fund with 366 (2017: 217) employees of the Company being members of the fund. The Company and employees' contributions to the fund charged against income for the year were R12 015 770 (2017: R11 890 251).

The Company also has a defined contribution provident fund, the Hollard Employees Provident Fund with 785 (2017: 818) employees of the Company being members of the fund. The Company and employees' contribution to the fund charged against income for the year were R26 131 107 (2017: R45 954 023).

Both of these funds are controlled by a Board of Trustees and are governed by the Pension Funds Act of 1956.

44. Loans to directors

	COMPANY	
	Executive	
	2018 R'000	2017 R'000
Balance at beginning of year	–	(4 007)
Loans advanced and interest charged during the year	–	115
Loan repayments received during the year	–	(4 122)
	–	–

Details of individual loans to directors

No new advances were made during the year (2017: Rnil).

The following repayments were made during the year:

- TBT Mparutsa Rnil (2017: R4 121 805)

The loans are given on commercial terms and conditions. The related interest income in 2018 was Rnil (2017: R114 954).

Interest on loan to TBT Mparutsa is charged at SARS rate and as at 30 June 2017 the rate was 8%.

45. Related party transactions

Related party relationships exist between the Group, fellow subsidiaries, associated companies and the holding company. All material transactions are at arm's length.

The immediate holding company is Hollard Fundco (RF) (Pty) Ltd and the ultimate holding company is Pickent Investments Limited. Both of these companies are incorporated in the Republic of South Africa.

The following transactions were carried out with related parties during the year:

	COMPANY			
	Sum insured		UPR	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Guarantee policies issued				
Affiliated companies:				
– Advantage Motor Plan (Pty) Ltd	10 000	10 000	10 000	13
– Biz Afrika 1932 (Pty) Ltd	3 374	3 373	3 379	2
– Eikos Risk Applications (Pty) Ltd	–	–	–	4
– FirstRand Bank Ltd	–	–	–	200
– Hirch & Trust (Pty) Ltd	–	–	–	17 264
– Hollard Insurance Company of Namibia Limited (incorporated and operational in Namibia)	10 000	10 000	–	25 225
– Hollard Life Properties (Pty) Ltd	–	–	–	579
– NER Estates – Zanray Investments	6 141	6 141	–	7
– Ooba (Pty) Ltd	–	–	–	12 393
– Brokoop Insurance Brokers (Pty) Ltd	2 746	2 039	–	3
– UTZ Consulting (Pty) Ltd	300	300	–	–
– PWV Insurance Brokers	37 930	35 061	–	30
– Risk Benefit Solutions (Pty) Ltd	–	–	–	8
– RNB Administrators (Pty) Ltd	–	–	–	172 042
– Sapcor (Pty) Ltd	14 800	14 800	–	25
– Insurance Zone Insurance Brokers (Pty) Ltd	13 469	14 236	–	24
The guarantee policies were issued on commercial terms and conditions at market-related rates.				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2018

	2018 R'000	2017 R'000
45. Related party transactions (continued)		
Loans to/(from) related parties	**(563 259)**	(535 395)
Loans to subsidiaries	**1 664**	26 692
Loans to associates	**10 142**	10 141
Loans to SMART (Pty) Ltd	**5 247**	5 247
Loans to Hollard Holdings (Pty) Ltd	**15 005**	15 003
Loan (from) Fundco (RF) (Pty) Ltd	**(600 156)**	(600 156)
Loans to SkyTIV (Pty) Ltd	**–**	2 081
Loans to Qdos Underwriting Managers (Pty) Ltd	**–**	51
Loan to C Shorter	**2 298**	5 546
Loan to G Venter	**2 541**	–
Loans to prescribed officers		
The following advances were made:		
M Shezi	**1 946**	3 612
B Wyborn	**5 973**	5 531
Management fees		
– Paid to Hollard Life Assurance Company Limited	**260 653**	262 603
Dividends		
– Dividends received from related parties	**38 411**	117 466
Interest		
– Interest received from related parties	**3 921**	4 157
Investment policy with		
– The Hollard Life Assurance Company Limited	**995 708**	927 236
Key management compensation		
– Salaries, bonuses and other short-term employee benefits	**50 870**	19 516
(Key management refers to Executive Committee members excluding Executive Directors)		
Other transactions		
– Rent paid to Hollard Life Properties (Pty) Ltd	**37 274**	34 490

Refer to notes 8 and 9 on page 38, as well as note 46 below of these annual financial statements for details of loans with Group companies and other related parties.

46. Subsidiaries, associates and joint venture

Carrying value of interest in subsidiaries

	Nature of business	Place of business	Issued share capital R	Proportion held 2018 %	Proportion held 2017 %	2018 Shares R'000	2018 Indebtedness R'000	2017 Shares R'000	2017 Indebtedness R'000
Directly held subsidiaries									
Apex Underwriting Managers (Pty) Ltd	B	RSA	100	**100.00**	100.00	**–**	**1 944**	–	1 774
Casa Luigi Properties (Pty) Ltd	A	RSA	100	**100.00**	100.00	**–**	**–**	–	–
Comingo Trading (Pty) Ltd	G	RSA	–	**–**	100.00	**–**	**–**	–	–
Electronic Risk Underwriting Managers (Pty) Ltd	B	RSA	100	**100.00**	100.00	**–**	**–**	–	–
EquiMed Underwriting Managers (Pty) Ltd	B	RSA	100	**100.00**	100.00	**–**	**–**	–	–
Ground Lily Investments (Pty) Ltd	C	RSA	1	**100.00**	100.00	**–**	**–**	–	–
Hollard Portfolio Management (Pty) Ltd	C	RSA	1	**100.00**	100.00	**49 867**	**–**	41 241	–
JJK Marketing Consultants (Pty) Ltd	B	RSA	100	**100.00**	100.00	**–**	**–**	–	–
Newshelf 33 (Pty) Ltd	C	RSA	1	**100.00**	100.00	**–**	**–**	–	–
Precept Supply Chain Management (Pty) Ltd	D	RSA	3 001 010	**100.00**	100.00	**–**	**–**	–	–
Quisisana (Pty) Ltd	A	RSA	1	**–**	100.00	**–**	**–**	–	–
Accredited Investments (Pty) Ltd	C	RSA	1	**100.00**	100.00	**–**	**–**	–	–
Leungo Investments (Pty) Ltd	A	RSA	100	**100.00**	100.00	**–**	**37 677**	–	37 677
Execuline Underwriting Managers (Pty) Ltd	B	RSA	100	**100.00**	100.00	**–**	**–**	–	–
						49 867	**39 621**	41 241	39 451
Impairment on loan						**–**	**(37 957)**	–	(12 759)
						49 867	**1 664**	41 241	26 692

The investment in Hollard Mocambique Companhia de Seguros, S.A.R.L (incorporated and operational in Mozambique) is held for sale and details are disclosed in note 16 on page 49 of these financial statements.

Carrying value of interest in associates

	Nature of business	Issued share capital R	Proportion held 2018 %	Proportion held 2017 %	2018 Shares R'000	2018 Indebtedness R'000	2017 Shares R'000	2017 Indebtedness R'000
Directly held associates								
Legal Expenses Group Africa Limited	F	1 700	39.90	39.90	239 768	–	207 764	–
Louwfut Beleggings 1077 (Pty) Ltd	A	1 000	46.20	46.20	–	12 855	–	12 855
					239 768	12 855	207 764	12 855
Impairment on loans					–	(2 714)	–	(2 714)
					239 768	10 141	207 764	10 141

The investment in ITOO Special Risk (Pty) Ltd was disposed of during the year and classified as held for sale in the 2017 financial year, and details are disclosed in note 16 page 49 of these financial statements.

Carrying value of interest in joint venture

	Nature of business	Issued share capital R	Proportion held 2018 %	Proportion held 2017 %	2018 Shares R'000	2018 Indebtedness R'000	2017 Shares R'000	2017 Indebtedness R'000
Directly held joint ventures								
Exiliti Services (Pty) Ltd	E	400	50.00	50.00	–	10 943	–	10 943
Impairment on loans						(10 943)		(10 943)
					–	–	–	–

Nature of business

A Property holding
B Underwriting managers
C Investment holding
D Venture capital
E Business process outsourcing services
F General insurance
G Administration

47. Going concern

The Board believes that the Group and Company will continue to be going concerns in the year ahead. For this reason the Board continues to adopt the going-concern basis in preparing the annual financial statements.

48. Subsequent events

It has been announced that effective from 1 October 2018 Dirk Viljoen will take over the role of CFO in the Company from Willie Lategan. Apart from this, the Board is not aware of any event since the end of the financial year, not otherwise dealt with in these annual financial statements, that would affect the operations of the Group and Company or the results of these operations.

DIRECTORATE AND ADMINISTRATION

Directorate

To the date of this report the directors of the Company are as follows:

Non-Executive Chairman	ADH Enthoven
Group Chief Executive Officer	S Ntombela (appointed 1 October 2017)
Group Chief Financial Officer	WT Lategan
Non-Executive Director	NG Kohler
Independent Non-Executive Director	R Fihrer
Independent Non-Executive Director	MR Bower
Independent Non-Executive Director	BF Mohale
Independent Non-Executive Director	AS Nkosi
Independent Non-Executive Director	B Ngonyama
Independent Non-Executive Director	S Patel
Independent Non-Executive Director	NV Simamane
Independent Non-Executive Director	SC Gilbert (appointed 1 January 2018)

Administration

Company Secretary

G Tyusha

Public Officer

NL Magadze

Compliance Officer

M Naidoo

Registered office and business address

Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

Postal address

PO Box 87419
Houghton
2041

Website

www.hollard.co.za

Nature of business

The Company transacts short-term insurance business.

Auditors

Deloitte & Touche
Building 8
Deloitte Place
The Woodlands
Woodlands Drive
Woodmead
Sandton

Registration number

1952/003004/06

NOTES

2018
HOLLARD LIFE ASSURANCE COMPANY LIMITED

These annual financial statements were audited in compliance with the Companies Act, No 71 of 2008.

These annual financial statements have been prepared by the Financial Manager, Yolandi Evans (CA(SA)) under supervision of the Head of Finance, Kyansambo Vundla (CA(SA)).

(Registration number: 1993/001405/06)
Audited consolidated annual financial statements
for the year ended 30 June 2018

TABLE OF CONTENTS

GROUP SALIENT FEATURES

for the year ended 30 June 2018

	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014 R'000
Statement of profit or loss information					
Gross premium income [1]	**6 497 835**	5 859 951	5 559 092	5 175 795	6 134 144
Net written premium income [2]	**4 990 758**	4 515 535	4 919 405	4 411 143	5 407 534
Investment income [3]	**483 223**	580 816	659 883	613 552	783 741
Net insurance claims	**2 043 762**	1 321 759	1 531 859	1 612 730	2 117 493
Profit attributable to equity holders of the parent	**686 274**	854 885	1 264 206	1 073 562	1 148 826
Statement of financial position information					
Insurance liabilities	**10 211 542**	7 867 088	9 363 579	10 177 737	13 097 931
Equity attributable to equity holders of the parent	**1 480 513**	1 459 195	1 898 546	2 321 795	2 084 966
Total assets	**14 349 989**	11 551 833	13 048 984	14 173 460	16 600 998
Financial assets (i.e. listed investments and unlisted investments)	**10 998 545**	8 874 154	10 466 866	11 154 706	13 789 566
Cash and cash equivalents	**2 046 510**	1 241 566	1 716 828	1 970 839	1 966 963
Actuarial information					
Statutory excess of assets over liabilities (Company)	**618 293**	596 683	577 325	1 192 283	992 591
Capital adequacy requirement (CAR) [4]	**240 582**	232 116	218 567	320 350	324 197
Value of in-force business [5]	**5 131 678**	5 075 131	4 558 706	4 906 397	4 569 511
Total embedded value [5]	**6 629 552**	6 553 718	6 471 975	7 280 584	6 713 255
Statutory excess of assets over liabilities as a multiple of CAR	**2.6**	2.6	2.6	3.7	3.1

(1) "Gross premium income" represents the total income arising from insurance contracts only. In accordance with IAS 39: Financial Instruments: Recognition and Measurement, all items of income and expenditure in respect of investment contracts are excluded from the income statement and accounted for directly against the liability under these contracts in the statement of financial position.

(2) "Net written premium income" is gross premium income less reinsurance premiums outwards.

(3) "Investment income" includes net investment income and unrealised profits and/or losses on the investment and trading portfolios.

(4) "Capital adequacy requirement" represents a margin against adverse experience in the assumptions underlying the actuarial valuation of both the policyholders' assets and liabilities.

(5) The "value of in-force business" and "total embedded value" information reported above include profits attributable to Hollard Life's holding company joint venture partners.

DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2018

In terms of the Companies Act of South Africa, the directors are required to maintain adequate accounting records and to prepare annual financial statements that fairly present the financial position at year-end and the results and cash flows for the year of Hollard Life Assurance Company Limited ("Hollard Life" or the "Company") and its subsidiaries (the "Group").

To enable the Board to discharge its responsibilities, management has developed and continues to maintain a system of internal control. The Board has ultimate responsibility for this system of internal controls and reviews the effectiveness of its operations, primarily through the Group 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 that assets are safeguarded and that transactions are executed and recorded in accordance with sound business practices and the Group's written policies and procedures. These controls are implemented by trained and skilled staff, with clearly defined lines of accountability and appropriate segregation of duties. The controls are monitored by management and include a budgeting and reporting system operating within strict deadlines and an appropriate control framework.

As part of the system of internal control, the Group's Internal Audit function conducts inspections, financial and specific audits and co-ordinates audit coverage with the External Auditor.

The External Auditors are responsible for reporting on the Group's and Company's annual financial statements.

The Group's and Company's annual financial statements are prepared in accordance with International Financial Reporting Standards and incorporate responsible disclosures in line with the accounting policies of the Group. The Group's and Company's annual financial statements are based on appropriate accounting policies consistently applied, except as otherwise stated and supported by reasonable and prudent judgements and estimates.

The Board believes that the Group and Company will be going concerns in the year ahead. For this reason, the Board continues to adopt the going-concern basis in preparing the annual financial statements.

These annual financial statements, set out on pages 80 to 134 have been approved by the Board of the Group and Company and are signed on their behalf by:

ADH Enthoven
Chairman

31 October 2018

S Ntombela
Chief Executive Officer

31 October 2018

CERTIFICATION BY COMPANY SECRETARY

In my capacity as Company Secretary, I hereby confirm that the Company has lodged with the Registrar of Companies all such returns as are required of the Company and that such returns are true, correct and up to date.

G Tyusha
Company Secretary

31 October 2018

AUDIT COMMITTEE REPORT

The Committee is composed of three Independent Non-Executive Directors. The work of the Committee is specified by its charter, and the provisions of the Long Term Insurance Act, 1998. The Committee has reviewed the Group's and Company's annual financial statements, and recommends them for approval to the Board. The Committee further reviewed the Group's and Company's accounting policies, and the reports of the internal and external audit functions, and of the compliance officer. The Committee met three times during the year, and the Chairman of the Committee reported on the work of the Committee to the Board.

The Committee reviewed the work of the External Auditor, Deloitte & Touche, including the audit plan and budget, independence and recommended to the Board and shareholders the appointment of the auditor.

MR Bower
Chairman: Audit Committee

31 October 2018

STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES

as at 30 June 2018

	Notes	2018 R'000	2017 R'000
Published reporting basis			
Total assets as per Company financial position	2	14 359 686	11 568 618
Less: Liabilities		12 861 812	10 090 031
Actuarial value of policy liabilities	3, 4	10 211 542	7 867 088
Deferred income tax		608 390	529 139
Long-term liabilities		400 200	400 104
Current liabilities as per Company financial position		1 641 680	1 293 700
Excess of assets over liabilities		1 497 874	1 478 587
Represented by:			
Share capital and share premium		20 000	20 000
Retained earnings as per Company financial position		1 477 874	1 458 587
		1 497 874	1 478 587
Statutory basis			
Total assets on the statutory basis		14 324 840	11 541 839
Less: Liabilities		13 706 547	10 945 156
Actuarial value of policy liabilities		11 940 339	9 610 462
Deferred income tax		124 328	40 994
Current liabilities as per Company financial position		1 641 880	1 293 700
Excess of assets over liabilities		618 293	596 683
Capital adequacy requirement	5	240 582	232 116
Capital adequacy: times covered		2.6	2.6
Reconciliation of excess assets between published reporting basis and statutory basis			
Excess assets on published reporting basis		1 497 874	1 478 587
Excess assets on statutory basis		618 293	596 683
Difference		879 581	881 904
The difference between the excess assets on the published reporting basis and statutory basis is due to:			
Elimination of negative reserves		1 722 234	1 718 414
Tier II capital		(400 000)	(400 104)
Inadmissible assets		34 846	26 779
Unapproved reinsurance		6 563	24 960
Deferred income tax		(484 062)	(488 145)
Total		879 581	881 904
Analysis of change in excess assets			
The excess of the value of assets over the value of liabilities has changed as follows over the reporting year:			
Excess of assets at beginning of year		1 478 587	1 913 269
Excess of assets at end of year		1 497 874	1 478 587
Change in excess assets over the reporting year		19 287	(434 682)
This change in the excess assets is due to the following factors:			
Investment return on excess assets		195 873	325 577
Investment income		143 690	329 757
Capital appreciation		52 183	(4 180)
Operating profit		782 396	958 486
Increase in liabilities due to change in valuation methods or assumptions		21 972	(108 745)
Taxation		(317 068)	(319 556)
Total earnings after taxation		683 173	855 762
Dividends declared		(663 886)	(1 290 444)
Total change in excess assets		19 287	(434 682)

Certification of the financial position

I hereby certify that:

The valuation of Hollard Life Assurance Company Limited as at 30 June 2018, the results of which are summarised above, has been conducted in accordance with applicable Actuarial Society of South Africa Standard Actuarial Practice and Practice Notes.

Hollard Life Assurance Company Limited was financially sound on the Statutory Valuation Method as at 30 June 2018 and will continue to be so in the foreseeable future.

DJ Viljoen MSc, FFA, FASSA[1]
Statutory Actuary

31 October 2018

1. *Actuarial Society of South Africa is the primary actuarial body.*

NOTES TO THE STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES

as at 30 June 2018

1. Published reporting valuation methods and assumptions

The valuation was performed using the financial soundness valuation method for insurance contracts and for investment contracts participating in profits on a discretionary basis. Investment contracts without discretionary participation features have been valued in terms of IAS 39, which is generally at fair value.

The result of the valuation methods and assumptions is that profits for insurance contracts and for investment contracts with participation in profits on a discretionary basis are released appropriately over the term of each policy to avoid premature recognition of profits that may give rise to losses in later years.

2. Valuation basis – assets

Assets have been taken at the value at which they appear in the annual financial statements. The valuation methods are in line with International Financial Reporting Standards (IFRS), which are at fair value.

3. Valuation basis – insurance contracts and investment contracts with discretionary participating features

The following business lines were valued on a gross premium cash flow basis:

- Individual life policies
- Credit life policies administered internally
- Funeral policies
- Personal accident policies
- Endowment policies with risk benefits

The balance of the liabilities have been determined on an unexpired premium reserve basis with allowance for a reserve for "Incurred But Not Reported" (IBNR) claims. The latter methodology is appropriate due to the nature of the policies concerned.

