2016

(Registration number 1993/001405/06)
Audited consolidated annual financial statements
for the year ended 30 June 2016

# HOLLARD LIFE ASSURANCE COMPANY LIMITED

The annual financial statements have been prepared by Yolandi Evans CA(SA), under supervision of the Financial Manager, Rika Hopley CA(SA).

Hollard.

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# Group salient features

for the year ended 30 June 2016

| | 2016 R'000 | 2015 R'000 | 2014 R'000 | 2013 R'000 | 2012 R'000 |
|---|---|---|---|---|---|
| **Income statement information** | | | | | |
| Gross premium income[1] | **5 559 092** | 5 175 795 | 6 134 144 | 5 414 026 | 5 744 055 |
| Net written premium income[2] | **4 919 405** | 4 411 143 | 5 407 534 | 4 816 872 | 5 185 910 |
| Investment income[3] | **659 883** | 613 552 | 783 741 | 763 955 | 927 626 |
| Net insurance claims | **1 531 859** | 1 612 730 | 2 117 493 | 2 353 907 | 1 331 930 |
| Profit attributable to equity holders of the parent | **1 264 206** | 1 073 562 | 1 148 826 | 1 121 112 | 821 099 |
| **Statement of financial position information** | | | | | |
| Insurance liabilities | **9 363 579** | 10 177 737 | 13 097 931 | 11 781 892 | 11 391 244 |
| Equity attributable to equity holders of the parent | **1 898 546** | 2 321 795 | 2 084 966 | 1 804 223 | 1 559 968 |
| Total assets | **13 048 984** | 14 173 460 | 16 600 998 | 14 919 605 | 14 345 314 |
| Financial assets (i.e. listed investments and unlisted investments) | **10 466 866** | 11 154 706 | 13 789 566 | 12 393 561 | 12 029 487 |
| Cash and cash equivalents | **1 716 828** | 1 970 839 | 1 966 963 | 1 774 949 | 1 449 527 |
| **Actuarial information** | | | | | |
| Statutory excess of assets over liabilities (Company) | **577 325** | 1 192 283 | 992 591 | 855 066 | 783 389 |
| Capital adequacy requirement (CAR)[4] | **218 567** | 320 350 | 324 197 | 304 944 | 260 091 |
| Value of in-force business[5] | **4 558 706** | 4 906 397 | 4 569 511 | 3 993 958 | 3 124 274 |
| **Total embedded value[5]** | **6 471 975** | 7 280 584 | 6 713 255 | 5 866 819 | 4 824 530 |
| Statutory excess of assets over liabilities as a multiple of CAR (%) | **2.6** | 3.7 | 3.1 | 2.8 | 3.0 |

(1) *"Gross premium income" represents the total income arising from insurance contracts only. In accordance with IAS 39: Financial Instruments: Recognition and Measurement (IAS 39), 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 plus unrealised profits and losses on the investment and trading portfolio.*

(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 includes profits attributable to Hollard Life's holding company joint venture partners.*

# Directors' responsibility statement and approval of annual financial statements

for the year ended 30 June 2016

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 controls, 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 and Company annual financial statements.

The Group and Company 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 and Company 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 a going concern in the year ahead. For this reason they continue to adopt the going-concern basis in preparing the annual financial statements.

These annual financial statements, set out on pages 75 to 137 have been approved by the Board of The Hollard Life Assurance Company and are signed on their behalf by:

**ADH Enthoven**
Chairman

31 October 2016

**NG Kohler**
Chief Executive Officer

31 October 2016

# 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.

**NL Shirilele**
Company Secretary

31 October 2016

# 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 reviewed the Company's financial statements, and assessed that these accurately represented the financial position of the Company. The Committee further reviewed the 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 is satisfied that it has discharged all its responsibilities.

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.

**PK Ward**
Chairman: Audit Committee

31 October 2016

# Statement of actuarial values of assets and liabilities

as at 30 June 2016

| | Notes | 2016 R'000 | 2015 R'000 |
|---|---|---|---|
| **Published reporting basis** | | | |
| Total assets as per Company financial position | 2 | **13 062 839** | 14 220 571 |
| Less: Liabilities | | **11 149 570** | 11 846 384 |
| Actuarial value of policy liabilities | 3, 4 | **9 363 579** | 10 177 737 |
| Deferred income tax | | **552 214** | 549 106 |
| Current liabilities as per Company financial position | | **1 233 777** | 1 119 541 |
| **Excess of assets over liabilities** | | **1 913 269** | 2 374 187 |
| Represented by: | | | |
| Share capital and share premium | | **20 000** | 20 000 |
| Retained earnings as per Company financial position | | **1 893 269** | 2 354 187 |
| | | **1 913 269** | 2 374 187 |
| **Statutory basis** | | | |
| Total assets on the statutory basis | | **13 029 513** | 14 189 724 |
| Less: Liabilities | | **12 452 189** | 12 997 441 |
| Actuarial value of policy liabilities | | **11 172 773** | 11 776 427 |
| Deferred income tax | | **45 640** | 101 473 |
| Current liabilities as per Company financial position | | **1 233 777** | 1 119 541 |
| **Excess of assets over liabilities** | | **577 323** | 1 192 283 |
| Capital adequacy requirement | 5 | **218 567** | 320 350 |
| Capital adequacy: times covered | | **2.6** | 3.7 |
| **Reconciliation of excess assets between published reporting basis and statutory basis** | | | |
| Excess assets on published reporting basis | | **1 913 269** | 2 374 187 |
| Excess assets on statutory basis | | **577 323** | 1 192 283 |
| **Difference** | | **1 335 946** | 1 181 904 |
| **The difference between the excess assets on the published reporting basis and statutory basis is due to:** | | | |
| Elimination of negative reserves | | **1 770 175** | 1 589 047 |
| Inadmissible assets | | **33 325** | 30 847 |
| Unapproved reinsurance | | **39 020** | 9 643 |
| Deferred income tax | | **(506 574)** | (447 633) |
| **Total** | | **1 335 946** | 1 181 904 |
| **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 | | **2 374 187** | 2 143 744 |
| Excess of assets at end of year | | **1 913 269** | 2 374 187 |
| **Change in excess assets over the reporting year** | | **(460 918)** | 230 443 |
| **This change in the excess assets is due to the following factors:** | | | |
| Investment return on excess assets | | **241 520** | 369 939 |
| Investment income | | **249 730** | 237 685 |
| Capital appreciation | | **(8 210)** | 132 254 |
| Operating profit | | **1 348 819** | 1 096 968 |
| (Increase)/Decrease in liabilities due to change in valuation methods or assumptions | | **(7 927)** | 1 626 |
| Taxation | | **(350 930)** | (392 630) |
| **Total earnings after taxation** | | **1 231 482** | 1 075 903 |
| Dividends declared | | **(1 692 400)** | (855 254) |
| Section 37 Transfer of Covision long-term business | | **–** | 9 612 |
| **Total change in excess assets** | | **(460 918)** | 230 261 |

# Statement of actuarial values of assets and liabilities (continued)

as at 30 June 2016

## Certification of the financial position

I hereby certify that:

The valuation of Hollard Life Assurance Company Limited as at 30 June 2016, 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 2016 and will continue to be so in the foreseeable future.

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

30 September 2016

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 2016

## 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 is 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; and
- 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 March 2016. The primary assumptions used in the gross premium valuation (excluding compulsory margins) are as follows (2015 assumptions shown in parentheses):

- Expenses were allowed for based on an expense analysis carried out during the year (unchanged);
- Expenses inflation assumption is 6.80% per annum (2015: 6.70%);
- 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 (unchanged);
- Withdrawals were set at levels consistent with an experience analysis carried out during the financial year (unchanged);
- Future investment returns were based on the asset mix backing the liabilities with the following assumed future yields: cash 7.50% (2015: 7.00%), gilts 8.50% (2015: 8.00%), property 9.50% (2015: 9.00%) and equities 12.00% (2015: 11.50%). 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.
- The yields reflect the swap curve plus a margin for liquidity.
- A discretionary margin of R241 million (2015: R117 million) was held as partial elimination of negative reserves;
- A contingency reserve to cover possible data problems of R41.6 million (2015: 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 Financial Services Board 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.

With the elimination of negative reserves on the statutory basis, the termination capital adequacy requirement (TCAR) does not apply. The CAR quoted above is 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 2015 valuation. Changes in the main assumptions have been outlined in note 3 above and had an overall impact of increasing the value of actuarial liabilities by R7.9 million (2015: R1.6 million) during the financial year.

# Embedded value statement

as at 30 June 2016

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 12.50% (2015: 12.00%).

| | 2016<br>R'000 | 2015<br>R'000 |
|---|---|---|
| Value of in-force business | **4 558 706** | 4 906 397 |
| Excess of assets over liabilities | **1 913 269** | 2 374 187 |
| **Total embedded value** | **6 471 975** | 7 280 584 |

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 SHAREHOLDERS OF HOLLARD LIFE ASSURANCE COMPANY LIMITED

We have audited the consolidated and separate financial statements of Hollard Life Assurance Company Limited set out on pages 84 to 136, which comprise the statements of financial position as at 30 June 2016, and the income statements, statements of 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.

### Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Hollard Life Assurance Company Limited as at 30 June 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2016, we have read the Directors' Report, the Embedded Value Statement, the Statement of Actuarial Values of Assets and Liabilities, the Notes to the Statement of Actuarial Values of Assets and liabilities, Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.

These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

### 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 Hollard Life Assurance Company Limited for 23 years. We are independent of the group in accordance with the IRBA 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).

Deloitte & Touche

**Deloitte & Touche**
Registered Auditor

Per: Diana Jorge
Partner

31 October 2016

# Directors' report

for the year ended 30 June 2016

The Directors have pleasure in presenting the Directors' report which forms part of the annual financial statements of the Company and Group for the year ended 30 June 2016.

## 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 note 36 on page 135 of the financial statements.

## General review

"In the year under review the Group achieved net profit attributable to the equity holder of the parent of R1 264 206 000 (2015: R1 073 562 000), which arose from the Group's operations as follows:

| | 2016 R'000 | 2015 R'000 |
|---|---|---|
| Net premium income | **4 919 405** | 4 411 143 |
| Investment income | **659 883** | 613 552 |
| Other income | **142 305** | 32 375 |
| **Total revenue** | **5 721 593** | 5 057 070 |
| Net insurance benefits and claims | **1 531 859** | 1 612 730 |
| Other operating expenses | **2 594 611** | 2 173 268 |
| **Total expenses** | **4 126 470** | 3 785 998 |
| **Results of operating activities** | **1 595 123** | 1 271 072 |
| Share of profit of associates | **21 026** | 195 299 |
| **Profit before taxation** | **1 616 149** | 1 466 371 |
| Taxation | **(351 965)** | (392 857) |
| **Profit for the year** | **1 264 184** | 1 073 514 |
| Non-controlling interest | **(22)** | (48) |
| **Net profit attributable to the equity holder of the parent** | **1 264 206** | 1 073 562 |

## Share capital

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

## Dividends

Dividends of R1 692 400 000 were declared during the year (2015: R855 259 000).

## Subsidiaries, associates and joint ventures

The Company acquired the following associates during the year:

- Portman Wealth (Pty) Ltd
- Precept Wealth Solutions (Pty) Ltd

The Company's aggregate share of the (losses) and profits of subsidiaries and associates for the year amounted to (R2 719 328) and R21 026 000 respectively (2015: (R25 428 000) and R195 299 000 respectively).

## 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.

## Subsequent events

During September 2015, Regent Group's shareholder, Imperial Holdings, accepted an offer by the Hollard and the Yellowwoods Group to dispose of its shareholding in Regent Group, subject to regulatory approval.

On 21 October 2016, we received confirmation that the Competition Commission would be recommending to the Competition Tribunal that the Regent Group acquisition be prohibited from going ahead. Given that the merger is categorised as a large merger, the recommendation of the Competition Commission does not constitute a final binding decision. Such final binding decision will be made by the Competition Tribunal subsequent to the hearing regarding the merger. The Board is not aware of any other 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 17 November 2015:

B Mohale and TBT Mparutsa.

During the year WT Lategan was appointed as an executive director in the capacity of Group CFO.

## Executive directors

NG Kohler (Group CEO), WT Lategan (Group CFO since 1 January 2016) and TBT Mparutsa (Group CFO until 1 January 2016) were the only Executive Directors who held office during the year.

## Non-executive directors

ADH Enthoven, B Ngonyama, SC Gilbert, NV Simamane, S Patel, R Fihrer and BF Mohale 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

NL Shirilele

## Business address

Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

## Postal address

PO Box 87428
Houghton
2041

## Holding company

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

# Statements of financial position

as at 30 June 2016

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | Notes | 2016 R'000 | 2015 R'000 | 2016 R'000 | 2015 R'000 |
| **Assets** | | | | | |
| Property and equipment | 4 | **3 898** | 2 639 | **2 760** | 1 833 |
| Goodwill | 5 | **–** | – | **–** | – |
| Intangible assets | 6 | **15 844** | 9 546 | **15 844** | 9 546 |
| Interest in subsidiaries | 7 | **–** | – | **19 619** | 13 531 |
| Investments in associates | 8 | **58 895** | 58 272 | **65 437** | 57 733 |
| Financial assets | 9 | **10 466 866** | 11 154 706 | **10 465 655** | 11 153 580 |
| Reinsurance assets | | **135 610** | 127 095 | **135 610** | 127 095 |
| Insurance, loans and other receivables | 11 | **614 747** | 597 032 | **621 300** | 596 178 |
| Deferred income tax | 12 | **64** | 821 | **–** | – |
| Current tax assets | | **36 232** | 176 | **36 200** | – |
| Non-current assets held-for-sale | 14 | **–** | 252 334 | **–** | 310 175 |
| Cash and cash equivalents | 13 | **1 716 828** | 1 970 839 | **1 700 414** | 1 950 900 |
| **Total assets** | | **13 048 984** | 14 173 460 | **13 062 839** | 14 220 571 |
| **Equity and liabilities** | | | | | |
| Share capital and premium | 15 | **20 000** | 20 000 | **20 000** | 20 000 |
| Foreign currency translation reserve | | **26 294** | 21 351 | **–** | – |
| Retained earnings | | **1 852 252** | 2 280 444 | **1 893 269** | 2 354 187 |
| Equity attributable to equity holders of the parent | | **1 898 546** | 2 321 795 | **1 913 269** | 2 374 187 |
| Non-controlling interests | | **883** | 906 | **–** | – |
| **Total equity** | | **1 899 429** | 2 322 701 | **1 913 269** | 2 374 187 |
| Policyholder liabilities | 16 | **9 363 579** | 10 177 737 | **9 363 579** | 10 177 737 |
| Outstanding claims | | **312 734** | 353 139 | **312 734** | 353 139 |
| Reinsurance liabilities | | **132 677** | 144 767 | **132 677** | 144 767 |
| Employee benefits | 17 | **150 783** | 154 610 | **150 783** | 154 610 |
| Deferred income tax | 12 | **552 214** | 549 106 | **552 214** | 549 106 |
| Trade and other payables | 18 | **410 160** | 383 552 | **410 269** | 379 244 |
| Shareholder dividends | | **227 314** | – | **227 314** | – |
| Current tax liability | | **94** | 87 848 | **–** | 87 781 |
| **Total liabilities** | | **11 149 555** | 11 850 759 | **11 149 570** | 11 846 384 |
| **Total equity and liabilities** | | **13 048 984** | 14 173 460 | **13 062 839** | 14 220 571 |