In calculating the gross premium liabilities mentioned above, best estimate assumptions were used plus compulsory margins as defined in SAP 104. The best estimate assumptions were derived from experience analyses conducted at the end of December 2017. The primary assumptions used in the gross premium valuation (excluding compulsory margins) are as follows (2017 assumptions shown in parentheses):

- Expenses were allowed for based on an expense analysis carried out during the year (unchanged);
- Expenses inflation of 5.80% per annum (2017: 5.60%);
- Future bonuses under reversionary bonus policies remained unchanged;
- Mortality assumptions were set based on the results of a mortality experience analysis carried out during the year with explicit allowance for HIV/Aids (the mortality basis for direct funeral business was revised to be consistent with the results of the analysis);
- Withdrawals were set at levels consistent with an experience analysis carried out during the financial year (the Altrisk lapse rates at durations in excess of six years were reduced in line with experience);
- Future investment returns were based on the asset mix backing the liabilities with the following assumed future yields: cash 7.40% (2017: 7.10%), gilts 8.40% (2017: 8.10%), property 9.40% (2017: 9.10%) and equities 11.90% (2017: 11.60%). Income tax was allowed for explicitly at the appropriate rates and capital gains tax was allowed for implicitly in the discount rate (unchanged);
- The liabilities under the whole life portfolios (Altrisk and Funeral) have been valued assuming an asset mix of 100% government bonds;
- A discretionary margin of R191 million (2017: R228 million) was held as partial elimination of negative reserves;
- A contingency reserve to cover possible data problems of R50 million (2017: R50 million) was held as a discretionary reserve; and
- Negative reserves were allowed for on the published reporting basis (unchanged).

In addition to the above, compulsory margins were allowed for as outlined in SAP 104.

4. Valuation basis – investment contracts without discretionary participating features

The liabilities were calculated at fair value. For unit-linked business without a significant risk element, the value of the liability was set equal to the value of the investment account. No deferred acquisition cost asset or deferred revenue liability was held.

5. Capital adequacy requirement (CAR)

The capital adequacy is the additional amount required, over and above the actuarial liabilities, to enable the Company to meet material deviations in the main parameters affecting its business. The CAR has been calculated on the statutory basis in accordance with the Actuarial Society of South Africa's guidelines and Prudential Authority directives.

In calculating the investment resilience CAR, it was assumed that equity values would decline by 30%, property values by 15% and fixed interest asset values by the effect of a 25% increase in fixed interest yields.

The CAR quoted above is the minimum capital adequacy requirement (MCAR). The MCAR exceeded the termination capital adequacy requirement (TCAR) as well as the ordinary capital adequacy requirement (OCAR). For the purpose of grossing up the intermediate ordinary capital adequacy requirements (IOCAR), it has been assumed that assets backing the capital adequacy requirements are all invested in cash. No management action has been assumed.

6. Material changes in the liability valuation basis compared to last year

The methodology used has remained broadly the same as that used for the 2017 valuation. Changes in the main assumptions have been outlined in note 3 above and had an overall impact of decreasing the value of actuarial liabilities by R22 million (2017: R109 million) during the financial year.

EMBEDDED VALUE STATEMENT

as at 30 June 2018

The embedded value is determined by adding the discounted value of shareholder profits likely to arise in the future from business in-force as at the valuation date to the value of shareholder funds.

The embedded value has been calculated on a best estimate basis, where the assumptions have been arrived at by removing both compulsory and discretionary margins from the financial soundness basis. The risk discount rate used in the calculation was 12.40% (2017: 12.10%).

	2018 R'000	2017 R'000
Value of in-force business	5 131 678	5 075 131
Excess of assets over liabilities	1 497 874	1 478 587
Total embedded value	6 629 552	6 553 718

The embedded value includes profits attributable to Hollard Life's holding company joint venture partners and gross of tax.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF HOLLARD LIFE ASSURANCE COMPANY LIMITED

Report on the audit of the consolidated and separate financial statements

We have audited the consolidated and separate financial statements of Hollard Life Assurance Company Limited (the "Group") set out on pages 82 to 133, which comprise the statements of financial position as at 30 June 2018, and the statements of profit or loss and comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 30 June 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Responsibility Statement and Approval of the Annual Financial Statements, the Directors' Report, the Audit Committees' Report, the Certification by Company Secretary as required by the Companies Act of South Africa, and the Group Salient Features, the Statement of Actuarial Values of Assets and Liabilities, the Notes to the Statement of Actuarial Values of Assets and Liabilities, the Embedded Value Statement and the Directorate and Administration information. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless the directors either intend to liquidate the Group and/or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going-concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Hollard Life Assurance Company Limited for 25 years.

Deloitte & Touche.

Deloitte & Touche
Registered Auditor

Per: Rachel Nkgodi
Partner

31 October 2018

National Executive: *LL Bam Chief Executive Officer *TMM Jordan Deputy Chief Executive Officer; Clients & Industries * MJ Jarvis Chief Operating Officer * AF Mackie Audit & Assurance *N Sing Risk Advisory DP Ndlovu Tax & Legal TP Pillay Consulting *JK Mazzocco Talent & Transformation *MG Dicks Risk Independence & Legal *KL Hodson Corporate Finance * TJ Brown Chairman of the Board

A full list of partners and directors is available on request *Partner and Registered Auditor

B-BBEE rating: Level 1 contribution in terms of the DTI Generic Scorecard as per the amended Codes of Good Practice

DIRECTORS' REPORT

for the year ended 30 June 2018

The directors have pleasure in presenting the directors' report which forms part of the Group's and Company's annual financial statements for the year ended 30 June 2018.

Nature of business

The Company is a registered life assurer and transacts in all classes of life assurance business throughout the Republic of South Africa. The activities and details of the interests in subsidiaries, associates and joint ventures are listed in notes 29, 30 and 36 on pages 130 and 133 of the annual financial statements.

General review

In the year under review the Group achieved net profit attributable to the equity holders of the parent of R686 274 000 (2017: R854 885 000), which arose from the Group's operations as follows:

	2018 R'000	2017 R'000
Net premium income	4 990 758	4 515 535
Investment income	483 223	580 816
Other income	464 048	74 606
Total revenue	5 938 029	5 170 957
Net insurance benefits and claims	2 043 762	1 321 759
Other operating expenses	2 909 184	2 702 741
Total expenses	4 952 946	4 024 500
Results of operating activities	985 083	1 146 457
Share of profit of associates	18 727	29 298
Profit before taxation	1 003 810	1 175 755
Taxation	(317 536)	(320 303)
Profit for the year	686 274	855 452
Non-controlling interest	–	567
Net profit attributable to the equity holder of the parent	686 274	854 885

Share capital

There was no change in the authorised and issued ordinary share capital of the Company during the year.

Dividends

Dividends on ordinary shares of R663 885 555 (2017: R1 290 444 000) were declared by the Company during the year.

Subsidiaries, associates and joint ventures

The Company acquired a 100% shareholding in the following subsidiary during the year:

- NMG Pooling Administrators (Pty) Ltd

The Company disposed of 100% of its shareholding in the following subsidiary during the year:

- The Best Funeral Society (Pty) Ltd (full 55% shareholding sold)

The Company disposed of 100% of its shareholding in the following associate during the year:

- Prorisk Pooling Administrators (Pty) Ltd (full 25% shareholding sold)

The Company's aggregate share of the profits and (losses) of subsidiaries and associate for the year amounted to R1 146 106 and R18 727 000 respectively (2017: R2 466 555 and R29 298 000 respectively).

Going concern

The Board believes that the Group and Company will continue to be going concerns in the year ahead. For this reason, the Board has adopted the going-concern basis in preparing the annual financial statements.

Subsequent events

It has been announced that effective from 1 October 2018 Dirk Viljoen will take over the role as CFO of the Group from Willie Lategan. Apart from this, the Board is not aware of any event since the end of the financial year, not otherwise dealt with in these annual financial statements, that would affect the operations of the Group and Company, or the results of these operations.

Regulatory

The Financial Sector Regulation Act of 2017 commenced on 1 April 2018 introducing the twin peaks model of regulating financial institutions. The twin peaks model brings about the establishment of the Prudential Authority (PA), hosted within the South African Reserve Bank (SARB) and the Financial Sector Conduct Authority (FSCA). The prudential supervision of insurers will therefore, with effect from 1 April 2018, be performed within the PA. The new regulatory bodies will effectively replace functions previously performed by the FSB.

The Insurance Act, No 18 of 2017 (Insurance Act) took effect on 1 July 2018. Insurance companies will still report their 30 June 2018 results on the old regulatory regime; however, subsequent reporting has to be made on the Solvency Assessment and Management (SAM) regulatory regime to the PA. Hollard Life Assurance Company Limited will report their first set of results on the SAM regulatory regime for the year ending 30 June 2019.

Directors' interest in contracts

During the financial year, no contracts were entered into which directors or officers of the Company had an interest in and which significantly affected the business of the Company.

Directorate

In terms of the requirements of the Memorandum of Incorporation, the following directors retired by rotation, made themselves available for re-election and were re-elected at the annual general meeting held on 27 November 2017:

- SC Gilbert,
- S Patel and
- NV Simamane.

Executive Directors

S Ntombela (Group CEO from 1 October 2017), WT Lategan (Group CFO) and NG Kohler (resigned as Group CEO, effective 30 September 2017) were the only Executive Directors who held office during the year.

Non-Executive Directors

ADH Enthoven, MR Bower, B Ngonyama, SC Gilbert, NV Simamane, S Patel, R Fihrer, AS Nkosi and BF Mohale were in office during the year as Non-Executive Directors. NG Kohler and MR Bower became Non-Executive Directors from 1 October 2017 and 1 January 2018 respectively.

Auditors

Deloitte & Touche will continue in office in accordance with section 90 of the Companies Act, No 71 of 2008.

Company Secretary

G Tyusha

Business address

Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

Postal address

P O Box 87428
Houghton
2041

Holding company

The immediate holding company is Hollard Fundco (RF) (Pty) Ltd (100%) and the ultimate holding company is Pickent Investments Limited. Both these companies are incorporated in the Republic of South Africa.

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2018

		GROUP		COMPANY	
	Notes	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Assets					
Property and equipment	4	154 624	84 696	154 624	83 491
Intangible assets	5	25 473	20 686	25 473	20 686
Interest in subsidiaries	6	–	–	12 197	20 917
Investments in associates	7	63 156	55 298	70 534	67 795
Financial assets	8	10 998 545	8 874 154	10 998 545	8 872 747
Reinsurance assets		190 574	375 374	190 574	375 374
Insurance, loans and other receivables	10	795 129	850 396	800 957	854 379
Deferred taxation	11	15 466	168	15 452	–
Current income taxation		60 512	49 495	60 507	49 461
Cash and cash equivalents	12	2 046 510	1 241 566	2 030 823	1 223 768
Total assets		14 349 989	11 551 833	14 359 686	11 568 618
Equity and liabilities					
Share capital and premium	13	20 000	20 000	20 000	20 000
Foreign currency translation reserve		22 051	22 502	–	–
Non-distributable reserves		19 373	10 738	–	–
Retained earnings		1 419 089	1 405 955	1 477 874	1 458 587
Equity attributable to equity holders of the parent		1 480 513	1 459 195	1 497 874	1 478 587
Non-controlling interest		–	1 450	–	–
Total equity		1 480 513	1 460 645	1 497 874	1 478 587
Long-term borrowings	17	400 200	400 104	400 200	400 104
Policyholder liabilities	14	10 211 542	7 867 088	10 211 542	7 867 088
Outstanding claims		391 167	312 265	391 167	312 265
Reinsurance liabilities		261 377	342 808	261 377	342 808
Employee benefits	15	155 151	166 555	155 101	165 919
Deferred taxation	11	608 390	529 139	608 390	529 139
Trade and other payables	16	841 594	472 606	834 035	472 708
Current income taxation		55	623	–	–
Total liabilities		12 869 476	10 091 188	12 861 812	10 090 031
Total equity and liabilities		14 349 989	11 551 833	14 359 686	11 568 618

STATEMENTS OF PROFIT OR LOSS

for the year ended 30 June 2018

	Notes	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Revenue					
Gross premium income	18	6 497 835	5 859 951	6 497 835	5 859 951
Reinsurance premiums outwards	18	(1 507 077)	(1 344 416)	(1 507 077)	(1 344 416)
Net premium income		4 990 758	4 515 535	4 990 758	4 515 535
Interest		249 139	386 746	248 387	385 446
Dividends		70 543	70 013	83 393	118 198
Realised profit on disposal of investments	19	13 090	19 923	14 092	19 453
Unrealised profit on revaluation of investments	20	141 693	84 555	142 790	68 435
Rental income		8 758	19 579	8 758	19 556
Investment income		483 223	580 816	497 420	611 088
Other income	21	464 048	74 606	460 450	67 322
Total revenue		5 938 029	5 170 957	5 948 628	5 193 945
Expenses					
Policyholder benefits	24	2 708 993	3 622 393	2 708 993	3 622 393
Transfer from policyholder liabilities	14	(665 231)	(2 300 634)	(665 231)	(2 300 634)
Net insurance claims		2 043 762	1 321 759	2 043 762	1 321 759
Commission and other acquisition costs		522 748	481 530	522 748	481 530
Interest paid		66 896	60 587	66 896	60 295
Marketing and administration expenses		2 319 540	2 160 624	2 314 981	2 155 043
Total expenses		4 952 946	4 024 500	4 948 387	4 018 627
Results of operating activities		985 083	1 146 457	1 000 241	1 175 318
Share of profit of associates		18 727	29 298	–	–
Profit before taxation	22	1 003 810	1 175 755	1 000 241	1 175 318
Taxation	23	317 536	320 303	317 068	319 556
Profit for the year		686 274	855 452	683 173	855 762
Profit for the year attributable to:					
Equity holders of the parent		686 274	854 885		
Non-controlling interest		–	567		
		686 274	855 452		

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2018

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Profit for the year	686 274	855 452	683 173	855 762
Other comprehensive (loss)/income				
Exchange differences on translating foreign operations	(451)	(3 792)	–	–
Other comprehensive (loss)/income for the year	(451)	(3 792)	–	–
Total comprehensive income for the year	685 823	851 660	683 173	855 762
Total comprehensive income attributable to:				
Equity holders of the parent	685 823	851 093		
Non-controlling interests	–	567		
	685 823	851 660		

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Attributable to equity holders of the parent							
	Issued share capital R'000	Share premium R'000	Foreign currency translation reserve R'000	Non-distributable reserves R'000	Retained earnings R'000	Total ordinary shareholders' equity R'000	Non-controlling interest R'000	Total equity R'000
GROUP								
Balance at 1 July 2016	20	19 980	26 294	–	1 852 252	1 898 546	883	1 899 429
Profit for the year	–	–	–	–	854 885	854 885	567	855 452
Other comprehensive loss	–	–	(3 792)	–	–	(3 792)	–	(3 792)
Total comprehensive income	–	–	(3 792)	–	854 885	851 093	567	851 660
Transfer between reserves	–	–	–	10 738	(10 738)	–	–	–
Dividends paid on ordinary shares	–	–	–	–	(1 290 444)	(1 290 444)	–	(1 290 444)
Balance at 30 June 2017	20	19 980	22 502	10 738	1 405 955	1 459 195	1 450	1 460 645
Profit for the year	–	–	–	–	686 274	686 274	–	686 274
Other comprehensive loss	–	–	(451)	–	–	(451)	–	(451)
Total comprehensive income	–	–	(451)	–	686 274	685 823	–	685 823
Transfer between reserves	–	–	–	8 635	(8 635)	–	–	–
Acquisition of subsidiaries	–	–	–	–	176	176	–	176
Disposal of subsidiaries	–	–	–	–	(795)	(795)	(1 450)	(2 245)
Dividends paid on ordinary shares	–	–	–	–	(663 886)	(663 886)	–	(663 886)
Balance at 30 June 2018	**20**	**19 980**	**22 051**	**19 373**	**1 419 089**	**1 480 513**	**–**	**1 480 513**
COMPANY								
Balance at 1 July 2016	20	19 980	–	–	1 893 269	1 913 269		
Profit for the year	–	–	–	–	855 762	855 762		
Total comprehensive income	–	–	–	–	855 762	855 762		
Dividends paid on ordinary shares	–	–	–	–	(1 290 444)	(1 290 444)		
Balance at 30 June 2017	20	19 980	–	–	1 458 587	1 478 587		
Profit for the year	–	–	–	–	683 173	683 173		
Total comprehensive income	–	–	–	–	683 173	683 173		
Dividends paid on ordinary shares	–	–	–	–	(663 886)	(663 886)		
Balance at 30 June 2018	**20**	**19 980**	**–**	**–**	**1 477 874**	**1 497 874**		

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2018

	Notes	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Cash flows from operating activities					
Cash receipts from policyholders and other customers		5 046 025	4 279 886	5 044 180	4 282 457
Cash paid to policyholders, suppliers and employees (net of transfers to reserves)		(2 191 807)	(5 141 629)	(2 194 320)	(5 136 867)
Cash generated/(utilised) by operations	25	2 854 218	(861 743)	2 849 860	(854 410)
Interest paid		(66 896)	(60 587)	(66 896)	(60 295)
Dividends paid	26	(663 886)	(1 517 758)	(663 886)	(1 517 758)
Interest received		249 139	386 746	248 387	385 446
Dividends received	27	73 208	136 236	86 058	184 421
Rental received		8 758	19 579	8 758	19 556
Other income		464 048	74 606	460 450	67 322
Taxation paid	28	(265 169)	(356 216)	(264 315)	(355 892)
Net cash outflow from operating activities		2 653 420	(2 179 137)	2 658 416	(2 131 610)
Cash flows from investing activities					
Acquisition of property and equipment	4	(100 552)	(97 743)	(101 580)	(97 506)
Acquisition of intangible assets		(10 696)	(9 539)	(10 696)	(9 539)
Acquisition of listed and unlisted investments		(1 624 729)	(1 989 293)	(1 623 011)	(1 989 301)
Acquisition of bonds		(1 698 553)	(1 170 363)	(1 698 553)	(1 170 363)
Proceeds on disposal of listed and unlisted investments		418 601	2 320 532	418 601	2 320 532
Proceeds on disposal of bonds		980 374	2 392 581	980 374	2 392 581
Proceeds on disposal of non-current assets held for sale		–	–	–	–
Proceeds on disposal of subsidiaries		1 245	–	1 245	–
Acquisition of subsidiary	29	(2 000)	(1 000)	(2 000)	(1 000)
Cash movement through acquisition and sale of subsidiaries	29	558	653	–	–
Acquisition of associates		–	(8 846)	–	(8 846)
Dividends received from associates		8 650	48 187	–	–
Decrease in loans to subsidiaries		–	–	5 633	(300)
Decrease in loans to associates		102	(102)	102	(102)
Increase in foreign currency translation reserve		–	–	–	–
Increase in loans due to Group companies		(93 246)	(6 395)	(93 246)	(6 395)
Increase in other loans		271 674	(174 901)	271 674	(174 901)
Net cash (outflow)/inflow from investing activities		(1 848 572)	1 303 771	(1 851 457)	1 254 860
Cash flows from financing activities					
Increase in long-term borrowings		96	400 104	96	400 104
Net cash inflow from financing activities		96	400 104	96	400 104
Cash and cash equivalents					
Net increase/(decrease) in cash and cash equivalents		804 944	(475 262)	807 055	(476 646)
Cash and cash equivalents at beginning of year		1 241 566	1 716 828	1 223 768	1 700 414
Cash and cash equivalents at end of year	12	2 046 510	1 241 566	2 030 823	1 223 768

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2018

1. Accounting policies

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

1.1 Basis of presentation

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

The consolidated financial statements have been prepared on the historical cost basis, except for investment and owner-occupied property, interest in subsidiaries and associates, the revaluation of financial assets presented at fair value through profit or loss, which are carried at fair value. Policyholder liabilities under insurance contracts are valued in terms of the Financial Soundness Valuation (FSV) basis contained in the Standards of Actuarial Practice (SAP) 104, issued by the Actuarial Society of South Africa.

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 Group's and Company's estimates and underlying assumptions are reviewed for reasonability on an ongoing basis. Revisions to accounting estimates are recognised in the income statement 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.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the annual financial statements is disclosed in note 1.19 on page 99 of these financial statements.

Adoption of new and revised standards

The Group's and Company's accounting policies are consistent with those of the previous financial year except for those instances where new or revised standards and/or interpretations had to be adopted. The Group and Company adopted all of the new and 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 2017. The adoption of these revised standards and interpretations did not have any effect on the Group's and Company's financial performance or position, although they did give rise to additional disclosures including, in some cases, changes to existing accounting policies.

The Group and Company will comply with standards issued but not yet effective for the 2018 financial year, from the respective effective dates. It is expected that the application of these standards will have an impact on the Group's and Company's reported results, financial position and cash flows. The adoption of these standards will give rise to additional disclosures including, in some cases, changes to existing accounting policies for the Group and Company. The new and amended IFRS and IFRIC interpretations, together with the dates on or after which they became effective, are as follows:

International Financial Reporting Standards and Amendments issued but not yet effective for the financial year ended 30 June 2018

- IFRS 9: *Financial Instruments* – Reissue of a complete standard with all the chapters incorporated (effective from annual periods beginning on or after 1 January 2018). This standard is expected to have an impact on the financial statements.
- IFRS 9: *Financial Instruments* – Amendments regarding prepayment features with negative compensation and modifications of financial liabilities (effective from annual periods beginning on or after 1 January 2019). This standard is expected to have an impact on the financial statements.
- IFRS 10: *Consolidated Financial Statements* – Amendments on sale or contribution of assets between an investor and its associate or joint venture (deferred indefinitely). This standard is expected to have an impact on the financial statements.
- IFRS 15: *Revenue from Contracts with Customers* – Original issue (effective from annual periods beginning on or after 1 January 2019). This standard is expected to have an impact on the financial statements.
- IFRS 15: *Revenue from Contracts with Customers* – Clarifications to IFRS 15 (effective from annual periods beginning on or after 1 January 2018). This standard is expected to have an impact on the financial statements.
- IAS 40: *Investment Property* – Amendment clarifies the requirements on transfers to, or from, investment property (effective from annual periods beginning on or after 1 January 2018). This standard is expected to have an impact on the financial statements.
- IAS 2: *Share-based Payment* – Amendment classification and measurement of share-based payment transactions (effective from annual periods beginning on or after 1 January 2018). This standard is expected to have an impact on the financial statements.
- IAS 28: *Investments in Associates and Joint Ventures* – Amendments regarding long-term interests in associates and joint ventures (effective from annual periods beginning on or after 1 January 2019). This standard is expected to have an impact on the financial statements.
- IAS 28: *Investments in Associates and Joint Ventures* – Amendments on sale or contribution of assets between an investor and its associate or joint venture (deferred indefinitely). This standard is expected to have an impact on the financial statements.
- IAS 28: *Investments in Associates and Joint Ventures* – Amendments resulting from 2014-2016 Annual Improvements Cycle (effective from annual periods beginning on or after 1 January 2018). This standard is expected to have an impact on the financial statements.
- IFRS 17: *Insurance Contracts* – Original issue that replaces IFRS 4: *Insurance Contracts* (effective from annual periods beginning on or after 1 January 2021). This standard is expected to have a material impact on the financial statements.

1. Accounting policies (continued)

1.2 Basis of consolidation

The consolidated annual financial statements incorporate the annual financial statements of the Company, its subsidiaries, associates and joint ventures.

Investments in subsidiaries

Subsidiaries are entities over which the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns thorugh its power over the investee.

The results of subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the effective date on which control ceases. Gains and losses on disposal of subsidiaries are accounted for in the income statement.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date in terms of IFRS 3: *Business Combinations*, irrespective of the extent of any non-controlling interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The interest of non-controlling shareholders in the acquiree is initially measured at their proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. Non-controlling interest in the net assets of consolidated subsidiaries is identifiable separately from the Group's equity therein. Non-controlling interest consists of the amount of those interests at the date of the original business combination and their share of changes in equity since the date of the combination. Losses attributable to non-controlling shareholders in excess of their interest in the subsidiary's equity are allocated against the interest of the Group, except to the extent that they have a binding obligation and are able to make additional investments to cover the losses.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Company classifies its investments in subsidiaries as at fair value through profit and loss financial instruments in accordance with IAS 39: *Financial Instruments: Recognition and Measurement* due to the fact that it continually manages and evaluates these investments on a fair value basis.

Investments in associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these annual financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated statement of financial position's reserves at cost and adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. Post-acquisition losses of an associate in excess of the Group's interest in that associate, which includes any long-term interest that, in substance form part of the Group's net investments in associates, are not recognised unless the Group has incurred obligations or made payments on behalf of the associate. Post-acquisition profits are recognised in the income statement.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is immediately recognised in the income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Company classifies its investments in associates as at fair value through profit and loss financial instruments in accordance with IAS 39 due to the fact that it continually manages and evaluates these investments on a fair value basis.

Interests in joint arrangements

Joint ventures are entities where control is shared equally with a third party. Under the terms of these arrangements, the strategic, financial and operating policy decisions relating to joint venture activities require the unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these annual financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations.* Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position's reserves at cost and adjusted for post-acquisition changes in the Group's share of the net assets of the joint ventures, less any impairment in the value of individual investments. Post-acquisition losses of a joint venture in excess of the Group's interest in that joint venture, which includes any long-term interests that, in substance, form part of the Group's net investments in joint ventures, are not recognised unless the Group has incurred obligations or made payments on behalf of the joint venture. Post-acquisition profits are recognised in the income statement.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment on an annual basis. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is immediately recognised in the income statement.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Joint ventures' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Company classifies its investments in joint ventures at fair value through profit or loss financial instruments in accordance with IAS 39 due to the fact that it continually manages and evaluates these investments on a fair value basis.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary and joint ventures at the acquisition date. Goodwill arising on the acquisition of subsidiaries and joint ventures is initially recognised at cost as a separate asset. Goodwill is tested annually for impairment and is carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination for the purpose of impairment testing. Each of these cash-generating units represents the Group's investment by primary reporting segment.

Cash-generating units to which the goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss for goodwill is not reversed in a subsequent period.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates" above.

1.3 Foreign currencies

General

Foreign assets and liabilities are initially recorded at the spot rate and translated into South African Rand at the exchange rates ruling at the statement of financial position date. Foreign investment income or loss is translated into South African Rand at the average exchange rate for the year. Gains and losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in other comprehensive income.

Functional and presentation currency

The individual annual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements are presented in South African Rand, which is the Company's functional currency and the Group's presentation currency. All financial information presented in Rands has been rounded to the nearest thousand (R'000) except when otherwise indicated.

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 other comprehensive income. Translation differences on non-monetary items are reported as part of the fair value gain or loss.

1. Accounting policies (continued)

1.3 Foreign currencies (continued)

Group companies

For the purposes of presenting consolidated annual financial statements, the assets and liabilities of the Group's foreign operations are translated from their respective functional currency into the Group's presentation currency at the closing exchange rates ruling at the statement of financial position date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates ruling at the date of the various transactions are used. All translation differences arising from the translation and consolidation of foreign operations are recognised directly in other comprehensive income as a foreign currency translation reserve. Such translation differences are recognised in other comprehensive income in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing exchange rate at the statement of financial position date. None of the Group entities have the currency of a hyperinflationary economy.

1.4 Property and equipment

Property and equipment is initially recorded at cost. Costs include all expenditure that is directly attributable to the acquisition of an asset and bringing it to a working condition for its intended use, including import duties and non-refundable purchase 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 income statement.

Each category of property and equipment is depreciated on the straight-line basis at rates considered appropriate to reduce its cost to net realisable value over its estimated useful life. The rates used to depreciate each category of property and equipment are as follows:

Motor vehicles	20%
Office equipment	10%
Computer equipment	20%
Furniture and fittings	10%
IT equipment	20%
Leasehold improvements	shorter of useful life and lease term

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

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 Group and the cost of the item can be reliably measured. All other repairs and maintenance expenditure is charged to the income statement during the financial period in which it is incurred.

The assets' useful lives are reviewed at each statement of financial position 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. These impairment losses are charged directly to the income statement during the financial period in which they are identified.

Gains and losses arising on disposal of property and equipment are determined by comparing the asset's proceeds to its carrying amount and are included in the income statement. When revalued assets are sold, the amounts included in the revaluation surplus are transferred to other comprehensive income.

1.5 Intangible assets

Intangible assets are recognised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, and the cost of the asset can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. The amortisation method for intangible assets is reviewed every period.

Computer software

Acquired computer software packages and licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful life (three to seven years).

Re-acquired rights

The intangible asset is under development and will be amortised on a straight-line basis over five years.

1.6 Non-derivative financial instruments

Capital management

The Group recognises equity, reserves and non-controlling interest as capital. For internal management purposes, the Group refers to the international basis of solvency for life insurance companies as represented by the Capital Adequacy Requirements (CAR).

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern. At the same time, the Group aims to maximise the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes cash and cash equivalents, reserves and retained earnings.

The Actuarial Committee reviews the capital structure on an ongoing basis. As a part of this review, the Committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Committee, the Group balances its overall capital structure through the payment of dividends.

Financial assets

Investments

The Group and Company classify its investments in debt and equity securities into the following categories: financial assets as at fair value through profit or loss, held-to-maturity, financial assets at fair value through other comprehensive income, and loan 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 purchase according to the following accounting policies:

i) Financial assets as at fair value through profit or 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 in terms of the Group's and Company's long-term investment strategy.

For the purpose of these financial instruments, "short term" is defined as any period less than 12 months. Investments which the Group has elected to designate as at fair value through profit or loss are investments held for the long term. For the purpose of these financial statements, "long term" is defined as any period in excess of 12 months.

ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group and Company have a positive intention and ability to hold to maturity are classified as held-to-maturity investments and are included in non-current assets, except for maturities within 12 months from the statement of financial position date, which are classified as current assets. This category also includes all assets that are not designated either at fair value through profit or loss or fair value through other comprehensive income.

iii) Financial assets at fair value through other comprehensive income

Financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates are classified as financial assets at fair value through other comprehensive income and are included in non-current assets unless management has the express intention of holding the investments for less than 12 months from the statement of financial position date or unless they will be sold to raise operating capital, in which case they are included in current assets. These investments include listed and unlisted shares, units in collective investment schemes, deposits and money market securities.

iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market that are created by the Company or Group in exchange for providing money, goods or services directly to a debtor, other than those that are originated with the intention to sell immediately or in the short term or are designated at fair value through profit or loss. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the overall impairment review of loans and receivables.

v) Linked products

Linked products are investment-related products where the risk and reward of the underlying investment portfolio accrues directly to the policyholder. Linked products provide for returns based on the changes in the value of the underlying instruments and market indicators and are initially recorded at cost. These products are revalued at year-end, using discounted cash flow analysis, closing market values and indices values based on the observation dates stated in the underlying investment agreements. Valuations are adjusted for the effects of changes in foreign exchange rates. Actuarial liabilities of these linked products are stated at the same value as the underlying supporting investments.

vi) Forward share purchase agreements

Forward share purchase agreements are recorded at the cost of the initial down payment and revalued at year-end using discounted cash flows, in the same manner used to calculate the actuarial liabilities which these investments support.

vii) Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Recognition and measurement

Financial instrument purchases and disposals are initially measured at cost and are recognised using trade date accounting. The trade date is the date on which the Group and Company commit to purchase or sell the asset. Subsequent to initial measurement, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are carried at fair value, while held-to-maturity investments and loans and receivables are carried at amortised cost using the effective interest rate method, less any provision for impairment.

A provision for impairment of held-to-maturity investments and loans and receivables is established when there is objective evidence that the Group or Company will not be able to collect all amounts due according to their original terms.

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

1. Accounting policies (continued)

1.6 Non-derivative financial instruments (continued)

Financial assets (continued)

Gains or losses

Realised and unrealised gains or losses arising from changes in the fair value of investments classified as fair value through profit or loss are included in the income statement in the period in which they arise. Unrealised gains or losses arising from changes in the fair value of non-monetary investments, classified as financial assets at fair value through other comprehensive income, are recognised in other comprehensive income. When investments classified as financial assets at fair value through other comprehensive income are sold or impaired, the accumulated fair value adjustments are included in the income statement as net realised gains or losses on non-derivative financial instruments.

Fair value

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss.

The fair value of investments is based on quoted bid prices for listed instruments. Collective investment schemes are valued using the repurchase price. The use of cash flow models is applied for non-active market instruments. Fair values for unlisted investments are estimated using applicable cash flow models, net asset value or price/earnings 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.

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.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at cost, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest rate method, with the interest expense being recognised on an effective yield basis.

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 exactly discounts estimated 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*, the Group and Company classify the following statement of financial position items as financial liabilities:

- Long-term liabilities, which commonly take the form of loan funding
- Policyholder liabilities, or obligations to policyholders including outstanding claims, arising from a life assurance contract with a clearly defined counterparty
- Borrowings
- Reinsurance liabilities
- Provision for liabilities arising from a contractual relationship with existing Group and Company staff
- Trade and other payables

1.7 Impairment of assets excluding goodwill

The Group and Company assess at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets other than those carried at fair value through profit or loss is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the Group and 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
- Economic conditions that correlate with defaults on assets in the Group and Company

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

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments 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 recognised in the income statement.

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

The Group and Company assess at each statement of financial position date whether there is objective evidence that a financial asset at fair value through other comprehensive income is impaired, including, in the case of equity investments, a significant or prolonged decline in the fair value of the security below its costs. If any such evidence exists, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value of the investment, is removed from other comprehensive income and recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1.8 Cash and cash equivalents

For the purposes of the statement of cash flows, 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.

1.9 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

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 Policyholder insurance and investment contracts – Classification

Standards of Actuarial Practice (SAPs) issued by the Actuarial Society of South Africa (ASSA)

The Company is licensed as a long-term insurer in South Africa in accordance with the Long-term Insurance Act (the Act) of 1998, as amended. The Act requires the determination of assets, liabilities and capital adequacy requirements (CAR) for statutory purposes in accordance with Advisory Practice Notes (APNs) issued by ASSA.

In terms of IFRS 4: *Insurance Contracts*, defined insurance liabilities are allowed to be measured under existing local practice. The Group and Company have adopted the Standards of Actuarial Practice (SAP) and APNs issued by the ASSA to determine the liability in respect of insurance contracts issued in South Africa. The following APNs and SAPs are relevant to the determination of policyholder liabilities:

- APN 103: Report by the Statutory Actuary in the Annual Financial Statements of South African Long-Term Insurers
- SAP 104: Calculation of the Value of the Assets, Liabilities and Capital Adequacy Requirement of Long-Term Insurers
- APN 105: Minimum Requirements for Deriving Aids Extra Mortality Rates
- APN 106: Actuaries and Long-Term Insurance in South Africa
- APN 110: Allowance for Embedded Investment Derivatives

Where applicable, the APNs and SAPs are referred to in the accounting policies and notes to the financial statements.

Classification of insurance and investment contracts

The Group and Company issue contracts which transfer insurance risk or financial risk or, in some cases, both. The Group and Company demarcate these contracts in the following two broad categories:

i) Insurance contracts

Insurance contracts are those contracts under which the Group and/or Company (as insurer) accept significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects them. Such contracts may also transfer financial risk. As a general guideline, the Group and Company define a significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

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

1. Accounting policies (continued)

1.11 Policyholder insurance and investment contracts – Classification (continued)

Classification of insurance and investment contracts (continued)

ii) Investment contracts

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Receipts and payments under investment contracts are not classified as insurance transactions in the income statement but instead are accounted for in the statement of financial position in accordance with IAS 39. The liability recognised in the statement of financial position represents the expected amounts payable to the holders of the investment contracts, inclusive of allocated investment income.

Management of insurance and financial risk

As is stated in sections i) and ii) above, the Group and Company issue contracts that transfer insurance risk or financial risk or, in some instances, both. This section summarises these risks and the way in which the Group and Company manage them.

i) Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risks that the Group and Company face under insurance contracts is the risk that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

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

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Reinsurance arrangements

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the transfer of its risks. Only reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Reinsurance agreements that do not transfer significant insurance risk are accounted for as financial assets. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Policyholder behaviour risk

Insurance risk is affected by the policyholders' right to pay reduced or no future premiums, to terminate the contract completely or to withdraw benefits prior to expiry of the contract term. On the assumption that policyholders will make decisions rationally, overall insurance risk can be assumed to be aggregated by such behaviour. For example, it is likely that policyholders whose health has deteriorated significantly will be less inclined to terminate contracts insuring death benefits than those policyholders remaining in good health. This results in an increasing trend of expected mortality as the portfolio of insurance contracts reduces the voluntary terminations.

The Group and Company have factored the impact of policyholder behaviour into the assumptions used to measure these liabilities.

The Capital Adequacy Requirement (CAR) as part of the risk management framework

The Group and Company are required to demonstrate solvency to the Registrar of Long-Term Insurance in accordance with the Act. This requires the Group and Company to demonstrate that it has sufficient assets to meet its liabilities and CAR, in the event of substantial deviations from the main risk assumptions affecting the business. These CARs are determined according to the generally accepted actuarial principles in terms of the guidelines issued by the ASSA. Statutory returns are submitted to the Registrar quarterly and valuations are performed annually. In addition, the Long-Term Return is submitted to the Registrar annually.

The CAR is intended to approximate a risk-based capital measure and gives guidance to the Board regarding the acceptable minimum Group and Company capital requirements. As is outlined in the notes to the statement of actuarial values of assets and liabilities on page 76, the CAR is the additional amount required, over and above the actuarial liabilities, to enable Hollard Life to meet material deviations in the main parameters affecting its business. The CAR has been calculated in accordance with SAP 104 as the greater of the Termination Capital Adequacy Requirement (TCAR) and the Ordinary Capital Adequacy Requirement (OCAR). The TCAR examines a highly selective scenario in which all policies where the surrender value is greater than the policy liability terminate immediately. The OCAR is calculated based on a number of stress tests which, together with compulsory margins, are intended to provide approximately a 95% confidence level that the Group and Company will be able to meet all of its obligations.

It explicitly includes stress tests for the following risks:

- Financial risk arising from mismatches between assets and liabilities, including specific provision for mismatches between assets backing liabilities in respect of the liabilities themselves
- Changes in lapse and withdrawal experience
- Fluctuations in experience for mortality, morbidity and expenses
- The risk that assumptions for mortality and morbidity are not accurate estimates

Hollard Life's statutory CAR was covered 2.6 times at 30 June 2018 (2017: 2.6 times).