# Income statements

for the year ended 30 June 2016

| | Notes | GROUP 2016 R'000 | GROUP 2015 R'000 | COMPANY 2016 R'000 | COMPANY 2015 R'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Gross premium income | 19 | **5 559 092** | 5 175 795 | **5 559 092** | 5 175 795 |
| Reinsurance premiums outwards | 19 | **(639 687)** | (764 652) | **(639 687)** | (764 652) |
| **Net premium income** | | **4 919 405** | 4 411 143 | **4 919 405** | 4 411 143 |
| Interest | | **521 767** | 595 944 | **520 690** | 596 007 |
| Dividends | | **57 953** | 59 270 | **72 728** | 64 259 |
| Realised profit on disposal of investments | 20 | **522 127** | 9 860 | **464 286** | 9 860 |
| Unrealised (loss)/profit on revaluation of investments | 21 | **(441 964)** | (71 200) | **(413 052)** | 100 503 |
| Rental Income | | **–** | 19 678 | **–** | – |
| **Investment income** | | **659 883** | 613 552 | **644 652** | 770 629 |
| **Other income** | | **142 305** | 32 375 | **104 751** | 31 919 |
| **Total revenue** | | **5 721 593** | 5 057 070 | **5 668 808** | 5 213 691 |
| **Expenses** | | | | | |
| Policyholder benefits | 24 | **2 683 063** | 3 251 090 | **2 683 063** | 3 251 090 |
| Transfer to Policyholder liabilities | 16 | **(1 151 204)** | (1 638 360) | **(1 151 204)** | (1 638 360) |
| **Net insurance claims** | | **1 531 859** | 1 612 730 | **1 531 859** | 1 612 730 |
| Commission and other acquisition costs | | **488 690** | 430 028 | **488 690** | 430 028 |
| Interest paid | | **19 384** | 7 972 | **19 135** | 6 718 |
| Marketing and administration expenses | | **2 086 537** | 1 735 268 | **2 046 712** | 1 695 500 |
| **Total expenses** | | **4 126 470** | 3 785 998 | **4 086 396** | 3 744 976 |
| **Results of operating activities** | | **1 595 123** | 1 271 072 | **1 582 412** | 1 468 715 |
| Share of profit of associates | | **21 026** | 195 299 | **–** | – |
| **Profit before taxation** | 22 | **1 616 149** | 1 466 371 | **1 582 412** | 1 468 715 |
| Taxation | 23 | **351 965** | 392 857 | **350 930** | 392 630 |
| **Profit for the year** | | **1 264 184** | 1 073 514 | **1 231 482** | 1 076 085 |
| **Profit for the year attributable to:** | | | | | |
| Equity holders of the parent | | **1 264 206** | 1 073 562 | | |
| Non-controlling interest | | **(22)** | (48) | | |
| | | **1 264 184** | 1 073 514 | | |

# Statements of comprehensive income

for the year ended 30 June 2016

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | Notes | 2016 R'000 | 2015 R'000 | 2016 R'000 | 2015 R'000 |
| **Profit for the year** | | **1 264 184** | 1 073 513 | **1 231 482** | 1 076 085 |
| **Other comprehensive income** | | | | | |
| Exchange differences on translating foreign operations | | **4 943** | 8 913 | **–** | – |
| **Other comprehensive income for the year** | | **4 943** | 8 913 | **–** | – |
| **Total comprehensive income for the year** | | **1 269 127** | 1 082 426 | **1 231 482** | 1 076 085 |
| **Total comprehensive income attributable to:** | | | | | |
| Equity holders of the parent | | **1 269 149** | 1 082 474 | | |
| Non-controlling interests | | **(22)** | (48) | | |
| | | **1 269 127** | 1 082 426 | | |

# Statements of changes in equity

for the year ended 30 June 2016

| | Attributable to equity holders of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | Issued share capital R'000 | Share premium R'000 | Foreign currency translation 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 2014** | 20 | 19 980 | 12 438 | 2 052 531 | 2 084 969 | 953 | 2 085 922 |
| Net profit for the year | – | – | – | 1 073 562 | 1 073 562 | (48) | 1 073 514 |
| Other comprehensive income | – | – | 8 913 | – | 8 913 | – | 8 913 |
| **Total comprehensive income** | – | – | 8 913 | 1 073 562 | 1 082 475 | (48) | 1 082 427 |
| Dividends declared | – | – | – | (855 259) | (855 259) | – | (855 259) |
| NAV acquired through Covision portfolio transfer | – | – | – | 9 612 | 9 612 | – | 9 612 |
| **Balance at 30 June 2015** | 20 | 19 980 | 21 351 | 2 280 446 | 2 321 797 | 905 | 2 322 702 |
| Net profit for the year | **–** | **–** | **–** | **1 264 206** | **1 264 206** | **(22)** | **1 264 184** |
| Other comprehensive income | **–** | **–** | **4 943** | **–** | **4 943** | **–** | **4 943** |
| **Total comprehensive income** | **–** | **–** | **4 943** | **1 264 206** | **1 269 149** | **(22)** | **1 269 127** |
| Dividends declared | **–** | **–** | **–** | **(1 692 400)** | **(1 692 400)** | **–** | **(1 692 400)** |
| **Balance at 30 June 2016** | **20** | **19 980** | **26 294** | **1 852 252** | **1 898 546** | **883** | **1 899 429** |
| **COMPANY** | | | | | | | |
| **Balance at 1 July 2014** | 20 | 19 980 | – | 2 123 744 | 2 143 744 | | |
| Net profit for the year | – | – | – | 1 076 085 | 1 076 085 | | |
| **Total comprehensive income** | – | – | – | 1 076 085 | 1 076 085 | | |
| Dividends declared | – | – | – | (855 254) | (855 254) | | |
| NAV acquired through Covision portfolio transfer | – | – | – | 9 612 | 9 612 | | |
| **Balance at 30 June 2015** | 20 | 19 980 | – | 2 354 187 | 2 374 187 | | |
| Net profit for the year | **–** | **–** | **–** | **1 231 482** | **1 231 482** | | |
| **Total comprehensive income** | **–** | **–** | **–** | **1 231 482** | **1 231 482** | | |
| Dividends declared | **–** | **–** | **–** | **(1 692 400)** | **(1 692 400)** | | |
| **Balance at 30 June 2016** | **20** | **19 980** | **–** | **1 893 269** | **1 913 269** | | |

# Statements of cash flows

for the year ended 30 June 2016

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | Notes | 2016 R'000 | 2015 R'000 | 2016 R'000 | 2015 R'000 |
| **Cash flows from operating activities** | | | | | |
| Cash receipts from policyholders and other customers | | **4 901 690** | 4 407 920 | **4 891 379** | 4 401 386 |
| Cash paid to policyholders, suppliers and employees (net of transfers to reserves) | | **(5 007 025)** | (5 019 846) | **(4 960 031)** | (5 029 834) |
| **Cash utilised by operations** | 25 | **(105 335)** | (611 926) | **(68 652)** | (628 448) |
| Interest paid | | **(19 384)** | (7 972) | **(19 135)** | (6 718) |
| Dividends paid | 26 | **(1 465 086)** | (865 090) | **(1 465 086)** | (865 085) |
| Interest received | | **521 767** | 595 943 | **520 690** | 596 007 |
| Dividends received | 27 | **46 029** | 40 316 | **60 804** | 45 305 |
| Rental received | | **–** | 19 678 | **–** | – |
| Other Income | | **142 305** | 32 375 | **104 751** | 31 919 |
| Taxation paid | 28 | **(471 910)** | (278 807) | **(471 803)** | (278 967) |
| **Net cash outflow from operating activities** | | **(1 351 614)** | (1 075 483) | **(1 338 431)** | (1 105 987) |
| **Cash flows from investing activities** | | | | | |
| Acquisition of property and equipment | 4 | **(1 878)** | (2 264) | **(1 394)** | (2 170) |
| Acquisition of intangible assets | | **(14 128)** | (5 924) | **(14 128)** | (5 924) |
| Acquisition of listed and unlisted investments | | **(1 503 966)** | (256 375) | **(1 511 708)** | (255 248) |
| Acquisition of bonds | | **(705 105)** | (768 176) | **(705 105)** | (768 176) |
| Proceeds on disposal of property and equipment | 4 | **–** | 124 | **–** | – |
| Proceeds on disposal of listed and unlisted investments | | **1 485 472** | 105 930 | **1 485 472** | 105 930 |
| Proceeds on disposal of bonds | | **1 498 533** | 2 173 345 | **1 498 533** | 2 173 345 |
| Proceeds on disposal of non-current assets held-for-sale | | **375 943** | – | **375 943** | – |
| Acquisition of associate | | **(7 040)** | (67 001) | **(7 040)** | (67 001) |
| Decrease in loans to subsidiaries | | **–** | – | **2 543** | 3 613 |
| Decrease in loans to associated companies | | **18** | – | **18** | 26 667 |
| Increase in foreign currency translation reserve | | **4 943** | – | **–** | – |
| Increase in loans due to Group companies | | **(12 890)** | (40 754) | **(12 890)** | (40 754) |
| Increase in other loans | | **(22 299)** | (43 681) | **(22 299)** | (70 300) |
| **Net cash inflow from investing activities** | | **1 097 603** | 1 095 224 | **1 087 945** | 1 099 982 |
| **Cash flows from financing activities** | | | | | |
| Decrease in short-term borrowings | | **–** | (15 865) | **–** | – |
| **Net cash outflow from financing activities** | | **–** | (15 865) | **–** | – |
| **Cash and cash equivalents** | | | | | |
| Net (increase)/decrease in cash and cash equivalents | | **(254 011)** | 3 876 | **(250 486)** | (6 005) |
| Cash and cash equivalents at beginning of financial year | | **1 970 839** | 1 966 963 | **1 950 900** | 1 956 905 |
| **Cash and cash equivalents at end of financial year** | 13 | **1 716 828** | 1 970 839 | **1 700 414** | 1 950 900 |

# Notes to the annual financial statements

for the year ended 30 June 2016

## 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 the revaluation of investment properties and certain financial instruments, both of 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 1.20 on page 101 to 102 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 2015. 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 2016 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 2016**

- IFRS 1: *First-time Adoption of International Financial Reporting Standards* – Amendments resulting from 2012-2014 Annual Improvements Cycle (effective from annual periods beginning on or after 1 January 2016)
- IFRS 5: *Non-current Assets Held-for-sale and Discontinued Operations* – Amendments resulting from 2012-2014 Annual Improvements Cycle (effective from annual periods beginning on or after 1 January 2016)
- IFRS 7: *Financial Instruments: Disclosures* – Amendments resulting from September 2014 Annual Improvements to IFRSs (effective from annual periods beginning on or after 1 January 2016)
- 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)
- IFRS 10: *Consolidated Financial Statements* – Amendments on Sale or Contribution of Assets between an investor and its associate or joint venture (Deferred indefinitely)
- IFRS 10: *Consolidated Financial Statements* – Amendments related to the application of the investment entities exceptions (effective from annual periods beginning on or after 1 January 2016)
- IFRS 11: *Joint Arrangements* – Amendment requiring the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3: *Business Combinations*, to apply all of the principles on business combinations accounting in IFRS 3 (effective from annual periods beginning on or after 1 January 2016)
- IFRS 12: *Disclosure of Interests in Other Entities* – Amendments related to the application of the investment entities exceptions (effective from annual periods beginning on or after 1 January 2016)
- IFRS 14: *Regulatory Deferral Accounts* – Original issue (effective from annual periods beginning on or after 1 January 2016)
- IFRS 15: *Revenue from Contracts with Customers* – Original issue (effective from annual periods beginning on or after 1 January 2017)
- IFRS 15: *Revenue from Contracts with Customers* – Amendment to defer the effective date to 1 January 2018 (effective from annual periods beginning on or after 1 January 2018)

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 1. Accounting policies (continued)

### 1.1 Basis of presentation (continued)

#### Adoption of new and revised standards (continued)

**International Financial reporting Standards and Amendments issued but not yet effective for the financial year ended 30 June 2016 (continued)**

- IFRS 15: *Revenue from Contracts with Customers* – Clarifications to IFRS 15 (effective from annual periods beginning on or after 1 January 2018)
- IFRS 16: *Leases* – Original issue (effective from annual periods beginning on or after 1 January 2019)
- IFRS for SMEs – Amendments as the result of the first comprehensive review (effective from annual periods beginning on or after 1 January 2017)
- IAS 1: *Presentation of Financial Statements* – Amendments arising under the Disclosure Initiative (effective from annual periods beginning on or after 1 January 2016)
- IAS 7: *Cash Flow Statement* – Amendments as result of the Disclosure initiative (effective from annual periods beginning on or after 1 January 2017)
- IAS 12: *Income Taxes* – Amendments regarding the recognition of deferred tax assets for unrealised losses (effective from annual periods beginning on or after 1 January 2017)
- IAS 16: *Property, Plant and Equipment* – Amendments resulting from clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38) (effective from annual periods beginning on or after 1 January 2016)
- IAS 16: *Property, Plant and Equipment* – Amendments to include 'bearer plants' within the scope of IAS 16 rather than IAS 41 (effective from annual periods beginning on or after 1 January 2016)
- IAS 19: *Employee Benefits* – Amendments resulting from 2012-2014 Annual Improvements Cycle (effective from annual periods beginning on or after 1 January 2016)
- IAS 27: *Separate Financial Statements* – Amendments relating to equity method in separate financial statements (effective from annual periods beginning on or after 1 January 2016)
- 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)
- IAS 28: *Investments in Associates and Joint Ventures* – Amendments related to the application of the investment entities exceptions (effective from annual periods beginning on or after 1 January 2016)
- IAS 34: *Interim Financial Reporting* – Amendments resulting from 2012-2014 Annual Improvements Cycle (effective from annual periods beginning on or after 1 January 2016)
- IAS 38: *Intangible Assets* – Amendments resulting from clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38) (effective from annual periods beginning on or after 1 January 2016)
- IAS 41: *Agriculture* – Amendments to include 'bearer plants' within the scope of IAS 16 rather than IAS 41 (effective from annual periods beginning on or after 1 January 2016)

### 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 has the power to govern the financial and operating policies so as to obtain benefits from their activities. Control generally accompanies a shareholding of more than 50% of a subsidiary's voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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 Groups' 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 investments 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 an joint venture in excess of the Group's interest in that joint venture, which includes any long-term interest 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.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 1. Accounting policies (continued)

### 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.

#### 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 purchases taxes, but excluding trade discounts and rebates. Maintenance and repairs expenditure, which neither adds to the value of property and equipment nor significantly prolongs its expected useful life, is recognised directly in the 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 | 33% |
| Furniture and fittings | 10% |
| IT equipment | 33% |
| Computer software | 33% |
| Leasehold improvements | 33% |

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 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 income statement in the year in which they are identified. On disposal of an investment property, the difference between the net disposal proceeds and the carrying value is recognised in the income statement.