Mortality and morbidity business

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as Aids) or widespread changes in lifestyle such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is the continued improvement in medical science and social conditions that would increase longevity. At present, these risks do not vary significantly in relation to the location of the risk insured by the Group and Company. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. However, all applications for risk cover in excess of specified limits are reviewed by experienced underwriters and evaluated against established standards. All risk-related liabilities in excess of specified monetary or impairment limits are reinsured.

i) Insurance risk

The Group and Company charge for mortality and morbidity risk on the basis of past scheme experience, industry class and average income, among other factors. They have the right to alter these charges based upon its mortality and/or morbidity experience and hence minimise their exposure to mortality and morbidity risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect. The Group and Company manage these risks by way of regular investigations into mortality and morbidity experience and through their underwriting strategy and reinsurance arrangements.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. For example, the Group and Company balance death risk and survival risk across their portfolio. Medical selection is also included in the Group's and Company's underwriting procedures with premiums varied to reflect the health condition and family medical history of the applicants. The Group and Company have a reinsurance programme in place to limit the extent of risk on any single life insured. The degree of risk retention by the Group and Company is assessed on a scheme and portfolio basis to ensure appropriate cover at all times.

The statutory actuary reports annually on the actuarial soundness of the premium rates in use and the profitability of the Group's and Company's business taking into consideration the reasonable benefit expectations of policyholders. These rates are revised where appropriate in response to changes in mortality and/or morbidity experience.

Sources of uncertainty in the estimation of future benefit payments and premium receipts

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behaviour.

The Group and Company use appropriate base tables of standard mortality according to the type of contract being written and the territory in which the insured person resides. An ongoing investigation into the Group's and Company's mortality experience is carried out and statistical methods are used to adjust the crude mortality rates to produce a best estimate of expected mortality for the future. Where data is sufficient to be statistically credible, the statistics generated by the data are used without reference to an industry table. Where this is not the case, the best estimate of future mortality is based on standard industry tables adjusted for the Group's and Company's overall experience. For contracts that insure survival, an adjustment is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies.

The impact of any historical evidence of selective termination behaviour will be reflected in this experience. The Group and Company maintain voluntary termination statistics to investigate the deviation of actual termination experience against assumptions. Statistical methods are used to determine appropriate termination rates. An allowance is then made for any trends in the data to arrive at a best estimate of future termination rates.

Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and a provision is raised for losses identified by the liability adequacy tests.

Claims development table

IFRS 4 requires the disclosure of a claims development table in the financial statements. Given the fact that the majority of the Group's and Company's notified policyholder benefits are settled within a period of one year, no such table is provided in these financial statements.

1. Accounting policies (continued)

1.11 Policyholder insurance and investment contracts – Classification (continued)

Management of insurance and financial risk (continued)

ii) Financial risk

Financial assets and liabilities are stated at fair value in the statement of financial position. Assets include listed equities, stated at fair value as determined by their market values as at 30 June 2018, and unlisted equities, stated at fair value as determined by either the contractual terms of the investment or by directors' valuation. Policyholder liabilities are valued in accordance with the long-term assumptions set out in the Company's statement of actuarial values of assets and liabilities on pages 74 to 75 of these financial statements.

The Group and Company are exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. In particular, the key financial risk is the risk that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are interest rate risk, equity risk, currency risk, credit risk and liquidity risk. These risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements. The risk that the Group and Company primarily face due to the nature of its investments and liabilities is interest rate risk.

The Group and Company manage their financial risk within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of their obligations under insurance and investment contracts. The principal technique of the Group's and Company's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to policyholders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

The Group's and Company's ALM is integrated with the management of the financial risks associated with the Group's and Company's other financial assets and liabilities not directly associated with insurance and investment liabilities, most notably borrowings.

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 included in the Group's and Company's investment portfolios. Additionally, relative values of alternative investments and their liquidity could affect values of interest rate linked investments. The ongoing assessment by an investment research team of market expectations within the South African interest rate environment drives the process of asset allocation in this investment category.

Equity risk

Equity investments are made on behalf of policyholders and the shareholder. Listed equities are reflected at market values which are susceptible to market fluctuations. The stock selection and investment analysis process of shareholder assets are supported by a well developed research function utilising professional advisors. The acquisition of policyholder assets is based on the contracts entered into and the preferences expressed by the policyholders. Within these parameters, investments are managed with the aim of maximising policyholders' returns while limiting risk to acceptable levels within the framework of statutory requirements.

Currency risk

The Group and Company have financial assets invested offshore, which are denominated in foreign currencies. These investments were made for the purpose of obtaining a favourable international exposure to foreign currency and are monitored by the Group's and Company's Investment Committee.

Credit risk

The Group and Company have exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group and Company monitor their exposure to individual counterparties to ensure that no single concentration exceeds predetermined limits. An appropriate level of provision is maintained against doubtful debts.

Key areas of credit risk exposure include:

- Cash and cash equivalents;
- Financial assets and liabilities;
- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid; and
- Amounts due from insurance intermediaries and administrators.

The Group and Company structure the level of credit risk they accept by placing limits on their exposure to a single counterparty or groups of counterparty, as well as to geographical and industry segments. Such risks are subject to ongoing review by the Group's and Company's Investment Committee.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's and Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group and Company remain liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an ongoing basis and includes a review of their financial strength prior to finalisation of any treaty contract. Furthermore, the Group and Company manage its credit exposure through the placement of its reinsurance programmes with a number of local subsidiaries of foreign parent companies to mitigate, as far as possible, the risk of default by any one reinsurer.

Individual business units maintain records of the payment history for significant counterparties with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Group and Company. Management information reported to the Group and Company includes details of provisions for impairment on loans and receivables and subsequent write-offs. Internal Audit undertakes regular reviews to assess the degree of compliance with the Group's and Company's credit procedures. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency.

Liquidity risk

The Group and Company are exposed to daily calls on their available cash resources mainly from claims arising from their insurance contract obligations. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover maturities, claims and surrenders at unexpected levels of demand. Furthermore, the Group's and Company's liabilities are backed by appropriate assets and it has significant liquid resources and substantial unutilised banking facilities.

1.12 Revenue recognition and insurance activity expenditure

Premium income

Premiums relating to the insurance business are stated gross and net of outward reinsurance premium and are accounted for by applying the accrual basis when collectability is reasonably assured. Premiums arising from investment contracts are excluded from the income statement in accordance with the requirements of IAS 39.

Interest income and expenditure

Interest income and expenditure for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, are recognised within investment income and finance costs in the income statement using the effective interest rate method. When calculating the effective interest rate, the Group and Company estimate the relevant cash flows considering all contractual terms of the financial instruments under consideration.

When a receivable is impaired, the Group and Company reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original interest rate of the instrument, and continue unwinding the discount as interest income. All 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.

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 to trade in respect of quoted shares and when declared in respect of unquoted shares. Preference share dividends are recognised using the effective interest rate method.

Rental income

Rental income from investment properties is recognised in the income statement on a straight-line basis over the term of each lease for all arrangements legislated by lease agreement, or when the right to the income accrues to the Group and Company in those situations where no formal lease arrangement exists.

Policyholder benefits

Provision is made for the estimated cost of claims notified but not settled at the end of the financial year using the best information available at the statement of financial position date. Claims payable amounts include related internal and external claims handling costs. Claims incurred prior to the end of the financial year but not reported until after that date are brought to account in the valuation of actuarial liabilities. Claims are stated net of reinsurance recoveries.

Policyholder liabilities

The Group's and Company's liabilities under unmatured policies are computed annually at the statement of financial position date by its statutory actuary in accordance with the provisions of the Long-Term Insurance Act. The transfers to and from policyholder liabilities under insurance contracts reflected in the income statement are the result of changes in actuarial liabilities and net adjustments to contingency and other reserves.

Commission

Commission payments and receipts are shown gross of reinsurance commissions. Life insurance business commissions are expensed as incurred. Commission in respect of investment contracts is expensed over the life of the contract.

1. Accounting policies (continued)

1.13 Employee benefits

Pension and provident scheme arrangements

The Group and Company operate 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 Group and Company have no further obligations once the contributions have been paid.

Profit-sharing and bonus plans

The Group and Company operate several bonus and profit-share plans for the benefit of employees. A provision is recognised when the Group and Company are 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 Group and Company recognise termination benefits in the income statement when it is demonstrably 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.

Equity compensation plan

The Group and Company operate a cash-settled equity compensation plan for the benefit of black employees of the Group and Company. The fair value of options granted is measured at each statement of financial position date and any change in the fair value of the liability is recognised in the income statement. On termination, any share liability in Hollard Life will be reclassified to equity.

Other post-employment obligations

The Group and Company have 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. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case the related income tax is also recognised in other comprehensive income.

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 asset is 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. In general, 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Dividend withholding tax

Government notice number 1073, issued by National Treasury on 20 December 2011, introduced a withholding tax on dividends into South Africa with effect from 1 April 2012 in lieu of secondary tax on companies. The Company is exempt from paying withholding tax on ordinary share dividends received as it is a company resident in the Republic of South Africa. Accordingly, no withholding tax should be deducted from dividends payable by the issuer to the Company.

1.15 Provisions

Provisions are recognised when the Group and Company have 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.

Provisions are not recognised for future operating losses. When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

1.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest rate method.

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 income statement 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.

1.18 Dividend distribution

Dividend distributions to the Group's and Company's shareholders are recognised as a liability in the Group and Company annual financial statements in the period in which the Board of Directors approves the dividend after performing solvency and liquidity tests.

1.19 Critical accounting estimates and judgements in applying accounting policies

The Group and Company make certain estimates and assumptions that affect the reported amounts of assets and liabilities in the annual financial statements. These estimates and assumptions are continually evaluated based upon past experience and a reasonable expectation of future events and are revised as appropriate. The key estimates and judgements that the Group and Company face in applying their accounting policies are as follows:

Liability arising from claims under insurance contracts

The estimation of the ultimate liability arising from policyholder liabilities under insurance contracts is the Group's and Company's most important accounting estimate. There are several sources of uncertainty that are considered when calculating this liability.

Policyholder benefit payments are generally fixed or relatively easy to estimate, thereby limiting the uncertainty as to the expected liability of a particular policy. The reinsurance terms of each policy are also known in advance and the allowance for reinsurance recoveries is readily ascertainable, although the timing of benefit payments must be estimated. The estimate of this timing is based on the probability that a policy will be in force and the probability of a claim arising in the future from the valuation date until the expiry of the term of the policy, modified for past experience.

For each policy the present value of the expected benefit payment is estimated based on the age of policyholders and mortality tables, modified to reflect the recent claims experience of the Company. The assumptions used are generally best estimate assumptions with compulsory margins and, where appropriate, discretionary margins being provided to cater for uncertainty. The discount rate used to capitalise the policyholder benefit values is also based on current economic conditions but reflects the Group's and Company's asset mix with an allowance for mismatching risk.

The Group and Company's procedures for determining significant reserving assumptions are outlined in note 1.11 on page 93 of these financial statements.

Estimate of future premiums and benefit payments arising from long-term insurance contracts

The determination of liabilities under long-term insurance contracts is dependent on estimates made by the Group and Company. Estimates are made as to the expected number of deaths for each of the years in which the Group and Company are exposed to risk and are based on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's and Company's own experience. An appropriate provision for future policyholder benefit payments is made on the basis of these estimates.

Estimates are also made as to the future investment returns arising from assets backing long-term insurance contracts. These estimates are based on current market returns and expectations about future economic and financial developments.

Future premium payments due to the Group and Company are valued on the basis of the current premium being paid. Future premiums are projected over the life of each policy on a policy-by-policy basis. The value of the premiums takes into account the possibility that the policy may terminate due to early cancellation through lapsing or surrender. The interest rate used to discount the premiums reflects current economic conditions, the asset mix of the Company, and allows for mismatching risk.

1. Accounting policies (continued)

1.19 Critical accounting estimates and judgements in applying accounting policies (continued)

Valuation of unlisted investments

The Group and Company determine the fair value of their unlisted investments using well established valuation techniques. These techniques include discounted cash flow analysis, price earnings ratio and net asset value methodologies.

In using discounted cash flow analyses, the discount rate used is based on the build-up method which incorporates a risk-free rate, an equity risk premium and an unsystematic risk premium.

In using the price earnings valuation technique, the valuation is based on a PE multiple of the current year's normalised earnings. The potential future earnings of the Company, current interest rate cycle, current business environment and management of the Company are considered in determining the earnings factor.

Due to the number and the diversity of investments the disclosure of a sensitivity analysis has not been prepared as it does not provide the user of the financial statements with a meaningful comparison.

The financial year-end valuations are approved by the Investment Committee.

Goodwill

Goodwill is allocated by the Group and Company to the cash-generating units (CGU) that represent the business operation from which the goodwill was originally generated. When testing for impairment, the recoverable amount is determined by value in use calculations. These calculations apply discounted cash flow techniques to the projected earnings of each CGU.

2. Financial risk management

2.1 Introduction

The Group's and Company's principal objectives are to ensure that it will be able to continue as a going concern and to provide value to its shareholder and policyholders through a long-term sustainable real return on capital as a result of managing its business risks within an appropriate risk framework.

The Board of Directors has overall responsibility for establishing, monitoring and communicating the Group's and Company's risk management framework, including defining what constitutes "appropriate" risk and control policies, and for ensuring that sufficient capital is held to support the taking of risk. In order to discharge some of its responsibility, the Board has established the Risk and Compliance Committee, which is responsible for developing and monitoring the Group's and Company's risk management policies. The Committee reports regularly to the Board on its activities.

The Group and Company continually update the vision, strategy, values and business objectives and a robust risk management process is critical to ensuring the sustainability of its business model. The Group's and Company's main activities from a risk-taking perspective can be summarised into the following two categories:

i) Providing risk cover to individuals. The Group's and Company's core competencies are to understand the life-related risk needs of individuals and to design sustainable products that provide financial stability to policyholders and their dependants in times of death, disability and/or illness
ii) Providing asset management services to individuals. The Group and Company uses their financial skills to provide competitive investment products to an increasingly broad range of customers through a variety of carefully selected outsourced asset managers

Key elements of risk management in a long-term insurer and asset management provider include:

- maintaining sufficient economic capital and liquidity to withstand the majority of reasonable foreseeable risk events or occurrences;
- understanding the significant risk, economic and non-economic variables in the design of each product;
- strong corporate governance policies and procedures, including relevant and reliable management information and internal control processes;
- ensuring only suitably qualified and trained distribution staff, business partners, intermediaries, brokers and agents are utilised to provide financial advice to customers;
- ensuring significant and relevant skills and services are constantly available to the Group and Company;
- influencing the business environment by being active participants in relevant regulatory and business forums;
- keeping abreast of consumer and technology trends and investing in capital and resources where required; and
- establishing an appropriate risk framework of authority for providing management with the risk parameters that are acceptable to the Board of Directors.

The Group's and Company's risk management policies were established to identify and analyse the risks it faces to set appropriate risk limits and controls and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in both market conditions and the Group's and Company's activities. The Group and Company, through training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees, brokers and partners understand their roles and obligations.

The Group's Risk and Compliance Committee oversees how management monitors compliance with its established risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group and Company. The Audit Committee and Risk and Compliance Committee are assisted in their oversight role by Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to stakeholders in management and to the Audit Committee and Risk and Compliance Committee.

2.2 Exposure to risks arising from financial instruments

The Group and Company have exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This section presents information about the Group's and Company's exposure to each of the above risks, the Group's and Company's objectives, policies and processes for measuring and managing risk, and the Group's and Company's management of capital. Further quantitative disclosures are provided throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's and Company's risk management framework. The Board has established the Risk and Compliance Committee, which is responsible for developing and monitoring the Group's and Company's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

2.2.1 Credit risk

Credit risk is the risk of financial loss to the Group and Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Key areas where the Group and Company are exposed to credit risk include:

- amounts due from insurance policyholders;
- amounts due from outsourced insurance contract intermediaries, administrators and business partners;
- investments and cash equivalents;
- reinsurers' share of insurance liabilities; and
- amounts due from reinsurers and third parties in respect of claims already paid.

The Group's Audit Committee and Risk and Compliance Committee oversee how management monitors compliance with the Group's and Company's risk management policies and procedures and review the adequacy of the risk management framework in relation to the risks faced by the Group and Company. The Audit Committee and Risk Committee are assisted in their oversight role by Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and Risk and Compliance Committee.

Insurance, loans and other receivables

The Group and Company limit the levels of credit risk that it accepts by placing limits on their exposure to a single counterparty or groups of counterparties, product, as well as to geographical and industry segments. The risk levels are subject to annual or more frequent reviews. Internal Audit also makes regular reviews to assess the degree of compliance with the Group's and Company's procedures on credit.

The Group's and Company's exposure to credit risk is influenced mainly by the individual characteristics of each intermediary and the portfolios that they administer. A significant amount of the Group's and Company's insurance business is written through and administered by intermediaries, the majority of which have been transacting with the Group and Company for most of their existence. The credit control function forms an integral part of the business relationship to the extent that the intermediaries are closely monitored on many levels, including product profitability CAR, and return on capital. Appropriate remedial action is taken wherever the need arises.

The Group and Company provide for impairment in respect of their insurance debtors, loans and other receivables. The main components of this allowance are a specific loss component that relates 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 Group and Company have a dedicated Investment Committee that monitors the investment mandates set by the Board. Through these mandates, the Group and Company limit exposure to credit risk through diversification and by mainly investing in liquid securities and with counterparties that have a minimum credit rating or, where such ratings are not available, by internal analysis according to strict criteria. Given these high credit ratings requirements, management does not expect any counterparty to fail to meet its obligations.

The Group seeks to avoid concentration of credit risk to groups of counterparties, asset management houses, business sectors, product types and geographical segments by diversifying the investment mandate to various asset management houses and enforcing a strict application of mandates according to an 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 Group's and Company's assets is disclosed in note 3.1(a) on page 104 of these annual financial statements.

2. Financial risk management (continued)

2.2 Exposure to risks arising from financial instruments (continued)

2.2.1 Credit risk (continued)

Reinsurance

Reinsurance is used to manage insurance risk. Under the terms of reinsurance agreements, reinsurers agree to reimburse the ceded amount to the insurer in the event that a gross claim is paid. Under financial reinsurance agreements, a discount or rebate is applied to the initial reinsurance premium(s) in order to assist the Company and Group with capital management. However, the Group and Company remain liable to their policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently the Group and Company are exposed to credit risk.

The Group and Company have 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 new or renegotiated treaty. The Group's and Company's largest reinsurance counterparty is Hannover Re. This exposure is monitored on a regular basis for any shortfall in the claims history to verify that the contract is progressing as expected and that no further exposure for the Group and Company will arise.

2.2.2 Liquidity risk

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

The Group and Company are exposed to daily calls on their available cash resources as a result of claims arising from their life insurance and investment contracts. The Investment Committee sets limits on the minimum proportion of maturing funds that must be available to meet such calls in order to cover claims at unexpected levels of demand. Based on actuarial modelling of historical and future expected trends, the Group and Company have estimated the probable cash outflows associated with general insurance liabilities. The maturity analysis of the gross insurance liabilities is set out in note 3.2 on pages 107 to 108. The maturity profile of the related insurance and investment assets is expected to be similar to the profile of the liabilities.

2.2.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's and Company's income or the value of their 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 at the same time optimising the Group's and Company's return on investment.

In particular, the Group and Company are exposed to market risk in those instances where the proceeds from their financial assets are not sufficient to fund their obligations from their insurance and/or investment contracts. This risk is termed the policyholder asset-liability mismatched risk. The Group and Company manage these positions within an asset-liability management (ALM) framework that aims to match assets to the liabilities arising from insurance contracts by nature and term. In accordance with the ALM framework, a separate financial asset profile is maintained for each distinct category of liabilities. For most categories of business, the ALM framework determines an asset class allocation. In certain classes, the specific timing of cash flows is considered to determine the selection of assets within those classes.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's and Company's ALM framework. The Board has established the Investment Committee, which is responsible for developing and monitoring the Group's and Company's ALM framework. The Committee reports regularly to the Board of Directors on its activities.

Financial assets and liabilities that are utilised to support the Group's and Company's capital base are fully exposed to the relevant elements of market risk. In summary, the key components of market risk are:

a) Currency risk

Currency risk is the risk arising from fair value and/or future cash flows of a financial instrument fluctuating from their expected values as a result of changes in exchange rates. This can arise from either a mismatch between currencies of assets or liabilities or supporting capital or the trading currency of the local entity being different to the Group's and Company's reporting currency.

The Group and Company are exposed to foreign currency risk for transactions that are denominated in a currency other than Rand. This exposure is limited to the Group's joint venture operations that were disposed of during the current year, transactions with foreign reinsurers, debt securities and equity investments in foreign companies. These foreign investments were made for the purposes of obtaining favourable international exposure to foreign currency and are monitored by the Investment Committee. The Group and Company do not take cover on foreign currency transactions and balances as the net exposure is considered minimal.

The table in note 3.3.1 on page 108 of these annual financial statements illustrates the Group's split of assets and liabilities by major currency.

b) Interest rate risk

Interest rate risk is the risk arising from fair value and/or future cash flows of a financial instrument fluctuating from their expected values as a result of changes in market interest rates.

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 Group's and Company's investment portfolios. The Group's and Company's fixed maturity investments are insignificant and therefore do not give rise to significant interest rate risk. Furthermore, the majority of interest sensitive investments are short term in nature, which minimises any impact to changes in their fair value. The Group and Company do not use derivative instruments to manage this risk other than an ongoing 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. The sensitivity analysis for interest rate risk illustrates how changes in the fair values or future cash flows of financial instruments will fluctuate because of changes in the market interest rates at the reporting date.

c) Other market price (or equity) risk

Equity risk is the risk arising from the actual fair value and/or the future cash flows from equities fluctuating from their expected values as a result of changes in market prices and/or dividend amounts.

Equity price risk arises from listed, fair value through profit or loss equity securities held on behalf of the policyholders and the shareholder. The equity selection and investment analysis process is supported by a well developed research function utilising professional advisors. The acquisition of policyholder assets is based on the types of contracts entered into and the preferences expressed by the policyholders, where appropriate. Within these parameters, investments are managed with the objective of maximising policyholders' returns while limiting risks to acceptable levels within the framework of statutory requirements.

The Group and Company are assisted by external asset managers to manage their market price risk. In accordance with this strategy, certain investments are designated at fair value through profit or loss financial instruments 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 Group and Company, which include some material shareholdings in the Group's and Company's strategic partners. Concentrations of specific equity holdings are also monitored.

Capital management

The Group and Company recognise equity reserves excluding non-controlling interest. For internal management purposes, the Group and Company refer to its minimum capital levels as its Capital Adequacy Requirement (CAR), which is the international standard for measuring the solvency of a life insurance company. In addition to the international basis, management uses the statutory solvency requirements, as prescribed by the legislation in the territories in which the Group and Company have operations, to monitor and manage the Group's and Company's capital resources.

The Group's and Company's objectives when managing capital are to:

- comply with the insurance capital requirements required by the regulators of the insurance markets in which it operates. The CAR is intended to approximate a risk-based capital measure and gives guidance to the Board regarding the acceptable minimum capital requirements at all times;
- safeguard the Group's and Company's ability to continue as a going concern so that it can continue to provide returns to both its shareholder and other stakeholders;
- provide an adequate return to the shareholder by pricing insurance contracts commensurately with the attendant level of risk;
- ensure that it maintains strong capital ratios in order to support its business and maximise shareholder value; and
- effectively manage its capital structure and make appropriate adjustments to the structure in light of changes to economic conditions.

In each country in which the Group and Company operate, the local insurance regulator specifies the minimum amount and type of capital that must be held by each of the subsidiaries to fund their insurance liabilities. The minimum required capital must be maintained at all times. The Group and Company are subject to minimum capital adequacy requirements in all of the territories in which they issue life insurance contracts and they always have and will continue to comply with these regulations. The Company submits quarterly and annual returns to the Financial Services Board in accordance with the terms of the Long-term Insurance Act, 1998 (the Act). Under the terms of this Act, the Company is required to, at all times, maintain a statutory surplus asset ratio. The returns submitted during the year showed that the Company exceeded its minimum requirements throughout the year.

3. Risk management

3.1 Credit risk

a) Credit rating

The following table provides information regarding the Group's and Company's aggregated credit exposures. The carrying amount of these financial instruments represents the Group's and Company's maximum exposure to credit risk. The Group and Company do not engage in any activities to enhance the credit quality of these instruments such as obtaining collateral and purchasing credit derivatives or similar instruments.

Concentrations of credit risk are determined on the basis of counterparty credit rating criteria, as risks faced by these groupings are similar in nature. The grouping of assets in such manner highlights the credit quality associated with financial assets and liabilities.

GROUP	AA- R'000	A+ R'000	A R'000	A- R'000	BBB+ R'000	BBB R'000	BBB- R'000	BB+ R'000	BB R'000	BB- R'000	B R'000	Not rated R'000	Total R'000
2018													
Unlisted investments – Preference shares	–	–	–	–	–	–	–	–	–	–	–	339 151	339 151
Bonds – held at fair value through profit or loss*	–	–	–	371 871	–	–	2 429 136	817 100	–	–	210 563	28 955	3 857 625
Loans – interest bearing	–	–	–	–	–	–	–	–	–	–	–	133 269	133 269
Loans – non-interest bearing	–	–	–	–	–	–	–	–	–	–	–	96 706	96 706
Other loans and receivables	–	–	–	–	–	–	–	–	–	–	–	34 281	34 281
Cash and cash equivalents	43 935	–	–	–	–	–	604 874	972 748	–	17 368	–	407 585	2 046 510
Financial assets	43 935	–	–	371 871	–	–	3 034 010	1 789 848	–	17 368	210 563	1 039 947	6 507 542
Premium debtors	–	–	–	–	–	–	–	–	–	–	–	301 472	301 472
Policy loans	–	–	–	–	–	–	–	–	–	–	–	7 398	7 398
Reinsurance assets	31 225	57 536	–	10 054	51 649	9	4 509	19 292	–	–	–	16 300	190 574
Other insurance assets	–	–	–	–	–	–	30	–	–	–	–	221 973	222 003
Insurance assets	31 225	57 536	–	10 054	51 649	9	4 539	19 292	–	–	–	547 143	721 447
2017													
Unlisted investments – Preference shares	–	–	–	–	–	–	–	–	–	–	–	394 755	394 755
Bonds – held at fair value through profit or loss*	–	–	20 314	476 112	–	–	865 942	1 454 101	1 983	113 181	177 745	26 724	3 136 102
Loans – interest bearing	–	–	–	–	–	–	–	–	–	–	–	245 859	245 859
Loans – non-interest bearing	–	–	–	–	–	–	–	–	–	–	–	98 966	98 966
Other loans and receivables	–	–	–	–	–	–	–	–	–	–	–	114 417	114 417
Cash and cash equivalents	38 625	–	8	–	–	–	390 818	412 279	–	16 664	–	383 172	1 241 566
Financial assets	38 625	–	20 322	476 112	–	–	1 256 760	1 866 380	1 983	129 845	177 745	1 263 893	5 231 665
Premium debtors	–	–	–	–	–	–	–	–	–	–	–	272 985	272 985
Policy loans	–	–	–	–	–	–	–	–	–	–	–	8 784	8 784
Reinsurance assets	533	213 299	–	–	118 514	–	–	19 292	4 931	–	–	18 805	375 374
Other insurance assets	–	–	–	–	–	–	–	–	–	–	–	109 386	109 386
Insurance assets	533	213 299	–	–	118 514	–	–	19 292	4 931	–	–	409 960	766 529

* *These assets are designated at fair value through profit and loss, and would otherwise have been measured at amortised cost. As with all financial assets disclosed here, the carrying amount of these assets represents their maximum exposure to credit risk, with no related credit enhancements. The amount of the change in the fair value of these instruments attributable to credit risk is R14.9 million (2017: R2.5 million). This is determined using the differentiation in credit spreads year on year.*

COMPANY	AA- R'000	A+ R'000	A R'000	A- R'000	BBB+ R'000	BBB R'000	BBB- R'000	BB+ R'000	BB R'000	BB- R'000	B R'000	Not rated R'000	Total R'000
2018													
Unlisted investments – preference shares	–	–	–	–	–	–	–	–	–	–	–	339 151	339 151
Bonds – held at fair value through profit or loss*	–	–	–	371 871	–	–	2 429 136	817 100	–	–	210 563	28 955	3 857 625
Loans – interest bearing	–	–	–	–	–	–	–	–	–	–	–	133 269	133 269
Loans – non-interest bearing	–	–	–	–	–	–	–	–	–	–	–	102 535	102 535
Other loans and receivables	–	–	–	–	–	–	–	–	–	–	–	34 281	34 281
Cash and cash equivalents	43 935	–	–	–	–	–	604 874	972 748	–	17 368	–	391 898	2 030 823
Financial assets	43 935	–	–	371 871	–	–	3 034 010	1 789 848	–	17 368	210 563	1 030 089	6 497 684
Premium debtors	–	–	–	–	–	–	–	–	–	–	–	301 472	301 472
Policy loans	–	–	–	–	–	–	–	–	–	–	–	7 398	7 398
Reinsurance assets	31 225	57 536	–	10 054	51 649	9	4 509	19 292	–	–	–	16 300	190 574
Other insurance assets	–	–	–	–	–	–	30	–	–	–	–	221 973	222 003
Insurance assets	31 225	57 536	–	10 054	51 649	9	4 539	19 292	–	–	–	547 143	721 447
2017													
Unlisted investments	–	–	–	–	–	–	–	–	–	–	–	393 441	393 441
Bonds – held at fair value through profit or loss*	–	–	20 314	476 112	–	–	865 942	1 454 101	1 983	113 181	177 745	26 724	3 136 102
Loans – interest bearing	–	–	–	–	–	–	–	–	–	–	–	245 859	245 859
Loans – non-interest bearing	–	–	–	–	–	–	–	–	–	–	–	98 582	98 582
Other loans and receivables	–	–	–	–	–	–	–	–	–	–	–	118 784	118 784
Cash and cash equivalents	38 625	–	8	–	–	–	390 818	412 073	–	16 664	–	365 579	1 223 767
Financial assets	38 625	–	20 322	476 112	–	–	1 256 760	1 866 174	1 983	129 845	177 745	1 248 969	5 216 535
Premium debtors	–	–	–	–	–	–	–	–	–	–	–	272 985	272 985
Policy loans	–	–	–	–	–	–	–	–	–	–	–	8 784	8 784
Reinsurance assets	533	213 299	–	–	118 514	–	–	19 292	4 931	–	–	18 805	375 374
Other insurance assets	–	–	–	–	–	–	–	–	–	–	–	109 386	109 386
Insurance assets	533	213 299	–	–	118 514	–	–	19 292	4 931	–	–	409 960	766 529

** These assets are designated at fair value through profit and loss, and would otherwise have been measured at amortised cost. As with all financial assets disclosed here, the carrying amount of these assets represents their maximum exposure to credit risk, with no related credit enhancements. The amount of the change in the fair value of these instruments attributable to credit risk is R14.9 million (2017: (R2.5 million). This is determined using the differentiation in credit spreads year on year.*

3. Risk management (continued)

3.1 Credit risk (continued)

b) Financial and insurance assets that are neither past due nor impaired

The analysis of financial instruments that were neither past due nor impaired and/or individually impaired at the reporting date was as follows:

	GROUP				COMPANY			
	Neither past due nor impaired R'000	Past due but not impaired R'000	Individually impaired R'000	Gross carrying amount R'000	Neither past due nor impaired R'000	Past due but not impaired R'000	Individually impaired R'000	Gross carrying amount R'000
2018								
Loans to associates	–	–	2 260	2 260	–	–	2 260	2 260
Unlisted investments	5 886 795	–	–	5 886 795	5 886 795	–	–	5 886 795
Bonds – at fair value through profit and loss	3 857 624	–	–	3 857 624	3 857 624	–	–	3 857 624
Financial assets	9 744 419	–	2 260	9 746 679	9 744 419	–	2 260	9 746 679
Premium debtors	301 472	12 977	5 988	320 437	301 472	12 977	5 988	320 437
Insurance assets	301 472	12 977	5 988	320 437	301 472	12 977	5 988	320 437
2017								
Loans to associates	102	–	2 892	2 994	102	–	2 892	2 994
Unlisted investments	4 707 322	–	–	4 707 322	4 706 008	–	–	4 706 008
Bonds – at fair value through profit and loss	3 136 102	–	–	3 136 102	3 136 102	–	–	3 136 102
Financial assets	7 843 526	–	2 892	7 846 418	7 842 212	–	2 892	7 845 104
Premium debtors	272 985	19 520	6 301	298 806	272 985	19 520	6 301	298 806
Insurance assets	272 985	19 520	6 301	298 806	272 985	19 520	6 301	298 806

c) Age analysis of other loans and receivables and premium debtors that are past due but not impaired

	GROUP				COMPANY			
	31 to 60 days R'000	61 to 90 days R'000	More than 90 days R'000	Total past due but not impaired R'000	31 to 60 days R'000	61 to 90 days R'000	More than 90 days R'000	Total past due but not impaired R'000
2018								
Premium debtors	–	–	12 977	12 977	–	–	12 977	12 977
	–	–	12 977	12 977	–	–	12 977	12 977
2017								
Premium debtors	–	13 512	6 008	19 520	–	13 512	6 008	19 520
	–	13 512	6 008	19 520	–	13 512	6 008	19 520

The Group records impairment allowances for loans and receivables in a separate impairment allowance account. A reconciliation of the allowance for impairment losses for loans and receivables is as follows:

	2018 R'000	2017 R'000
Balance at beginning of year	(6 301)	(34 510)
– Collective impairment loss recognised	–	(1 976)
– Collective impairment loss utilised	313	30 185
Balance at end of year	(5 988)	(6 301)

3.2 Liquidity risk

3.2.1 Liquidity profile of financial assets

The following tables detail the Group's and Company's contractual maturities of financial assets, including interest payments. This has been determined based on the contractual maturities of dated instruments, and classified as open ended where the asset has no fixed maturity date. The carrying amount represents the probable cash flows as it is net of impairments.

	Carrying amount R'000	Total contractual cash flows R'000	0 – 12 months R'000	1 – 5 years R'000	More than 5 years R'000	Open-ended R'000
GROUP						
2018						
Financial assets at fair value through profit or loss	10 998 545	10 998 545	6 596 268	2 832 765	99 525	1 469 987
Reinsurance assets	190 574	190 574	190 574	–	–	–
Insurance, loans and other receivables	795 129	795 129	691 025	104 104	–	–
Loans to associates	–	2 260	2 260	–	–	–
Cash and cash equivalents	2 046 510	2 046 510	2 046 510	–	–	–
	14 030 758	14 033 018	9 526 637	2 936 869	99 525	1 469 987
2017						
Financial assets at fair value through profit or loss	8 874 154	8 874 154	5 278 445	2 335 320	59 225	1 201 164
Reinsurance assets	375 374	375 374	375 374	–	–	–
Insurance, loans and other receivables	850 396	850 396	754 499	95 897	–	–
Loans to associates	102	2 994	2 994	–	–	–
Cash and cash equivalents	1 241 566	1 241 566	1 241 566	–	–	–
	11 341 592	11 344 484	7 652 878	2 431 217	59 225	1 201 164
COMPANY						
2018						
Financial assets at fair value through profit or loss	10 998 545	10 998 545	6 596 268	2 832 765	99 525	1 469 987
Reinsurance assets	190 574	190 574	190 574	–	–	–
Loans to associates	–	2 260	2 260	–	–	–
Insurance, loans and other receivables	800 957	800 957	696 854	104 103	–	–
Cash and cash equivalents	2 030 823	2 030 823	2 030 823	–	–	–
	14 020 899	14 023 159	9 516 779	2 936 868	99 525	1 469 987
2017						
Financial assets at fair value through profit or loss	8 872 747	8 872 747	5 277 038	2 335 320	59 225	1 201 164
Reinsurance assets	375 374	375 374	375 374	–	–	–
Loans to subsidiaries	5 633	5 633	5 633	–	–	–
Loans to associates	102	2 994	2 994	–	–	–
Insurance, loans and other receivables	854 379	854 379	758 482	95 897	–	–
Cash and cash equivalents	1 223 768	1 223 768	1 223 768	–	–	–
	11 332 003	11 334 895	7 643 289	2 431 217	59 225	1 201 164

3. Risk management (continued)

3.2 Liquidity risk (continued)

3.2.2 Maturity profile of financial liabilities including insurance liabilities

The following table details the Group's and Company's probable cash outflows associated with insurance liabilities and financial liabilities, including interest payments:

	GROUP			COMPANY		
	Probable cash outflows R'000	Maturity within 1 year R'000	Maturity between 1 and 5 years R'000	Probable cash outflows R'000	Maturity within 1 year R'000	Maturity between 1 and 5 years R'000
2018						
Insurance liabilities						
Reinsurance liabilities	261 377	261 377	–	261 377	261 377	–
Outstanding claims	391 167	–	391 167	391 167	–	391 167
Policyholder liabilities	10 211 542	–	10 211 542	10 211 542	–	10 211 542
	10 864 086	261 377	10 602 709	10 864 086	261 377	10 602 709
Financial liabilities						
Long-term liabilities	400 200	200	400 000	400 200	200	400 000
Trade and other payables	841 594	841 594	–	834 035	834 035	–
	1 241 794	841 794	400 000	1 234 235	834 235	400 000
2017						
Insurance liabilities						
Reinsurance liabilities	342 808	342 808	–	342 808	342 808	–
Outstanding claims	312 265	–	312 265	312 265	–	312 265
Policyholder liabilities	7 867 088	–	7 867 088	7 867 088	–	7 867 088
	8 522 161	342 808	8 179 353	8 522 161	342 808	8 179 353
Financial liabilities						
Long-term liabilities	400 104	104	400 000	400 104	104	400 000
Trade and other payables	472 606	472 606	–	472 708	472 708	–
	872 710	472 710	400 000	872 812	472 812	400 000

3.3. Market risk

3.3.1 Currency risk

The Group's and Company's exposure to currency risk at the reporting date was as follows based on notional amounts:

	2018				2017			
Asset class	ZAR Carrying amount R'000	USD $'000	Euro €'000	GBP £'000	ZAR Carrying amount R'000	USD $'000	Euro €'000	GBP £'000
Financial assets								
Hedge fund investments	925	56	6	3	1 028	63	8	5
Cash and cash equivalents	183	11	–	2	167 791	10 207	–	2 034
Gross statement of financial position exposure	1 108	67	6	5	168 819	10 270	8	2 039

The following significant exchange rates applied during the year:

	2018		2017	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
USD	12.83	13.75	13.59	13.05
Euro	15.32	16.07	14.82	14.91
GBP	17.29	18.16	17.24	16.99

3.3.2 Sensitivity analysis - foreign exposure

A 5% strengthening/(devaluation) in the relevant foreign currencies against ZAR at the reporting date would have increased/(decreased) equity and profit/(loss) by the amounts shown below. This assumes that all other variables, in particular interest rates, remain constant.