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 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.

## 1.7 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 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 has 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.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 1. Accounting policies (continued)

### 1.7 Non-derivative financial instruments (continued)

#### Financial assets (continued)

Investments (continued)

*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 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 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 has also transferred substantially all 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 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

The fair value of investments is based on quoted bid prices for listed instruments and collective investments 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. The fair values of the Constant Proportion Debt Obligation (CPDO) is determined using a mark to model approach.

#### 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; and
- Trade and other payables.

### 1.8 Impairment of tangible and intangible 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; or
- 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.

### 1.9 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.

### 1.10 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.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 1. Accounting policies (continued)

### 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 Policyholder insurance and investment contracts – Classification

#### Standards of Actuarial Practice (SAP) 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 APNs issued by ASSA.

In terms of IFRS 4: *Insurance Contracts* (IFRS 4), defined insurance liabilities are allowed to be measured under existing local practice. The Group and Company has adopted the Standards of Actuarial Practice (SAP) and Advisory Practice Notes (APN) issued by the Actuarial Society of South Africa (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; and
- 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 demarcates 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 as significant insurance risk 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.

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 manages 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.

### *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 capital adequacy requirements 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 (LT) 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 79, 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; and
- 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 2016 (2015: 3.7 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.

The Group and Company charge for mortality and morbidity risk on the basis of past scheme experience, industry class and average income amongst other factors. They have the right to alter these charges based upon its mortality and/or morbidity experience and hence minimise its 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 manages 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.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 1. Accounting policies (continued)

### 1.12 Policyholder insurance and investment contracts – Classification (continued)

#### Management of insurance and financial risk (continued)

i) Insurance risk (continued)

*Sources of uncertainty in the estimation of future benefit payments and premium receipts (continued)*

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 upon 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 maintains 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.

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 2016, 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 77 to 79 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 is 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 monitors 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 include 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.

## 1.13 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 as 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 estimates 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.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 1. Accounting policies (continued)

### 1.13 Revenue recognition and insurance activity expenditure (continued)

#### 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.

#### Marketing and administration expenses

Marketing and administration expenses include all the Group's and Company's operating expenditure, including indirect taxes and levies other than life insurance levies, as well as non-commission related expenditure, and are expensed as incurred.

### 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 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-services 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 are 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.

### 1.15 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.

### Secondary Tax on Companies (STC) and Dividend Withholding Tax

STC is charged to the income statement when the related dividend is declared. Unused STC credits are recognised as a deferred tax asset, when it is probable that they will be realised.

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 they are 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 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.

## 1.17 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.

## 1.18 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 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.

## 1.19 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.

## 1.20 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:

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 1 Accounting policies (continued)

### 1.20 Critical accounting estimates and judgements in applying accounting policies (continued)

#### 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 1.12 on page 96 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 is 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.

#### 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.

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 of 5.96%, 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 years' 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; and

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; and
- 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.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 2. Financial risk management (continued)

### 2.2 Exposure to risks arising from financial instruments (continued)

#### 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 is 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 Committee oversees how management monitors compliance with the Group's and Company's 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 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 are disclosed in note 3.1 (a) on page 107 of the annual 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. Under financial reinsurance agreements a discount or rebate is applied to the initial reinsurance premium(s) in order to assist the Group and Company 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 110 to 111. 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 111 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.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 2. Financial risk management (continued)

### 2.2 Exposure to risks arising from financial instruments (continued)

#### 2.2.3 Market risk

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 and Company's aggregated credit exposures. The carrying amount of these financial instruments represents the Group 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 | AA– R'000 | A+ R'000 | A– R'000 | BBB+ R'000 | BBB R'000 | BBB– R'000 | BB+ R'000 | B R'000 | CCC R'000 | Not rated R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | | | | |
| Unlisted investments – Preference Shares | – | – | – | – | – | – | – | – | – | – | 284 384 | 284 384 |
| Bonds – held at fair value through profit or loss* | – | – | 70 411 | 623 141 | 37 558 | 184 841 | 3 295 174 | 47 451 | 173 141 | – | 31 871 | 4 463 588 |
| Loans – interest-bearing | – | – | – | – | – | – | – | – | – | – | 178 229 | 178 229 |
| Loans – non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 12 818 | 12 818 |
| Other loans and receivables | – | – | – | – | – | – | – | – | – | – | 68 104 | 68 104 |
| Cash and cash equivalents | – | 41 459 | 135 | – | – | – | 1 453 115 | 13 995 | – | – | 208 124 | 1 716 828 |
| **Financial assets** | – | 41 459 | 70 546 | 623 141 | 37 558 | 184 841 | 4 748 289 | 61 446 | 173 141 | – | 783 530 | 6 723 951 |
| Premium debtors | – | – | – | – | – | – | – | – | – | – | 241 645 | 241 645 |
| Policy loans | – | – | – | – | – | – | – | – | – | – | 8 916 | 8 916 |
| Reinsurance assets | 1 216 | 27 015 | – | – | 48 634 | 38 477 | 19 639 | – | – | – | 629 | 135 610 |
| Other insurance assets | – | – | – | – | – | – | – | – | – | – | 105 035 | 105 035 |
| **Insurance assets** | 1 216 | 27 015 | – | – | 48 634 | 38 477 | 19 639 | – | – | – | 356 225 | 491 206 |
| **2015** | | | | | | | | | | | | |
| Loans to associates | – | – | – | – | – | – | – | – | – | – | 18 | 18 |
| Non-current assets held-for-sale | – | – | – | – | – | – | – | – | – | – | 26 622 | 26 622 |
| Unlisted investments | – | – | – | – | 58 469 | 143 238 | – | – | – | – | 4 298 595 | 4 500 302 |
| Bonds – held at fair value through profit or loss | – | – | 23 256 | 611 912 | 1 673 915 | 2 687 537 | 6 089 | 67 588 | – | 189 439 | 66 167 | 5 325 903 |
| Loans – interest-bearing | – | – | – | – | – | – | – | – | – | – | 100 146 | 100 146 |
| Other loans and receivables | – | – | – | – | – | – | – | – | – | – | 93 884 | 93 884 |
| Cash and cash equivalents | – | 156 383 | – | – | 805 030 | 978 448 | – | 11 032 | – | – | 19 946 | 1 970 839 |
| **Financial assets** | – | 156 383 | 23 256 | 611 912 | 2 537 414 | 3 809 223 | 6 089 | 78 620 | – | 189 439 | 4 605 378 | 12 017 714 |
| Premium debtors | – | – | – | – | – | – | – | – | – | – | 281 502 | 281 502 |
| Policy loans | – | – | – | – | – | – | – | – | – | – | 10 983 | 10 983 |
| Reinsurance assets | – | – | – | – | – | – | – | – | – | – | 127 095 | 127 095 |
| Other insurance assets | – | – | – | – | – | – | – | – | – | – | 86 270 | 86 270 |
| **Insurance assets** | – | – | – | – | – | – | – | – | – | – | 505 850 | 505 850 |

* *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 R0.63m (2015: R17.1m). This is determined using the differentiation in credit spreads year on year.*

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 3. Risk management (continued)

### 3.1 Credit risk (continued)

#### a) Credit rating (continued)

| COMPANY | AA R'000 | AA– R'000 | A+ R'000 | A– R'000 | BBB+ R'000 | BBB R'000 | BBB– R'000 | BB+ R'000 | B R'000 | CCC R'000 | Not rated R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | | | | |
| Unlisted investments – Preference shares | – | – | – | – | – | – | – | – | – | – | 283 173 | 283 173 |
| Bonds – held at fair value through profit or loss* | – | – | 70 411 | 623 141 | 37 558 | 184 841 | 3 295 174 | 47 451 | 173 141 | – | 31 871 | 4 463 588 |
| Loans – interest-bearing | – | – | – | – | – | – | – | – | – | – | 178 229 | 178 229 |
| Loans – non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 12 818 | 12 818 |
| Other loans and receivables | – | – | – | – | – | – | – | – | – | – | 74 657 | 74 657 |
| Cash and cash equivalents | – | 41 459 | 135 | – | – | – | 1 441 601 | 13 995 | – | – | 203 224 | 1 700 414 |
| **Financial assets** | – | 41 459 | 70 546 | 623 141 | 37 558 | 184 841 | 4 736 775 | 61 446 | 173 141 | – | 783 972 | 6 712 879 |
| Premium debtors | – | – | – | – | – | – | – | – | – | – | 241 645 | 241 645 |
| Policy loans | – | – | – | – | – | – | – | – | – | – | 8 916 | 8 916 |
| Reinsurance assets | 1 216 | 27 015 | – | – | 48 634 | 38 477 | 19 639 | – | – | – | 629 | 135 610 |
| Other insurance assets | – | – | – | – | – | – | – | – | – | – | 105 035 | 105 035 |
| **Insurance assets** | 1 216 | 27 015 | – | – | 48 634 | 38 477 | 19 639 | – | – | – | 356 225 | 491 206 |
| **2015** | | | | | | | | | | | | |
| Loans to subsidiaries | – | – | – | – | – | – | – | – | – | – | 7 834 | 7 834 |
| Loans to associates | – | – | – | – | – | – | – | – | – | – | 18 | 18 |
| Non-current assets held-for-sale | – | – | – | – | – | – | – | – | – | – | 26 622 | 26 622 |
| Unlisted investments | – | – | – | – | 58 469 | 143 238 | – | – | – | – | 4 297 468 | 4 499 175 |
| Bonds – held at fair value through profit or loss | – | – | 23 256 | 611 912 | 1 673 915 | 2 687 537 | 6 089 | 67 588 | – | 189 439 | 66 167 | 5 325 903 |
| Loans – interest-bearing | – | – | – | – | – | – | – | – | – | – | 100 146 | 100 146 |
| Other loans and receivables | – | – | – | – | – | – | – | – | – | – | 93 883 | 93 883 |
| Cash and cash equivalents | – | 156 383 | – | – | 805 030 | 978 448 | – | 11 032 | – | – | 6 | 1 950 899 |
| **Financial assets** | – | 156 383 | 23 256 | 611 912 | 2 537 414 | 3 809 223 | 6 089 | 78 620 | – | 189 439 | 4 592 144 | 12 004 482 |
| Premium debtors | – | – | – | – | – | – | – | – | – | – | 281 502 | 281 502 |
| Policy loans | – | – | – | – | – | – | – | – | – | – | 10 983 | 10 983 |
| Reinsurance assets | – | – | – | – | – | – | – | – | – | – | 127 095 | 127 095 |
| Other insurance assets | – | – | – | – | – | – | – | – | – | – | 86 270 | 86 270 |
| **Insurance assets** | – | – | – | – | – | – | – | – | – | – | 505 850 | 505 850 |

* *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 R0.63m (2015: R17.1m). This is determined using the differentiation in credit spreads year on year.*

## 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 |
| **2016** | | | | | | | | |
| Loans to associates | **–** | **–** | **3 022** | **3 022** | **–** | **–** | **3 022** | **3 022** |
| Unlisted investments | **4 942 596** | **–** | **–** | **4 942 596** | **4 941 385** | **–** | **–** | **4 941 385** |
| Bonds – at fair value through profit and loss | **4 463 588** | **–** | **–** | **4 463 588** | **4 463 588** | **–** | **–** | **4 463 588** |
| **Financial assets** | **9 406 184** | **–** | **3 022** | **9 409 206** | **9 404 973** | **–** | **3 022** | **9 407 995** |
| Premium debtors | **241 645** | **21 080** | **34 510** | **297 235** | **241 645** | **21 080** | **34 510** | **297 235** |
| **Insurance assets** | **241 645** | **21 080** | **34 510** | **297 235** | **241 645** | **21 080** | **34 510** | **297 235** |
| **2015** | | | | | | | | |
| Loans to associates | 18 | – | 3 064 | 3 082 | 18 | – | 3 064 | 3 082 |
| Unlisted investments | 4 697 420 | – | – | 4 697 420 | 4 696 293 | – | – | 4 696 293 |
| Bonds – at fair value through profit and loss | 5 325 904 | – | – | 5 325 904 | 5 325 904 | – | – | 5 325 904 |
| **Financial assets** | 10 023 342 | – | 3 064 | 10 026 406 | 10 022 215 | – | 3 064 | 10 025 279 |
| Premium debtors | 304 895 | – | 4 280 | 309 175 | 304 895 | – | 4 280 | 309 175 |
| **Insurance assets** | 304 895 | – | 4 280 | 309 175 | 304 895 | – | 4 280 | 309 175 |

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

| | GROUP | | | | | COMPANY | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Not past due <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 | Not past due <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 |
| **2016** | | | | | | | | | | |
| Premium debtors | **–** | **5 904** | **2 973** | **12 203** | **21 080** | **–** | **5 904** | **2 973** | **12 203** | **21 080** |
| | **–** | **5 904** | **2 973** | **12 203** | **21 080** | **–** | **5 904** | **2 973** | **12 203** | **21 080** |
| **2015** | | | | | | | | | | |
| Premium debtors | 304 895 | – | – | – | – | 304 895 | – | – | – | – |
| | 304 895 | – | – | – | – | 304 895 | – | – | – | – |

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:

| | 2016 R'000 | 2015 R'000 |
|---|---|---|
| Balance at beginning of year | **(4 280)** | (4 193) |
| – Collective impairment loss recognised | **(30 230)** | (87) |
| **Balance at end of year** | **(34 510)** | (4 280) |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 3. Risk management (continued)