The methodology adopted for the profit or loss and the equity impact, was the application of the net exposure to the relevant foreign currencies at the average rate and reporting date spot rate respectively.

	Profit/(loss)		Equity	
	5% increase	5% decrease	5% increase	5% decrease
2018				
USD	44	(44)	47	(47)
GBP	4	(4)	4	(4)
	48	(48)	51	(51)
2017				
USD	8 367	(8 367)	8 034	(8 034)
GBP	1 758	(1 758)	1 733	(1 733)
	10 125	(10 125)	9 767	(9 767)

3.3.3 Interest rate risk

Profile – Group

At the reporting date, the interest rate concentration profile of the Group financial instruments subject to interest rate risk was as follows:

	2018 Carrying amount R'000	2017 Carrying amount R'000
Variable rate instruments		
Financial assets		
Loans – interest bearing	133 269	245 859
Cash and cash equivalents	2 046 510	1 241 566
	2 179 779	1 487 425

	2018			2017		
	Carrying amount R'000	Nominal interest rate %	Effective interest rate %	Carrying amount R'000	Nominal interest rate %	Effective interest rate %
Fixed rate instruments						
Financial assets						
Bonds						
– Due in 2 years or less	1 316 129	7.37	7.98	2 067 488	8.03	8.19
– Due between 2 and 5 years	1 864 695	8.91	9.32	1 009 454	9.10	9.80
– Due after 5 years	676 800	8.78	9.08	59 160	10.22	10.65
	3 857 624			3 136 102		

3. Risk management (continued)

3.3. Market risk (continued)

3.3.3 Interest rate risk (continued)

Profile – Company

At the reporting date, the interest rate concentration profile of the Company's financial instruments subject to interest rate risk was as follows:

	2018 Carrying amount R'000	2017 Carrying amount R'000
Variable rate instruments		
Financial assets		
Loans – interest bearing	133 269	245 859
Cash and cash equivalents	2 030 823	1 223 768
	2 164 092	1 469 627

	2018			2017		
	Carrying amount R'000	Nominal interest rate %	Effective interest rate %	Carrying amount R'000	Nominal interest rate %	Effective interest rate %
Fixed rate instruments						
Financial assets						
Bonds						
– Due in 2 years or less	1 316 129	7.37	7.98	2 067 488	8.03	8.19
– Due between 2 and 5 years	1 864 695	8.91	9.32	1 009 454	9.10	9.80
– Due after 5 years	676 800	8.78	9.08	59 160	10.22	10.65
	3 857 624			3 136 102		

Sensitivity analysis for fixed rate instruments of the Group and Company

The Group and Company's fixed rate instruments are not exposed to interest rate risk. Therefore no sensitivity analysis is necessary.

Sensitivity analysis for variable rate instruments of the Group and Company

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit/(loss) by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

	Profit/(loss)		Equity	
	1% increase R'000	1% decrease R'000	1% increase R'000	1% decrease R'000
2018				
Loans – interest bearing	(1 956)	1 956	1 956	(1 956)
Cash and cash equivalents	60 254	(60 254)	60 254	(60 254)
Net cash flow sensitivity	58 298	(58 298)	62 210	(62 210)
2017				
Loans – interest bearing	2 210	(2 210)	2 210	(2 210)
Cash and cash equivalents	52 659	(52 659)	52 659	(52 659)
Net cash flow sensitivity	54 869	(54 869)	54 869	(54 869)

3.4 Equity price risk

3.4.1 Sensitivity analysis

Exposure to equity price risk

The Group and Company's exposure to equity price risk at the reporting date was as follows:

Description of equity investment	2018 Carrying amount R'000	2018 Listed/ Not listed	2018 Relevant stock exchange	2017 Carrying amount R'000	2017 Listed/ Not listed	2017 Relevant stock exchange
Ordinary shares	1 254 127	Listed	JSE	1 030 637	Listed	JSE
Ordinary shares	152 384	Not listed	N/A	56 410	Not listed	N/A
Preference shares	346 860	Not listed	N/A	403 815	Not listed	N/A
	1 753 371			1 490 862		

All other variables constant, for listed equity investments, a 200 basis point increase/(decrease) in the relevant stock exchange index over the year would have increased/(decreased) equity and profit/(loss) by the amounts shown below. The analysis is performed on the same basis as 2017.

	Profit/(loss)		Equity	
	2% increase R'000	2% decrease R'000	2% increase R'000	2% decrease R'000
2018				
Description of equity investment				
Ordinary shares – JSE	25 083	(25 083)	(25 083)	25 083
	25 083	(25 083)	(25 083)	25 083
2017				
Description of equity investment				
Ordinary shares – JSE	20 613	(20 613)	(20 613)	20 613
	20 613	(20 613)	(20 613)	20 613

For unlisted equity investments, a 200 basis point increase/(decrease) in the relevant industry average over the year would have increased/(decreased) equity and profit/(loss) by the amounts shown below. The analysis is performed on the same basis as 2017.

	Profit/(loss)		Equity	
	2% increase R'000	2% decrease R'000	2% increase R'000	2% decrease R'000
2018				
Description of equity investment				
Ordinary shares	(1 139)	1 139	(1 139)	1 139
Preference shares	(7 417)	7 417	7 417	(7 417)
	(8 556)	8 556	6 278	(6 278)
2017				
Description of equity investment				
Ordinary shares	1 947	(1 947)	1 947	(1 947)
Preference shares	7 452	(7 452)	7 452	(7 452)
	9 399	(9 399)	9 399	(9 399)

3. Risk management (continued)

3.5 Income statement note

a) Financial income and expenditure

The Group and Company generated the following income/incurred the following expenditure in respect of financial instruments during the reporting period, all of which were recognised in profit or loss:

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Interest income on unimpaired loans and receivables	45 771	18 970	45 771	18 970
Interest income on financial assets measured at amortised cost	52 606	73 621	52 606	73 621
Interest income on financial assets designated as at fair value through profit and loss	150 763	294 156	150 011	292 856
Net gain on financial assets as at fair value through profit and loss*	225 326	174 491	212 000	189 821
Financial income	474 466	561 238	460 388	575 268
Interest expense on financial liabilities measured at amortised cost	66 896	60 587	66 896	60 295
Net fee costs from third parties in respect of holding financial assets on their behalf	9 864	11 798	9 864	11 798
Financial expense	76 760	72 385	76 760	72 093
Net financial income	397 706	488 853	383 628	503 175
The above financial income and expense items include the following in respect of financial assets/liabilities not at fair value through profit or loss:				
– Total interest income	98 377	92 591	98 377	92 591
– Total interest expense	66 896	60 587	66 896	60 295
	31 481	32 004	31 481	32 296

** Net gains include realised and unrealised gains and losses as well as dividends.*

b) Impairment losses

The amount of impairment loss for each class of financial asset during the reporting period was as follows:

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Impairment of loans				
impairment recognised	13 019	12 430	13 019	12 430
Impairment of premium debtors				
impairment recognised	5 988	6 301	5 988	6 301
Total	19 007	18 731	19 007	18 731

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000

4. Property and equipment

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Cost				
Office equipment	52 019	39 824	52 019	36 775
Motor vehicles	322	803	322	322
Furniture and fittings	–	1 197	–	–
Leasehold improvements	150 451	63 971	150 451	63 971
Total property and equipment cost	202 792	105 795	202 792	101 068
Accumulated depreciation				
Office equipment	(14 867)	(8 333)	(14 867)	(6 125)
Motor vehicles	(155)	(582)	(155)	(101)
Furniture and fittings	–	(833)	–	–
Leasehold improvements	(33 146)	(11 351)	(33 146)	(11 351)
Total accumulated depreciation	(48 168)	(21 099)	(48 168)	(17 577)
Net carrying amount				
Office equipment	37 152	31 491	37 152	30 650
Motor vehicles	167	221	167	221
Furniture and fittings	–	364	–	–
Leasehold improvements	117 305	52 620	117 305	52 620
Net carrying amount at end of year	154 624	84 696	154 624	83 491
Reconciliation of movement on net carrying amount:				
Net carrying amount at beginning of year	84 696	3 898	83 491	2 760
Additions	101 580	97 713	101 580	97 506
Office equipment	15 100	33 733	15 100	33 535
Leasehold improvements	86 480	63 971	86 480	63 971
Write-off reversal	177	–	177	–
Office equipment	177	–	177	–
Depreciation for the year	(30 624)	(16 945)	(30 624)	(16 775)
Office equipment	(8 775)	(5 531)	(8 775)	(5 370)
Motor vehicles	(54)	(54)	(54)	(54)
Leasehold improvements	(21 795)	(11 351)	(21 795)	(11 351)
Properties – owner-occupied	–	–	–	–
Furniture and fittings	–	(9)	–	–
Disposal of subsidiary	(1 205)	–	–	–
Acquisition through business combination	–	30	–	–
Net carrying amount at end of year	154 624	84 696	154 624	83 491

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2018

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
5. Intangible assets				
Intangible assets at cost				
Cost				
Computer software	38 953	34 028	38 953	28 256
	38 953	34 028	38 953	28 256
Accumulated amortisation and impairment				
Computer software	(13 480)	(13 342)	(13 480)	(7 570)
	(13 480)	(13 342)	(13 480)	(7 570)
Net carrying amount				
Computer software	25 473	20 686	25 473	20 686
Net carrying value at end of year	25 473	20 686	25 473	20 686
Reconciliation of movement on net carrying amount:				
Net carrying amount at beginning of year	20 686	15 844	20 686	15 844
Additions	10 697	9 539	10 697	9 539
Computer software	10 697	9 539	10 697	9 539
Impairment, amortisation charge	(5 910)	(4 697)	(5 910)	(4 697)
Computer software	(5 910)	(4 697)	(5 910)	(4 697)
Net carrying value at end of year	25 473	20 686	25 473	20 686
6. Interest in subsidiaries				
Interest in subsidiaries comprises:				
Shares at fair value through profit or loss			12 197	15 284
Loans to subsidiaries			–	8 655
			12 197	23 939
Impairment on loans			–	(3 022)
			12 197	20 917
Loans bear interest at the following rates:				
Prime less 5.15%			–	5 625
Interest free			–	8
Loans have the following terms of repayment:				
30 June 2020			–	5 625
31 July 2017			–	8
Loans – 30 June			–	5 633

Details of subsidiaries are provided in note 36 on page 133 of these financial statements.

7. Investments in associates

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Investments in associates comprise:				
Shares at fair value through profit or loss			70 534	67 693
Shares at cost	54 594	55 594		
Group share of post-acquisition profits	8 562	(398)		
Carrying value of associates	63 156	55 196	70 534	67 693
Loans to associates	–	102	–	102
	63 156	55 298	70 534	67 795
Loans bear interest at the following rates:				
Prime			–	102
Loans have the following terms of repayment:				
30 September 2020			–	102

The financial position and performance of the Group's significant associates are categorised by nature of business as follows:

	Life assurance R'000	Total R'000
Analysis of associates for 30 June 2018		
Total assets	441 063	441 063
Total liabilities	(139 496)	(139 496)
Net assets	301 567	301 567
Net profit before taxation	77 209	77 209
Taxation	(5 794)	(5 794)
Net profit after taxation	71 415	71 415
Group share of post-acquisition profits	8 562	8 562
Carrying amount of interest in associates	63 156	63 156
Fair valuation of associates (at Company level)	63 156	63 156
Analysis of associates for 30 June 2017		
Total assets	345 606	345 606
Total liabilities	(110 554)	(110 554)
Net assets	235 052	235 052
Net profit before taxation	78 895	78 895
Taxation	(4 024)	(4 024)
Net profit after taxation	74 871	74 873
Group share of post-acquisition profits	(398)	(398)
Carrying amount of interest in associates	55 196	55 196
Loans to associates	102	102
Fair valuation of associates (at Company level)	67 693	67 693

8. Financial assets

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Fair value through profit and loss	10 998 545	8 874 154	10 998 545	8 872 747
	10 998 545	8 874 154	10 998 545	8 872 747
Group and Company's financial assets are designated into the following three broad categories for management reporting purposes:				
Listed investments (financial assets designated as at fair value through profit and loss)	1 254 127	1 030 730	1 254 127	1 030 637
Unlisted investments (financial assets designated as at fair value through profit and loss)	5 886 795	4 707 322	5 886 795	4 706 008
Bonds (financial assets designated as at fair value through profit and loss)	3 857 623	3 136 102	3 857 623	3 136 102
	10 998 545	8 874 154	10 998 545	8 872 747
Listed investments				
Shares at fair value	1 254 127	1 030 730	1 254 127	1 030 637
Unlisted investments				
Shares at fair value	353 693	417 165	353 693	417 165
Linked products at fair value	5 533 102	4 290 157	5 533 102	4 288 843
Unlisted investments at fair value	5 886 795	4 707 322	5 886 795	4 706 008
Total listed and unlisted investments at fair value	7 140 922	5 738 052	7 140 922	5 736 645

	GROUP AND COMPANY			
	R'000	Maturity spread %	Nominal interest rate %	Effective interest rate %
Bonds (Financial assets carried at fair value through profit or loss):				
Analysis of debt securities by maturity spread for 30 June 2018				
0 – 2 years	1 316 129	34.10	7.37	7.98
2 – 5 years	1 864 694	48.40	8.91	9.32
Later than 5 years	676 800	17.50	8.78	9.08
	3 857 623	100.00		
Analysis of debt securities by maturity spread for 30 June 2017				
0 – 2 years	2 067 488	65.90	8.03	8.19
2 – 5 years	1 009 454	32.20	9.10	9.80
Later than 5 years	59 160	1.90	10.22	10.65
	3 136 102	100.00		

All bonds reported above are South African in origin.

9. (a) Categories and classes of financial and insurance assets and liabilities

	Designated at fair value through profit or loss R'000	Loans and receivables R'000	Total financial instruments R'000	Insurance contract assets and liabilities R'000	Other assets and liabilities R'000	Total per statement of financial position R'000	Fair value of financial instruments R'000
GROUP							
2018							
Assets							
Investments in associates	–	–	–	–	63 156	63 156	63 156
Financial assets	10 998 545	–	10 998 545	–	–	10 998 545	10 998 545
Reinsurance assets	–	–	–	190 574	–	190 574	–
Insurance, loans and other receivables	–	277 482	277 482	318 966	198 681	795 129	277 482
Cash and cash equivalents	–	2 046 510	2 046 510	–	–	2 046 510	2 046 510
Total assets	10 998 545	2 323 992	13 322 537	509 540	261 837	14 093 914	13 385 693
Liabilities							
Long-term liabilities	–	400 200	400 200	–	–	400 200	400 200
Policyholder liabilities	–	–	–	10 211 542	–	10 211 542	–
Outstanding claims	–	–	–	391 167	–	391 167	–
Reinsurance liabilities	–	–	–	261 377	–	261 377	–
Employee benefits	–	–	–	–	155 151	155 151	–
Trade and other payables	–	–	–	549 212	292 382	841 594	–
Total liabilities	–	400 200	400 200	11 413 298	447 533	12 261 031	400 200
2017							
Assets							
Investments in associates	–	–	–	–	55 298	55 298	55 298
Financial assets	8 874 154	–	8 874 154	–	–	8 874 154	8 874 154
Reinsurance assets	–	–	–	375 374	–	375 374	–
Insurance, loans and other receivables	–	455 977	455 977	289 108	105 311	850 396	455 977
Cash and cash equivalents	–	1 241 566	1 241 566	–	–	1 241 566	1 241 566
Total assets	8 874 154	1 697 543	10 571 697	664 482	160 609	11 396 788	10 626 995
Liabilities							
Long-term liabilities	–	400 104	400 104	–	–	400 104	400 104
Policyholder liabilities	–	–	–	7 867 088	–	7 867 088	–
Outstanding claims	–	–	–	312 265	–	312 265	–
Reinsurance liabilities	–	–	–	342 808	–	342 808	–
Employee benefits	–	–	–	–	166 555	166 555	–
Trade and other payables	–	–	–	373 933	98 673	472 606	–
Total liabilities	–	400 104	400 104	8 896 094	265 228	9 561 426	400 104

9. (a) Categories and classes of financial and insurance assets and liabilities (continued)

	Designated at fair value through profit or loss R'000	Loans and receivables R'000	Total financial instruments R'000	Insurance contract assets and liabilities R'000	Other assets and liabilities R'000	Total per statement of financial position R'000	Fair value of financial instruments R'000
COMPANY							
2018							
Assets							
Interest in subsidiaries	12 197	–	12 197	–	–	12 197	12 197
Investments in associates	70 534	–	70 534	–	–	70 534	70 534
Financial assets	10 998 545	–	10 998 545	–	–	10 998 545	10 998 545
Reinsurance assets	–	–	–	190 574	–	190 574	–
Insurance, loans and other receivables	–	277 482	277 482	318 966	204 508	800 956	277 482
Cash and cash equivalents	–	2 030 823	2 030 823	–	–	2 030 823	2 030 823
Total assets	11 081 276	2 308 305	13 389 581	509 540	204 508	14 103 629	13 389 581
Liabilities							
Long-term liabilities	–	400 200	400 200	–	–	400 200	400 200
Policyholder liabilities	–	–	–	10 211 542	–	10 211 542	–
Outstanding claims	–	–	–	391 167	–	391 167	–
Reinsurance liabilities	–	–	–	261 378	–	261 378	–
Employee benefits	–	–	–	–	155 101	155 101	–
Trade and other payables	–	–	–	549 212	284 823	834 035	–
Total liabilities	–	400 200	400 200	11 413 299	439 924	12 253 423	400 200
2017							
Assets							
Interest in subsidiaries	20 917	–	20 917	–	–	20 917	20 917
Investments in associates	67 795	–	67 795	–	–	67 795	67 795
Financial assets	8 872 747	–	8 872 747	–	–	8 872 747	8 872 747
Reinsurance assets	–	–	–	375 374	–	375 374	–
Insurance, loans and other receivables	–	455 977	455 977	289 108	109 294	854 379	455 977
Cash and cash equivalents	–	1 223 768	1 223 768	–	–	1 223 768	1 223 768
Total assets	8 961 459	1 679 745	10 641 204	664 482	109 294	11 414 980	10 641 204
Liabilities							
Long-term liabilities	–	400 104	400 104	–	–	400 104	400 104
Policyholder liabilities	–	–	–	7 867 088	–	7 867 088	–
Outstanding claims	–	–	–	312 265	–	312 265	–
Reinsurance liabilities	–	–	–	342 808	–	342 808	–
Employee benefits	–	–	–	–	165 919	165 919	–
Trade and other payables	–	–	–	373 933	98 775	472 708	–
Total liabilities	–	400 104	400 104	8 896 094	264 694	9 560 892	400 104

9. (b) Determination of fair value and fair values hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total fair value R'000
GROUP				
2018				
Financial assets carried at fair value through profit or loss				
Listed – ordinary	686 468	552 160	–	1 238 628
Listed debentures	15 499	–	–	15 499
Unlisted ordinary shares*	4 047	–	2 785	6 832
Unlisted preference shares*	–	–	346 860	346 860
Unit trusts	–	5 274 564	–	5 274 564
Bonds	2 650 450	1 207 174	–	3 857 624
Hedge fund investments	–	108 940	–	108 940
Annuities	–	149 598	–	149 598
	3 356 464	7 292 436	349 645	10 998 545

** These investments do not meet the definition of related parties.*

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total fair value R'000
2017				
Financial assets carried at fair value through profit or loss				
Listed – ordinary	1 005 955	–	–	1 005 955
Listed debentures	24 774	–	–	24 774
Unlisted ordinary shares*	10 737	–	2 613	13 350
Unlisted preference shares*	–	–	403 815	403 815
Unit trusts	–	4 079 841	–	4 079 841
Bonds	1 262 558	1 873 544	–	3 136 102
Hedge fund investments	–	156 520	–	156 520
Annuities	–	53 797	–	53 797
	2 304 024	6 163 702	406 428	8 874 154

** These investments do not meet the definition of related parties.*

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total fair value R'000
COMPANY				
2018				
Financial assets carried at fair value through profit or loss				
Listed – ordinary	686 468	552 160	–	1 238 628
Listed debentures	15 499	–	–	15 499
Unlisted ordinary shares*	4 047	–	2 785	6 832
Unlisted preference shares*	–	–	346 860	346 860
Unit trusts	–	5 274 564	–	5 274 564
Bonds	2 650 450	1 207 174	–	3 857 624
Hedge fund investments	–	108 940	–	108 940
Annuities	–	149 598	–	149 598
Investment in associate	–	–	70 534	70 534
Investment in subsidiary	–	–	12 197	12 197
	3 356 464	7 292 436	432 376	11 081 276

** These investments do not meet the definition of related parties.*

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total fair value R'000
2017				
Financial assets carried at fair value through profit or loss				
Listed – ordinary	1 005 862	–	–	1 005 862
Listed debentures	24 774	–	–	24 774
Unlisted ordinary shares*	10 737	–	2 613	13 350
Unlisted preference shares*	–	–	403 815	403 815
Unit trusts	–	4 078 527	–	4 078 527
Bonds	1 262 558	1 873 544	–	3 136 102
Hedge fund investments	–	156 520	–	156 520
Annuities	–	53 797	–	53 797
Investment in associate	–	–	67 795	67 795
Investment in subsidiary	–	–	20 917	20 917
	2 303 931	6 162 388	495 140	8 961 459

** These investments do not meet the definition of related parties.*

9. (b) Determination of fair value and fair values hierarchy (continued)

Included in Level 1 category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in Level 2 category are financial assets and liabilities measured using a valuation technique based on assumptions that are supported by prices for observable current market transactions of assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

Included in the Level 3 category are financial assets measured using non-market observable inputs, which means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are based on available market data. The main asset classes in this category are unlisted equity investments and limited partnerships. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the assets at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group and Company. Therefore, unobservable inputs reflect the Group's and Company's own assumptions about the inputs that market participants would use in pricing the asset and liability. These inputs are developed based on the best information available, which might include the Group's and Company's own data.