### 3.2 Liquidity risk

#### 3.2.1 Liquidity profile of financial assets

The following tables detail the Group 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 | Total contractual cash flows | 0 – 12 months | 1 – 5 years | More than 5 years | Open-ended |
|---|---|---|---|---|---|---|
| **GROUP** | | | | | | |
| **2016** | | | | | | |
| Financial assets at fair value through profit or loss | **10 466 866** | **10 466 866** | **6 793 345** | **2 284 225** | **56 602** | **1 332 694** |
| Reinsurance assets | **135 610** | **135 610** | **135 610** | **–** | **–** | **–** |
| Insurance, loans and other receivables | **614 747** | **614 747** | **614 747** | **–** | **–** | **–** |
| Loans to Associates | **–** | **3 022** | **3 022** | **–** | **–** | **–** |
| Non-current assets held-for-sale | **–** | **–** | **–** | **–** | **–** | **–** |
| Cash and cash equivalents | **1 716 828** | **1 716 828** | **1 716 828** | **–** | **–** | **–** |
| | **12 934 051** | **12 937 073** | **9 263 552** | **2 284 225** | **56 602** | **1 332 694** |
| **2015** | | | | | | |
| Financial assets at fair value through profit or loss | 11 154 707 | 9 736 101 | 5 320 232 | 2 166 481 | 2 113 896 | 135 492 |
| Reinsurance assets | 127 095 | 127 095 | 127 095 | – | – | – |
| Insurance, loans and other receivables | 589 198 | 597 032 | 597 032 | – | – | – |
| Loans to Associates | 18 | 7 834 | 7 834 | – | – | – |
| Cash and cash equivalents | 1 967 507 | 1 955 993 | 1 955 993 | – | – | – |
| | 13 838 525 | 12 424 055 | 8 008 186 | 2 166 481 | 2 113 896 | 135 492 |
| **COMPANY** | | | | | | |
| **2016** | | | | | | |
| Financial assets at fair value through profit or loss | **10 465 655** | **10 465 655** | **6 792 134** | **2 284 225** | **56 602** | **1 332 694** |
| Reinsurance assets | **135 610** | **135 610** | **135 610** | **–** | **–** | **–** |
| Loans to Subsidiaries | **5 332** | **5 332** | **5 332** | **–** | **–** | **–** |
| Loans to Associates | **–** | **3 022** | **3 022** | **–** | **–** | **–** |
| Insurance, loans and other receivables | **621 300** | **621 300** | **621 300** | **–** | **–** | **–** |
| Cash and cash equivalents | **1 700 414** | **1 700 414** | **1 700 414** | **–** | **–** | **–** |
| | **12 928 311** | **12 931 333** | **9 257 812** | **2 284 225** | **56 602** | **1 332 694** |
| **2015** | | | | | | |
| Financial assets at fair value through profit or loss | 11 153 580 | 9 734 975 | 5 319 106 | 2 166 481 | 2 113 896 | 135 492 |
| Reinsurance assets | 127 095 | 127 095 | 127 095 | – | – | – |
| Insurance, loans and other receivables | 596 176 | 596 176 | 596 176 | – | – | – |
| Loans to Subsidiaries | 7 834 | 7 834 | 7 834 | – | – | – |
| Loans to Associates | 18 | 18 | 18 | – | – | – |
| Cash and cash equivalents | 1 950 900 | 1 950 900 | 1 950 900 | – | – | – |
| | 13 835 603 | 12 416 998 | 8 001 129 | 2 166 481 | 2 113 896 | 135 492 |

### 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 |
| **2016** | | | | | | |
| **Insurance liabilities** | | | | | | |
| Reinsurance liabilities | **132 677** | **132 677** | **–** | **132 677** | **132 677** | **–** |
| Outstanding claims | **312 734** | **–** | **312 734** | **312 734** | **–** | **312 734** |
| Policyholder liabilities | **9 363 579** | **–** | **9 363 579** | **9 363 579** | **–** | **9 363 579** |
| | **9 808 990** | **132 677** | **9 676 313** | **9 808 990** | **132 677** | **9 676 313** |
| **Financial liabilities** | | | | | | |
| Trade and other payables | **410 160** | **410 160** | **–** | **410 269** | **410 269** | **–** |
| | **410 160** | **410 160** | **–** | **410 269** | **410 269** | **–** |
| **2015** | | | | | | |
| **Insurance liabilities** | | | | | | |
| Reinsurance liabilities | 144 767 | – | 144 767 | 144 767 | – | 144 767 |
| Outstanding claims | 353 139 | – | 353 139 | 353 139 | – | 353 139 |
| Policyholder liabilities | 10 177 737 | – | 10 177 737 | 10 177 737 | – | 10 177 737 |
| | 10 675 643 | – | 10 675 643 | 10 675 643 | – | 10 675 643 |
| **Financial liabilities** | | | | | | |
| Trade and other payables | 383 552 | 383 552 | – | 379 244 | 379 244 | – |
| | 383 552 | 383 552 | – | 379 244 | 379 244 | – |

## 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:

| | 2016 | | | | 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Asset class | ZAR carrying amount R'000 | USD $'000 | Euro €'000 | GBP £'000 | ZAR carrying amount R'000 | USD $'000 | Euro €'000 | GBP £'000 | AUD $'000 |
| **Financial assets** | | | | | | | | | |
| Listed equities | **–** | **–** | **–** | **–** | 159 438 | – | – | 7 325 | 2 024 |
| Hedge fund investments | **2 895** | **114** | **–** | **63** | 229 201 | 6 888 | 688 | 1 366 | – |
| Unit trusts | **–** | **–** | **–** | **–** | 54 756 | 4 500 | – | – | – |
| Cash and cash equivalents | **184 584** | **9 891** | **–** | **2 032** | 156 333 | 9 661 | – | 2 025 | – |
| **Gross statement of financial position exposure** | **187 479** | **10 005** | **–** | **2 095** | 599 728 | 21 049 | 688 | 10 716 | 2 024 |

The following significant exchange rates applied during the year:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Average rate | Reporting date spot rate | Average rate | Reporting date spot rate |
| USD | **14.50** | **14.66** | 11.54 | 12.17 |
| Euro | **16.10** | **16.29** | 13.64 | 13.56 |
| GBP | **21.45** | **19.49** | 18.04 | 19.12 |
| AUD | **10.55** | **10.95** | 9.48 | 9.38 |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 3. Risk management (continued)

### 3.3. Market risk (continued)

#### 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** |
| **2016** | | | | |
| USD | **7 254** | **(7 254)** | **7 333** | **(7 333)** |
| GBP | **2 246** | **(2 246)** | **2 041** | **(2 041)** |
| | **9 500** | **(9 500)** | **9 374** | **(9 374)** |
| **2015** | | | | |
| USD | 12 099 | (12 099) | 12 807 | (12 807) |
| Euro | (469) | 469 | 466 | (466) |
| GBP | 9 667 | (9 667) | 10 244 | (10 244) |
| AUD | 959 | (959) | 949 | (949) |
| | 22 256 | (22 256) | 24 466 | (24 466) |

#### 3.3.3 Interest rate risk

Group

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

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **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 two years or less | **3 011 630** | **7.96** | **7.84** | 3 398 075 | 7.29 | 8.81 |
| – Due between two and five years | **1 398 906** | **9.20** | **8.57** | 1 871 510 | 7.91 | 8.60 |
| – Due after five years | **53 052** | **7.38** | **7.38** | 56 318 | 10.70 | 10.52 |
| | **4 463 588** | | | 5 325 903 | | |

| Group | 2016 | 2015 |
|---|---|---|
| | **Carrying amount R'000** | Carrying amount R'000 |
| **Variable rate instruments** | | |
| Financial assets | | |
| Loans – interest-bearing | **178 229** | 100 146 |
| Cash and cash equivalents | **1 716 828** | 1 967 507 |
| | **1 895 057** | 2 067 653 |

### Company

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

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **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 two years or less | **3 011 630** | **7.96** | **7.84** | 3 398 075 | 7.29 | 8.81 |
| – Due between two and five years | **1 398 906** | **9.20** | **8.57** | 1 871 510 | 7.91 | 8.60 |
| – Due after five years | **53 052** | **7.38** | **7.38** | 56 318 | 10.70 | 10.52 |
| | **4 463 588** | | | 5 325 903 | | |
| **Variable rate instruments** | | | | | | |
| *Financial assets* | | | | | | |
| Loans – interest bearing | **178 229** | | | 100 146 | | |
| Cash and cash equivalents | **1 700 414** | | | 1 950 900 | | |
| | **1 878 643** | | | 2 051 046 | | |

#### 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 2015.

| | Profit/(loss) | | Equity | |
|---|---|---|---|---|
| | **1% increase** | **1% decrease** | **1% increase** | **1% decrease** |
| **2016** | | | | |
| Loans – interest bearing | **(1 962)** | **1 962** | (1 962) | 1 962 |
| Cash and cash equivalents | **31 772** | **(31 772)** | 31 772 | (31 772) |
| **Net cash flow sensitivity** | **29 810** | **(29 810)** | 29 810 | (29 810) |
| **2015** | | | | |
| Loans – interest bearing | 107 | (107) | 107 | (107) |
| Cash and cash equivalents | 44 991 | (44 991) | (44 991) | 44 991 |
| **Net cash flow sensitivity** | 45 098 | (45 098) | (44 884) | 44 884 |

## 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:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **Description of equity investment** | **Carrying amount R'000** | **Listed/ not listed** | **Relevant stock exchange** | Carrying amount R'000 | Listed/ not listed | Relevant stock exchange |
| Ordinary shares | **1 060 682** | **Listed** | **JSE** | 971 945 | Listed | JSE |
| Ordinary shares | **–** | **Listed** | **Foreign** | 159 438 | Listed | Foreign |
| Ordinary shares | **184 187** | **Not listed** | **N/A** | 398 826 | Not listed | N/A |
| Preference shares | **359 770** | **Not listed** | **N/A** | 242 725 | Not listed | N/A |
| | **1 604 639** | | | 1 772 934 | | |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 3. Risk management (continued)

### 3.4 Equity price risk (continued)

#### 3.4.1 Sensitivity analysis (continued)

Sensitivity analysis

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 for 2015.

| | Profit/(loss) | | Equity | |
|---|---|---|---|---|
| | 2% increase R'000 | 2% decrease R'000 | 2% increase R'000 | 2% decrease R'000 |
| **2016** | | | | |
| **Description of equity investment** | | | | |
| Ordinary shares-JSE | **21 214** | **(21 214)** | **(21 214)** | **21 214** |
| | **21 214** | **(21 214)** | **(21 214)** | **21 214** |
| **2015** | | | | |
| **Description of equity investment** | | | | |
| Ordinary shares-JSE | (19 439) | 19 439 | (19 439) | 19 439 |
| Ordinary shares -Foreign | 3 189 | (3 189) | 3 189 | (3 189) |
| | (16 250) | 16 250 | (16 250) | 16 250 |

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 for 2015.

| | Profit/(loss) | | Equity | |
|---|---|---|---|---|
| | 2% increase R'000 | 2% decrease R'000 | 2% increase R'000 | 2% decrease R'000 |
| **2016** | | | | |
| **Description of equity investment** | | | | |
| Ordinary shares | **6 074** | **(6 074)** | **6 074** | **(6 074)** |
| Preference shares | **5 038** | **(5 038)** | **5 038** | **(5 038)** |
| | **11 112** | **(11 112)** | **11 112** | **(11 112)** |
| **2015** | | | | |
| **Description of equity investment** | | | | |
| Ordinary shares | 7 027 | (7 027) | 7 027 | (7 027) |
| Preference shares | 3 885 | (3 885) | 3 885 | (3 885) |
| | 10 912 | (10 912) | 10 912 | (10 912) |

## 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 | |
|---|---|---|---|---|
| | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| Interest income on unimpaired loans and receivables | **11 237** | (7 250) | **11 237** | (7 250) |
| Interest income on financial assets measured at amortised cost | **84 573** | 69 512 | **84 573** | 69 512 |
| Interest income on financial assets designated as at fair value through profit and loss | **424 075** | 543 775 | **424 075** | 543 775 |
| Net gain on financial assets as at fair value through profit and loss* | **39 525** | 107 969 | **39 525** | 107 969 |
| **Financial income** | **559 410** | 714 006 | **559 410** | 714 006 |
| Interest expense on financial liabilities measured at amortised cost | **7 349** | 6 522 | **7 349** | 6 522 |
| Net fee costs from third parties in respect of holding financial assets on their behalf | **11 369** | 9 827 | **11 369** | 9 827 |
| **Financial expense** | **18 718** | 16 349 | **18 718** | 16 349 |
| **Net financial income** | **540 692** | 697 657 | **540 692** | 697 657 |
| 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 | **95 810** | 62 262 | **95 810** | 62 262 |
| – Total interest expense | **7 349** | 6 522 | **7 349** | 6 522 |
| | **88 461** | 55 740 | **88 461** | 55 740 |

* *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 2016 R'000 | GROUP 2015 R'000 | COMPANY 2016 R'000 | COMPANY 2015 R'000 |
|---|---|---|---|---|
| **Impairment of loans** | | | | |
| impairment recognised | **–** | – | **42** | 336 |
| **Impairment of premium debtors** | | | | |
| impairment recognised | **34 510** | 4 280 | **34 510** | 4 280 |
| **Total** | **34 510** | 4 280 | **34 552** | 4 616 |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

| | GROUP 2016 R'000 | GROUP 2015 R'000 | COMPANY 2016 R'000 | COMPANY 2015 R'000 |
|---|---|---|---|---|
| **4. Property and equipment** | | | | |
| **Cost** | | | | |
| Office equipment | **3 966** | 2 544 | **3 240** | 2 117 |
| Motor vehicles | **322** | 53 | **322** | 53 |
| Furniture and fittings | **1 025** | 954 | **–** | – |
| IT equipment | **1 980** | 1 866 | **–** | – |
| Computer software equipment | **–** | 5 771 | **–** | – |
| Leasehold improvements | **8 000** | 8 000 | **–** | – |
| Total Property and equipment cost | **15 293** | 19 188 | **3 562** | 2 170 |
| **Accumulated depreciation** | | | | |
| Office equipment | **1 148** | 674 | **755** | 326 |
| Motor vehicles | **47** | 11 | **47** | 11 |
| Furniture and fittings | **661** | 619 | **–** | – |
| Computer software equipment | **–** | 5 771 | **–** | – |
| IT equipment | **1 539** | 1 474 | **–** | – |
| Leasehold improvements | **8 000** | 8 000 | **–** | – |
| Total Accumulated depreciation | **11 395** | 16 549 | **802** | 337 |
| **Net carrying amount** | | | | |
| Office equipment | **2 818** | 1 870 | **2 485** | 1 791 |
| Motor vehicles | **275** | 42 | **275** | 42 |
| Furniture and fittings | **364** | 335 | **–** | – |
| IT equipment | **441** | 392 | **–** | – |
| **Total Net Carrying Amount** | **3 898** | 2 639 | **2 760** | 1 833 |
| **Reconciliation of movement on net carrying amount:** | | | | |
| **Net carrying amount at beginning of year** | **2 639** | 2 197 | **1 833** | – |
| **Additions** | **1 878** | 2 264 | **1 394** | 2 170 |
| Office equipment | **1 425** | 2 117 | **1 125** | 2 116 |
| Motor vehicles | **269** | 53 | **269** | 54 |
| Furniture and fittings | **71** | 19 | **–** | – |
| IT equipment | **113** | 75 | **–** | – |
| **Disposals** | **–** | (124) | **–** | – |
| Office equipment | **–** | (25) | **–** | – |
| Motor vehicles | **–** | (39) | **–** | – |
| Furniture and fittings | **–** | (33) | **–** | – |
| IT equipment | **–** | (27) | **–** | – |
| **Depreciation for the year** | **(619)** | (1 698) | **(467)** | (337) |
| Office equipment | **(476)** | (342) | **(430)** | (326) |
| Motor vehicles | **(37)** | (10) | **(37)** | (11) |
| Leasehold improvements | **–** | (828) | **–** | – |
| Furniture and fittings | **(41)** | (13) | **–** | – |
| Computer software equipment | **–** | (423) | **–** | – |
| IT equipment | **(65)** | (82) | **–** | – |
| **Net carrying amount at end of year** | **3 898** | 2 639 | **2 760** | 1 833 |

| | GROUP | |
|---|---|---|
| | **2016 R'000** | 2015 R'000 |

## 5. Goodwill

| | **2016 R'000** | 2015 R'000 |
|---|---|---|
| **Fair value** | | |
| Balance at beginning of year | **–** | 27 277 |
| Impairment of goodwill | **–** | (27 277) |
| **At end of year** | **–** | – |

The Group and Company tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. As at 30 June 2015, there was a full impairment of the goodwill.