Reconciliation of movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing recorded amounts of Level 3 financial instruments which are recorded at fair value:

	At 1 July 2017 R'000	Total gains/ (loss) in income statement R'000	Purchases R'000	Interest, dividends and management fee R'000	Sales/ Transfers R'000	At 30 June 2018 R'000	Total gains or losses for the period included in profit or loss for assets held at 30 June 2018 R'000
GROUP							
Financial assets carried at fair value through profit or loss							
Unlisted ordinary shares	2 613	–	172	–	–	2 785	–
Unlisted preference shares	403 815	(17 431)	125 140	45 465	(210 128)	346 861	(17 431)
Total financial instruments	406 428	(17 431)	125 312	45 465	(210 128)	349 646	(17 431)
COMPANY							
Financial assets carried at fair value through profit or loss							
Unlisted ordinary shares	2 613	–	172	–	–	2 785	–
Unlisted preference shares	403 815	(17 431)	125 140	45 465	(210 128)	346 861	(17 431)
Investment in associate	67 795	3 841	–	–	(1 102)	70 534	3 841
Investment in subsidiary	20 917	(2 958)	2 000	–	(5 633)	14 326	(2 958)
Total financial instruments	495 140	(16 548)	127 312	45 465	(216 863)	434 506	(16 548)

Gains or losses (realised and unrealised) included in profit or loss for the year are presented in the income statement as follows:

	2018 Realised gains R'000	Unrealised gains and losses R'000	Total R'000
GROUP			
Total gains or losses included in profit or loss for the year	13 090	141 693	154 783
	13 090	141 693	154 783
COMPANY			
Total gains or losses included in profit or loss for the year	14 092	142 790	156 882
	14 092	142 790	156 882

Sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions

The following table shows the sensitivity of the fair value of Level 3 instruments to changes in key assumptions, by class of instrument:

	2018			
	GROUP		COMPANY	
	Carrying amount R'000	Effect of reasonably possible alternative assumptions (+/-) R'000	Carrying amount R'000	Effect of reasonably possible alternative assumptions (+/-) R'000
Financial assets carried at fair value through profit or loss				
Unlisted ordinary shares	2 785	279	2 785	279
Unlisted preference shares	346 860	34 686	346 860	34 686
Investment in associate	-	-	70 534	7 053
Investment in subsidiary	-	-	12 197	1 220
Total financial instrument	349 645	34 965	432 376	43 238

For equities, the Group adjusted the following:

1) Average price earnings ratio – the adjustment made was to increase and decrease the assumed price earnings ratio by two, which is considered by the Group and Company to be within a range of reasonably possible alternatives based on price earnings ratios of companies with similar industry and risk profiles.
2) Net asset value – the adjustment made was to increase and decrease the net asset value by 10%.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
10. Insurance, loans and other receivables				
Premium debtors	301 472	272 985	301 472	272 985
Other receivables	250 456	224 187	256 284	228 170
Total insurance and other receivables	551 928	497 172	557 756	501 155
Loans				
Secured interest and interest-free loans	130 663	152 621	130 663	152 621
Unsecured interest-free loans	104 234	96 088	104 234	96 088
Total loans(1)	234 897	248 709	234 897	248 709
Receivable from Group companies				
Receivable from Group companies	8 304	104 515	8 304	104 515
Total due from Group companies(2)	8 304	104 515	8 304	104 515
Total insurance, loans and other receivables	795 129	850 396	800 957	854 379
(1) The interest rates charged on the secured and unsecured loans comprise:				
Prime rate of interest	58 637	76 271	58 637	76 271
Prime plus 2%	7 518	6 778	7 518	6 778
Prime plus 5%	34 426	42 801	34 426	42 801
Prime less 1.36%	4 185	5 313	4 185	5 313
Prime less 5.15%	5 916	–	5 916	–
10.5% interest	–	5	–	5
South African Revenue Services rate	10 382	12 149	10 382	12 149
Hollard Investments Money Market Fund rate	4 199	3 890	4 199	3 890
Johannesburg Inter-Bank Rate (JIBAR) + 7%	5 400	5 414	5 400	5 414
Interest-free loans	104 234	96 088	104 234	96 088
Total loans	234 897	248 709	234 897	248 709
(1) The repayments terms of the secured and unsecured loans comprise:				
90 days after notice	10 382	12 149	10 382	12 149
Repaid quarterly	79 729	93 698	79 729	93 698
Monthly instalments	–	5	–	5
Specific date	131 989	128 660	131 989	128 660
No fixed terms of repayment	12 797	14 197	12 797	14 197
Total loans	234 897	248 709	234 897	248 709
(2) The interest rates charged on the loans to Group companies comprise:				
Prime less 3.8%	7 039	10 002	7 039	10 002
80% of prime	–	19 363	–	19 363
Prime rate of interest	–	20 225	–	20 225
5% interest	–	52 432	–	52 432
Interest-free loans	1 265	2 493	1 265	2 493
Total due from Group companies	8 304	104 515	8 304	104 515
(2) The repayment terms of the loans to Group companies comprise:				
Specific date	7 039	81 798	7 039	81 798
90 days after notice	–	20 224	–	20 224
No terms of repayment	1 265	2 493	1 265	2 493
Total due from Group companies	8 304	104 515	8 304	104 515

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000

11. Deferred taxation

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Deferred income tax assets				
Deferred income tax to be recovered after 12 months	15 452	–	15 452	–
Deferred income tax to be recovered within 12 months	14	168	–	–
Balance at end of year	15 466	168	15 452	–
Balance at beginning of year	168	64	–	–
Movements during the year attributable to:				
Acquisition of subsidiary	–	168	–	–
Unutilised tax losses	15 452	–	15 452	–
Provisions	(154)	(64)	–	–
Balance at end of year	15 466	168	15 452	–
Deferred income tax liabilities				
Deferred income tax to be recovered within 12 months	608 390	529 139	608 390	529 139
Balance at end of year	608 390	529 139	608 390	529 139
Balance at beginning of year	529 139	552 214	529 139	552 214
Movements during the year attributable to:				
Unrealised gains on assets at fair value through profit or loss	56 299	18 720	56 299	18 720
Unutilised tax losses	3 713	4 387	3 713	4 387
Policyholder liabilities change in valuation basis	(4 082)	(18 430)	(4 082)	(18 430)
Other releases to profit and loss	23 321	(27 752)	23 321	(27 752)
Balance at end of year	608 390	529 139	608 390	529 139
Balance comprises:				
Policyholder liabilities change in valuation basis	484 063	488 145	484 063	488 145
Unutilised tax losses	(777)	(4 490)	(777)	(4 490)
Provisions	(4 432)	(27 753)	(4 432)	(27 753)
Unrealised gains on assets at fair value through profit or loss	129 536	73 237	129 536	73 237
Balance at end of year	608 390	529 139	608 390	529 139

The deferred tax provision of R4 082 000 (2017: R18 430 000) in respect of the change in valuation basis of policyholder liabilities relates to an adjustment made to eliminate negative actuarial reserves. The elimination of negative reserves is outlined in further detail in the statement of actuarial values of assets and liabilities on page 74 of these annual financial statements.

12. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and short-term deposits with maturity of less than 12 months.

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Cash on call	748 772	607 849	748 772	605 838
Cash at bank	357 994	293 589	342 307	277 894
Cash on deposit	939 728	340 020	939 728	340 020
Cash on hand	16	108	16	16
	2 046 510	1 241 566	2 030 823	1 223 768

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2018

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
13. Share capital and premium				
Authorised				
100 000 000 ordinary shares of 1 cent each	1 000	1 000	1 000	1 000
Issued and fully paid				
2 000 000 ordinary shares of 1 cent each	20	20	20	20
Share premium	19 980	19 980	19 980	19 980
Issued share capital	20 000	20 000	20 000	20 000
Dividends per share (cents)	332	645	332	645

The directors are authorised until the forthcoming annual general meeting to issue the unissued shares for any purpose and upon such terms and conditions as they deem fit.

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
14. Policyholder liabilities				
Policyholder liabilities under investment contracts:				
Balance at beginning of year	5 783 194	4 952 383	5 783 194	4 952 383
IAS 39 adjustment	393	(73)	393	(73)
Movement for the year	3 019 277	830 884	3 019 277	830 884
Balance at end of year	8 802 864	5 783 194	8 802 864	5 783 194
Policyholder liabilities under insurance contracts:				
Balance at beginning of year	2 083 895	4 411 196	2 083 895	4 411 196
IAS 39 adjustment	(393)	72	(393)	72
Amounts expensed elsewhere in the income statement	(9 593)	(26 740)	(9 593)	(26 740)
Amount transferred to the income statement	(665 231)	(2 300 634)	(665 231)	(2 300 634)
Balance at end of year	1 408 678	2 083 894	1 408 678	2 083 894
	10 211 542	7 867 087	10 211 542	7 867 088
The movement in the policyholder liabilities balance for the purposes of the statement of cash flows is reported as follows:				
Increase in policyholder liabilities under investment contracts	3 019 670	830 811	3 019 670	830 811
Decrease in policyholder liabilities under insurance contracts	(675 218)	(2 327 302)	(675 218)	(2 327 302)
Total decrease in policyholder liabilities under investment and insurance contracts	2 344 452	(1 496 491)	2 344 452	(1 496 491)
Gross insurance liabilities	10 169 451	7 591 124	10 169 451	7 591 124
Total reinsurer's share of insurance liabilities	42 091	275 964	42 091	275 964
Net insurance liabilities	10 211 542	7 867 088	10 211 542	7 867 088

R215 million of the total policyholder liabilities relates to the deficit account balance of the FINRE agreement with Munich Re.

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
15. Employee benefits				
Balance at beginning of year	166 555	150 783	165 919	150 783
Charged to profit and loss	(11 404)	15 772	(10 818)	15 136
– Additional provisions raised during the year	159 985	145 038	159 985	145 038
– Used during the year	(170 803)	(129 902)	(170 803)	(129 902)
– Disposal of subsidiary	(636)	–	–	–
– Acquisition of subsidiary	50	636	–	–
Balance at end of year	155 151	166 555	155 101	165 919
Analysis of total provisions				
– Current	155 151	166 555	155 101	165 919

Leave pay

In terms of the Group's and Company's policy, employees are entitled to accumulate a maximum of 25 days' leave and the leave pay provision is calculated on that basis. Any leave accumulated over this number is forfeited by the employees concerned. While all employees are encouraged to take their full annual leave, they are entitled to encash a maximum of five days' leave (taxed) in a leave cycle. When employees who have leave due to them cease their employment with the Group, all accumulated and accrued leave is paid to them at the current total cost to company rate as part of their final salary payment, limited to a maximum of 25 days.

The Group's and Company's provision for leave pay amounted to R29 117 842 and R29 068 242 respectively at the statement of financial position date (2017: R27 444 385 and R27 368 257 respectively).

Incentive scheme

In terms of the Group's and Company's policy, selected employees, at the discretion of the directors, receive an incentive bonus. This bonus relates to employee, corporate and business unit performance and is subject to approval by the Remuneration Committee.

The Group's and Company's provision for staff incentives amounted to R123 532 856 and R123 532 856 respectively at the statement of financial position date (2017: R132 190 225 and R131 630 613 respectively).

Restructuring

The Group's and Company's provision for staff restructuring amounted to Rnil and Rnil respectively at the statement of financial position date (2017: R6 920 348 and R6 920 348 respectively).

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000

16. Trade and other payables

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Trade and other creditors	68 321	43 938	60 399	43 684
Other liabilities	773 273	428 668	773 636	429 024
	841 594	472 606	834 035	472 708

Other liabilities

Included in other liabilities are life assurance premiums amounting to R15 603 628 in respect of policies that incepted after the statement of financial position date (2017: R2 641 000).

All balances are current.

17. Long-term borrowings

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Interest-bearing loan	400 200	400 104	400 200	400 104
	400 200	400 104	400 200	400 104

The loan bears interest at the 3-month JIBAR + 215bps and is serviced quarterly. The loan is repayable on the tenth anniversary of the advance date (12 August 2016). The loan is unsecured.

18. Net premium income

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Individual and group				
Single premiums	–	611	–	611
Recurring premiums	6 354 440	5 733 995	6 354 440	5 733 995
Reinsurance premiums inwards	143 395	125 345	143 395	125 345
Gross premium income	6 497 835	5 859 951	6 497 835	5 859 951
Reinsurance premiums outwards	(1 507 077)	(1 344 416)	(1 507 077)	(1 344 416)
Net premium income	4 990 758	4 515 535	4 990 758	4 515 535

Net premium income represents income from insurance contracts only. Items of income and expense in respect of investment contracts are excluded from the income statement and are accounted for directly against the liability under these contracts in the statement of financial position. Refer to note 14 on page 124 for details of the movement in policyholder liabilities under investment contracts.

19. Realised profit/(loss) on disposal of investments

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Listed investments	(1 367)	(101)	(1 367)	(101)
Unlisted investments	14 457	20 024	15 459	19 554
	13 090	19 923	14 092	19 453

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
20. Unrealised profit/(loss) on revaluation of investments				
Listed investments	111 982	25 138	111 982	25 140
Unlisted investments	29 711	59 417	30 808	43 295
	141 693	84 555	142 790	68 435
21. Other income				
Experience refund	365 440	–	365 440	–
Other	98 608	74 606	95 010	67 322
	464 048	74 606	460 450	67 322

R365 million of the total other income relates to the experience refund within the FINRE agreement entered into with Munich Re.

	2018			2017		
	Company R'000	Rest of Group R'000	Total R'000	Company R'000	Rest of Group R'000	Total R'000
22. Profit before taxation						
Profit before taxation is determined after charging:						
Directors' and prescribed officers' emoluments						
Executive Directors						
Director A						
Basic salary	634	634	1 268	1 740	1 740	3 480
Bonus and performance-related payments	7 884	7 884	15 768	6 472	6 472	12 944
Estimated monetary value of other benefits	144	144	288	137	137	274
Pension/provident fund contributions	73	73	146	252	252	504
	8 735	8 735	17 470	8 601	8 601	17 202
Director B						
Basic salary	1 836	1 836	3 672	–	–	–
Bonus and performance-related payments	2 425	2 425	4 850	–	–	–
Estimated monetary value of other benefits	73	73	146	–	–	–
Pension/provident fund contributions	206	206	412	–	–	–
	4 540	4 540	9 080	–	–	–
Director C						
Basic salary	1 960	1 960	3 920	1 662	1 662	3 324
Bonus and performance-related payments	6 085	6 085	12 170	4 663	4 663	9 326
Estimated monetary value of other benefits	157	157	314	79	79	158
Pension/provident fund contributions	227	227	454	189	189	378
	8 429	8 429	16 858	6 593	6 593	13 186
Director D						
Basic salary	–	–	–	2 451	–	2 451
Bonus and performance-related payments	–	–	–	14 867	–	14 867
Estimated monetary value of other benefits	–	–	–	504	–	504
Pension/provident fund contributions	–	–	–	408	–	408
	–	–	–	18 230	–	18 230
Non-Executive Directors						
Directors' fees						
Director A	286	286	572	217	217	434
Director B	404	404	808	212	212	424
Director C	610	610	1 220	241	241	482
Director D	270	270	540	273	546	819
Director E	415	415	830	218	218	436
Director F	572	572	1 144	217	217	434
Director G	253	253	506	62	62	124
	2 810	2 810	5 620	1 440	1 713	3 153

	2018 Company R'000	2018 Rest of Group R'000	2018 Total R'000	2017 Company R'000	2017 Rest of Group R'000	2017 Total R'000
Prescribed officers						
Prescribed officer A						
Basic salary	95	859	954	252	2 270	2 522
Bonus and performance-related payments	–	–	–	429	3 861	4 290
Estimated monetary value of other benefits	8	72	80	19	175	194
Pension/provident fund contributions	11	102	113	38	341	379
	114	1 033	1 147	738	6 647	7 385
Prescribed officer B						
Basic salary	2 801	311	3 112	1 352	901	2 253
Bonus and performance-related payments	6 673	741	7 414	3 560	2 373	5 933
Estimated monetary value of other benefits	590	66	656	312	208	520
Pension/provident fund contributions	365	41	406	232	155	387
	10 429	1 159	11 588	5 456	3 637	9 093
Prescribed officer C						
Basic salary	59	528	587	427	1 708	2 135
Bonus and performance-related payments	1 705	15 342	17 047	1 079	4 315	5 394
Estimated monetary value of other benefits	17	152	169	54	216	270
Pension/provident fund contributions	7	66	73	67	269	336
	1 788	16 088	17 876	1 627	6 508	8 135
Prescribed officer D						
Basic salary	93	838	931	246	2 215	2 461
Bonus and performance-related payments	–	–	–	463	4 164	4 627
Estimated monetary value of other benefits	11	103	114	29	256	285
Pension/provident fund contributions	11	102	113	38	341	379
	115	1 043	1 158	776	6 976	7 752
Prescribed officer E						
Basic salary	612	612	1 224	2 553	284	2 837
Bonus and performance-related payments	808	808	1 616	4 855	540	5 395
Estimated monetary value of other benefits	24	24	48	60	7	67
Pension/provident fund contributions	69	69	138	282	31	313
	1 513	1 513	3 026	7 750	862	8 612
Prescribed officer F						
Basic salary	189	1 698	1 887	798	1 862	2 660
Bonus and performance-related payments	532	4 789	5 321	1 026	2 395	3 421
Estimated monetary value of other benefits	17	150	167	39	91	130
Pension/provident fund contributions	22	196	218	90	210	300
	760	6 833	7 593	1 953	4 558	6 511
Prescribed officer G						
Basic salary	806	806	1 612	798	1 862	2 660
Bonus and performance-related payments	750	750	1 500	1 026	2 395	3 421
Estimated monetary value of other benefits	71	71	142	39	91	130
Pension/provident fund contributions	68	68	136	90	210	300
	1 695	1 695	3 390	1 953	4 558	6 511
Total directors' and prescribed officers' emoluments	40 928	53 878	94 806	53 164	46 095	99 259