## 6. Intangible assets

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| **Intangible assets at fair value** | | | | |
| **Cost** | | | | |
| Re-acquired rights | **–** | 3 300 | **–** | 3 300 |
| Computer software | **24 257** | 6 924 | **18 717** | 6 924 |
| | **24 257** | 10 224 | **18 717** | 10 224 |
| **Accumulated amortisation and impairment** | | | | |
| Re-acquired rights | **–** | – | **–** | – |
| Computer software | **(8 413)** | (678) | **(2 873)** | (678) |
| | **(8 413)** | (678) | **(2 873)** | (678) |
| **Net carrying amount** | | | | |
| Re-acquired rights | **–** | 3 300 | **–** | 3 300 |
| Computer software | **15 844** | 6 246 | **15 844** | 6 246 |
| | **15 844** | 9 546 | **15 844** | 9 546 |
| **Intangible assets at fair value** | | | | |
| **Reconciliation of movement on net carrying amount:** | | | | |
| **Net carrying amount at beginning of year** | **9 546** | 4 300 | **9 546** | 4 300 |
| **Additions** | **14 128** | 5 924 | **14 128** | 5 924 |
| Computer software | **14 128** | 5 924 | **14 128** | 5 924 |
| **Write-off** | **(5 635)** | – | **(5 635)** | – |
| Re-acquired rights | **(3 300)** | – | **(3 300)** | – |
| Computer software | **(2 335)** | – | **(2 335)** | – |
| **Impairment, amortisation charge** | **(2 195)** | (678) | **(2 195)** | (678) |
| Computer software | **(2 195)** | (678) | **(2 195)** | (678) |
| **Net carrying value at end of year** | **15 844** | 9 546 | **15 844** | 9 546 |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 7. Interest in subsidiaries

| | COMPANY 2016 R'000 | COMPANY 2015 R'000 |
|---|---|---|
| **Interest in subsidiaries comprise:** | | |
| Shares at fair value through profit or loss | **14 287** | 5 697 |
| Loans to subsidiaries | **8 396** | 11 399 |
| | **22 683** | 17 096 |
| Impairment on loans | **(3 064)** | (3 565) |
| | **19 619** | 13 531 |
| The terms of the loans that the Company has provided to its subsidiaries are as follows: | | |
| a) Hollard Life Properties (Pty) Ltd: Unsecured loan bearing interest at 8.5% per annum that is repayable quarterly over 10 years. The final payment was due on 15 June 2015. | **–** | 346 |
| b) Hollard Wealth Management Services (Pty) Ltd: Unsecured, interest-free loan with no specified date of repayment. | **–** | 2 404 |
| c) The Best Funeral Society (Pty) Limited: Secured interest loan repayable on or before 31 July 2016. | **5 332** | 5 084 |
| **Loans – 30 June** | **5 332** | 7 834 |

Details of subsidiaries are provided in note 36 on page 135 of these financial statements.

## 8. Investments in associates

| | GROUP 2016 R'000 | GROUP 2015 R'000 | COMPANY 2016 R'000 | COMPANY 2015 R'000 |
|---|---|---|---|---|
| **Investments in associates comprise:** | | | | |
| Shares at fair value through profit or loss | | | **65 437** | 57 715 |
| Shares at cost | **66 058** | 59 018 | **–** | – |
| Group share of post-acquisition profits | **(7 163)** | (764) | **–** | – |
| **Carrying value of associates** | **58 895** | 58 254 | **65 437** | 57 715 |
| Loans to associates | **–** | 18 | **–** | 18 |
| | **58 895** | 58 272 | **65 437** | 57 733 |
| **Loans – 30 June** | | | | |
| The terms of the loans that the Company has provided to its associates are as follows: | | | | |
| a) Prorisk Pooling Scheme Administrators (Pty) Ltd | | | | |
| Unsecured, interest-free loan with no specified date of repayment | | | **–** | 18 |
| Provision for impairment. | | | **–** | – |
| | | | **–** | 18 |

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

| | COMPANY R'000 Investment | COMPANY R'000 Total |
|---|---|---|
| **Analysis of associates for 30 June 2016** | | |
| Total assets | **298 082** | **298 082** |
| Total liabilities | **90 167** | **90 167** |
| Net assets | **207 915** | **207 915** |
| Net profit before taxation | **74 492** | **74 492** |
| Taxation | **(19 239)** | **(19 239)** |
| Net profit after taxation | **55 253** | **55 253** |
| Group share of post acquisition profits | **(7 163)** | **(7 163)** |
| Carrying amount of interest in associates | **65 437** | **65 437** |
| Loans to associates | **–** | **–** |
| Fair valuation of associates (at Company level) | **65 437** | **65 437** |
| **Analysis of associates for 30 June 2015** | | |
| Total assets | 334 079 | 334 079 |
| Total liabilities | 258 617 | 258 617 |
| Net assets | 75 462 | 75 462 |
| Net profit before taxation | 133 681 | 133 681 |
| Taxation | (46 135) | (46 135) |
| Net profit after taxation | 87 546 | 87 546 |
| Group share of post acquisition profits | 169 944 | 169 944 |
| Carrying amount of interest in associates | 57 715 | 57 715 |
| Loans to associates | 18 | 18 |
| Fair valuation of associates (at Company level) | 57 715 | 57 715 |

## 9. Financial assets

| | GROUP 2016 R'000 | GROUP 2015 R'000 | COMPANY 2016 R'000 | COMPANY 2015 R'000 |
|---|---|---|---|---|
| Designated as fair value through profit and loss | **10 466 866** | 11 154 706 | **10 465 655** | 11 153 580 |
| | **10 466 866** | 11 154 706 | **10 465 655** | 11 153 580 |
| Group and Company's financial assets are designated into the following four broad categories for management reporting purposes: | | | | |
| Listed investments (financial assets designated as at fair value through profit and loss) | **1 060 682** | 1 131 383 | **1 060 682** | 1 131 383 |
| Unlisted investments (financial assets designated as at fair value through profit and loss) | **4 942 596** | 4 697 419 | **4 941 385** | 4 696 293 |
| Bonds (financial assets designated as at fair value through profit and loss) | **4 463 588** | 5 325 904 | **4 463 588** | 5 325 904 |
| | **10 466 866** | 11 154 706 | **10 465 655** | 11 153 580 |
| **Listed investments** | | | | |
| Shares at fair value | **1 060 682** | 1 131 383 | **1 060 682** | 1 131 383 |
| **Unlisted investments** | | | | |
| Shares at fair value | **436 888** | 395 132 | **436 888** | 395 132 |
| Linked products at fair value | **4 505 708** | 4 302 287 | **4 504 497** | 4 301 161 |
| **At fair value** | **4 942 596** | 4 697 419 | **4 941 385** | 4 696 293 |
| **Total listed and unlisted investments at fair value** | **6 003 278** | 5 828 802 | **6 002 067** | 5 827 676 |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 9. Financial assets (continued)

**Debt securities (Bonds)**

| | R'000 | Maturity spread % | Nominal interest rate % | Effective Interest rate % |
|---|---|---|---|---|
| **Bonds** (Financial assets carried at fair value through profit or loss): | | | | |
| **GROUP AND COMPANY** | | | | |
| **Analysis of bonds by maturity spread for 30 June 2016** | | | | |
| 0 – 2 years | **3 011 630** | **67.50** | **7.96** | **7.84** |
| 2 – 5 years | **1 398 906** | **31.30** | **9.20** | **8.57** |
| Later than five years | **53 052** | **1.20** | **7.38** | **7.38** |
| | **4 463 588** | **100** | | |
| **Analysis of bonds by maturity spread for 30 June 2015** | | | | |
| 0 – 2 years | 3 398 075 | 63.80 | 7.29 | 8.81 |
| 2 – 5 years | 1 871 510 | 35.10 | 7.91 | 8.60 |
| Later than five years | 56 318 | 1.10 | 10.70 | 10.52 |
| | 5 325 904 | 100 | | |

All bonds reported above are South African in origin.

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

| | Designated as 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** | | | | | | | |
| **2016** | | | | | | | |
| **Assets** | | | | | | | |
| Investments in associates | **–** | **–** | **–** | **–** | **58 895** | **58 895** | **58 895** |
| Financial assets | **10 466 866** | **–** | **10 466 866** | **–** | **–** | **10 466 866** | **10 466 866** |
| Reinsurance assets | **–** | **–** | **–** | **135 610** | **–** | **135 610** | **–** |
| Insurance, loans and other receivables | **–** | **274 619** | **274 619** | **248 456** | **91 672** | **614 747** | **274 619** |
| Cash and cash equivalents | **–** | **1 716 827** | **1 716 827** | **–** | **–** | **1 716 827** | **1 716 827** |
| | **10 466 866** | **1 991 446** | **12 458 312** | **384 066** | **150 567** | **12 992 945** | **12 517 207** |
| **Liabilities** | | | | | | | |
| Policyholder liabilities | **–** | **–** | **–** | **9 363 579** | **–** | **9 363 579** | **–** |
| Outstanding claims | **–** | **–** | **–** | **312 734** | **–** | **312 734** | **–** |
| Reinsurance liabilities | **–** | **–** | **–** | **132 677** | **–** | **132 677** | **–** |
| Provisions for other liabilities and charges | **–** | **–** | **–** | **–** | **227 314** | **227 314** | **–** |
| Trade and other payables | **–** | **–** | **–** | **284 384** | **125 776** | **410 160** | **–** |
| | **–** | **–** | **–** | **10 093 374** | **353 090** | **10 446 464** | **–** |
| **2015** | | | | | | | |
| **Assets** | | | | | | | |
| Investments in associates | – | – | – | – | 58 272 | 58 272 | – |
| Non-current asset held-for-sale | – | – | 252 334 | – | | 252 334 | 252 334 |
| Financial assets | 11 154 706 | – | 11 154 706 | – | – | 11 154 706 | 11 154 706 |
| Reinsurance assets | – | – | – | 127 095 | – | 127 095 | – |
| Insurance, loans and other receivables | – | 228 406 | 228 406 | 294 525 | 74 102 | 597 033 | 228 406 |
| Cash and cash equivalents | – | 1 970 839 | 1 970 839 | – | – | 1 970 839 | 1 970 839 |
| | 11 154 706 | 2 199 245 | 13 606 285 | 421 620 | 132 374 | 14 160 279 | 13 606 285 |
| **Liabilities** | | | | | | | |
| Policyholder liabilities | – | – | – | 10 177 737 | – | 10 177 737 | – |
| Outstanding claims | – | – | – | 353 139 | – | 353 139 | – |
| Reinsurance liabilities | – | – | – | 144 767 | – | 144 767 | – |
| Provisions for other liabilities and charges | – | – | – | – | 154 610 | 154 610 | – |
| Trade and other payables | – | 4 308 | 4 308 | 242 887 | 136 357 | 383 552 | 4 308 |
| | – | 4 308 | 4 308 | 10 918 530 | 290 967 | 11 213 805 | 4 308 |

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

| | Designated as 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** | | | | | | | |
| **2016** | | | | | | | |
| **Assets** | | | | | | | |
| Interest in subsidiaries | **19 619** | **–** | **19 619** | **–** | **–** | **19 619** | **19 619** |
| Investments in associates | **65 437** | **–** | **65 437** | **–** | **–** | **65 437** | **65 437** |
| Financial assets | **10 465 655** | **–** | **10 465 655** | **–** | **–** | **10 465 655** | **10 465 655** |
| Reinsurance assets | **–** | **–** | **–** | **135 610** | **–** | **135 610** | **–** |
| Insurance, loans and other receivables | **–** | **274 619** | **274 619** | **248 456** | **98 225** | **621 300** | **274 619** |
| Cash and cash equivalents | **–** | **1 700 413** | **1 700 413** | **–** | **–** | **1 700 413** | **1 700 413** |
| **Total assets** | **10 550 711** | **1 975 032** | **12 525 743** | **384 066** | **98 225** | **13 008 034** | **12 525 743** |
| **Liabilities** | | | | | | | |
| Policyholder liabilities | **–** | **–** | **–** | **9 363 579** | **–** | **9 363 579** | **–** |
| Outstanding claims | **–** | **–** | **–** | **312 734** | **–** | **312 734** | **–** |
| Reinsurance liabilities | **–** | **–** | **–** | **132 677** | **–** | **132 677** | **–** |
| Provisions for other liabilities and charges | **–** | **–** | **–** | **–** | **378 097** | **378 097** | **–** |
| Trade and other payables | **–** | **–** | **–** | **284 384** | **125 885** | **410 269** | **–** |
| **Total liabilities** | **–** | **–** | **–** | **10 093 374** | **503 982** | **10 597 356** | **–** |
| **2015** | | | | | | | |
| **Assets** | | | | | | | |
| Interest in subsidiaries | 13 531 | – | 13 531 | – | – | 13 531 | 13 531 |
| Investments in associates | 57 733 | – | 57 733 | – | – | 57 733 | 57 733 |
| Non-current asset held-for-sale | 310 175 | – | 310 175 | – | – | 310 175 | 310 175 |
| Financial assets | 11 153 580 | – | 11 153 580 | – | – | 11 153 580 | 11 153 580 |
| Reinsurance assets | – | – | – | 127 095 | – | 127 095 | – |
| Insurance, loans and other receivables | – | 228 406 | 228 406 | 294 525 | 73 247 | 596 178 | 228 406 |
| Cash and cash equivalents | – | 1 950 900 | 1 950 900 | – | – | 1 950 900 | 1 950 900 |
| **Total assets** | 11 535 019 | 2 179 306 | 13 714 325 | 421 620 | 73 247 | 14 209 192 | 13 714 325 |
| **Liabilities** | | | | | | | |
| Policyholder liabilities | – | – | – | 10 177 737 | – | 10 177 737 | – |
| Outstanding claims | – | – | – | 353 139 | – | 353 139 | – |
| Reinsurance liabilities | – | – | – | 144 767 | – | 144 767 | – |
| Provisions for other liabilities and charges | – | – | – | – | 154 610 | 154 610 | – |
| Trade and other payables | – | – | – | 242 887 | 136 357 | 379 244 | – |
| Shareholder for dividends | – | – | – | – | 9 831 | 9 831 | – |
| **Total liabilities** | – | – | – | 10 918 530 | 300 798 | 11 219 328 | – |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 10. (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** | | | | |
| **2016** | | | | |
| **Financial assets carried at fair value through profit or loss** | | | | |
| Listed – ordinary | **1 026 896** | **–** | **–** | **1 026 896** |
| Listed debentures | **33 786** | **–** | **–** | **33 786** |
| Unlisted ordinary shares* | **76 974** | **–** | **144** | **77 118** |
| Unlisted preference shares* | **–** | **–** | **359 770** | **359 770** |
| Unit trusts | **–** | **1 391 646** | **–** | **1 391 646** |
| Bonds | **524 745** | **3 938 844** | **–** | **4 463 589** |
| Hedge fund investments | **–** | **2 998 797** | **–** | **2 998 797** |
| Annuities | **–** | **115 264** | **–** | **115 264** |
| | **1 662 401** | **8 444 551** | **359 914** | **10 466 866** |

* *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 |
|---|---|---|---|---|
| **2015** | | | | |
| **Financial assets carried at fair value through profit or loss** | | | | |
| Listed – ordinary | 1 089 287 | – | – | 1 089 287 |
| Unlisted ordinary shares* | 44 712 | – | 152 407 | 197 119 |
| Unlisted preference shares* | – | – | 242 725 | 242 725 |
| Unit trusts | – | 1 199 609 | – | 1 199 609 |
| Bonds | 475 761 | 4 850 142 | – | 5 325 903 |
| Hedge fund investments | – | 2 828 773 | – | 2 828 773 |
| Annuities | – | 201 707 | – | 201 707 |
| | 1 609 760 | 9 080 231 | 395 132 | 11 085 123 |

* *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** | | | | |
| **2016** | | | | |
| **Financial assets carried at fair value through profit or loss** | | | | |
| Listed – ordinary | **1 026 896** | **–** | **–** | **1 026 896** |
| Listed debentures | **33 786** | **–** | **–** | **33 786** |
| Unlisted ordinary shares* | **76 974** | **–** | **144** | **77 118** |
| Unlisted preference shares* | **–** | **–** | **359 770** | **359 770** |
| Unit trusts | **–** | **1 390 435** | **–** | **1 390 435** |
| Bonds | **524 745** | **3 938 844** | **–** | **4 463 589** |
| Hedge fund investments | **–** | **2 998 797** | **–** | **2 998 797** |
| Annuities | **–** | **115 264** | **–** | **115 264** |
| Investment in associate | **–** | **–** | **65 437** | **65 437** |
| Investment in subsidiary | **–** | **–** | **19 619** | **19 619** |
| | **1 662 401** | **8 443 340** | **444 970** | **10 550 711** |

* *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 |
|---|---|---|---|---|
| **2015** | | | | |
| **Financial assets carried at fair value through profit or loss** | | | | |
| Listed – ordinary | 1 089 287 | – | – | 1 089 287 |
| Unlisted ordinary shares* | 44 712 | – | 152 407 | 197 119 |
| Unlisted preference shares* | – | – | 242 725 | 242 725 |
| Unit trusts | – | 1 199 609 | – | 1 199 609 |
| Bonds | 475 761 | 4 850 142 | – | 5 325 903 |
| Hedge fund investments | – | 2 828 773 | – | 2 828 773 |
| Annuities | – | 201 707 | – | 201 707 |
| Investment in associate | – | – | 57 733 | 57 733 |
| Investment in subsidiary | – | – | 13 531 | 13 531 |
| | 1 609 760 | 9 080 231 | 466 396 | 11 156 387 |

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

Included in the 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 the 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. 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 are based on available market data.

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 are based on available market 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 financial assets and liabilities which are recorded at fair value:

| GROUP | At 1 July 2015 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 2016 R'000 | Total gains or losses for the period included in profit or loss for assets held at 30 June 2016 R'000 |
|---|---|---|---|---|---|---|---|
| **Financial assets carried at fair value through profit or loss** | | | | | | | |
| Unlisted ordinary shares | 152 407 | 40 078 | – | 4 748 | (197 089) | 144 | 40 078 |
| Unlisted preference shares | 242 725 | (5 806) | 111 815 | 26 039 | (15 003) | 359 770 | (5 806) |
| **Total financial instruments** | 395 132 | 43 585 | 111 815 | 30 787 | (212 092) | 359 914 | 43 585 |

| COMPANY | At 1 July 2015 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 2016 R'000 | Total gains or losses for the period included in profit or loss for assets held at 30 June 2016 R'000 |
|---|---|---|---|---|---|---|---|
| **Financial assets carried at fair value through profit or loss** | | | | | | | |
| Unlisted ordinary shares | 152 407 | 40 078 | – | 4 748 | (197 089) | 144 | 40 078 |
| Unlisted preference shares | 242 725 | (5 806) | 111 815 | 26 039 | (15 003) | 359 770 | (5 806) |
| Investment in associate | 57 733 | 682 | 7 040 | – | (18) | 65 437 | 682 |
| Investment in subsidiary | 13 531 | 8 631 | – | – | (2 543) | 19 619 | 8 631 |
| **Total financial instruments** | 466 396 | 52 898 | 118 855 | 30 787 | (214 653) | 444 970 | 52 898 |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

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

### Determination of fair value and fair value hierarchy

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

| | 2016 | | |
|---|---|---|---|
| | 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 | 522 127 | (441 964) | 80 163 |
| | 522 127 | (441 964) | 80 163 |
| **COMPANY** | | | |
| Total gains or losses included in profit or loss for the year | 464 286 | (413 052) | 51 234 |
| | 464 286 | (413 052) | 51 234 |

### 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:

| | 2016 | | | |
|---|---|---|---|---|
| | 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 | 144 | 14 | 144 | 14 |
| Unlisted preference shares | 359 770 | 35 977 | 359 770 | 35 977 |
| Investment in associate | – | – | 65 437 | 6 544 |
| Investment in subsidiary | – | – | 19 619 | 1 962 |
| **Total financial instrument** | 359 914 | 35 991 | 444 970 | 44 497 |

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%.

## 11. Insurance, loans and other receivables

| | GROUP 2016 R'000 | GROUP 2015 R'000 | COMPANY 2016 R'000 | COMPANY 2015 R'000 |
|---|---|---|---|---|
| **Insurance, loans and other receivables** | | | | |
| Premium debtors | **265 037** | 304 895 | **265 038** | 304 895 |
| Sundry debtors | **141 362** | 56 625 | **147 914** | 55 770 |
| Prepaid expenses | **8 384** | 7 956 | **8 384** | 7 956 |
| **Total insurance and other receivables** | **414 783** | 369 476 | **421 336** | 368 621 |
| **Loans bearing interest** | | | | |
| Secured interest and interest-free loans | **103 896** | 111 129 | **103 896** | 111 129 |
| **Total loans[1]** | **103 896** | 111 129 | **103 896** | 111 129 |
| **Receivable from Group companies** | | | | |
| Receivable from Group companies | **96 068** | 116 428 | **96 068** | 116 428 |
| **Total due from Group companies[2]** | **96 068** | 116 428 | **96 068** | 116 428 |
| **Total Insurance, loans and other receivables** | **614 747** | 597 032 | **621 300** | 596 178 |
| *(1) The interest rates charged on the secured loans comprise:* | | | | |
| Prime rate of interest | **3 577** | 8 303 | **3 577** | 8 303 |
| Prime plus 1.36% | **5 339** | 6 732 | **5 339** | 6 732 |
| Variable rate of interest | **4 658** | 3 352 | **4 658** | 3 352 |
| Prime minus 2% | **–** | 2 094 | **–** | 2 094 |
| Prime plus 5% | **65 783** | 69 993 | **65 783** | 69 993 |
| Prime plus 2% | **7 287** | – | **7 287** | – |
| SARS Rate | **11 674** | 10 842 | **11 674** | 10 842 |
| Johannesburg Inter-Bank Rate ("JIBAR") | **–** | 5 561 | **–** | 5 561 |
| Johannesburg Inter-Bank Rate ("JIBAR") + 7% | **5 578** | – | **5 578** | – |
| Interest-free loans | **–** | 4 252 | **–** | 4 252 |
| | **103 896** | 111 129 | **103 896** | 111 129 |
| *(2) The interest rates charged on the loans to Group companies comprise:* | | | | |
| Prime rate of interest | **18 296** | 16 855 | **18 296** | 16 855 |
| Fixed 7% | **48 898** | – | **48 898** | – |
| 80% of prime | **17 343** | 16 020 | **17 343** | 16 020 |
| Interest-free loans | **11 531** | 83 553 | **11 531** | 83 553 |
| | **96 068** | 116 428 | **96 068** | 116 428 |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 R'000 | 2015 R'000 | 2016 R'000 | 2015 R'000 |
| **12. Deferred income tax** | | | | |
| Balance at beginning of year | 821 | 1 100 | – | – |
| Movements during the year attributable to: | | | | |
| Released to income statement | (757) | (279) | – | – |
| **Balance at end of year** | 64 | 821 | – | – |
| The deferred income tax movement in the income statement for the year is attributable to the following items: | | | | |
| Temporary difference | (757) | (279) | – | – |
| | (757) | (279) | – | – |
| **Deferred income tax liabilities** | | | | |
| Balance at beginning of year | 549 105 | 524 269 | 549 105 | 524 269 |
| Movements during the year attributable to: | | | | |
| Unrealised gains on assets at fair value through profit or loss | (4 071) | – | (4 071) | – |
| Unutilised tax losses | (662) | – | (662) | – |
| Charged to income statement | – | 24 837 | – | 24 837 |
| Other movements | 61 641 | – | 61 641 | – |
| Change in tax rate | 21 141 | – | 21 141 | – |
| Release to Income Statement | (74 940) | – | (74 940) | – |
| **Balance at end of year** | 552 214 | 549 106 | 552 214 | 549 106 |
| The deferred income tax movement for the year is attributable to the following items: | | | | |
| Policyholder liabilities change in valuation basis | 61 641 | 3 460 | 61 641 | 3 460 |
| Unrealised (losses)/gains | (58 532) | 21 377 | (58 532) | 21 377 |
| | 3 109 | 24 837 | 3 109 | 24 837 |
| The deferred tax provision of R61 641 000 (2015: R3 460 000) 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 77 of these annual financial statements. | | | | |
| The total movement in the income statement for the year was as follows: | | | | |
| Deferred income tax assets – Amounts released to the income statement | (757) | (279) | – | – |
| Deferred income tax liabilities – Amounts charged to the income statement | 3 109 | 24 837 | 3 109 | 24 837 |
| | 2 352 | 24 558 | 3 109 | 24 837 |
| Details of the income statement, deferred income tax movement are provided in note 23 on page 131 of these annual financial statements. | | | | |
| **13. Cash and cash equivalents** | | | | |
| Cash and cash equivalents consist of cash on hand, current accounts and short-term deposits with maturity of less than twelve months. At reporting date the effective rate on bank call deposits was 7.18% (2015: 6.31%). The effective interest rate on current accounts at the statement of financial position date was 5.85% (2015: 4.60%). | | | | |
| Cash on call | 939 165 | 1 043 005 | 939 165 | 1 042 609 |
| Cash at bank | 372 469 | 390 405 | 356 063 | 370 883 |
| Cash on deposit | 405 176 | 537 415 | 405 176 | 537 402 |
| Cash on hand | 18 | 14 | 10 | 6 |
| | 1 716 828 | 1 970 839 | 1 700 414 | 1 950 900 |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| **14. Non-current assets held-for-sale** | | | | |
| The Group and Company hold the following assets as held-for-sale: | | | | |
| Investment in associate: Capricorn Capital Partners (Pty) Ltd | **–** | 37 842 | **–** | 63 958 |
| Investment in associate: Hollard Asset Management (Pty) Ltd | **–** | 214 492 | **–** | 246 217 |
| | **–** | 252 334 | **–** | 310 175 |

**Investment in associate: Capricorn Capital Partners (Pty) Ltd**

The Company disposed of its 39.99% shareholding in Capricorn Capital Partners (Pty) Ltd in the 2016 financial year. A realised gain of R26 116 000 is recognised at a Group level.