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
22. Profit before taxation (continued)				
Auditors' remuneration				
– Audit fees	3 690	6 844	3 628	6 684
– Prior year underprovision	222	330	222	330
– Other services	1 039	644	1 039	638
	4 951	7 818	4 889	7 652
Depreciation				
– Office equipment	8 775	5 531	8 775	5 370
– Motor vehicles	54	54	54	54
– Furniture and fittings	–	9	–	–
– Leasehold improvements	21 795	11 351	21 795	11 351
	30 624	16 945	30 624	16 775
Amortisation				
Computer software	5 910	4 697	5 910	4 697
Other expenditure				
Administration fees paid	163 947	96 667	163 947	96 667
Operating leases – building	101 365	88 361	101 365	88 361
Professional fees	119 740	117 298	118 880	115 758
Research and development	734	667	734	667
23. Taxation				
South African normal taxation – current year	251 163	341 385	250 695	340 734
Deferred taxation	63 800	(23 010)	63 800	(23 075)
Other indirect taxation	715	829	715	798
Dividend withholding tax	1 858	1 099	1 858	1 099
	317 536	320 303	317 068	319 556
All taxation is payable in respect of continuing operations.				
Tax rate reconciliation	%	%	%	%
Tax calculated at standard rate of South African tax on earnings	28.0	28.0	28.0	28.0
Prior year taxation	3.8	–	3.8	–
Unrealised gains not taxable	(0.4)	(0.3)	(0.4)	(0.3)
Realised gains not taxable	(0.1)	0.1	(0.1)	0.1
Other indirect taxation	0.7	0.1	0.7	0.1
Other	0.6	–	0.7	–
Dividend witholding tax	0.3	0.1	0.3	0.1
Non-taxable items and losses	(1.3)	(1.0)	(1.3)	(1.0)
Effective rate	31.6	27.0	31.7	27.0
24. Policyholder benefits				
Individual and group				
– Death and disability	2 670 830	2 285 756	2 670 830	2 285 756
– Maturity	870 616	2 100 194	870 616	2 100 194
– Policy surrenders	42 827	94 111	42 827	94 111
– Annuities	45 535	72 587	45 535	72 587
– Other	72 039	53 560	72 039	53 560
Gross policyholder benefits	3 701 847	4 606 208	3 701 847	4 606 208
Less: Reinsurance recoveries	(992 854)	(983 815)	(992 854)	(983 815)
– Death and disability	(992 854)	(983 815)	(992 854)	(983 815)
Net policyholder benefits	2 708 993	3 622 393	2 708 993	3 622 393

Policyholder benefits represent payments under insurance contracts only. Items of income and expense in respect of investment contracts are excluded from the income statement and accounted for directly against the liability under these contracts in the statement of financial position. Refer to note 14 on page 124 of these financial statements for the movement in policyholder liabilities under investment contracts.

	Notes	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
25. Reconciliation of profit before taxation to cash generated/(utilised) by operations					
Profit before tax attributable to equity holders of the parent		1 003 810	1 175 755	1 000 241	1 175 318
Adjustments for:					
Depreciation	4	30 624	16 945	30 624	16 775
Intangible assets amortisation		5 910	4 697	5 910	4 697
Transfer to policyholder liabilities under insurance contracts	14	(675 217)	(2 327 301)	(675 217)	(2 327 301)
Transfer to policyholder liabilities under investment contracts	14	3 019 670	830 811	3 019 670	830 811
Investment income		(332 772)	(476 682)	(345 872)	(523 097)
Realised profit on assets underlying investment contracts		28 598	(67 275)	28 598	(67 275)
Other income		(464 046)	(74 606)	(460 450)	(67 322)
Rental income		(8 758)	(19 579)	(8 758)	(19 556)
Share of profit in associates		(18 727)	(29 298)	–	–
Unrealised (profit)/loss on revaluation of investments	20	(141 693)	(84 555)	(142 790)	(68 435)
Unrealised loss on investment contracts		(182 214)	83 845	(182 214)	83 845
Interest paid		66 896	60 587	66 896	60 295
Increase/(decrease) in employee benefits		(11 405)	15 771	(10 818)	15 135
Net (increase)/decrease in accrued interest and dividends		(2 665)	(66 223)	(2 665)	(66 223)
Asset transfers		108 110	117 375	108 110	117 375
Operating cash flows before working capital changes		2 426 121	(839 733)	2 431 265	(834 958)
Working capital changes		428 098	(22 010)	418 595	(19 452)
(Increase)/decrease in insurance, loans and other receivables		(123 161)	(54 353)	(125 004)	(51 787)
Increase in reinsurance assets		184 800	(239 764)	184 800	(239 764)
Decrease in outstanding claims		78 902	(469)	78 902	(469)
Increase in reinsurance liabilities and trade and other payables		287 557	272 576	279 897	272 568
Cash generated/(utilised) by operations		2 854 219	(861 743)	2 849 860	(854 410)
26. Dividends paid					
Amounts due at beginning of year		–	(227 314)	–	(227 314)
Amounts charged to statement of changes in equity		(663 886)	(1 290 444)	(663 886)	(1 290 444)
Amounts due at end of year		–	–	–	–
Cash amounts paid		(663 886)	(1 517 758)	(663 886)	(1 517 758)
27. Dividends received					
Amounts due at beginning of year		10 374	76 597	10 374	76 597
Dividends received per income statement		70 543	70 013	83 393	118 198
Amounts due at end of year		(7 709)	(10 374)	(7 709)	(10 374)
Cash amounts received		73 208	136 236	86 058	184 421
28. Taxation paid					
Amounts due at beginning of year		(480 099)	(516 012)	(479 678)	(516 014)
Amounts charged to income statement		(317 536)	(320 303)	(317 068)	(319 556)
Amounts due at end of year		532 467	480 099	532 431	479 678
Cash amounts paid		(265 168)	(356 216)	(264 315)	(355 892)
Amounts due at end of year comprised as follows:					
Deferred income tax asset		(15 466)	(168)	(15 452)	–
Deferred income tax liability		608 390	529 139	608 390	529 139
Taxation		(60 456)	(48 870)	(60 507)	(49 461)
		532 468	480 101	532 431	479 678

29. Business combinations

29.1 Summary of Business Combinations – 2018

The Group did not acquire or dispose of any investments in subsidiaries in the 2018 financial year.

29.1.1 Acquisition of 100% shareholding in NMG Pooling Administrators (Pty) Ltd:

On 1 March 2018, the Company acquired a 100% shareholding in NMG Pooling Administrators (Pty) Ltd for a consideration payment of R2 000 000 for the year under review. This transaction was accounted for using the purchase method of accounting.

The net assets acquired in the transaction, and the change in ownership arising on acquisition, were as follows:

	Acquisition of investment in subsidiary R'000
Net assets acquired in the transaction were as follows:	
Fair value at date of acquisition	176
Goodwill on purchase (subsequently impaired)	1 824
Total consideration	2 000
Net cash flow arising on acquisition:	
– Cash consideration paid	(2 000)
– Cash and cash equivalents acquired	9 511
Net cash and cash equivalents acquired	7 511

29.1.2 Disposal of subsidiaries:

On 1 October 2017, the Company disposed of it's 55% shareholding in The Best Funeral Society (Pty) Ltd for a consideration of R1 128 901. At the date of disposal, the fair value of the investment in the Company was R1 128 901 and the net asset value was R3 262 465. The Company and Group generated a loss of R116 145 and R665 455 respectively.

The net assets disposed of in the transaction, were as follows:

	Disposal of investment in subsidiary R'000
Property and equipment	1 171
Financial assets	1 354
Trade and other receivables	1 830
Cash and cash equivalents	6 658
Trade and other payables	(7 263)
Current tax liability	(488)
Minority interest	(1 468)
Loss generated on disposal of subsidiary	(665)
Proceeds on disposal of subsidiary	1 129
Net cash flow arising on disposal:	
– Cash and cash equivalents	(6 658)
Net cash and cash equivalents disposed of	(6 658)

29.2 Summary of Business Combinations – 2017

The Group did not acquire or dispose of any investments in subsidiaries in the 2017 financial year.

30. Investments in associates

The Group disposed of investments in associates in the 2018 and 2017 financial years. There were no acquisitions of investments in associates in either financial year. Refer details below:

30.1 Summary of acquisitions and disposals of the Group's investments in associates – 2018

30.1.1 Disposals of investments in associates – 2018

	% of shareholding disposed	Proceeds on disposal R'000	Carrying value R'000	Loss on sale of investments R'000
Prorisk Pooling Administrators (Pty) Ltd	40%	–	453	453

30.2 Summary of acquisitions and disposals of the Group's investments in associates – 2017

30.2.1 Disposals of investments in associates – 2017

	% of shareholding disposed	Proceeds on disposal R'000	Carrying value R'000	Loss on sale of investments R'000
Ducome Brokers (Pty) Ltd	25%	–	3 524	3 524
Fiscal Tree Investments (Pty) Ltd	25%	–	3 116	3 116
Precept Wealth Solutions (Pty) Ltd	10%	–	9 579	9 579
Portman Wealth Solutions (Pty) Ltd	25%	–	2 620	2 620

31. Staff pension and provident fund

The Company has a defined contribution pension fund, the Hollard Employees Pension Fund, with 205 (2017: 362) employees of the Company being members of the fund. The Company's contributions to the fund charged against income for the year were R13 002 631 (2017: R19 835 350).

The Company also has a defined contribution provident fund, the Hollard Employees Provident Fund, with 685 (2017: 770) employees of the Company being members of the fund. The Company's contributions to the fund charged against income for the year amounted to R43 364 411 (2017: R43 257 455).

Both of these funds are controlled by a Board of Trustees and are governed by the Pension Funds Act of 1956.

32. Operating lease arrangements

The Company entered into a lease agreement with Taropark Properties (Pty) Ltd to lease the Arcadia premises with effect from 1 July 2016. The lease ends on 30 June 2026.

The Company entered into a lease agreement with Renvest Properties (Pty) Ltd to lease the City Campus premises with effect from 1 August 2017. The lease ends on 30 June 2027.

The total amount of the lease payments over the remaining period of the leases will be R914 052 000.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
The future minimum lease payments under operating lease agreements are as follows:				
Not later than one year	**81 887**	61 603	**81 887**	61 603
Later than one year and not later than five years	**322 624**	215 988	**322 624**	215 988
Later than five years	**509 541**	491 683	**509 541**	491 683
	914 052	769 274	**914 052**	769 274
Payments recognised as an expense:				
Minimum lease payments	**101 365**	88 361	**101 365**	88 361
	101 365	88 361	**101 365**	88 361

The lease payments are recognised as an expense on a straight-line basis over the term of the lease in accordance with IAS 17: *Leases*.

33. Related party transactions

Transactions between Group companies

Hollard Life Assurance Company Limited's immediate holding company is Hollard Fundco (RF) (Pty) Ltd (100%) and the ultimate holding company is Pickent Investments Limited. Both of these companies are incorporated in the Republic of South Africa.

Related party relationships exist between the Group, fellow subsidiaries, associated companies, joint ventures and the holding company. The Group enters into commercial transactions with a number of these companies on an ongoing basis. All material transactions are concluded at arm's length and are eliminated on consolidation.

Details of subsidiary, associate and joint venture companies are provided in note 36 on page 133 of the financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2018

33. Related party transactions (continued)

	COMPANY	
	2018 R'000	2017 R'000
Loans to related parties		
Loans to subsidiaries	–	5 633
Loans to associates	–	102
Loans to Hollard Holdings (Pty) Ltd	10 003	62 434
Loans to Newshelf 76 (Pty) Ltd	–	19 363
Loans to Syringa Tree Investments (Pty) Ltd	–	20 224
Loans to Pico Ruivo Investments (Pty) Ltd	1 265	2 493
Loans from related parties		
Loan from Fundco (RF) (Pty) Ltd	400 200	400 104
Loans to directors and prescribed officers		
Details of individual loans to directors and prescribed officers:		
M Shezi	2 956	2 945
NG Kohler	4 185	5 313
B Wyborn	7 426	9 203

No new advance was made during the year (2017: Rnil).

The following repayments were made during the year:

- M Shezi R211 000 (2017: Rnil)
- NG Kohler R1 500 000 (2017: R500 000)
- B Wyborn R2 400 000 (2017: R462 000)

The loans are given on commercial terms and conditions. The related interest income in 2018 was R1 215 961 (2017: R1 410 138).

Interest on loans to M Shezi and B Wyborn is charged at the SARS rate and as at 30 June 2018, the rate was 7.50%.

Interest on loan to NG Kohler is charged at prime less 1.36% and at 30 June 2018, the prime rate was 10.00%.

	COMPANY	
	2018 R'000	2017 R'000
Endowment policies		
Endowment policies have been taken up by directors and key management. All policies are issued in the names of the individuals concerned on standard commercial terms. The value of policies in-force at the reporting date is as follows:		
Directors and their family members	3 453	5 556
Key management compensation		
Salaries, bonuses and other short-term employee benefits	50 870	22 138
Key management refers to Executive Committee members excluding directors.		
The remuneration of key management is determined by the Remuneration Committee having regard to both the performance of the individuals concerned and their related market compensation benchmarks.		
Management fees		
Paid by The Hollard Insurance Company Limited	260 653	262 603
Administration fees		
Administration fees are paid to a number of companies in which the Group holds an interest. All fees are paid on standard commercial terms.		
Rent paid		
Vividend Income Fund Limited	–	5 730
Taropark	82 631	82 631
Renvest Properties	18 734	–
Investment policy with		
The Hollard Insurance Company Limited	995 708	927 236

Refer to notes 6, 7 and 10 of these annual financial statements for details of loans with Group companies and other related parties.

34. Commitments for expenditure

The Group's and Company's principal expenditure commitment is to its policyholders, the nature and quantum of which is governed by the terms of the specific insurance contracts that are issued to them. The Group and Company do not expect to incur significant non-insurance-related expenditure during the financial year ended 30 June 2018 and hence have not provided for a capital expenditure budget for this period (2017: Rnil). Any unanticipated capital or operating expenditure will be funded from internal sources.

35. Contingent liabilities

The Group and Company, in the ordinary course of business, enter into transactions which expose it to tax, legal and business risks. Provisions are made for known liabilities that are expected to materialise and which can be quantified with reasonable accuracy. Possible obligations and known liabilities where no reliable estimate can be made, or where it is considered improbable that an outflow will result, are not provided for but instead are noted as a contingent liability, in accordance with IAS 37: *Provisions, Contingent Liabilities and Contingent Assets.*

There are a number of legal or potential claims against the Group, the outcome of which at present cannot be foreseen or quantified. Therefore, no liability has been recognised for these potential claims in the financial statements in accordance with the requirements of IAS 37.

36. Subsidiaries, associates and joint ventures

						Carrying value of interest in subsidiaries, associates and joint ventures			
	Nature of business	Place of business	Issued share capital (Rands)	2018 Proportion held %	2017 Proportion held %	2018 Shares R'000	2018 Indebtedness R'000	2017 Shares R'000	2017 Indebtedness R'000
Directly held subsidiaries									
Hollard Life Properties (Pty) Ltd	A	RSA	2	100.00	100.00	47	–	4 369	–
The Best Funeral Society (Pty) Ltd	B	RSA	–	–	55.00	–	–	1 129	5 625
Hollard Wealth Management Services (Pty) Ltd	C	RSA	1	100.00	100.00	411	–	396	–
Hollard Management Company (Pty) Ltd	D	RSA	1	100.00	100.00	–	–	–	–
Altrisk (Pty) Ltd	E	RSA	1 075	100.00	100.00	–	–	–	–
Hollard Investment Managers (Pty) Ltd	D	RSA	2	100.00	100.00	9 739	–	8 390	8
Finningley (Pty) Ltd	E	RSA	100	100.00	100.00	–	–	–	–
NMG Pooling Administrators (Pty) Ltd	E	RSA	100	100.00	–	2 000	–	–	–
						12 197	–	14 284	5 633
Directly held associates									
Amserve Consultants Private Ltd	F	India	100 652	49.99	49.99	–	–	–	–
Amsure Insurance Agency Ltd	E	India	301 956	49.99	49.99	–	–	–	–
Prorisk Pooling Administrators (Pty) Ltd	E	RSA	–	–	40.00	–	–	–	102
Ooba (Pty) Ltd	E	RSA	160	25.00	25.00	70 534	–	67 693	–
IFANet Independent Distribution Services (Pty) Ltd	C	RSA	100	24.00	24.00	–	–	–	–
						70 534	–	67 693	102

Nature of business

A – Property holding, B – Funeral administrator, C – Investment consulting, D – Investment holding, E – Life assurance, F – Business process outsourcing, training and education.

With the exception of Amserve Consultants Private Limited and Amsure Insurance Agency Limited, which are incorporated and operational in India, all companies recorded above are incorporated and operational in South Africa.

37. Subsequent events

The Board is not aware of any event since the end of the financial year, not otherwise dealt with in these annual financial statements, that would affect the operations of the Group and Company, or the results of these operations.

38. Going concern

The Board believes that the Company and Group 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.

DIRECTORATE AND ADMINISTRATION

Directorate

To the date of this report the directors of the Company are as follows:

Non-Executive Chairman	ADH Enthoven
Group Chief Executive Officer	S Ntombela (appointed 1 October 2017)
Group Chief Financial Officer	WT Lategan
Non-Executive Director	NG Kohler
Lead Independent Non-Executive Director	BF Mohale
Independent Non-Executive Director	MR Bower (appointed 1 January 2018)
Independent Non-Executive Director	NV Simamane
Independent Non-Executive Director	SC Gilbert
Independent Non-Executive Director	R Fihrer
Independent Non-Executive Director	B Ngonyama
Independent Non-Executive Director	S Patel
Independent Non-Executive Director	AS Nkosi

Company Secretary

G Tyusha

Public officer

NL Magadze

Compliance officer

Wikus Luus (Acting)

Registered office and business address

Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

Postal address

P/O Box 87428
Houghton
2041

Website

www.hollard.co.za

Nature of business

The Company transacts long-term assurance business.

Auditors

Deloitte & Touche
Building 8
The Woodlands
Woodlands Drive
Woodmead
Sandton

Registration number

1993/001405/06

NOTES

NOTES

HKLM

www.hollard.co.za