**Investment in associate: Hollard Asset Management (Pty) Ltd**

The Company disposed of its 49.98% shareholding in Hollard Asset Management (Pty) Ltd in the 2016 financial year. A realised gain of R65 768 000 and R97 493 000 is recognised at a Company and Group level respectively.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| **15. 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)** | **846** | 428 | **846** | 428 |

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 | | COMPANY | |
|---|---|---|---|---|
| | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| **16. Policyholder liabilities** | | | | |
| **Policyholder liabilities under investment contracts:** | | | | |
| Balance at beginning of year | **4 601 546** | 6 242 485 | **4 601 546** | 6 242 485 |
| IAS 39 adjustment | **(3 361)** | (390 966) | **(3 361)** | (390 966) |
| Movement for the year | **354 198** | (1 249 973) | **354 198** | (1 249 973) |
| **Balance at end of year** | **4 952 383** | 4 601 546 | **4 952 383** | 4 601 546 |
| **Policyholder liabilities under insurance contracts:** | | | | |
| Balance at beginning of year | **5 576 191** | 6 855 446 | **5 576 191** | 6 855 446 |
| IAS 39 adjustment | **3 361** | 390 966 | **3 361** | 390 966 |
| Amounts expensed elsewhere in the income statement | **(17 152)** | (31 861) | **(17 152)** | (31 861) |
| Amount transferred from the income statement | **(1 151 204)** | (1 638 360) | **(1 151 204)** | (1 638 360) |
| **Balance at end of year** | **4 411 196** | 5 576 191 | **4 411 196** | 5 576 191 |
| | **9 363 579** | 10 177 737 | **9 363 579** | 10 177 737 |
| The movement in the policyholder liabilities balance for the purposes of the statement of cash flows is reported as follows: | | | | |
| Increase/(decrease) in policyholder liabilities under investment contracts | **350 837** | (1 640 939) | **350 837** | (1 640 939) |
| Decrease in policyholder liabilities under insurance contracts | **(1 164 995)** | (1 279 255) | **(1 164 995)** | (1 279 255) |
| **Total decrease in policyholder liabilities under investment and insurance contracts** | **(814 158)** | (2 920 194) | **(814 158)** | (2 920 194) |
| **Gross insurance liabilities** | **8 905 388** | 10 164 485 | **8 905 388** | 10 164 485 |
| **Less: Total reinsurers shares of insurance liabilities** | **(458 191)** | (13 252) | **(458 191)** | (13 252) |
| **Net insurance liabilities** | **9 363 579** | 10 177 737 | **9 363 579** | 10 177 737 |

On 1 July 2015, Hollard Life Assurance Company entered into a treaty agreement with Swiss Re Life and Health Africa Limited and Hannover Life Reassurance Africa Limited for the amount of R570 million. The reinsurance commission of R570 million was equally funded by both reinsurers. These funds were used to invest in Hollard Life Assurance Company's partner with certain benefits accruing to Hollard.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

| | Group 2016 R'000 | Group 2015 R'000 | Company 2016 R'000 | Company 2015 R'000 |
|---|---|---|---|---|
| **17. Employee benefits** | | | | |
| Balance at beginning of year | **154 610** | 124 846 | **154 610** | 124 846 |
| Charged to the income statement | | | | |
| Additional provisions raised during the year | **2 693** | 29 764 | **2 693** | 29 764 |
| Used during the year | **(6 520)** | – | **(6 520)** | – |
| **At end of year** | **150 783** | 154 610 | **150 783** | 154 610 |
| **Analysis of total provisions** | | | | |
| – Current | **150 783** | 154 610 | **150 783** | 154 610 |

### Leave pay

In terms of the Group'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. Whilst 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, limited to a maximum of 25 days.

The Group and Company's provision for leave pay amounted to R19 467 323 and R19 467 323 respectively at the statement of financial position date (2015: R19 713 000 and R19 713 000 respectively).

### Incentive scheme

In terms of the Group 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 and Company's provision for staff incentives amounted to R128 621 890 and R128 621 890 respectively at the statement of financial position date (2015: R134 898 000 and R134 898 000 respectively).

| | Group 2016 R'000 | Group 2015 R'000 | Company 2016 R'000 | Company 2015 R'000 |
|---|---|---|---|---|
| **18. Trade and other payables** | | | | |
| Trade creditors | **88 472** | 36 875 | **88 472** | 36 875 |
| Sundry creditors | **321 688** | 346 677 | **321 797** | 342 369 |
| | **410 160** | 383 552 | **410 269** | 379 244 |

**Sundry creditors**

Included in sundry creditors are life assurance premiums amounting to R2 869 000 in respect of policies that incepted after the statement of financial position date (2015: R4 079 000).

| | Group 2016 R'000 | Group 2015 R'000 | Company 2016 R'000 | Company 2015 R'000 |
|---|---|---|---|---|
| **19. Net premium income** | | | | |
| Individual and group | | | | |
| Single premiums | **850** | 21 635 | **850** | 21 635 |
| Recurring premiums | **5 452 912** | 5 059 648 | **5 452 912** | 5 059 648 |
| Reinsurance premiums inwards | **105 330** | 94 512 | **105 330** | 94 512 |
| Gross premium income | **5 559 092** | 5 175 795 | **5 559 092** | 5 175 795 |
| Reinsurance premiums outwards | **(639 687)** | (764 652) | **(639 687)** | (764 652) |
| | **4 919 405** | 4 411 143 | **4 919 405** | 4 411 143 |

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. See note 16 on page 127 for details of the movement in policyholder liabilities under investment contracts.

| | Group 2016 R'000 | Group 2015 R'000 | Company 2016 R'000 | Company 2015 R'000 |
|---|---|---|---|---|
| **20. Realised profit/(loss) on disposal of investments** | | | | |
| Listed investments | **25 283** | 12 105 | **25 283** | 12 105 |
| Unlisted investments | **496 844** | (2 245) | **439 003** | (2 245) |
| | **522 127** | 9 860 | **464 286** | 9 860 |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 R'000 | 2015 R'000 | 2016 R'000 | 2015 R'000 |
| **21. Unrealised profit/(loss) on revaluation of investments** | | | | |
| Listed investments | **(58 048)** | (40 968) | **(58 048)** | (40 968) |
| Unlisted investments | **(383 916)** | (30 232) | **(355 004)** | 141 473 |
| | **(441 964)** | (71 200) | **(413 052)** | 100 505 |
| The unrealised profit arising on revaluation of the Group's unlisted investments for the year is attributable to the following items: | | | | |
| (Loss)/profit on revaluation of unlisted investments – Company | **(355 004)** | 141 470 | | |
| Reversal of revaluation gains and losses in group companies on consolidation | **(28 912)** | (171 702) | | |
| Loss on revaluation of unlisted investments – Group | **(383 916)** | (30 232) | | |

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | R'000 Company | R'000 Rest of Group | R'000 Total | R'000 Company | R'000 Rest of Group | R'000 Total |
| **22. Profit before taxation** | | | | | | |
| **Profit before taxation is determined after charging:** | | | | | | |
| **Directors' and prescribed officers' emoluments** | | | | | | |
| **Executive directors** | | | | | | |
| *Director A* | | | | | | |
| Basic salary | **1 635** | **1 635** | **3 270** | 1 445 | 1 445 | 2 890 |
| Bonus and performance related payments | **10 151** | **10 151** | **20 302** | 10 403 | 10 403 | 20 806 |
| Estimated monetary value of other benefits | **171** | **171** | **342** | 55 | 55 | 110 |
| Pension/provident fund contributions | **236** | **236** | **472** | 222 | 222 | 444 |
| | **12 193** | **12 193** | **24 386** | 12 125 | 12 125 | 24 250 |
| *Director B* | | | | | | |
| Basic salary | **1 158** | **579** | **1 737** | 1 157 | 1 157 | 2 314 |
| Bonus and performance related payments | **7 190** | **3 595** | **10 785** | 7 369 | 7 369 | 14 738 |
| Estimated monetary value of other benefits | **242** | **121** | **363** | 166 | 166 | 332 |
| Pension/provident fund contributions | **193** | **97** | **290** | 185 | 185 | 370 |
| | **8 783** | **4 392** | **13 175** | 8 877 | 8 877 | 17 754 |
| *Director C* | | | | | | |
| Basic salary | **742** | **742** | **1 484** | – | – | – |
| Estimated monetary value of other benefits | **37** | **37** | **74** | – | – | – |
| Pension/provident fund contributions | **96** | **96** | **192** | – | – | – |
| | **875** | **875** | **1 750** | – | – | – |
| **Non-executive directors** | | | | | | |
| Directors' fees | | | | | | |
| Director A | **260** | **260** | **520** | 186 | 186 | 372 |
| Director B | **185** | **185** | **370** | 143 | 143 | 286 |
| Director C | **261** | **261** | **522** | 232 | 232 | 464 |
| Director D | **284** | **568** | **852** | 325 | 650 | 975 |
| Director E | **227** | **227** | **454** | 200 | 200 | 400 |
| Director F | **233** | **233** | **466** | 162 | 162 | 324 |
| | **1 450** | **1 734** | **3 184** | 1 248 | 1 573 | 2 821 |
| **Prescribed officers** | | | | | | |
| *Prescribed officer A* | | | | | | |
| Basic salary | **230** | **2 070** | **2 300** | 215 | 1 933 | 2 148 |
| Bonus and performance related payments | **430** | **3 877** | **4 307** | 218 | 1 954 | 2 172 |
| Estimated monetary value of other benefits | **19** | **171** | **190** | 12 | 108 | 120 |
| Pension/provident fund contributions | **35** | **313** | **348** | 38 | 357 | 395 |
| | **714** | **6 431** | **7 145** | 483 | 4 352 | 4 835 |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | R'000 Company | R'000 Rest of Group | R'000 Total | R'000 Company | R'000 Rest of Group | R'000 Total |
| **22. Profit before taxation (continued)** | | | | | | |
| **Prescribed officers (continued)** | | | | | | |
| *Prescribed officer B* | | | | | | |
| Basic salary | 1 227 | 818 | 2 045 | 1 147 | 765 | 1 912 |
| Bonus and performance related payments | 6 849 | 4 566 | 11 415 | 5 560 | 3 707 | 9 267 |
| Estimated monetary value of other benefits | 286 | 191 | 477 | 274 | 182 | 456 |
| Pension/provident fund contributions | 211 | 141 | 352 | 198 | 132 | 330 |
| | 8 573 | 5 716 | 14 289 | 7 179 | 4 786 | 11 965 |
| *Prescribed officer C* | | | | | | |
| Basic salary | 402 | 1 607 | 2 009 | 381 | 1 524 | 1 905 |
| Bonus and performance related payments | 1 692 | 6 767 | 8 459 | 1 734 | 6 935 | 8 669 |
| Estimated monetary value of other benefits | 50 | 199 | 249 | 20 | 79 | 99 |
| Pension/provident fund contributions | 63 | 252 | 315 | 85 | 336 | 421 |
| | 2 207 | 8 825 | 11 032 | 2 220 | 8 874 | 11 094 |
| *Prescribed officer D* | | | | | | |
| Basic salary | 225 | 2 028 | 2 253 | 187 | 1 678 | 1 865 |
| Bonus and performance related payments | 721 | 6 488 | 7 209 | 740 | 6 658 | 7 398 |
| Estimated monetary value of other benefits | 26 | 238 | 264 | 10 | 92 | 102 |
| Pension/provident fund contributions | 34 | 308 | 342 | 42 | 384 | 426 |
| | 1 006 | 9 062 | 10 068 | 979 | 8 812 | 9 791 |
| *Prescribed officer E* | | | | | | |
| Basic salary | 2 397 | 266 | 2 663 | 2 246 | 250 | 2 496 |
| Bonus and performance related payments | 5 084 | 565 | 5 649 | 5 274 | 586 | 5 860 |
| Estimated monetary value of other benefits | 56 | 6 | 62 | – | – | – |
| Pension/provident fund contributions | 265 | 29 | 294 | 294 | 32 | 326 |
| | 7 802 | 866 | 8 668 | 7 814 | 868 | 8 682 |
| *Prescribed officer F* | | | | | | |
| Basic salary | 748 | 1 747 | 2 495 | 703 | 1 640 | 2 343 |
| Bonus and performance related payments | 1 136 | 2 651 | 3 787 | – | – | – |
| Estimated monetary value of other benefits | 6 | 15 | 21 | 15 | 36 | 51 |
| Pension/provident fund contributions | 108 | 251 | 359 | 107 | 250 | 357 |
| | 1 998 | 4 664 | 6 662 | 825 | 1 926 | 2 751 |
| **Total directors' and prescribed officers' emoluments** | 45 601 | 54 758 | 100 359 | 41 750 | 52 193 | 93 943 |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |

## 22. Profit before taxation (continued)

Profit before tax is determined after charging:

**Auditors' remuneration**

| | **Group 2016 R'000** | Group 2015 R'000 | **Company 2016 R'000** | Company 2015 R'000 |
|---|---|---|---|---|
| – Audit fees | **3 991** | 4 303 | **3 790** | 4 138 |
| – Prior year underprovision | **388** | 500 | **388** | 500 |
| – Other services | **851** | 3 348 | **851** | 3 348 |
| | **5 230** | 8 151 | **5 029** | 7 986 |
| **Depreciation** | | | | |
| – Office and computer equipment | **476** | 342 | **430** | 327 |
| – Motor vehicles | **37** | 11 | **37** | 11 |
| – Furniture and fittings | **41** | 13 | **–** | – |
| – Computer software | **–** | 423 | **–** | – |
| – IT equipment | **65** | 82 | **–** | – |
| – Leasehold improvements | **–** | 828 | **–** | – |
| | **619** | 1 699 | **467** | 338 |
| **Other expenditure** | | | | |
| Loss on disposal of property and equipment | **–** | – | **–** | – |
| Administration fees paid | **106 312** | 108 574 | **106 312** | 108 574 |
| Movement in provision for outstanding claims | **–** | (90 259) | **–** | (90 259) |
| Operating leases | **25 883** | 14 429 | **25 883** | 44 511 |
| Professional fees | **116 249** | 94 701 | **115 524** | 94 605 |
| Research and development | **793** | 4 596 | **793** | 4 596 |

## 23. Taxation

| | **Group 2016 R'000** | Group 2015 R'000 | **Company 2016 R'000** | Company 2015 R'000 |
|---|---|---|---|---|
| South African normal taxation – current year | **343 014** | 370 084 | **342 927** | 367 612 |
| Deferred income tax | **3 125** | 22 591 | **3 108** | 24 836 |
| Other indirect taxation | **2 716** | – | **1 785** | – |
| Secondary tax on companies | **–** | – | **–** | – |
| Dividend Tax | **3 110** | 182 | **3 110** | 182 |
| | **351 965** | 392 857 | **350 930** | 392 630 |

All taxation is payable in respect of continuing operations.

**Tax rate reconciliation**

| | **Group 2016** | Group 2015 | **Company 2016** | Company 2015 |
|---|---|---|---|---|
| **Tax calculated at standard rate of South African tax on earnings** | **28.0** | 28.0 | **28.0** | 28.0 |
| Unrealised gains not taxable | **1.4** | (0.7) | **1.4** | (0.7) |
| Realised gains not taxable | **(8.2)** | – | **(8.2)** | – |
| Change in tax rate | **1.3** | – | **1.3** | – |
| Other indirect taxation | **0.1** | – | **0.1** | – |
| Dividend Tax | **0.2** | – | **0.2** | – |
| Non-taxable items and losses | **(0.7)** | (1.0) | **(0.7)** | (0.6) |
| **Effective rate** | **22.1** | 26.3 | **22.1** | 26.7 |

## 24. Policyholder benefits

**Individual and group**

| | **Group 2016 R'000** | Group 2015 R'000 | **Company 2016 R'000** | Company 2015 R'000 |
|---|---|---|---|---|
| – Death and disability | **2 076 012** | 1 648 793 | **2 076 012** | 1 648 793 |
| – Maturity | **1 243 597** | 1 748 127 | **1 243 597** | 1 748 127 |
| – Policy surrenders | **89 030** | 204 535 | **89 030** | 204 535 |
| – Annuities | **103 129** | – | **103 129** | 144 445 |
| – Other | **60 059** | 58 210 | **60 059** | 58 210 |
| Gross policyholder benefits | **3 571 827** | 3 659 665 | **3 571 827** | 3 804 110 |
| *Less:* Reinsurance recoveries | **(888 764)** | (553 020) | **(888 764)** | (553 020) |
| – Death and disability | **(888 764)** | (553 020) | **(888 764)** | (553 020) |
| **Net policyholder benefits** | **2 683 063** | 3 106 645 | **2 683 063** | 3 251 090 |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 24. Policyholder benefits (continued)

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. See note 16 on page 127 of these financial statements for the movement in policyholder liabilities under investment contracts.

| | Notes | GROUP 2016 R'000 | GROUP 2015 R'000 | COMPANY 2016 R'000 | COMPANY 2015 R'000 |
|---|---|---|---|---|---|
| **25. Reconciliation of profit before taxation to cash generated from operations** | | | | | |
| Profit before tax attributable to equity holder of parent | | **1 616 149** | 1 466 371 | **1 582 412** | 1 468 715 |
| Adjustments for: | | | | | |
| Depreciation of property and equipment | 4 | **619** | 1 699 | **467** | 337 |
| Amortisation of intangible assets | | **2 195** | 678 | **2 195** | 678 |
| Impairment of goodwill | | **–** | 27 277 | **–** | – |
| Write-off of intangible assets | | **5 635** | – | **5 635** | – |
| Derecognition of financial asset | | **–** | 2 105 468 | **–** | 2 105 468 |
| Transfer to policyholder liabilities under insurance contracts | 16 | **(1 164 995)** | (1 279 255) | **(1 164 995)** | (1 279 255) |
| Transfer to policyholder liabilities under investment contracts | 16 | **350 837** | (1 640 939) | **350 837** | (1 640 939) |
| Investment income | | **(1 101 846)** | (665 073) | **(1 057 704)** | (670 126) |
| Realised profit on assets underlying investment contracts | | **(320 205)** | (357 774) | **(320 205)** | (357 774) |
| Other income | | **(142 306)** | (32 375) | **(104 751)** | (31 919) |
| Share of profit in associates | | **(21 026)** | (195 299) | **–** | – |
| Unrealised loss/(profit) on revaluation of investments | 21 | **441 964** | 71 200 | **413 052** | (100 503) |
| Unrealised loss/(income) on investment contracts | | **176 411** | (306 499) | **176 411** | (306 499) |
| Interest paid | | **19 384** | 7 972 | **19 135** | 6 718 |
| (Decrease)/increase in employee benefits | | **(3 827)** | 29 764 | **(3 827)** | 29 764 |
| Net increase in accrued interest and dividends | | **11 924** | 18 954 | **11 924** | 18 954 |
| Asset transfers | | **40 680** | – | **40 680** | – |
| Operating cash flows before working capital changes | | **(88 407)** | (747 831) | **(48 734)** | (756 381) |
| **Working capital changes** | | **(16 928)** | 135 908 | **(19 918)** | 127 934 |
| Decrease/(increase) in insurance, loans and other receivables and reinsurance assets | | **8 959** | (3 217) | **(1 353)** | (9 764) |
| (Decrease)/increase in outstanding claims | | **(40 405)** | 63 719 | **(40 405)** | 63 719 |
| Increase in reinsurance liabilities and trade and other payables | | **14 518** | 75 406 | **21 840** | 73 979 |
| **Cash (utilised by)/generated from operations** | | **(105 335)** | (611 923) | **(68 652)** | (628 447) |
| **26. Dividends paid** | | | | | |
| Amounts due at beginning of year | | **–** | (9 831) | **–** | (9 831) |
| Amounts charged to statement of changes in equity | | **(1 692 400)** | (855 259) | **(1 692 400)** | (855 254) |
| Amounts due at end of year | | **227 314** | – | **227 314** | – |
| **Cash amounts paid** | | **(1 465 086)** | (865 090) | **(1 465 086)** | (865 085) |
| **27. Dividends received** | | | | | |
| Amounts due at beginning of year | | **64 673** | 45 719 | **64 673** | 45 719 |
| Dividends received per income statement | | **57 953** | 59 270 | **72 728** | 64 259 |
| Amounts due at end of year | | **(76 597)** | (64 673) | **(76 597)** | (64 673) |
| **Cash amounts received** | | **46 029** | 40 316 | **60 804** | 45 305 |

| | Notes | GROUP 2016 R'000 | GROUP 2015 R'000 | COMPANY 2016 R'000 | COMPANY 2015 R'000 |
|---|---|---|---|---|---|
| **28. Taxation paid** | | | | | |
| Amounts due at beginning of year | | **(635 957)** | (521 907) | **(636 887)** | (523 224) |
| Amounts charged to income statement | | **(351 965)** | (392 857) | **(350 930)** | (392 630) |
| Amounts due at end of year | | **516 012** | 635 957 | **516 014** | 636 887 |
| **Cash amounts paid** | | **(471 910)** | (278 807) | **(471 803)** | (278 967) |
| **Amounts due at end of year comprised as follows:** | | | | | |
| Deferred income tax asset | | **(64)** | 821 | **–** | – |
| Deferred income tax liability | | **552 214** | 549 106 | **552 214** | 549 106 |
| Taxation | | **(36 138)** | 87 672 | **(36 200)** | 87 781 |
| | | **516 012** | 637 599 | **516 014** | 636 887 |

## 29. Business combinations

### Summary of business combinations

The Group did not acquire or dispose of any investments in subsidiaries in the 2016 or 2015 financial years.

## 30. Investments in associates

The Group acquired associates during the year.

### 30.1 Summary of acquisition and disposal of the Group's investments in associates – 2016

#### 30.1.1 Acquisition of 10% shareholding in Precept Wealth Solutions (Pty) Ltd:

On 22 October 2015, the Group acquired a 10% shareholding in Precept Wealth Solutions (Pty) Ltd for a consideration payable of R4 040 000. At the date of acquisition, the carrying value of the investment in the company was R0.

#### 30.1.2 Acquisition of 25% shareholding in Portman Wealth Solutions (Pty) Ltd:

On 22 October 2015, the Group acquired a 25% shareholding in Portman Wealth Solutions (Pty) Ltd for a consideration payable of R3 000 000. At the date of acquisition, the carrying value of the investment in the company was R0.

### 30.2 Summary of acquisition and disposal of the Group's investments in associates – 2015

#### 30.2.1 Acquisition of further 10.28% shareholding in Capricorn Capital Partners (Pty) Ltd:

On 01 September 2014, the Group acquired an additional 10.28% shareholding in Capricorn Capital Partners (Pty) Ltd for a consideration payable of R12 302 505 to increase its total shareholding to 39.99% for the year under review. At the date of acquisition, the carrying value of the investment in the company was R56 523 000.

#### 30.2.2 Acquisition of Ducome Brokers (Pty) Ltd:

On 17 September 2014, the Group acquired a 25% shareholding in Ducome Brokers (Pty) Ltd for a consideration payable of R3 800 000. At the date of acquisition, the carrying value of the investment in the company was R0.

#### 30.2.3 Acquisition of Ooba (Pty) Ltd:

On 30 June 2015, the Group acquired a 25% shareholding in Ooba (Pty) Ltd for a consideration payable of R50 898 609. At the date of acquisition, the carrying value of the investment in the company was R0.

## 31. Staff pension and provident fund

The Company has a defined contribution pension fund, the Hollard Employees Pension Fund, with 323 (2015: 285) employees of the Company being members of the fund. The Company's contributions to the fund charged against income for the year amounted to R13 264 316 (2015: R11 856 185).

The Company also has a defined contribution provident fund, the Hollard Employees Provident Fund, with 1 529 (2015: 1 185) employees of the Company being members of the fund. The Company's contributions to the fund charged against income for the year amounted to R48 700 578 (2015: R44 389 527).

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 lease agreements that the Company was entered into with Hollard Life Properties (Pty) Ltd, a 100% owned subsidiary, in the prior years ended on 30 June 2015 (prior financial year). For the 2016 financial year a specific rate was agreed upon for the year as an updated lease agreement was not signed for the year. A new lease agreement was entered into with Taropark with effect from 1 July 2016 (next financial year).

The lease payments under the new lease will be recognised as an expense on a straight line basis over the term of the lease in accordance with International Accounting Standard IAS 17: *Leases*.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 33. Related party transactions

### Transactions between Group companies

Hollard Life Assurance Company Limited's immediate holding company is Hollard Holdings (Pty) Limited (100%) and the ultimate holding company is Pickent Investments Limited (formerly R Enthoven and Sons (Pty) Ltd). 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 135 of the financial statements.

| | COMPANY | |
|---|---|---|
| | **2016 R'000** | 2015 R'000 |
| **Loans to related parties** | | |
| Loans to subsidiaries | **5 332** | 7 835 |
| Loans to associates | **–** | 18 |
| Loans to Hollard Holdings | **48 898** | 48 710 |
| Loans to Wealth Associates | **79** | 356 |
| Loans to Newshelf 76 | **17 343** | 16 020 |
| Loans to Syringa Tree | **18 217** | 16 499 |
| Loans to Pico Ruivo | **2 493** | 2 777 |
| **Loans to directors and prescribed officers** | | |
| Details of individual loans to directors and prescribed officers: | | |
| The following advances were made: | | |
| M Shezi | **3 176** | 2 950 |
| NG Kohler | **5 339** | 6 732 |
| B Wyborn | **8 498** | 7 893 |
| The loans are given on commercial terms and conditions. The related interest income in 2016 was R1 339 355 (2015: R1 135 735). | | |
| Interest on loans to M Shezi and B Wyborn is charged at the SARS rate and as at 30 June 2016, the rate was 8.00%. | | |
| Interest on loans to N Kohler is charged at prime less 1.36% and at 30 June 2016, the prime rate was 10.50%. | | |
| **Loan to employee** | | |
| F Patrizi | **–** | 2 094 |
| Interest on loans to F Patrizi is charged at prime less 2% and at 30 June 2016, the prime rate was 10.50%. | | |
| **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 | **13 619** | 13 785 |
| **Key management compensation** | | |
| Salaries, bonuses and other short term employee benefits. | **22 523** | 19 671 |
| 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 | **255 219** | 241 680 |
| **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** | | |
| Hollard Life Properties (Pty) Limited | **–** | 40 248 |
| Vividend Income Fund Limited | **5 747** | 4 263 |
| Taropark | **20 136** | – |
| **Investment Policy with** | | |
| The Hollard Insurance Company Limited | **894 761** | 817 033 |

Refer to notes 7, 8 and 11 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 2017 and hence have not provided for a capital expenditure budget for this period (2016: 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, enters into transactions that 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 International Accounting Standard 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) | **2016 Proportion held %** | 2015 Proportion held % | **2016 Shares R'000** | **Indebtedness R'000** | 2015 Shares R'000 | 2015 Indebtedness R'000 |
| **Directly held subsidiaries** | | | | | | | | | |
| Hollard Life Properties (Pty) Limited | A | RSA | 2 | **100.00** | 100.00 | **4 263** | **–** | 4 233 | 347 |
| The Best Funeral Society (Pty) Limited | B | RSA | 8 000 | **55.00** | 55.00 | **1 102** | **5 332** | 1 129 | 5 084 |
| Hollard Wealth Management Services (Pty) Limited | C | RSA | 1 | **100.00** | 100.00 | **378** | **–** | 44 | 2 403 |
| Hollard Management Company (Pty) Limited | D | RSA | 1 | **100.00** | 100.00 | **–** | **–** | – | – |
| Altrisk (Pty) Limited | E | RSA | 1 075 | **100.00** | 100.00 | **–** | **–** | – | – |
| Hollard Investment Managers (Pty) Limited | D | RSA | 2 | **100.00** | 100.00 | **8 543** | **–** | 292 | – |
| Finningley (Pty) Limited | E | RSA | 100 | **100.00** | 100.00 | **–** | **–** | – | – |
| | | | | | | **14 286** | **5 332** | 5 698 | 7 834 |
| **Directly held associates** | | | | | | | | | |
| Amsure Insurance Agency Limited | E | India | 325 913 | **49.99** | 49.99 | **–** | **–** | – | – |
| Amserve Consultants Private Limited | F | India | 108 638 | **49.99** | 49.99 | **–** | **–** | – | – |
| Prorisk Pooling Administrators (Pty) Limited | E | RSA | 120 | **40.00** | 40.00 | **–** | **–** | – | 18 |
| Fiscal Tree Investments (Pty) Limited | E | RSA | 100 | **25.00** | 25.00 | **777** | **–** | 3 016 | – |
| Ooba (Pty) Limited | E | RSA | 160 | **25.00** | 25.00 | **59 689** | **–** | 50 899 | – |
| Ducome Brokers (Pty) Limited | C | RSA | 100 | **25.00** | 25.00 | **2 185** | **–** | 3 800 | – |
| IFANet Independent Distribution Services (Pty) Limited | C | RSA | 100 | **24.00** | 24.00 | **–** | **–** | – | – |
| Precept Wealth Solutions (Pty) Limited | C | RSA | 1 000 | **10.00** | – | **1 770** | **–** | – | – |
| Portman Wealth Solutions (Pty) Limited | C | RSA | 160 | **25.00** | – | **1 016** | **–** | – | – |
| | | | | | | **65 437** | **–** | 57 715 | 18 |

### 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.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2016

## 37. Subsequent events

During September 2015, Regent Group's shareholder, Imperial Holdings, accepted an offer by the Hollard Group and the Yellowwoods Group to dispose of its shareholding in Regent Group, subject to regulatory approval. On 21 October 2016, we received confirmation that the Competition Commission would be recommending to the Competition Tribunal that the Regent Group acquisition be prohibited from going ahead. Given that the merger is categorised as a large merger, the recommendation of the Competition Commission does not constitute a final binding decision. Such final binding decision will be made by the Competition Tribunal subsequent to the hearing regarding the merger. The Board is not aware of any other 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 | NG Kohler |
| Group Chief Financial Officer – until 1/1/2016 | TBT Mparutsa |
| Group Chief Financial Officer – since 1/1/2016 | WT Lategan |
| Independent Non-Executive Director | NV Simamane |
| Independent Non-Executive Director | BF Mohale |
| Independent Non-Executive Director | SC Gilbert |
| Non-Executive Director | R Fihrer |
| Independent Non-Executive Director | B Ngonyama |
| Independent Non-Executive Director | S Patel |

* *British*

### Company Secretary

NL Shirilele

### Public Officer

NL Shirilele

### Compliance officer

BR Curnow

### Registered office and business address

Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

### Postal address

PO 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

## Notes